DATE: April 28, 2015

TO: Honorable Mayor and City Council

FROM: Daniel H. Rich, City Manager

TITLE: **Fiscal Year 2015-16 Narrative Budget Report**

STUDY SESSION MEMO

CITY OF MOUNTAIN VIEW

INTRODUCTION

This Study Session provides the City Council an opportunity to review and discuss the Fiscal Year 2015-16 Narrative Budget Report which is the foundation for the Proposed Budget. The Proposed Budget will be discussed by the City Council at public hearings on June 9 and June 16 and is scheduled for adoption after the public hearing on June 16, 2015.

The information in this report is for the major funds: General Operating Fund (GOF), Development Services, Shoreline Golf Links, former Revitalization Authority, Shoreline Regional Park Community, Water, Wastewater, Solid Waste Management, and Reserves. For each fund, the report includes a current fiscal year status update for revenues, expenditures, and balance available, as well as budget recommendations for Fiscal Year 2015-16. To provide some context, a Five-Year Financial Forecast (Forecast) for the GOF has been prepared and is included in this document.

BACKGROUND

The City has recovered from the greatest recession since the Great Depression and weathered tough economic times while continuing to balance the General Operating Fund (single largest fund and provider or core services) budget. Balancing the GOF was accomplished by strategically reducing expenditures, establishing more efficient operating models, and working closely with employee organizations to contain employee compensation costs, as well as implementing limited revenue enhancements where appropriate. As a result, the City was able to minimize the negative impacts on our residents and customers and preserve a wide range of high-quality services. Taking the necessary actions to maintain a structurally balanced budget provided a strong foundation for the economic recovery.

The City is currently experiencing strong revenue growth, but how long this will continue is a matter of debate. Slowdowns in the economy have occurred between 4 and 9 years in the past five decades, with the longest period of expansion lasting 11 years from 1990 to 2001. It has been approximately 7.5 years since the beginning of the last recession and will be 11 years if the slowdown occurs in Fiscal Year 2018-19 as built into the Forecast. However, some would say the recovery has been very long and slow and, therefore, the next downturn could occur later. Although it is uncertain when the next economic slowdown will occur, based on historic trends, it is certain there will be another recession sooner or later.

Over the periods of retrenchment since Fiscal Year 2001-02, the City reduced approximately 70.0 positions or over 14.0 percent of its workforce in the GOF. The City organization has found methods to improve efficiencies, to do more with less staff, but this has continued to place a strain on the organization. Keeping in mind the next recession could be on the horizon, it is prudent to only conservatively add any ongoing positions and provide additional resources on a limited-period basis. With this in mind, very few (1.2 FTE) GOF ongoing regular positions are being recommended in the Fiscal Year 2015-16 Budget. There are a total of 19.0 positions, including limited-period positions, for all funds being recommended. The positions primarily being added are in the Development Services Fund, for Community Development and Public Works, in response to the current high level of private development activity. A summary of the positions recommended is as follows:

	GOF	**Other Funds**	**Total Positions**
New Ongoing Regular	0.55	2.95	3.5
Limited Period to Regular	0.65	4.35	5.0
Continuing Limited Period	2.00	1.00	3.0[1]
New Limited Period	2.55	4.95	7.5
Total	5.75	13.25	19.0[1]

[1] Does not include 2.0 FTE limited-period positions reimbursed by Google.

A discussion of each position is included in this report.

EXECUTIVE SUMMARY

General Operating Fund

Fiscal Year 2014-15 revenues are estimated to exceed budget and expenditures are estimated below budget. This results in an estimated $5.4 million operating balance. It is recommended this balance be used to fund limited-period expenditures and supplement reserves to meet policy levels for Fiscal Year 2015-16. It is also recommended to contribute an additional $1.0 million to the Public Employees' Retirement System (PERS) to increase the funding status of that liability. The remaining balance, up to $3.0 million, is recommended to supplement the Capital Improvement Program (CIP).

Fiscal Year 2015-16 revenues are projected to continue to rise to $107.1 million and expenditures are projected at $102.0 million (taking into consideration recommendations). Revenues are at a level sufficient to fund expenditures with a projected operating balance of $2.1 million. Recommendations include non-discretionary increases, as well as some discretionary increases in high-priority areas. Also recommended is $1.8 million of budget savings and continued contributions to Retirees' Health and PERS.

In the Forecast, revenues are projected to continue growing; however, the Forecast assumes a recession will occur during the five-year period. It is unknown when a recession will occur, but staff has built in the impact of a recession beginning in Fiscal Year 2018-19 as that would match the longest economic expansion in decades. At that point, the projected operating balance declines and a deficit is projected in Fiscal Year 2019-20.

Other Funds

- Development Services: Development activity for Fiscal Year 2014-15 remains strong and is anticipated to continue into the upcoming fiscal year. The Development Services Fund (DSF) is in good financial condition and is able to meet its financial obligations. For Fiscal Year 2014-15, the scope of this fund was broadened to encompass all development-related services in the City. The fund balance is recommended to be drawn down as a result of establishing a Land Use Documents (General Plan, Precise Plans, Zoning Ordinances, etc.) Reserve and a one-time payment for the Retirees' Health unfunded actuarially accrued liability (UAAL).

- Shoreline Golf Links (SGL): Course conditions and the financial status of the fund continue to improve. Both revenues and expenditures are below budget for Fiscal

Year 2014-15. However, revenues and the surplus balance for Fiscal Year 2015-16 are projected higher than the current fiscal year estimated.

- Successor Agency to the Revitalization Authority Fund (Successor Agency): All actions by the Successor Agency have been taken for the final dissolution of the former Revitalization Authority and the City is awaiting final approval from the California Department of Finance (DOF).

- Shoreline Regional Park Community (Shoreline Community) Fund: Current fiscal year revenues are estimated to exceed the Adopted Budget by $1.4 million, primarily related to $1.1 million in reimbursements received and slightly higher-than-anticipated property taxes. Fiscal Year 2014-15 expenditures are estimated $129,000 higher than budgeted as payments to the County are estimated higher due to estimated higher property taxes. Fiscal Year 2015-16 revenues and expenditures are projected with increases.

Utility Funds

- Water Fund: Revenues for Fiscal Year 2014-15 are below budget as a result of lower water sales from conservation efforts due to the drought. Correspondingly, water purchases are also below budget. For the upcoming fiscal year, the San Francisco Public Utilities Commission (SFPUC) is currently proposing a wholesale water rate increase of 28.0 percent, and the Santa Clara Valley Water District (SCVWD) is proposing 27.7 percent and 31.5 percent increases for treated water and well water, respectively. A 14.0 percent rate increase is recommended to pay for the increased cost of water and operating expenditures.

- Wastewater Fund: For Fiscal Year 2014-15, revenues are trending higher than budgeted and expenditures are trending less than budgeted. For Fiscal Year 2015-16, the Palo Alto Regional Water Quality Control Plant (Treatment Plant) is currently proposing a 6.7 percent increase in treatment costs. A 4.0 percent rate increase is recommended to pay for the increased cost of treatment and operating expenditures. An additional 2.0 percent rate increase (the second year of 10 years) is recommended as a strategy to gradually increase rates over 10 years to pay for major capital improvements at the Treatment Plant. The total rate increase recommended for Fiscal Year 2015-16 is 6.0 percent.

- Solid Waste Management Fund: For Fiscal Year 2014-15, revenues are trending higher than budgeted and expenditures are trending less than the Adopted Budget. For Fiscal Year 2015-16, a 2.85 percent increase for Recology, a 6.3 percent proposed increase for the SMaRT® Station, as well as City operating cost increases and annual maintenance projects result in a recommended overall average 5.0

percent rate increase. The Cost of Service Study has been completed and resulted in an increase in rates for carts and decreases in rates for bin, debris boxes, and compactor. Incorporating the results of the Cost of Service Study that allocates costs and expenditures by type of service, staff is recommending a 14.0 percent increase in cart rates for Fiscal Year 2015-16 and phasing in the remaining rate increase 10.0 percent per year over the following two years. Bin and compactor rates are recommended to increase 1.5 percent and staff is recommending the restructuring of debris box rates to a flat rate, removing the maximum tonnage per box and over-tonnage charges.

Items for Council Consideration and Discussion

There are several items either Council has requested staff to bring back or staff would like further direction on, including the janitorial contract (union wages versus union shop), Transportation Management Agency membership and credit card processing fees. In addition, there are several items requested by outside agencies or Council subcommittees; staff would like direction from Council regarding if these are high-priority items that should be included in the Fiscal Year 2015-16 Proposed Budget. This section can be found under the Other Major Funds tab after the discussion of the Utility Funds.

Reserves

Most reserves are at their target or policy balance. However, several reserves, including the General Fund Reserve, Compensated Absences, and Workers' Compensation, will need to be supplemented to bring them to their policy balances. In addition, a supplement of $1.0 million is recommended to fund the PERS unfunded liability from the estimated GOF carryover balance. Any remaining GOF carryover balance between $1.0 million and $3.0 million is recommended to be transferred to the CIP Reserve.

Next Steps

The City Council will hold a second Study Session on the Five-Year CIP on May 19, 2015. Based on the feedback provided by the City Council at the CIP and Narrative Budget Report (NBR) Study Sessions, staff will prepare the Proposed Budget to be presented to City Council at a public hearing on June 9, 2015. Public hearings for utility rate increases and the Proposed Budget are scheduled for June 16, 2015, as well as final budget adoption after the public hearings that same evening.

DISCUSSION

GENERAL OPERATING FUND

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

Building on this strong financial record and continued revenue growth, this report provides the recommendations for the General Operating Fund budget for Fiscal Year 2015-16. The updated projections indicate continued strength in the economic environment through the next few fiscal years. There are projected revenue increases in all major revenue categories (e.g., Property Tax, Sales Tax, Transient Occupancy Tax, and Utility Users Tax).

Updated General Operating Fund Status for Fiscal Year 2014-15

Staff has continued to monitor General Operating Fund revenues and expenditures for the current fiscal year. As we progress through the fiscal year, estimates are refined and have a greater level of confidence, but the final numbers will not be available until after the close of the fiscal year. A comparison of estimated amounts to budget for the GOF follows (dollars in thousands):

	2014-15 Adopted Budget	2014-15 Adjusted Budget[1]	**2014-15 Estimated**	Variance of Estimated to Adopted Budget
Revenues	$99,644	100,415	**103,798**	4,154
Expenditures	(96,978)	(99,235)	**(97,420)**	(442)
Operating Balance	2,666	1,180	**6,378**	3,712
Contribution to OPEB	(1,000)	(1,000)	**(1,000)**	-0-
Rebudgets[2]	-0-	1,658	**-0-**	-0-
Ending Balance	$ 1,666	1,838	**5,378**	3,712

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

(2) Rebudgets for encumbrances and grant/donation carryovers from the prior fiscal year.

Overall, total revenues for Fiscal Year 2014-15 are currently estimated to be $4.2 million, or 4.2 percent higher than Adopted Revenues. Of the GOF major revenue sources, only Interfund Transfers are slightly under budget while all other revenue categories are performing better than expected this fiscal year.

On the expenditure side, total operating expenditures for Fiscal Year 2014-15 are estimated to be $1.8 million, or 1.8 percent lower than the adjusted budgeted, but $442,000 less than the $2.0 million budget savings included in the Adopted Budget. Since the budget savings target at $2.0 million is not expected to be achieved, it is recommended to reduce the budget savings to $1.8 million for the Fiscal Year 2015-16 Adopted Budget. However, after accounting for higher revenues, the operating balance is estimated to be $5.4 million this fiscal year compared to the $1.7 million budgeted.

This is a significant improvement in revenues from the estimates provided in the Midyear Report, where the operating balance was estimated at $3.3 million. Revenue estimates have increased $2.0 million, primarily as a result of higher property taxes and miscellaneous revenues. The expenditure estimate has stayed about the same at $1.8 million lower than adjusted budget.

Although we expect the City will end the current fiscal year with an operating balance greater than budgeted, it is important to note two points: the $1.6 million in estimated expenditure savings is lower than the $2.0 million that was assumed in the Adopted Budget (previously it was $2.8 million). In addition, the carryover balance is the funding source for key organizational needs, such as maintaining reserve levels and limited-period expenditures.

As noted below, staff is recommending the estimated Fiscal Year 2014-15 carryover balance of $5.4 million be used to fund the limited-period expenditures and supplement the necessary reserves to meet policy levels. In addition to the $1.0 million contribution to the Retirees' Health Other Post-Employment Benefits (OPEB) unfunded liability included in the Fiscal Year 2014-15 Adopted Budget, it is also recommended the City contribute $1.0 million toward the unfunded liability for PERS. Both of these liabilities are underfunded and these contributions would assist in raising the funding level of those liabilities. It is currently estimated that after these recommendations, $2.1 million would remain available. Any remaining carryover available, up to $3.0 million, is recommended to supplement the Capital Improvement Reserve. The final carryover available will be determined after the fiscal year-end close and audit of the City's financial records.

The estimated available carryover balance is recommended to be used as follows (dollars in thousands):

Estimated GOF Operating Balance	$6,378
Retirees' Health OPEB	(1,000)
Shoreline Loan Repayment	1,894
Estimated One-Time Revenues	600
Total Estimated Carryover Balance Available	7,872
Recommended Allocations:	
Non-Discretionary:	
Limited-Period Expenditures	(1,106)
Equipment Replacement/Capital Outlay	(400)
General Fund Reserve[1]	(1,555)
Compensated Absences Reserve	(760)
Workers' Compensation Reserve	(913)
Discretionary:	
Capital Improvement Reserve[2]	(2,138)
PERS	(1,000)
Total Recommended Allocations	(7,872)
Estimated Remaining Balance Available	$ -0-

(1) To be determined with the Adopted Budget.

(2) Recommended any balance remaining be allocated to the Capital Improvement Reserve between $1.0 million and $3.0 million based on the actual balance available after the fiscal year-end close.

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

Updated General Operating Fund Projections for Fiscal Year 2015-16

In presenting the Preliminary GOF revenues and expenditures in the Midyear Budget Status Report on February 10, 2015, staff projected a $1.7 million surplus for Fiscal Year 2015-16. With additional information available on both revenues and expenditures as the fiscal year has progressed, the updated projection is a surplus of $2.1 million or about 2.1 percent of budgeted expenditures. This surplus is after recommendations for expenditure increases, as well as additional contributions to OPEB and PERS. A brief discussion of revenues and expenditures for Fiscal Year 2015-16 follows.

Compared to the current Adopted Budget and prior to recommendations, total revenues are anticipated to grow by $7.4 million, or 7.4 percent, next fiscal year, and total expenditures are projected to increase $4.1 million or 4.2 percent. The GOF is projected to end Fiscal Year 2015-16 with a balance of $2.1 million after taking into consideration all recommendations.

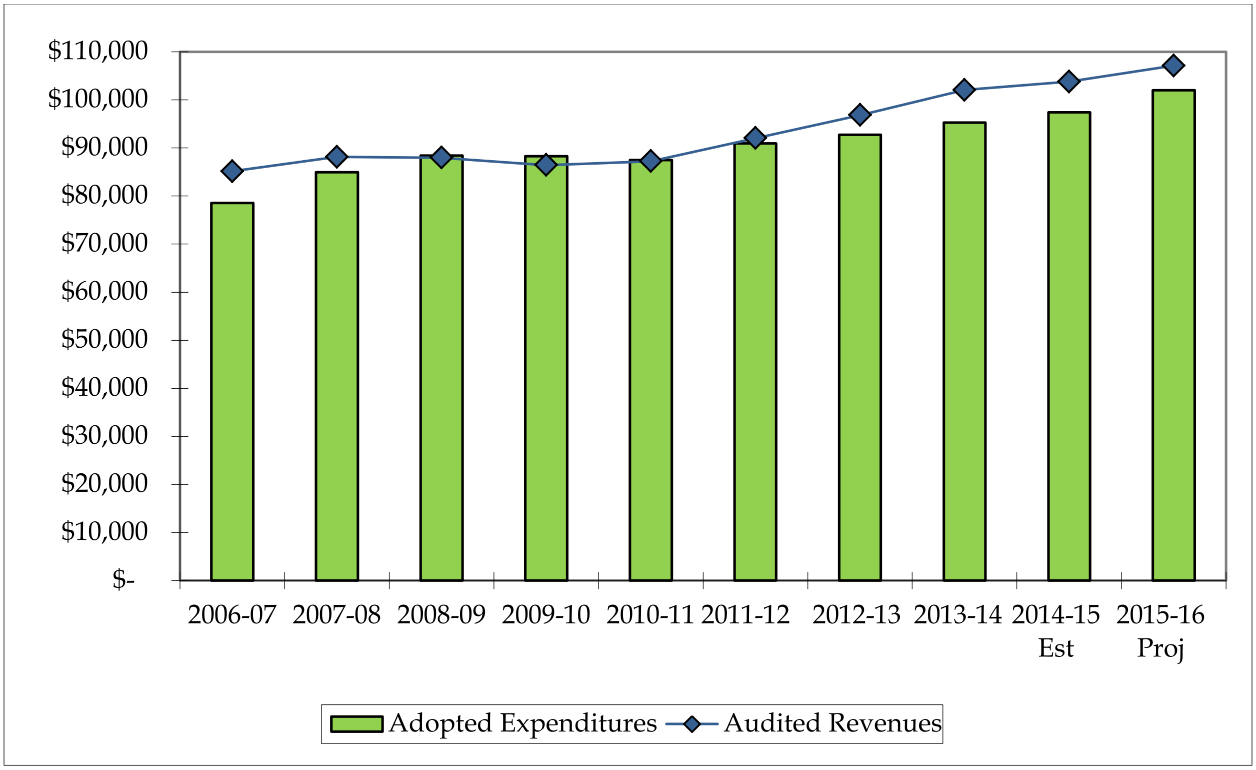
Comprehensive information for revenues and expenditures is included in the GOF Five-Year Forecast Memo. A summary of the Fiscal Year 2015-16 budget is as follows (dollars in thousands):

Total Revenues	$107,006
Total Net Expenditures	(101,093)
Recommendations:	
Non-Discretionary Increases	(579)
Discretionary Increases	(344)
Revenue Enhancements	109
Operating Balance	5,099
OPEB Funding	(1,000)
PERS Funding	(2,000)
Net Balance	$ 2,099

Revenue Projections for Fiscal Year 2015-16

For Fiscal Year 2015-16, GOF revenues are projected to grow by 7.5 percent, to $107.1 million, including recommendations. All major categories of revenues (e.g., Property Tax, Sales Tax, and Other Local Taxes, etc.) are projected to increase compared to the current fiscal year adopted revenues.

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



This table demonstrates the relatively small margin existing between the GOF revenues and expenditures. The adopted expenditures in the table include the budget savings adopted; however, for Fiscal Years 2009-10 through 2011-12, the actual budget saving results were greater than adopted and were necessary to maintain a positive operating balance due to revenue shortfalls compared to budget. In comparison, Fiscal Year 2011-12 through Fiscal Year 2014-15, actual budget savings have declined, but revenues have been greater than adopted.

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

Expenditure Projections for Fiscal Year 2015-16

The recommended expenditures for Fiscal Year 2015-16 essentially represent a "status quo" budget with the addition of non-discretionary increases, which preserves current service levels and some discretionary additions to the highest-priority areas.

While several new expenditure requests by departments are being recommended, there were more requests by departments for expenditure increases, many of which would be desirable and would ease some of the stress on staff resources in the organization. However, as can be seen in the GOF Forecast and summarized below, although more expenditures could be afforded in the Fiscal Year 2015-16 Budget, it would be prudent to contain expenditure growth due to the anticipation of the next economic recession when it is anticipated the GOF will be facing an operating deficit once again. Due to heavy workloads, many current demands for resources are being addressed through limited-period funding.

Although service levels are not increasing, the City's costs are increasing due primarily to higher personnel costs. These increases are occurring even after the significant concessions made by employees over the three Fiscal Years 2010-11 through 2012-13 in which salary increases through cost-of-living adjustments (COLAs) and merit increases were reduced or eliminated and most employee groups agreed to structural changes in health and other benefits.

Unfortunately, even with these structural changes and the recently adopted Statewide pension reform, retirement costs are projected to increase by $755,000 for Fiscal Year 2015-16 over the current fiscal year Adopted Budget. The changes resulting from pension reform will likely not be realized for 10 years or more, until there are a majority of employees under the new formula. In the meantime, there are increases projected in PERS rates that will be implemented in the next few years as discussed below.

The categories of changes in costs from the Fiscal Year 2014-15 Adopted Budget to the Fiscal Year 2015-16 recommended budget are as follows (dollars in thousands):

Expenditure Changes:		
Compensation Changes	$2,079	
Retirement (PERS)	755	
Health and Other Benefits	980	
Recommendations	242	
Total Changes Personnel Costs		4,056
Other Nonpersonnel Miscellaneous	301	
Recommendations	681	
Total Other		982
Total Expenditure Increase		$5,038

All labor contracts and resolutions expire June 30, 2015 with the exception of the Mountain View Firefighters MOU, which was extended two years and will expire June 30, 2017. Negotiations are currently under way with all other groups. As the City transitioned open enrollment for health care to a calendar year with new premiums effective each January 1, the premiums budgeted for Fiscal Year 2015-16 are actual rates through December 2015 and assume an increase of 11.0 percent for City PPO plans, 10.0 percent for PEMHCA PPO plans, and 7.0 percent for all HMO plans beginning January 2016. PERS rates are budgeted based on the actuarial rates provided by PERS.

California Public Employees Retirement System (PERS) Rates

There has been attention focused on public-sector retirement costs in recent years; therefore, it is worth noting a few key points about Mountain View's approach to providing employee pension benefits. While in many cities the employer pays some or all of the employee contribution, Mountain View employees not only pay the employee contribution, but they also pay a portion of the employer contribution. For example, the total amount paid by Safety employees is approximately 15.0 percent and miscellaneous employees is 11.5 percent (11.7 percent for POA nonsworn). This was an unusual and progressive arrangement when instituted in Mountain View and reflects the collaborative approach our employees have taken toward fiscal sustainability.

As a result of the significant financial losses to PERS during the recession and the resulting impacts to the financial sustainability of the pension plans, many changes in the way PERS rates are calculated have been adopted in the past several years, including the reduction in the discount rate from 7.75 percent to 7.50 percent, changes to the methodology for the amortization and smoothing of rates, and the changes in demographic assumptions, primarily related to life expectancy. All of these have an impact on the City's employer rates and additional impacts are expected in Fiscal Year 2016-17. A more detailed discussion can be found in the Reserve Section of this Report.

Fiscal Year 2015-16 Budget Recommendations

The following is a discussion of non-discretionary and discretionary recommended expenditure increases. Departments have reviewed their programs, work levels, and proposed goals for the upcoming fiscal year and developed their budget requests. The Citywide non-discretionary increase is primarily related to utility and janitorial cost increases. The discretionary items were reviewed by the City Manager and are recommended for City Council consideration. These recommendations are included in the Fiscal Year 2015-16 projections.

Non-Discretionary Increases

Non-discretionary increases totaling $578,800 are recommended to fund existing and new required operational costs such as increases in City utility costs, PG&E, janitorial costs, and information technology software and hardware maintenance (see Attachment 2 for a complete listing of non-discretionary items). Key items worth noting in the recommended base budget are as follows:

- Janitorial Cost Increases for City Facilities: $210,000

  Provides additional funding of $125,000 for increased janitorial cost as a result of new labor laws and paying higher wages (union scale wages), and placeholder funding of $94,000 for possible service enhancements. The total Janitorial cost increase Citywide is $219,000 (see Attachment 3).

- City Utility Costs: $200,000

  Provides increased funding for City utility services used by City departments based on the recommended utility rate adjustments.

- PG&E Cost Increase: $65,000

  Provides increased funding for PG&E's annual rate increase and the addition of the new Teen Center. The total PG&E cost increase Citywide is $75,000.

- Software and Hardware Maintenance and License Fees: $15,300

  Provides funding for new and existing software and hardware that require annual maintenance or license contracts. This cost increase is primarily related to the new Serena Business Manager software.

- Reclassify IT Analyst I/II to Senior IT Analyst: $13,100

  Provides funding to support reclassification of an IT Analyst I/II to a Senior IT Analyst position based on a higher level of duties performed.

- Reclassify Office Assistant III to Program Assistant: $12,200

  Provides funding to support reclassification of an Office Assistant III position to a Program Assistant position based on a higher level of duties performed.

- Tuition Reimbursement for MVFF: $10,000

  Provides increased funding for tuition reimbursements for MVFF based on the MOU.

Recommended Discretionary Expenditures

New expenditures totaling $344,000 are recommended for high-priority ongoing programs. These new expenditures are offset by $108,800 in new revenue for a net impact of only $235,200. For a complete listing of new recommended discretionary expenditures, see Attachment 4. Key items worth noting are as follows:

- Associate Civil Engineer—Traffic Position (0.65): $110,500

  Provides funding for 0.65 FTE of an Associate Civil Engineer position (the other 0.35 FTE is funded from the Development Services and Shoreline Regional Park Community Funds) to support the increased workload in the Traffic Section due to the high levels of private development activity and ongoing traffic inquiries.

- ActiveNet Fees: $83,000 (offset by $83,000 in fee increases)

  Provides funding to implement the registration and facility reservation system for Recreation. This new system will enhance the user interface and streamline processes and reports for staff. Additional funding is recommended in the Shoreline Regional Park Community for allocation related to the Shoreline Athletic Fields.

- Systems Coordinator/Technician (GIS Coordinator)—Land Development Position (0.40): $50,000 ($68,800 offset by $18,800 charged to CIPs)

  Provides funding for a Systems Coordinator/Technician (GIS Coordinator) position to maintain the GIS database (the other 0.60 FTE is funded from the Water and Wastewater Funds). Funding from the Development Services Fund (0.15 FTE) will be processed through the Cost Allocation Plan.

- Library Materials: $15,000

  Provides increased funding for books and Library materials loaned to the public. This is a 3.8 percent increase in the materials budget. The preliminary data indicates that Mountain View is approximately 2.0 percent below its benchmark libraries. However, there are other factors for the recommended 3.8 percent, including a reduction in State funding.

- Citywide Special Events: $13,600 (offset by $10,000 sponsorship revenue)

  Provides increased funding to support Citywide special events such as the Holiday Tree Lighting, Downtown Parade, and Monster Bash.

- Preschool Programming Hourly Wages: $12,300 (offset by $12,300 in revenue).

  Provides increased funding for hourly staffing to expand early educational programming.

- On-Call Legal Services: $10,000

  Provides increased funding for on-call legal services for complex legal issues.

- Citywide Training: $10,000

  Provides funding to increase training opportunities Citywide.

Limited-Period Recommendations

There is a total of $7.9 million available from the estimated operating balance and one-time revenues. Allocations for this balance are included above. There are a number of recommendations for limited-period funding totaling $1.2 million, offset by $66,300 in revenue. These are itemized in Attachment 5. Some of the major items to be recommended as limited-period expenditures are as follows:

- Soft Story Building Study: $175,000

  Provides funding for a study on soft story buildings that could be at risk of collapse from an earthquake in the City and propose potential programs and incentives that could be adopted to retrofit these structures. The total funding of $350,000 is allocated between the General Non-Operating, Development Services, and Below-Market-Rate Housing Funds.

- Mobility Coordinator Position: $157,000

  Continuation of funding for the Mobility Coordinator position. This is recommended as the second year of a limited-period position to focus on furthering the Council goal to “Improve Bicycle and Pedestrian Mobility.”

- Senior Administrative Analyst Position: $153,700

  Provides funding for a Senior Administrative Analyst position. The position will assist the Purchasing Division with increasing workload, monitor contractors for prevailing wages Citywide, and implementation of recommendations coming out of the Purchasing Study.

- Community Choice Energy (CCE) Study, Phase 2: $150,000

  Staff is recommending $150,000 of Phase 2 placeholder funding for the City's continued participation in the Silicon Valley Community Choice Energy (CCE) collaboration in conjunction with Sunnyvale, Cupertino, and Santa Clara County. Staff is tentatively scheduled to return to City Council on May 26, 2015 to review the options and Phase 2 and 3. Should the Council want to continue to the third phase of the project, an additional $250,000 to $350,000 will be needed around November 2015.

- Communications Coordinator Position (0.50): $70,500

  Continuation of funding for a half-time Communications Coordinator position in the City Manager's Office.

- Library Assistant I/II Position (0.50): $52,500 (offset by $52,500 Google grant)

  Provides funding for a 0.50 FTE Library Assistant I/II position. The position will consolidate 20 hours that are currently covered by four different staff members.

- Housing Trust Boomerang Funds: $51,000

  Provides funding for the 20.0 percent of the net ongoing Boomerang Funds. Of this funding, $10,000 is recommended to be allocated to the Community Services Agency (CSA) and InnVision to increase services to the homeless population in the City.

- HazMat Program Training: $45,000

  Provides increased funding for the HazMat Training Program. The MOU with Local 1965 specifies up to nine employees per shift that are HazMat Technicians by July 2016.

- Financial Analyst I/II Position (0.25): $35,500

  Continuation of funding for 0.25 FTE of a Financial Analyst I/II position to add to a current 0.75 FTE position to relieve workload.

- Employee Survey: $25,000

  Provides funding to conduct an employee survey with the assistance of a professional firm.

- Minimum Wage Contract: $20,000

  Provides funding for consultant services with San Jose Office of Equality Assurance for minimum wage enforcement actions.

- Parking Coordinator Consultant: $20,000

  Provides funding for a Parking Coordinator Consultant to help manage a number of Citywide parking initiatives. The total funding of $100,000 is allocated between the General Non-Operating and Downtown Benefit Assessment Districts Funds.

- Associate Civil Engineer—Capital Projects Position (1.0): $17,900

  Provides funding for an Associate Civil Engineer position (0.90 FTE is offset by charges to CIPs). The position will support utility- and transportation-related capital improvement projects in the North Bayshore Area.

- Fire PERS Health Study: $15,000

  Provides funding for the follow-up Fire PERS Health Study as a result of the agreement to enroll Public Safety personnel into the PERS Health program.

- Paid Internship—HR: $15,000

  Provides funding to continue participating in the regional internship program created by the City Manager's Associations of Santa Clara and San Mateo Counties and have a year-round intern.

- Planning Intern: $15,000

  Provides funding for an intern to assist staff with developing a Council-approved Environmental Sustainable Action Plan (ESAP-3).

- Senior Center Equipment: $13,800 (offset by Senior Trust Funds)

  Provides funding to replace a kiln, two television sets, a ping pong table, and the refelting of the pool tables.

- Open City Hall Subscription: $12,000

  Provides funding for the Open City Hall Subscription. This software allows the City to post questions and collect feedback from the community.

- Training for Web Team/Staff from Civica: $10,000

  Provides funding for training of super users and general content administrators from Civica to ensure the City's website is kept up-to-date.

- Center for the Performing Arts (CPA) 25th Anniversary: $10,000

  Provides funding to commemorate the CPA's 25th Anniversary. The event will feature multiple performances on various stages. Sponsorship revenues will be solicited to offset additional costs.

- eBooks: $10,000

  Provides funding to expand the Library's eBook collection. eBooks typically cost two to five times as much as print format.

Listings of Fiscal Year 2015-16 Recommended Capital Outlay and Equipment Replacement are included as Attachments 6 and 7, respectively.

SUMMARY

With the strong economic growth, and due to the fiscally responsible actions taken in prior fiscal years, the City is poised in the ability to invest funds in needed areas such as capital projects, Retirees' Health, and PERS. The growing economy has resulted in overall revenues projected to increase by $7.5 million, or 7.5 percent, over the Fiscal Year 2014-15 Adopted Budget. This results in the ability to include non-discretionary expenditure increases of $578,800 and discretionary increases of $344,000 of ongoing expenditures in the highest-priority areas (offset by $108,800 in revenues).

There are other needs in a variety of areas, but the most critical are being addressed with limited-period expenditures. The net result, after the recommendations, is a projected GOF surplus for Fiscal Year 2015-16 of $2.1 million after a $1.0 million contribution to the Retirees' Health Trust and $2.0 million contribution to PERS. Further ongoing expenditure increases are not recommended at this time as later years in the Forecast do not support increasing expenditures.

OTHER FUNDS

General Fund: Development Services

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

The current revenue estimate for Fiscal Year 2014-15 is $11.9 million, which exceeds budget by $2.6 million. The current level of revenues from development activity is trending higher than the prior fiscal year audited as development activity remains strong. Development-related revenues are cyclical in nature and there is a timing difference for each project as plan check revenue is collected at the beginning of the development process, permit revenue just prior to construction, and all services are provided subsequent to payment of fees.

Operating expenditures for the current fiscal year are estimated at $10.5 million, $1.0 million (10.9 percent) higher than the Adopted Budget, primarily as a result of increased appropriations for contractual services during the fiscal year. Included in operating expenditures is $642,000 and $33,000 to reimburse the cost of administrative support by the GOF and other funds, respectively. In addition, Development Services contributed $618,000 to capital projects, $590,000 to the Retirees' Health UAAL, and $62,000 to the Compensated Absences Fund. The fund is estimated to end the current fiscal year with a balance of $10.3 million and a Reserve for Land Use Documents of $3.2 million.

The Reserve is recommended to be established for the purpose of accumulating costs associated with the update of Land Use Documents (e.g., General Plan, Precise Plan, Zoning Ordinance, etc.). A new fee is recommended for this purpose (see Attachment 1, Exhibit D). The recommended reserve of $3.2 million represents the fees that would have been collected for this purpose if the fee had been adopted in Fiscal Year 2012-13, when the General Plan was adopted.

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

	2013-14 Audited	2014-15 Adopted	2014-15 Estimated	2015-16 Recommended
Revenues:				
Investment Earnings	$ 172	113	176	189
Permits	5,544	4,978	6,409	5,818
Charges for Services	3,430	4,215	5,312	4,905
Land Use Doc Fee[1]	-0-	-0-	-0-	840
Other	1	50	50	50
Total Revenues	9,147	9,356	11,947	11,802
Operating Expenditures	5,120	9,446	10,479	10,685
Operating Balance	4,027	(90)	1,468	1,117
Reimb to Other Funds	-0-	(1,871)	(1,871)	-0-
PERS Contribution	-0-	-0-	-0-	(177)
Transfer to Workers' Comp	(22)	-0-	-0-	(15)
Transfer to Comp Absences	-0-	(62)	(62)	(12)
Retirees' Health UAAL	-0-	(590)	(590)	(2,749)
Capital Projects	(88)	(618)	(618)	(72)
Excess (Deficiency) of Revenues	3,917	(3,231)	(1,673)	(1,908)
Beginning Balance	11,223	15,140	15,140	13,467
Land Use Doc Reserve	-0-	-0-	(3,156)	(3,996)
Ending Balance	$15,140	11,909	10,311	7,563

(1) Includes the recommendation for a Land Use Document Fee.

The Fiscal Year 2015-16 recommendations are as follows:

- Associate Civil Engineer—Construction Position: $170,000 (ongoing)

  Provides funding for an Associate Civil Engineer position to support the increased workload in the Construction Section due to the high level of private development activity.

- Senior Planner Position: $160,000 (ongoing)

  Provides funding for a Senior Planner position to support the ongoing high level of development activity.

- Senior Planner Position: $160,000 (limited-period)

  Provides limited-period funding for a Senior Planner position. The position will support the current high level of development activity.

- Assistant Civil Engineer—Construction Position: $157,900 (limited-period)

  Continuation of funding for an Associate Civil Engineer position. The position will support the increased workload in the Construction Section due to the current high level of private development activity.

- Associate Planner Position: $147,700 (ongoing)

  Provides funding for an Associate Planner position. Due to eliminated positions in past fiscal years, resources for counter coverage have been reduced to minimal levels, creating challenges in providing excellent service to customers. This position improves customer service at the counter, increases the number of over-the-counter "One Stop" permits that can be issued, and potentially increases the counter hours.

- Associate Planner Position: $147,700 (limited-period)

  Provides funding for an Associate Planner position. Due to eliminated positions in past fiscal years, resources for counter coverage have been reduced to minimal levels, creating challenges to providing excellent service to customers. This position improves customer service at the counter, increases the number of over-the-counter "One Stop" permits that can be issued, and potentially increases the counter hours.

- Permit Technician Position: $119,500 (ongoing)

  Provides funding for a new Permit Technician position to assist with the development review at the counter and regular development review processes. This position will also relieve Planners that are assigned to the counter duty to work on their assigned projects.

- Consultants/Hourly Staff to Support Traffic Engineering Section: $100,000 (limited-period)

  Provides funding for consultants and hourly staff to support the Traffic Engineering Section. The increase in activity is mainly attributable to the approval of the three Precise Plans. The total cost of $150,000 is shared between the Development Services and Shoreline Community Funds.

- Office Assistant I/II Position: $98,000 (limited-period)

  Continuation of funding for an Office Assistant I/II position. This position was eliminated in Fiscal Year 2003-04 as part of a budget reduction strategy. Given the increase in workload over the past several years, temporary staff is needed and staff believes that continuing this position is critical to the overall operation of the department.

- Soft Story Building Study: $87,500 (limited-period)

  Provides funding for the allocation to the Development Services Fund as mentioned in the GOF Section above.

- Associate Civil Engineer—Land Development Position (0.50): $85,000 (ongoing)

  Provides funding for an Associate Civil Engineer position (the other 0.50 FTE is funded from the Shoreline Community, Water, Wastewater, and Solid Waste Funds) to support the increased workload in the Land Development Section due to the high level of private development activity.

- Associate Civil Engineer—Land Development Position (0.50): $85,900 (limited-period)

  Provides funding for the allocation to the Development Services Fund for this position as mentioned in the GOF Section above.

- Document Processing Support: $42,300 (limited-period)

  Provides funding for an hourly position to assist Document Processing with additional workload related to the North Bayshore studies and other development activity.

- El Camino Real Precise Plan Implementation: $40,000 (limited-period)

  Provides funding for the implementation of El Camino Real Precise Plan.

- Multi-Family Housing Program: $30,300 (limited-period)

  Provides additional funding to complete the internal audit of the Multi-Family Housing Self-Certification Program. These funds will be used to continue the services with a contract Building Inspector and Office Assistant until December 2015.

- Legal Retainer: $20,000 (limited-period)

  Provides additional funding for legal consultation on land use law and California Environmental Quality Act (CEQA) issues associated with State Density Bonus Law; implementation of the Precise Plan; and regional efforts such as the Valley Habitat. The total funding of $50,000 is allocated between the Development Services and Shoreline Community Funds.

- Associate Civil Engineer—Traffic Position (0.10): $17,000 (ongoing)

  Provides funding for the allocation to the Development Services Fund for the position mentioned in the GOF Section above.

- Major Capital Improvement Projects:

  - Replacement of Utility Billing/Cash Receipting/Business License System: $54,000

  - IT Projects: $17,000

Fiscal Year 2015-16 revenues are projected at $11.8 million, $2.4 million more than the current fiscal year Adopted Budget, but $145,000 lower than the current fiscal year estimated. Revenues are not anticipated to remain at the high levels of this fiscal year, but are still anticipated to remain strong through Fiscal Year 2015-16. Fiscal Year 2015-16 operating expenditures are recommended at $10.7 million, $1.2 million more than the current fiscal year Adopted Budget. There are Limited-Period recommendations of $1.2 million and ongoing recommendations of $699,200 included (all primarily related to positions to address workload) for Fiscal Year 2015-16. In addition, there is a $2.7 million contribution to the Retirees' Health UAAL, which would fully fund the liability for Development Services; $15,000 to the Workers' Compensation Fund; $12,000 to the Compensated Absences Fund; and a $72,000 contribution to capital projects. Staff is also recommending additional contributions to PERS, proportionate to the General Fund contributions, to reduce this unfunded liability (see Reserve Section). The General Fund represents approximately 81.9 percent of the total PERS contribution; therefore, staff is recommending additional contributions from the other funds be made for this fiscal year and next fiscal year.

The fund is projected to end the 2015-16 fiscal year, including Limited-Period expenditure recommendations of $1.2 million, with a positive operating balance of $1.1 million. After funding Retirees' Health, Workers' Compensation, Compensated Absences, capital improvement projects, and the additional PERS contribution, there is a projected ending balance of $7.6 million and a Reserve for Land Use Documents of $4.0 million.

General Fund: Shoreline Golf Links

Shoreline Golf Links (SGL) is an 18-hole course designed by Robert Trent Jones II & Associates that was completed in 1983. The course is owned by the City and generally open to the public 364 days a year. The course struggled for several years with an operating deficit resulting from the impact of the recent recession, rising costs, and competition from an increased number of courses in the Bay Area. After an evaluation of management alternatives by staff and City Council, Touchstone Golf, LLC (Touchstone), was selected to assume management and operations of SGL (Pro Shop and maintenance) in January 2012. Although SGL is a General Fund program, it is tracked and reported separately for management information purposes and to provide a more comprehensive overview of its operations.

The Fiscal Year 2014-15 budget was adopted with a $225,000 net surplus and budgeted as a revenue transfer to the GOF. For the current fiscal year, total revenues are estimated at $2.5 million, $226,000 (8.4 percent) lower than the Adopted Budget and at about the same level as the prior fiscal year. Current fiscal year operating expenditures are estimated at $2.3 million, $134,000 (5.4 percent) less than the Adopted Budget of $2.5 million. Water costs are estimated below budget due to conservation efforts and a more stable blending of potable water with recycled water to curtail salinity issues. Included in operating expenditures is the management fee of $102,000 to Touchstone, $52,000 to reimburse the cost of administrative support provided by the GOF, and annual funding of liability insurance and equipment replacement.

Touchstone continues to improve the financial status of golf course operations with higher rounds played and higher revenues. The fund is estimated to end the current fiscal year with an operating balance of $135,000 which is available to transfer to the GOF. While short of the budget goal, this is a marked improvement of course operations from Fiscal Year 2010-11, when there was an operating deficit of $753,000.

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

	2013-14 Audited	2014-15 Adopted	2014-15 Estimated	2015-16 Recommended
Revenues:				
Green Fees	$1,212	1,350	1,157	1,290
Tournaments/Memberships	482	491	497	535
Cart Rental	318	305	345	333
Driving Range	298	298	263	305
Retail Sales	175	207	171	200
Other	27	45	37	38
Transfer from GF Reserve	32	-0-	-0-	-0-
Total Revenues	2,544	2,696	2,470	2,701
Operating Expenditures	2,533	2,466	2,332	2,513
Operating Balance	11	230	138	188
PERS Contribution	-0-	-0-	-0-	(3)
Transfer to Workers' Comp	(1)	-0-	-0-	-0-
Transfer to Comp Absences	-0-	(3)	(3)	-0-
Transfer to GOF	(45)	(225)	(135)	(175)
Excess (Deficiency) of Revenues	(35)	2	-0-	10
Beginning Balance	40	5	5	5
Ending Balance	$ 5	7	5	15

Projected revenue for Fiscal Year 2015-16 is $2.7 million, $231,000 higher than the current fiscal year estimate and $157,000 higher than Fiscal Year 2013-14 Audited. Projected expenditures by Touchstone and the City of $2.5 million are $47,000 higher than the current fiscal year adopted. The operating costs reflect the recommended increase in funding for janitorial and minimum wage. Included in the Fiscal Year 2015-16 recommended operating expenditures are contributions of $209,000 for annual equipment replacement and $75,000 for reimbursement of administrative support provided by the GOF.

Fiscal Year 2015-16 is estimated with an operating balance of $188,000 which will fund the $3,000 additional contributions to PERS, proportionate to the General Fund contributions, recommended by staff to reduce this unfunded liability (see Reserve Section).

The Fiscal Year 2015-16 recommendations are as follows:

- Minimum Wage Cost: $6,000 (ongoing)

  Provides funding to bring wages to new minimum wage.

- Net Miscellaneous: $5,600 (ongoing)

  Includes increases to operations ($23,200), irrigation maintenance and repairs ($11,900), and other operating changes ($5,300)—offset by reductions in maintenance contracts ($16,900), merchandise ($12,200), and personnel costs ($5,700).

- Janitorial Cost Increases—Pro Shop: $3,000 (ongoing)

  Provides funding for increased janitorial cost as mentioned in the GOF Section above.

The course condition continues to improve, and revenues are projected to increase compared to the current fiscal year adopted. Based on the projected revenues and expenditures, management of the course by Touchstone will allow for a transfer of $175,000 of net surplus to the City's GOF. Staff continues to work with Touchstone and meets quarterly to review the operations and financial status of the course.

<u>Successor Agency to the Revitalization Authority Fund</u>

As of January 31, 2012, under the Dissolution Act, all California redevelopment agencies were dissolved and ceased to exist as a public entity. The City elected to serve as the Successor Agency to the Revitalization Authority (Successor Agency) and to also retain the housing assets and functions. The Successor Agency is responsible for winding down the affairs of the former Revitalization Authority (Authority). An Oversight Board consisting of seven members was established as required by the legislation. The Oversight Board is responsible for reviewing and approving all Recognized Obligation Payment Schedules (ROPS) which include the enforceable obligations of the Authority for each six-month period. The ROPS is reviewed by the County and submitted to the State Department of Finance (DOF) for final approval.

A comprehensive wind down and Dissolution Plan was approved by Council and the Oversight Board, effective as of June 30, 2014. The Dissolution Plan included calling the outstanding 2003 Certificates of Participation (COPs) and waiving the reinstatement of the outstanding loans by the City and Shoreline Community in exchange for credit toward the Bryant Street and Franklin Street properties owned by the Successor Agency.

In addition, a Compensation Agreement for the allocation of any revenues resulting from the parking structures to the taxing entities has been approved by the City and all the taxing entities. The final reconciliation and ROPS has been submitted and is pending final approval by the DOF.

Shoreline Regional Park Community Fund

The Shoreline Regional Park Community (Shoreline Community) was created in 1969 by the Shoreline Regional Park Community Act (Act) for the development and support of the Shoreline Regional Park (Regional Park) and to enhance the surrounding North Bayshore Area economically and environmentally. The Act prescribes the powers of the Shoreline Community, including the construction and replacement of the infrastructure needed to serve the Shoreline Community such as streets, curbs, gutters, parking lots, sidewalks, water and sewer services, lighting, waste disposal, and levees, as well as operations and maintenance of the Regional Park.

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

All sources of revenue are higher than budget, resulting in total estimated revenues for the current fiscal year of $30.8 million, $1.4 million (4.8 percent) higher than budget. Property Tax estimates were adopted with declines compared to the Fiscal Year 2013-14 actual in anticipation that appeals would be granted by the County. Although appeals submitted for earlier tax years were granted and refunds to property owners were netted against current year property tax payments to the City, total property values increased.

Total expenditures for the current fiscal year are estimated at $26.7 million, $129,000 higher than the current fiscal year's Adopted Budget of $26.5 million due to higher-than-expected intergovernmental payments. This estimate includes the operations of the Shoreline Regional Park, landfill, and street maintenance, as well as the area's share of costs for services such as Police and Fire protection, planning, and general administration.

The intergovernmental payments to the County, in accordance with the agreement authorized in December 2004, is estimated to be higher than budgeted as property values are higher than anticipated in the Adopted Budget. Contributions to the Mountain View Whisman School District (MVWSD) and the Mountain View Los Altos Union High School District (MVLAUHSD) will be made in accordance with the 10-year Joint Powers Agreement (JPA) approved in June 2013.

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

	2013-14 Audited	2014-15 Adopted	2014-15 Estimated	2015-16 Recommended
Revenues:				
Property Taxes	$30,972	28,466	28,815	32,732
Investment Earnings	768	660	662	858
Other	393	279	1,332	324
Total Revenues	32,133	29,405	30,809	33,914
Expenditures:				
Operating	9,555	10,939	10,759	12,580
Intergovernmental Payments	7,517	7,374	7,703	7,972
Debt Service	6,828	6,331	6,311	6,510
Loan Payment	1,894	1,894	1,894	1,472
Total Expenditures	25,794	26,538	26,667	28,534
Operating Balance	6,339	2,867	4,142	5,380
CIP Refunds	803	-0-	-0-	-0-
2003 Loan	346	-0-	-0-	-0-
PERS Contribution	-0-	-0-	-0-	(87)
Transfer to Workers' Comp	(19)	-0-	-0-	(7)
Transfer to Comp Absences	-0-	(121)	(121)	(26)
Retirees' Health UAAL	-0-	(403)	(403)	(18)
Capital Projects	(8,842)	(3,011)	(3,244)	(8,748)
Excess (Deficiency) of Revenues	(1,373)	(668)	374	(3,506)
Beginning Balance	52,668	51,298	51,295	51,669
General Reserve	(4,600)	(4,900)	(4,900)	(5,100)
Landfill Reserve	(2,000)	(3,000)	(3,000)	(4,000)
Ending Balance	$44,695	42,730	43,769	39,063

The $32.7 million property tax projection for Fiscal Year 2015-16 anticipates an increase compared to the July 1, 2014 tax roll resulting from changes in ownership and the 1.998 percent annual CCPI. However, the majority of the projected increase compared to the Fiscal Year 2014-15 estimate is related to prior year refunds to property owners reflected in Fiscal Year 2014-15 property tax revenue. This is a result of successful appeals for property tax reductions. The backlog of approximately 7,000 pending appeals for properties throughout the County includes properties located in the Shoreline Community and many owners are appealing multiple years. Although the County is unable to provide information about pending appeals specific to each local agency, it is reasonable to expect that some appeals for properties in the Shoreline Community will be successful.

The Fiscal Year 2015-16 recommendations are as follows:

- Parks Maintenance Worker I/II Position: $113,300 (ongoing)

  Provides funding for a Parks Maintenance Worker I/II position. The position is for the maintenance of the new Shoreline Athletic Fields.

- Precise Plan Implementation—District Utilities Feasibility Study: $50,000 (limited-period)

  Provides funding to conduct a study involving cost/benefit analysis for a district-scale utility system. This item is part of the North Bayshore Precise Plan Implementation.

- Consultants/Hourly Staff to Support Traffic Engineering Section: $50,000 (limited-period)

  Provides Shoreline funding for consultants and hourly staff to support the Traffic Engineering Section as noted earlier. The total cost of $150,000 is shared between the Development Services and Shoreline Community Funds.

- Associate Civil Engineer—Traffic Position (0.25): $42,500 (ongoing)

  Provides funding for the allocation to the Shoreline Community Fund for the position mentioned in the GOF Section above.

- Associate Civil Engineer (0.20): $34,000 (limited-period)

  Provides funding for the allocation to the Shoreline Community Fund for this position as mentioned in the GOF Section above.

- Precise Plan Implementation—Trip-Cap Program: $30,000 (ongoing)

  Provides funding to develop and institute the trip-cap program (includes traffic and SOV counts).

- Precise Plan Implementation—Consulting Arborist: $30,000 (limited-period)

  Provides funding to assist with the analysis required for the replacement of the larger trees in the Precise Plan area. This item is part of the North Bayshore Precise Plan implementation.

- Legal Retainer: $30,000 (limited-period)

  Provides additional funding for legal consultation on land use law and CEQA issues associated with State Density Bonus Law, implementation of the Precise Plan, and regional efforts such as the Valley Habitat. The total funding of $50,000 is allocated between the Development Services and Shoreline Community Funds.

- Associate Civil Engineer—Land Development (0.15): $25,500 (ongoing)

  Provides funding for the allocation to the Shoreline Community Fund for the position mentioned in the Development Services Fund Section above.

- Shoreline Athletic Field Programming: $20,900 (ongoing offset by $20,900 revenue)

  Provides funding to implement an adult sports league at the new Shoreline Athletic Fields.

- Maintenance Contract Increases: $10,500 (ongoing)

  Provides CPI increased funding for Shoreline Regional Park security ($8,400) and for parks maintenance and water feature contracts ($2,100).

- Janitorial Cost Increases—Rengstorff House: $4,000

  Provides funding for increased janitorial cost as mentioned in the GOF Section above.

- Major Capital Improvement Projects:

  — Shoreline Boulevard Interim Bus Lane and Utility Improvements, Design: $2,363,000

  — Installation of Solar Panels at Three City Facilities: $1,045,000

  — Shoreline Park Irrigation Replacement: $1,026,000

- Charleston Road Improvements, Feasibility Study: $762,000

- Bicycle/Pedestrian Bridge over Highway 101, Preliminary Design: $533,000

- Castro/Moffett/Central Intersection Near-Term Improvements: $425,000

- Stierlin Road Bicycle and Pedestrian Improvements, Feasibility Study: $277,000

- Transit Center Master Plan: $250,000

The anticipated increase in Fiscal Year 2015-16 AV discussed above will result in an increase in the intergovernmental payments to the County and the school districts.

In summary, for Fiscal Year 2015-16, property taxes are projected to increase compared to the current fiscal year estimate and expenditures are projected to increase compared to the current fiscal year adopted based on increased operational costs, contributions to other taxing entities, and funding major capital improvement projects. After funding capital projects and reserves of $9.1 million, the fund is projected with an ending balance of $39.1 million. There are additional significant future major capital projects in the planning phases and Council has met several times to discuss the transportation, sea level, and landfill needs of the Shoreline Community.

UTILITY FUNDS
WATER, WASTEWATER, SOLID WASTE MANAGEMENT

The City's enterprise utility funds are fully funded by the rates charged to customers; there is no General Fund support to the utility funds. In a July 2006 California Supreme Court decision (*Bighorn*), the Court ruled that utility rates charged by governmental entities for water, sewer, and refuse services are considered property-related fees and are subject to the procedural requirements of Proposition 218, Article 130, of the California Constitution. Proposition 218 (as now interpreted) requires governmental agencies that charge for utility services to conduct a majority protest hearing prior to adopting any changes in utility rates. A notice must be mailed no later than 45 days prior to the public hearing, include the proposed rate adjustment and the calculation methodology, and describe the process for submitting a protest vote to the rate adjustments.

The legislation provided for future rate increases within prescribed limits to be approved without holding a hearing each year for up to an additional four years. The City has used this provision in the past when proposed rate changes fell within the pass-through and inflationary guidelines. For Fiscal Year 2015-16, the recommended water rate change is within pass-through and inflationary guidelines; therefore, for the second year, no Proposition 218 hearing is required for water rate changes. The base wastewater rate change is also within the guidelines; however, due to upcoming cost increases for the Palo Alto Water Quality Control Plant (Treatment Plant) capital infrastructure, staff recommended and Council affirmed gradually phasing in rate increases (see Wastewater Section for more details). In addition, solid waste rates incorporate a rate realignment based on the Solid Waste Cost of Service Study (COS Study) and restructuring debris box rates (see Solid Waste Section for more details). This results in the recommended wastewater and solid waste rate increases requiring a Proposition 218 hearing. A Proposition 218 hearing is scheduled, prior to the adoption of any rate modifications, for June 16, 2015. Staff will be mailing a notification of the proposed rate changes on or before May 1 to meet the 45-day prescribed noticing time subject to Proposition 218.

<u>Water Enterprise Fund</u>

The Water Enterprise Fund is a utility fund accounting for the revenues and expenditures associated with the provision of retail water service to Mountain View residents and businesses. The City provides potable water service to approximately 96.0 percent of water customers within the City limits while California Water Service (a private company) provides service to the remaining 4.0 percent of water customers in a few previously unincorporated neighborhoods. Potable water for the City's system is obtained primarily from the San Francisco Public Utilities Commission (SFPUC) regional Hetch Hetchy water system (85.0 percent). Water is also purchased from the Santa Clara Valley Water District (SCVWD) (11.0 percent) and City well production (4.0 percent). The primary costs associated with water service are the purchase of water, staffing to operate and maintain the system, ongoing maintenance, and capital replacement and improvement projects. Charges for services are designed to fully fund ongoing annual costs and a base level of annual capital improvement projects as well as to maintain adequate reserves in accordance with Council policy.

An overall 7.0 percent rate increase was adopted for Fiscal Year 2014-15. Current estimated operating revenues for Fiscal Year 2014-15 are $27.3 million, approximately $1.2 million (4.3 percent) below budget. Due to drought conditions and the request to reduce water usage, the budget included an estimated 10.0 percent reduction in water sales. Actual water usage and sales in the City through February exceeded the target of 10.0 percent and are more than 15.0 percent lower than the prior fiscal year. Recycled water revenue is budgeted at $600,000 and the current estimate is $531,000. Other revenues are trending higher than budgeted.

Operating expenditures for the current fiscal year are estimated at $24.2 million, $1.6 million (6.2 percent) lower than the budget of $25.8 million. This is primarily the result of lower water purchased due to lower water sales, and savings in operations. In addition, there is $2.9 million of funding for capital projects. The fund is estimated to end the fiscal year with reserves of $8.5 million and an ending balance of $9.7 million.

A 25-year water supply agreement between the City and the SFPUC became effective as of July 1, 2009. The agreement provides Mountain View a supply of 13.46 million gallons per day (mgd); however, the supply will be limited to 11.43 mgd from July 1, 2011 through June 30, 2018 to protect SFPUC water sources and limit demands during construction of the Hetch Hetchy water system improvements. The agreement includes a minimum purchase requirement for the City as well as three other agencies. In response to the ongoing drought and requests for conservation, in 2014 the SFPUC reduced the minimum water use requirement by 10.0 percent for Fiscal Year 2014-15. It is estimated the reduced minimum purchase requirement will still not be met for Fiscal Year 2014-15, but the SFPUC has notified the City it will not be penalized for increased water conservation and thereby not meeting the reduced minimum purchase requirement.

Following a prolonged period of below-average precipitation, in January 2014, Governor Brown declared a state of emergency due to drought conditions. Based on this declaration, the SCVWD requested its customers reduce water consumption by 20.0 percent and the SFPUC asked its customers to reduce water consumption by 10.0 percent. Recently, the SCVWD has requested its customers reduce water consumption by an additional 10.0 percent to 30.0 percent. On April 1, 2015, Governor Brown issued an executive order directing the State Water Resources Control Board (Water Board) to impose mandatory water use reductions for cities and towns to reduce total water use by 25.0 percent Statewide. The SFPUC to date has not changed its request for voluntary conservation or issued any mandatory water use restrictions, but is awaiting further direction from the Water Board in response to the Governor's executive order. Although Mountain View's percent reduction has yet to be finalized, Public Works staff has already begun developing an additional outreach plan based on the assumption the City's water conservation will need to substantially increase. Mountain View's draft conservation target issued by the Water Board on April 18 is a 16.0 percent reduction from Fiscal Year 2013-14 water use. Final action will be taken by the Water Board at their May 5 meeting.

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

	2013-14 Audited	2014-15 Adopted	2014-15 Estimated	2015-16 Recommended
Revenues:				
Investment Earnings	$ 288	241	298	301
Water Sales	27,226	26,728	25,479	29,046[1]
Recycled Water Sales	413	600	531	600
Other	1,306	918	945	1,169
Total Revenues	29,233	28,487	27,253	31,116
Expenditures:				
Operating	8,292	9,014	8,669	9,578
Water Purchases	13,691	15,840	14,583	18,468[2]
Loan Repayment— Recycled Water	300	300	300	300
Debt Service	631	631	629	633
Total Expenditures	22,914	25,785	24,181	28,979
Operating Balance	6,319	2,702	3,072	2,137
Development Impact Fees	-0-	-0-	-0-	3,627
PERS Contribution	-0-	-0-	-0-	(177)
Transfer to Workers' Comp	(38)	-0-	-0-	(16)
Capital Projects from Development Impact Fees	-0-	-0-	-0-	(1,848)
Capital Projects	(2,480)	(2,881)	(2,881)	(3,029)
Excess (Deficiency) of Revenues	3,801	(179)	191	694
Beginning Balance	14,210	18,011	18,011	18,202
Development Impact Fee Reserve	-0-	-0-	-0-	(1,779)
Reserves	(7,675)	(8,541)	(8,541)	(9,665)
Ending Balance	$10,336	9,291	9,661	7,452

(1) Based on the recommended 14.0 percent rate adjustment.

(2) Based on the proposed 28.0 percent increase in wholesale water costs by the SFPUC and 27.7 percent proposed increase for treated water, and 31.5 percent proposed increase for groundwater (well production) by the SCVWD.

The major factors that influence rate setting for the Water Fund are: (1) the cost of wholesale water, (2) water consumption level, (3) annual operating costs, and (4) level of capital improvements. The cost of water purchases from the SFPUC and other water sources (approximately 65.2 percent of recommended expenditures) has been subject to major fluctuations for more than a decade and has caused the City's retail water rate adjustments to vary significantly. The SFPUC has proposed a rate increase of 28.0 percent effective July 1, 2015, and SCVWD is proposing 27.7 percent and 31.5 percent rate increases for treated water and well water, respectively, for Fiscal Year 2015-16. Final rates will not be approved by the SFPUC until May 12, 2015.

The recycled water rate is set to recover the cost of the program which includes the loan repayment ($300,000) and recycled water program operating costs ($275,000). Staff will continue to convert customers from potable water to recycled water when possible.

Annual capital project funding of $2.6 million is included in the annual rate calculation as the three-year rolling average of annual projects. The policy is, if in any fiscal year capital projects are more or less than this amount, the difference is accounted for by an increase or decrease in Water Fund reserves. However, there are no funds in the reserve in excess of policy to fund additional capital projects. In addition, the reserve policy is based on a percentage (10.0 percent for emergencies, 5.0 percent for contingencies, and 10.0 percent for rate stabilization) of operating expenditures, and as expenditures rise, so does the reserve requirement.

The Fiscal Year 2015-16 recommendations are as follows:

- Associate Civil Engineer—Utilities Position: $170,900 (limited-period)

  Provides funding for an Associate Civil Engineer position. Additional staff resources are needed to comply with recycled water regulations and increase recycled water use.

- Utility Online Payment Processing: $70,000 (ongoing)

  Provides increased funding for payment processing costs associated with an increase in usage of the payment gateway (see Attachment 8 for a discussion of credit card processing fees).

- System Coordinator/Technician (GIS Coordinator)—Land Development (0.60): $75,000 (ongoing)

  Provides funding for the allocation to Water and Wastewater Funds for the position mentioned in the GOF Section above. Funding from Wastewater Fund (0.30 FTE) will be processed through the Water Cost Allocation Plan.

- BAWSCA Membership Dues: $32,000 (ongoing)

  Provides funding for the increase in dues to the City's membership in the Bay Area Water Supply and Conservation Agency (BAWSCA) which represents the interest of 25 agencies and 2 private water companies that purchase wholesale water from the San Francisco regional (Hetch Hetchy) water system operated by the SFPUC. This increase will provide funding for expanded drought-related programs and unanticipated legal expenses from the settlement of Water Supply Agreement disputes. BAWSCA represents the City in rate negotiations with the SFPUC and incurred higher-than-anticipated legal expenses to resolve water cost allocation issues between the SFPUC and wholesale purchasers.

- Associate Civil Engineer—Land Development Position (0.15): $25,500 (ongoing)

  Provides funding for the allocation to the Water Fund for the position mentioned in the Development Services Fund Section above.

- Associate Civil Engineer—Land Development Position (0.10): $17,000 (limited-period)

  Provides funding for the allocation to the Water Fund for this position as mentioned in the GOF Section above.

- Major Capital Improvement Projects:

  — Miscellaneous Water Main/Service Line Replacement: $2,415,000

  — Water & Sewer Main Replacement Crossing Highway 101 at Two Locations: $600,000

  — Annual Water System Improvements: $544,000

  — Installation of Solar Panels at Three City Facilities: $532,000

- Shoreline Boulevard Interim Bus Lane and Utility Improvements, Design: $444,000

For Fiscal Year 2015-16, a 14.0 percent rate increase is recommended for the average cost of water and meter rates and a 2.5 percent increase is recommended for the recycled water rate. The Uniform and Tier 2 rates reflect the average cost of water; Tier 1 is set at 75.0 percent and Tier 2 is set at 160.0 percent of the average cost of water. Meter rates are tied to the capacity ratios published by the American Water Works Association (AWWA). Because of these relationships, the individual rate increase may be slightly more or less than the 14.0 percent stated. The rate restructuring implemented in Fiscal Year 2013-14 has improved the financial position of this fund. Taking into consideration the proposed rate increases by the SFPUC and the SCVWD, and increases in operating costs, the fund is projected to maintain operations and an adequate reserve with the rate increases recommended.

Fiscal Year 2015-16 projected revenues, with the recommended rate adjustments and continued low water use due to the drought, are $31.1 million and recommended expenditures are $29.0 million (after eliminating the budget effect of depreciation expense). Included in expenditures are the proposed rate adjustments to wholesale water costs. It is anticipated the SFPUC rate will be adopted at its meeting on May 12, 2015. Staff will provide an update to Council of any changes to the proposed rate increase with the Proposed Budget on June 9, 2015. Recommended fee modifications are included in Attachment 1, and a comparison of the current rates and the recommended rates are included in Attachment 9.

The operating balance of $2.1 million is recommended to partially fund capital projects of $3.0 million, transfer to the Workers' Compensation of $16,000, and increases in the reserve of $1.1 million due to higher expenditures, mainly due to water costs. In addition, staff is recommending additional contributions to PERS of $177,000, proportionate to the General Fund contributions, to reduce this unfunded liability (see Reserve Section). This results in a reserve balance of $9.7 million and the Fiscal Year 2015-16 ending balance is projected to be $7.5 million.

Capacity fees have been adopted by Council to be effective July 1, 2015. Fiscal Year 2015-16 includes estimated fees of $3.6 million based on building permits to be issued during the fiscal year. These fees will fund $1.8 million in additional capital projects with the balance of $1.8 million set aside to fund additional CIPs in future fiscal years. As noted in last year's report, these development impact fees provide funding for additional capital projects and mitigate the need to fund these projects with rate increases.

Future fiscal year rates are anticipated to be impacted by the continued projected rate increases for implementation of the SFPUC capital improvements to the Hetch Hetchy system. The SFPUC has provided estimated future water rate increases of 1.0 percent, 0.0 percent, 14.0 percent, and 9.0 percent for Fiscal Years 2016-17 to 2019-20, respectively.

Wastewater Enterprise Fund

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

An overall 4.0 percent rate increase was adopted for Fiscal Year 2014-15, the combination of 2.0 percent for increased Treatment Plant and operating costs and 2.0 percent for funding future capital expenditures forecasted for the major renovations at the Treatment Plant (see discussion below). Estimated operating revenues for the current fiscal year are $16.1 million, $185,000 (1.2 percent) higher than the budget of $15.9 million, mainly due to wastewater service charges slightly higher than budget.

Operating expenditures are currently estimated at $14.2 million, $283,000 (2.0 percent) below the budget of $14.5 million, due to operating savings offset by a prior fiscal year amount due to the Treatment Plant. 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 actual expenditures of the Treatment Plant for last fiscal year were higher than budgeted, resulting in an amount due of $258,000 added to the current fiscal year treatment costs.

In addition, there is $2.6 million in capital. The fund is estimated to end the fiscal year with a reserve balance of $6.3 million and an ending balance of $5.9 million. The $6.3 million reserve balance includes $290,000 for the 2.0 percent (of the 4.0 percent) rate increase associated with Treatment Plant long-term capital costs. Funds for the recommended 2.0 percent rate increases annually for 10 years to pay for these capital costs will be accumulated in the reserve until payments to Treatment Plant begin in Fiscal Year 2018-19 at which time the balance will be drawn down.

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

	2013-14 Audited	2014-15 Adopted	2014-15 Estimated	2015-16 Recommended
Revenues:				
Hazardous Materials/ Fire Safety Permits	$ 414	425	427	425
Investment Earnings	205	186	196	218
Wastewater Service	14,796	15,247	15,443	16,370[1]
Other	285	84	61	60
Total Revenues	15,700	15,942	16,127	17,073
Expenditures:				
Operating	5,270	6,057	5,517	6,521
Wastewater Treatment	7,585	8,403	8,660[2]	8,922
Total Expenditures	12,855	14,460	14,177	15,443
Operating Balance	2,845	1,482	1,950	1,630
Development Impact Fees	-0-	-0-	-0-	3,221
PERS Contribution	-0-	-0-	-0-	(111)
Transfer to Workers' Comp	(79)	-0-	-0-	(37)
Capital Projects from Development Impact Fees	-0-	-0-	-0-	(4,471)
Capital Projects	(2,851)	(2,417)	(2,627)	(4,162)
Excess (Deficiency) of Revenues	(85)	(935)	(677)	(3,930)
Beginning Balance	13,007	12,922	12,922	12,245
Development Impact Fee Reserve	(33)	(33)	(33)	1,216
Reserves	(5,984)	(6,274)	(6,274)	(6,875)
Ending Balance	$ 6,905	5,680	5,938	2,656

(1) Based on a recommended 6.0 percent rate increase.
(2) Includes $258,000 amount due for the prior fiscal year.

The Fiscal Year 2015-16 recommendations are as follows:

- Associate Civil Engineer—Land Development Position (0.15): $25,500 (ongoing)

  Provides funding for the allocation to the Wastewater Fund for the position mentioned in the Development Services Fund Section above.

- Associate Civil Engineer—Land Development Position (0.10): $17,000 (limited-period)

  Provides funding for the allocation to the Wastewater Fund for this position as mentioned in the GOF Section above.

- Major Capital Improvement Projects:

  — Interceptor Force Trunk Main Rehabilitation—Construction, Phase I: $2,600,000

  — Citywide Trash Capture Device, Design and Construction, Phase I: $2,000,000

  — Miscellaneous Storm/Sanitary Sewer Main Replacement: $1,523,000

  — Amend Prior Fiscal Year Miscellaneous Storm/Sanitary Sewer Main Replacement: $750,000

  — Storm Drain Master Plan Update: $535,000

  — Municipal Operations Center (MOC) Dewatering Pad: $270,000

Costs for the Treatment Plant are proposed to increase 6.7 percent for Fiscal Year 2015-16, resulting in the cost of wastewater treatment to be 57.8 percent of the total recommended operating expenditures. A 4.0 percent overall rate increase is recommended for Fiscal Year 2015-16 due to the increase from the Treatment Plant and operating cost increases. For rate-setting purposes, a $1.8 million base level of annual maintenance capital projects is assumed for Fiscal Year 2015-16.

As noted in last year's report, there are future capital expenditures forecasted for the Treatment Plant, as it began operations in 1972 and is in need of major renovations. An updated preliminary projection of the future costs, net of anticipated operating savings, necessary for the renovations has been provided and net costs are projected to increase

$800,000 beginning in Fiscal Year 2018-19, rise to a peak projection of $3.3 million in Fiscal Year 2023-24 then decline to approximately $3.0 million annually through Fiscal Year 2047-48 until funding is paid off in Fiscal Year 2051-52. The updated projections extend the funding payments out seven years, but the annual payments are more normalized. The update does not change staff's recommendation of increasing rates 2.0 percent per year for 10 years. A cumulative rate increase of 20.0 percent is still projected to be needed to achieve 25 years of annual payments of between $2.9 and $3.3 million. With the advance notice and planning, this allows for a gradual phase-in of the rate increases necessary to fund these long-term capital costs. Therefore, Fiscal Year 2015-16 is the second year of an additional 2.0 percent overall increase in rates to fund the major renovations for the Treatment Plant. By gradually phasing in the rates, this allows for a lesser impact associated with the renovations and spreads the impact of the costs to the rate payers who will be receiving the benefits of the improvements. Staff will continue to review any updates and revise the recommendation as needed.

Staff has previously indicated through the CIP process there are major sewer main replacement projects necessary. The City's wastewater collection system is comprised of 157 miles of pipe and the majority of the trunk main infrastructure was installed in the 1950s and 1960s. The 2010 Sewer Master Plan identified large segments of the east, central, and west mains were nearing the end of their service life or potentially needing substantial rehabilitation. In addition to the annual maintenance of sewer lines of approximately $1.8 million that are built into the rates, staff projects an additional $26.0 million in capital projects over the next 11 years.

As noted in last year's report, if bonds are issued for the $26.0 million in projects to be amortized over 25 years, a cumulative rate increase of 11.0 percent is projected to be required for the City's wastewater major capital projects. Last year staff recommended phasing in these rates in small increments, with a 2.0 percent increase recommended beginning in Fiscal Year 2015-16 and 1.0 percent incremental annual increases for an additional nine fiscal years. This would provide for the gradual incremental rate increase impact over 10 fiscal years to fund the debt necessary over a 25-year life.

However, staff also indicated as funds are collected for updated capacity charges adopted by Council to be effective July 1, 2015, these capacity fees could provide funding and reduce future rate increases needed for annual capital projects. Staff is currently projecting $3.2 million, $3.7 million, and $3.8 million will be received in capacity fees during Fiscal Years 2015-16, 2016-17, and 2017-18, respectively. These projections are based on projected building permits that will be issued each fiscal year on development in the pipeline. Based on this, the additional capital projects can be financed with the projected capacity fees, thereby not requiring the issuance of bonds to finance the additional projects needed in the next three to four years. However, the projects are projected prior to the collection and accumulation of sufficient fees;

therefore, the reserve is negative in Fiscal Year 2015-16 and is essentially borrowing from the available balance and will be repaid against future projected fees. Staff will continue to monitor and review the need to issue bonds, and any potential associated rate increase necessary for these additional capital improvement projects.

Based on the recommended overall 6.0 percent rate increase, operating revenues for next fiscal year are projected at $17.1 million and recommended operating expenditures are $15.4 million (after eliminating the budget effect of depreciation expense). The operating balance of $1.6 million will partially fund $4.2 million for capital projects and the transfer to the Workers' Compensation Fund of $37,000. In addition, staff is recommending additional contributions to PERS of $110,000, proportionate with the General Fund contributions, to reduce this unfunded liability (see Reserve Section). This results in a reserve balance of $6.9 million, $6.0 million policy reserve plus $891,000 for the accumulation of rate increases for Treatment Plant capital costs. The Fiscal Year 2015-16 ending balance is projected to be $2.7 million.

Solid Waste Management Enterprise Fund

The Solid Waste Management Enterprise Fund is the utility fund that accounts for the revenues and expenditures of solid waste-related services, including trash collection and disposal, recycling services, street sweeping, and maintenance of two of the City's three closed landfill sites.

Trash and recyclables generated in the City are transported to the SMaRT Station (in which the City is one of three partners) for removal of recyclables and the remaining trash is transported for final disposal at the Kirby Canyon Landfill in South San Jose. The City provides a variety of services through an outside contractor (Recology) for the collection of trash and recyclables. The City bills and collects all revenues for solid waste services.

An overall average rate increase of 2.0 percent was adopted for Fiscal Year 2014-15. This includes a 3.0 percent increase for cart, debris box, and compactor rates, and a 1.0 percent increase for bin rates. Current City revenue estimates for Fiscal Year 2014-15 are $12.5 million compared to the budget of $12.1 million. Trash and recycling service charges are trending $393,000 (3.3 percent) higher than budget.

City expenditures are estimated at $11.5 million, $367,000 (3.1 percent) lower than the adopted budget of $11.9 million. The reconciliation for Fiscal Year 2013-14 SMaRT Station costs were less than budgeted, resulting in a credit of $174,000 and is reflected in the current fiscal year estimated. Recology revenues and expenditures are not considered part of the City's budget as these are contractually passed through to Recology.

Operating revenues are projected to exceed operating expenditures by $997,000, primarily due to the SMaRT Station credit and operating savings. In addition, there is $295,000 in capital projects. At the end of the current fiscal year, the fund is estimated with a reserve balance of $3.0 million and an ending balance of $2.9 million.

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

	2013-14 Audited	2014-15 Adopted	2014-15 Estimated	2015-16 Recommended
Revenues:				
Investment Earnings	$ 56	57	56	75
Trash and Recycling Service Charges	11,634	11,835	12,228	11,440[1]
Other	230	204	237	195
City Revenues	11,920	12,096	12,521	11,710
Recology Revenues[2]	13,154	13,680	13,739	14,335
Total Revenues	25,074	25,776	26,260	26,045
Expenditures:				
Operating	4,334	4,704	4,475	5,038
Disposal and SMaRT Station Charges	7,641	7,187	7,049[3]	7,560
City Expenditures	11,975	11,891	11,524	12,598
Recology Payments	13,154	13,680	13,739	14,335
Total Expenditures	25,129	25,571	25,263	26,933
Operating Balance	(55)	205	997	(888)
PERS Contribution	-0-	-0-	-0-	(75)
Transfer to Workers' Comp	(18)	-0-	-0-	(8)
Capital Projects	(277)	(295)	(295)	(323)
Excess (Deficiency) of Revenues	(350)	(90)	702	(1,294)
Beginning Balance	5,537	5,187	5,187	5,889
Reserve	(2,966)	(2,973)	(2,973)	(3,149)
Ending Balance	$ 2,221	2,124	2,916	1,446

(1) Based on a recommended overall 5.0 percent average rate adjustment and restructuring recommendations.
(2) Neither revenues nor expenditures are adopted for Recology.
(3) Includes $174,000 credit from SMaRT Station reconciliation for the prior fiscal year.

The Fiscal Year 2015-16 recommendations are as follows:

- Food Waste Composting: $60,000 (ongoing)

  Provides increased funding for the City's food waste composting program. Additional funds are needed to cover the increase in cost due to a 2.54 percent CPI and the expansion of the program.

- Associate Civil Engineer—Land Development Position (0.05): $8,500 (ongoing)

  Provides funding for the allocation to the Solid Waste Fund for the position mentioned in the Development Services Fund Section above.

- Associate Civil Engineer—Land Development Position (0.05): $8,500 (limited-period)

  Provides funding for the allocation to the Solid Waste Fund for this position as mentioned in the GOF Section above.

- Major Capital Improvements:

  — Replacement of Utility Billing/Cash Receipting/Business License System: $162,000

  — Shoreline Landfill Cap Maintenance and Repairs: $129,000

  — Landfill Gas/Leachate System Repairs and Improvements: $129,000

The revenues generated for trash and recycling services are based on trash service, and as diversion opportunities increase, consumers will continue to reduce service levels for trash, resulting in lower total revenues. However, the cost to pick up and haul both recycling and trash remains and increases with inflation. In addition, rates are charged based on volume while disposal costs are based on weight.

Fiscal Year 2015-16 is the third year of the new agreement with Recology and the contract provides for an increase based on CPI which is 2.85 percent. SMaRT Station costs are currently proposed to increase 6.32 percent. Based on these increases, as well as increases in the cost of City programs and the annual maintenance projects, an overall average 5.0 percent rate increase is recommended. However, during Fiscal Year 2012-13, staff began a Cost of Service Study (COS Study) to review the rate structure and potentially realign rates to reflect the true cost of collection and disposal. Due to the timing of the implementation of new services negotiated in the new agreement with

Recology, the completion of the COS Study was placed on hold until a full year of new service levels could be completed.

The first full year of new service levels was completed as of June 30, 2014 and the COS Study has been updated to incorporate these results. Based on the results of the COS Study, but without consideration of the rate adjustments necessary for Fiscal Year 2015-16, rates for carts should increase by 27.5 percent (staff is recommending cart rates be phased with increases of 10.0 percent per year for three years), bin and compactor rates be reduced by 3.5 percent, and debris box rates be reduced by 20.0 percent (see Attachment 10). In addition, staff performed further analysis on debris box rates and is recommending a restructuring of rates to a flat rate based on size and not weight (see Attachment 11).

Incorporating the COS Study recommendations, for Fiscal Year 2015-16 <u>a 14.0 percent rate increase is recommended for carts, a 1.5 percent increase is recommended for bins and compactors, and rate restructuring is recommended for debris boxes removing additional tonnage charges and reducing overall revenue for debris boxes 15.0 percent</u>. With a 14.0 percent rate increase for carts, the rate for a 32-gallon cart will increase by $3.30 a month to $26.60 per month, which is still lower than our neighboring cities' rates. Attachment 1 includes recommended fee modifications and Attachment 9 includes a comparison of the current rates and the recommended rates.

Revenues, including the rate recommendation for inflationary cost increases, COS Study and restructuring, for Fiscal Year 2015-16 are projected to total $26.0 million (City revenues of $11.7 million) with total expenditures of $26.9 million (City expenditures of $12.6 million). There is also funding of $323,000 for capital projects and a transfer to the Workers' Compensation Fund of $8,000. In addition, staff is recommending additional contributions to PERS of $75,000, proportionate with the General Fund contributions, to reduce this unfunded liability (see Reserve Section). The fund is projected to end the 2015-16 fiscal year with a reserve at the policy level of $3.1 million and a $1.4 million ending balance. The balance of this fund is being drawn down due to the phase-in of cart rates as a result of the COS Study.

Requests for City Council Consideration and Discussion

As discussed in the report, there are several items staff is requesting Council consideration and direction on as follows:

- Janitorial Services

  In June 2013, the City Council directed staff to contract with a janitorial firm that pays union-scale wages and to contract with a union-represented firm within two years. The employees of the City's current vendor, SWA, are not represented by a union, but SWA's owner has expressed a willingness to become a union-represented firm and has submitted pricing for Fiscal Year 2015-16 both with union-scale wages and with full union representation. The costs for Fiscal Year 2015-16 with union-scale wages (and additional new legislative requirements) is an 18.0 percent increase, and with full union representation, the cost is 56.0 percent higher. Therefore, staff requests Council confirm the direction regarding union representation. The Fiscal Year 2015-16 budget recommendation includes the cost increase necessary to meet new legislative requirements and match union-scale wages, but no full union representation (see Attachment 3).

- Transportation Management Association: $75,000 (limited-period rebudget)

  The City Council previously discussed the possibility of becoming a member of the Mountain View Transportation Management Association (TMA) and requested it be brought back for discussion at a later date. The TMA membership fee is $75,000 and membership also obligates each member to pay annual fees of $10,000.

- Credit Card Processing Fees

  On December 2, 2014, staff proposed an appropriation increase of $70,000 due to the projected increases in utility payment processing fees. At that time, Council requested staff to provide additional information as part of the budget process on alternatives for cost recovery and whether other agencies charge recovery fees related to credit card processing.

  The use of credit cards and, therefore, the costs associated with credit card processing, has increased with the use of accepting online payments. In the past, Council has stated the cost to do business online should not be more than the cost to conduct the transaction in person. Staff is seeking direction as to whether the City should seek some sort of cost recovery for credit card processing fees for online and/or on-site transactions (see Attachment 8).

Several items have been requested by outside organizations or subcommittees that staff is presenting for City Council discussion and direction on whether or not these items are a priority and should be included in the Fiscal Year 2015-16 Proposed Budget. These items are currently not included in the recommended budget and are as follows:

- CHAC Funding 3.0 Percent Increase: $2,800 (ongoing)

  CHAC has requested a 3.0 percent increase in funding for Fiscal Year 2015-16. Over the past 10 years, CHAC has requested increases ranging from 0.0 percent to

10.0 percent increase (total of 30.0 percent) and the City has granted all increases as requested. The current funding of CHAC, which is a Joint Powers Authority, is $92,000.

- Mayor's Innovation Increase: $1,000 (ongoing)

  The Council approved joining this organization last fiscal year with membership dues of $1,000. The dues have increased to $2,000 and staff would like to confirm Council wishes to continue this membership.

- Friends of Caltrain Funding Support: $5,000 (ongoing)

  Friends of Caltrain (FOC), a local nonprofit advocacy organization that promotes sustainable transportation along Caltrain's Peninsula Corridor, has requested the City consider financially supporting the FOC by becoming an Organizational Member. Annual financial contributions/membership levels range from $995 to $9,995. A $4,995 annual membership level has been suggested for the City of Mountain View. Locally, the City of Palo Alto is an FOC member (at the $4,995 annual membership level) and a limited number of Mountain View-based companies provide financial support to the organization either through memberships and/or grant funding (see Attachment 12).

- Council's Budget: $16,600 (ongoing) and $3,000 (capital outlay)

  The Council Procedures Committee (CPC) met on April 21, 2015 to discuss the Council's Budget in accordance with Council Policy A-2. Costs associated with TCT have increased. The CPC recommended the following:

  — Council Reserve: $15,100

    o Increase the general reserve by $2,500 to be used by any Councilmember in accordance with Council Policy A-2.

    o Increase the reserve by $12,600 specifically designated for registration at $600 per conference for each Councilmember to attend the two annual National League of Cities conferences (Congressional City Conference and Congress of Cities) and the League of California Cities annual conference.

- Mayor's Training, Conference, and Travel: $1,500

    - The CPC recommended the Mayor's TCT budget be increased by $1,500 for a total of $5,000 annually above individual Councilmembers for the representation of the Mayor at additional conferences, such as the U.S. Conference of Mayors.

- Capital Outlay: $3,000

    - The CPC recommended placeholder funding of $3,000 for furniture modifications to the Mayor's office.

RESERVES

The City has established reserves for various purposes in the General Fund, Shoreline Regional Park Community Fund, Utility funds, Internal Services funds, and other Special Revenue funds. A major factor considered by Standard & Poor's in reconfirming the City its AAA underlying credit rating is the structure and funding status of reserves. Most reserves are established pursuant to City Council Policy A-11, Section 4, Reserve Policies, and others have been approved, as needed, by City Council. A discussion regarding the reserve classifications, estimated fiscal year-end reserve balances compared to policy, or target balances and the recommended allocations are described below.

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

Reserve Classifications

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

- Reserves uncommitted but designated for specific purposes:

  - General Fund Reserve
  - General Fund Budget Contingency Reserve
  - Earned Lease Revenue Reserve
  - Capital Improvements
  - Open Space Acquisition
  - Strategic Property Acquisition

- Reserves to fund liabilities:

  - Property Management
  - Graham Site Maintenance
  - Child-Care Center Commitment
  - Compensated Absences
  - PERS Liability
  - Equipment Replacement
  - Workers' Compensation Self-Insurance
  - Unemployment Self-Insurance
  - Liability Self-Insurance
  - Retirees' Health Insurance Program

Reserves in the first group are uncommitted but designated for a specific purpose and are funded entirely by the General Fund. Those in the second group have current or future liabilities offsetting all or most of the reserve balance and, with the exception of the Property Management, Graham Site Maintenance, and Child-Care Center Commitment Reserves, receive transfers from multiple operating funds. The General Fund and Earned Lease Revenue Reserves are below the Policy/Target Balance. For the Compensated Absences, Workers' Compensation, and Retirees' Health Program, the liability currently exceeds the reserve balance. These Reserves are recalculated at the end of each fiscal year. The Workers' Compensation Reserve requirement has recently been increasing over the last few years. For the Retirees' Health Program, the City continues to accumulate funds toward this liability which is required to be recalculated every two years. As previously approved by Council, an additional $1.0 million has been contributed to the Retirees' Health Trust Fund during the current fiscal year and $1.0 million is recommended to be contributed for next fiscal year.

Reserves are essential elements in maintaining financial stability, meeting long-term objectives, and providing the ability to respond to unanticipated situations. They are also a source of interest income that is used for operating needs or offsets other funding requirements.

The Fiscal Year 2014-15 GOF includes $2.0 million projected budget savings that contributes to balancing the budget. One risk to this method is that budget savings fluctuate from fiscal year to fiscal year; in the past, it has ranged from $2.3 million to $4.8 million. Budget savings were reduced from a previous average of $2.8 million in the prior fiscal year to $2.0 million for Fiscal Year 2014-15 due to the targeted savings estimated to not be attained. Staff is also recommending reducing this further to $1.8 million for Fiscal Year 2015-16 to better reflect recent experience, after several years of budget reductions.

There is some risk to this method during a period of contraction whereby budget savings may be reduced due to the reduction of positions and other expenditures. In addition, this will result in a lower operating balance for future fiscal years to fund and supplement reserves, including the CIP Reserve. If the budget savings are not fully realized, any shortfall will need to be funded from the Budget Contingency Reserve.

Background and Analysis

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

	6/30/15 Estimated Balance	Amount Recommended for Allocation	Other Funds	7/1/15 Recommended Balance	Policy/ Target Balance
Uncommitted but Designated for Specific Purpose:					
GF Reserve[(1)]	$24,400	1,555	-0-	25,955	25,955[(1)]
GF Budget Contingency	5,209	-0-	-0-	5,209	5,209
GF Earned Lease Revenue	890	-0-	-0-	890	2,336
GF Capital Improvements	9,250	2,138[(2)]	-0-	11,388[(3)]	8,334[(3)]
GF Open Space Acquisition	562	-0-	-0-	562	562
GF Strategic Property Acquisition[(4)]	10,575	-0-	-0-	10,575	10,575
Subtotal	50,886	3,693	-0-	54,579	52,971
To Fund Liabilities:					
GF Property Management	1,600	-0-	-0-	1,600	1,600
Graham Site Maintenance	1,300	-0-	-0-	1,300	1,300
GF Child-Care Commitment	1,640	-0-	-0-	1,640	1,561
Compensated Absences[(6)]	7,400	760	40	8,200	8,168[(5)]
GF PERS Liability	-0-	-0-	-0-	-0-	-0-
Equipment Replacement[(6)]	23,590	-0-	-0-	23,590	23,590
Workers' Compensation[(6)]	8,100	913	87	9,100	9,082[(7)]
Unemployment[(6)]	340	-0-	-0-	340	340
Liability Self-Insurance[(6)]	4,400	-0-	-0-	4,400	3,897[(7)]
Subtotal	48,370	1,673	127	50,170	49,538
Total	$99,256	5,366	127	104,749	102,509
Retirees' Health[(8)]	$91,190	-0-	-0-	92,190	110,277[(9)]

(1) Policy balance is calculated as 25.0 percent of the General Operating Fund budget to be determined with the Adopted Budget.
(2) To be determined based on actual results for Fiscal Year 2014-15.
(3) Includes $3.3 million balance for prepaid lease from Downtown Family Housing Project.
(4) Designated funds of $1.1 million to exercise the option on the Franklin Street property and $5.0 million designated for the Community Center Project.
(5) Based on the liability established as of June 30, 2014.

(6) Funding provided by the General Fund, Building/Development Services, Shoreline Golf Links, Parking District, Community Development Block Grant (CDBG), Shoreline Regional Park Community, Enterprise Funds, and Fleet Maintenance, as applicable.
(7) Actuarial liability, in addition to reserve for catastrophic claims per policy, as applicable.
(8) Funds accumulated in the California Employers' Retiree Benefit Trust (CERBT)
(9) Based on the actuarial valuation as of July 1, 2013 for Fiscal Year 2015-16.

General Fund Reserve

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

For Fiscal Year 2015-16, $1.6 million is estimated to be necessary to supplement this reserve to meet the policy level based on recommended expenditures. The final amount necessary will be calculated with the Adopted Budget. Any use of this reserve for the remainder of the fiscal year will increase the amount necessary to supplement this reserve.

General Fund Budget Contingency Reserve

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

During this past recession, this reserve has been used for the transitioning of positions to be eliminated, the phasing out of certain expenditures, in addition to funding for the transitioning of employee benefit changes, Shoreline Golf Links to a new operating model, and the elimination of the City's redevelopment agency. The reserve remains with a balance of $5.2 million available for the next economic downturn.

General Fund Earned Lease Revenue

In April 2011, the City leased to Google Inc. (Google) the remaining portion of the Charleston East site and Google prepaid $30.0 million as rent for the 53-year lease term that coincides with the lease term for the northern portion of the site. The initial $30.0 million was placed in a fiduciary fund for the benefit of Google. The annual rent of $580,900 is recognized as it is earned and accumulated in this reserve with the intent the $30.0 million principal balance will be available at the end of the 53-year lease term. Based on an average 3.5 percent interest rate over the 53-year lease term, it was originally projected annual average interest earnings would be $1.1 million, but only $750,000 has been transferred annually as revenue to the GOF. However, due to the unprecedented low interest rate environment, only approximately $350,000 is earned annually. Therefore, staff recommends reducing the transfer amount to $350,000 until interest rates rise and the projected interest earnings can be reevaluated. This reserve is below the target level.

General Fund Capital Improvement Reserve

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

After other recommended allocations from the Fiscal Year 2014-15 General Fund carryover, it is recommended any balance remaining between $1.0 million and $3.0 million be allocated to this reserve. There is currently estimated to be $2.1 million of remaining carryover to be allocated. However, if the remaining carryover is less than $1.0 million or greater than $3.0 million, staff will return to Council for approval of the remaining carryover after the fiscal year-end close.

In June 2009, $3.5 million was appropriated for the acquisition of the property at 263 Escuela Avenue (now The View Teen Center) and was repaid from the land lease prepayment for the Downtown Family Development Project in Fiscal Year 2011-12. However, these funds are considered unearned revenue and are available to be allocated as rent is earned. There is a remaining balance of $3.3 million of unearned revenue.

General Fund Open Space Acquisition Reserve

This reserve was established for the purpose of acquiring open space to meet the needs of the City. Council Policy A-11 provides the proceeds from sale of surplus property be allocated to this reserve if there is no other recommendation. These funds are designated to be available as supplemental funding to Park Land Dedication fees for open space acquisition. There is a balance of $562,000 in this fund from the sale of Washington Alley for the 100 Moffett Boulevard development project.

General Fund Strategic Property Acquisition Reserve (SPAR)

This reserve was created in Fiscal Year 2000-01 for the purpose of setting aside specific funds for the City to use for the acquisition of strategic property(ies) in order to take advantage of economic development opportunities. The proceeds from the sales of City-owned property have been placed in this reserve as one source for its funding.

During the current fiscal year, $2.5 million was transferred from the Open Space Acquisition Reserve to the SPAR to reimburse a portion of the funds paid for 771 North Rengstorff Avenue as it has been designated a park. In addition, $1.4 million was reimbursed from the sale of 449 Franklin Street, which was purchased to complete the notch on the Bryant Street property. The estimated balance available is $10.6 million, of which Council has designated $5.0 million toward the funding of the capital improvements for the Community Center and $1.1 million for exercising the option to purchase the adjacent property to the Franklin Street property. Other pending items are the potential sale of the parking lot located behind El Camino Real. If completed, the proceeds of $1.95 million will be deposited into this reserve.

General Fund Property Management Reserve

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

Graham Site Maintenance Reserve

This reserve was established in Fiscal Year 2004-05 to fund maintenance obligations for the Graham Sports Complex. In the agreement with the school district to construct the reservoir beneath the playing fields at Graham Middle School, the Water Fund contributes $220,000 per year to this reserve. The City agrees to maintain this site and the GOF is reimbursed from this reserve for the maintenance costs of the Graham Sports

Complex. A capital project of $650,000 to replace the turf of the playing fields at the Graham Sports Complex is proposed in the Fiscal Year 2015-16 Capital Improvement Plan to be funded from this reserve.

General Fund Child-Care Commitment Reserve

With the adoption of the Fiscal Year 2005-06 budget, the Council set aside $1.2 million as part of the financing plan for the Child-Care Center. The $1.2 million funded a portion of the initial $200,000 payment (prior to the operator assuming operations) to the Packard Foundation and will fund the balloon payment of $1.6 million due at the end of Year 8 (Fiscal Year 2015-16). The balance in the fund of $1.6 million is sufficient for the final payment due. Community Gatepath was selected as the new operator of the Child-Care Center and will continue to make the same annual payments. Once the Packard Foundation loan is repaid, the annual $200,000 lease payment from Community Gatepath may be reprogrammed for other purposes.

Compensated Absences Reserve

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

During Fiscal Year 2013-14, $1.5 million was paid out of this reserve and $825,000 has been paid out year-to-date for the current fiscal year. The calculated liability for this reserve has decreased $143,000 from the prior fiscal year. This is the second consecutive year of a decline and is possibly in part due to structural changes to this benefit agreed to by employee groups. However, the current estimated reserve balance of $7.4 million is below the calculated liability of $8.2 million as of June 30, 2014. Staff is recommending to supplement the reserve $760,000 from the General Fund carryover, and $40,000 additional funding from other funds, to bring the balance to the policy level. The liability will be recalculated at the close of the current fiscal year.

General Fund Public Employees Retirement System (PERS) Reserve

The PERS Reserve has been used to reduce the unfunded liability created when enhanced retirement benefit plans for employees were granted in the past. The remaining balance in the PERS Liability Reserve has been used to fund a portion of the City's PERS costs in order to manage higher PERS rates by phasing them into the GOF over several fiscal years. The remaining balance was transferred in Fiscal Year 2013-14 as the final year of funding from this reserve.

As a result of the significant financial losses to PERS during the Great Recession and the resulting impacts to the financial sustainability of the pension plans, many changes in the way PERS rates are calculated have been adopted in the past several years, including the methodology and amortization for smoothing rates, the reduction in the discount rate from 7.75 percent to 7.5 percent, and most recently the changes in demographic assumptions primarily related to life expectancy. All of these have increased employer costs. Staff has analyzed the projected impacts from these changes and incorporated the projected PERS rates into the Five-Year Financial Forecast.

From the Fiscal Year 2013-14 carryover balance, $1.0 million was contributed to pay down the City's PERS liability. With the investment losses during the recession and changes in methodology and assumptions, the funding status for this liability has dropped to approximately 70.0 percent. Any additional contributions to PERS generates a 7.5 percent rate of return and assists in reducing the City's unfunded liability and consequently future rates. Staff is recommending an additional $1.0 million lump-sum payment be contributed to PERS from the Fiscal Year 2014-15 General Fund carryover balance. The General Fund represents approximately 81.9 percent of the total PERS contribution; therefore, staff is also recommending additional contributions from the other funds, proportional to the General Fund contribution, be made. Staff is also recommending $2.0 million be contributed in the GOF budget for Fiscal Year 2015-16 and an additional $1.0 million annually for the following two fiscal years. Additional recommendations of annual lump-sum payments from General Fund carryover balances and other funds to assist in the reduction of this liability will be recommended as appropriate based on available balances.

Equipment Replacement Reserve

The City established the Equipment Replacement Reserve in Fiscal Year 1991-92 to stabilize the annual funding needed for the replacement of certain City equipment. Level annual contributions are received from various funds and this reserve absorbs the large fluctuations in annual expenditures for equipment replacement from fiscal year to fiscal year. Only major categories of fixed assets are included in the Equipment Replacement Fund. The assets included are all vehicles, information technology equipment (e.g., computers, printers, servers, etc.), Police and Fire radios, CAD/RMS system hardware, and Communications Center furniture and equipment. The equipment for the maintenance of Shoreline Golf Links is also separately accounted for in the Equipment Replacement Reserve. The annual contribution level is based on the cost or estimated replacement cost of the asset divided by the estimated useful life of the asset.

The current estimated balance of $23.6 million is on target with the policy balance. Equipment replacements scheduled for Fiscal Year 2015-16 total $2.4 million, plus there is $2.8 million recommended to be rebudgeted (from the $5.3 million budgeted in the current fiscal year) for a total of $5.2 million. Staff will be reviewing all items before purchasing and will only replace those items necessary due to expected failure or that will provide improved efficiencies.

Workers' Compensation Self-Insurance Reserve

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

Expenditures paid out of this fund include the cost for the City's third-party administrator (TPA), the insurance above our self-insurance retention of $750,000, claims, indemnity payments, and the State self-insurance fee. The Council approved a contract extension with the City's TPA, Athens, through June 30, 2017.

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

The required balance of this reserve is based on projected liabilities as determined by an actuarial valuation conducted every fiscal year. In addition, the reserve policy includes funding of $1.5 million for the potential of two catastrophic claims at the City's current level of self-insured retention of $750,000 per claim (i.e., deductible). The accrued liability is reviewed on an annual basis with the year-end close of the City's financial records. An increase in the number of claims and the cost of claims, particularly in public safety, were experienced during Fiscal Year 2011-12, which caused an increase in this liability. Unfortunately, that trend has not abated and although the number of claims has decreased, the cost of claims has continued to increase during the past fiscal year. The comparison of claims from the prior fiscal years is as follows:

NUMBER OF CLAIMS

	Fiscal Year 2010-11	Fiscal Year 2011-12	Fiscal Year 2012-13	Fiscal Year 2013-14	Fiscal Year 2012-13 to 2013-14 Variance
Public Safety	30	50	64	54	(10)
Miscellaneous	27	29	39	27	(12)
Total	57	79	103	81	(22)

The Reserve has an estimated balance of $8.1 million, which is approximately $1.0 million below the $9.1 million policy level as of June 30, 2014. Staff is recommending a transfer of $913,000 be allocated from the General Fund carryover and an additional $87,000 from other funds to bring the balance to policy level. The General Fund represents approximately 91.3 percent of the liability.

Unemployment Self-Insurance Reserve

The Unemployment Self-Insurance Reserve was approved by Council in 1978. This program provides for the State-mandated unemployment insurance benefits for former employees. The City pays for unemployment claims on a pay-as-you-go basis. In prior years, contributions for the estimated payments were made annually. As a balance accumulated in this fund, the annual contributions were recommended to cease as a GOF reduction measure. Although annual expenditures will fluctuate in this fund, the Great Recession produced higher unemployment and longer eligibility periods, resulting in higher unemployment costs. Therefore, in Fiscal Year 2011-12, contributions from various funds were reinstated to pay for unemployment costs. The balance in this fund is approximately $340,000.

Liability Self-Insurance Reserve

The Liability Self-Insurance Reserve was approved by Council in 1980. The City currently self-insures for the first $1.0 million of liability exposure per occurrence. The City is a member of the Authority of California Cities Excess Liability (ACCEL) Program for the pooling of liability insurance above the $1.0 million self-insured retention. ACCEL began in 1986 as a pool for medium-sized cities and the City joined ACCEL in 1992. Other members of the pool are Anaheim, Bakersfield, Burbank, Modesto, Monterey, Ontario, Palo Alto, Santa Barbara, Santa Cruz, Santa Monica, and

Visalia. ACCEL pools liability coverage for the next $4.0 million of coverage and the City purchases additional coverage through ACCEL. Other expenditures funded from the Liability Fund are for outside legal counsel for defense against claims, insurance (e.g., property, automobile, flood, etc.), and payment for claims.

Council Policy A-11 specifies the policy level of this reserve to be $2.0 million for the self-insured exposure for two catastrophic incidents and an amount to fund estimated incurred claims. The estimated incurred claims are determined by an actuarial valuation performed every year and are reviewed on an annual basis with the close of the City's financial records. The actuarial valuation, last updated as of June 30, 2014, indicates a liability of $1.9 million, resulting in the policy level for this reserve at $3.9 million. The current estimated balance of $4.4 million is higher than the policy level, but staff is recommending the surplus balance remain in the fund to offset potential future liability increases.

Retirees' Health Insurance Program Reserve

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

The Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions* (Statement No. 45), became effective for the City with the fiscal year ending June 30, 2008. This statement requires the City to update its Retirees' Health valuation every two years. The City participates in the California Employers' Retiree Benefit Trust (CERBT or Trust) managed by PERS. The valuation is required to be updated every two years, was last updated as of July 1, 2013, and will be updated as of July 1, 2015. Major changes occurring with the next valuation will be the implementation of Public Safety employees into the PERS health system (PEMHCA). As previously discussed with Council, it is anticipated the City's total actuarial accrued liability (AAL) will increase significantly by adding dependent coverage; however, the plan costs are lower and the employees are now contributing annually towards this liability. Another factor anticipated to increase this liability is the CERBT reviewed and reduced the discount rates for all of its plans (the City is in Strategy 2 and the discount rate is being reduced from 7.06 percent to 6.73 percent).

All funds other than the GOF fully funded its share of the unfunded AAL. The City has made great strides toward funding the AAL of $110.3 million (projected as of July 1, 2015), with assets set aside of $91.2 million (estimate as of June 30, 2015). To reduce the GOF share of its UAAL, $1.0 million was allocated to this liability from the Fiscal Year

2013-14 carryover and $1.0 million is allocated in the Fiscal Year 2014-15 budget. Additional annual contributions of $1.0 million annually are recommended over the next three fiscal years.

Reserve Recommendations

Staff has performed a preliminary review of reserve levels and included funding recommendations for specific reserve requirements. Additional supplemental funding for the General Fund Reserve will be required and staff will recalculate the Reserve supplement needed with the Adopted Budget. The underspending of the budget occurs every fiscal year but varies from fiscal year to fiscal year. If the budget savings are less than estimated, any shortfall will then need to be funded from reserves.

Additional funding is recommended for the Compensated Absences and Workers' Compensation Reserves to bring them to policy levels. These recommendations will allow most reserves to meet policy levels. In addition, $1.0 million is recommended to fund PERS, with any balance remaining between $1.0 million and $3.0 million to be transferred to the CIP Reserve.

CONCLUSION

Strong revenue growth has continued and the GOF is in a good financial position. For Fiscal Year 2015-16, GOF revenues are projected to increase to $107.1 million, or 7.5 percent, compared to the current fiscal year adopted revenues. The economy is anticipated to remain strong and all major categories (e.g., Property Tax, Sales Tax, and Other Local Taxes, etc.) are projected to continue to increase. Including consideration of the budget recommendations, the General Operating Fund is projected to have an operating balance of $2.1 million at the end of Fiscal Year 2015-16. This is less than a 2.0 percent cushion. Although there are other areas where additional ongoing resources could be added, more are not recommended at this time as the next economic downturn is forecasted in Fiscal Year 2018-19 and an operating deficit is projected in Fiscal Year 2019-20.

The Development Services Fund revenues for the current fiscal year are estimated higher than budgeted as development activity remains strong. A Land Use Document Fee and reserve are recommended. The purpose of the reserve would be to accumulate funds for the future update of land use regulatory documents (General Plan, Precise Plans, Zoning Ordinance, etc.). The reserve is recommended to be established with $3.2 million as of June 30, 2015. The Fund is estimated to end Fiscal Year 2014-15 with an available balance of $10.3 million, after the establishment of this reserve.

The financial condition of the Shoreline Golf Links Fund continues to improve under the management of Touchstone. Although, for Fiscal Year 2014-15, revenues are less than budget, the operating balance and transfer are estimated to be higher than the prior fiscal year and continued improvement is projected for Fiscal Year 2015-16.

The Successor Agency has completed all actions for a comprehensive wind-down of the former Revitalization Authority and is awaiting final approval from the DOF, which could be as soon as next month.

The Shoreline Community's total Fiscal Year 2014-15 property taxes are estimated to be slightly higher than budget despite the successful appeals and subsequent refunds to property owners. Fiscal Year 2015-16 revenues are projected to be higher than the current fiscal year as assessment appeals are anticipated to be less of an impact.

Water rates are lower than budget due to lower water usage as a result of drought conditions. Water purchases are also lower than budget due to reduced water sales. For Fiscal Year 2015-16, the SFPUC is proposing a rate increase of 28.0 percent in wholesale water costs and SCVWD is currently proposing a 27.7 percent and 31.5 percent rate increase for treated water and well water, respectively. These agencies are also requesting reductions in water usage as a result of drought conditions. A 14.0 percent rate increase in the average cost of water and meter rates and a 2.5 percent increase in recycled water are recommended for Fiscal Year 2015-16 to fund the increased cost of water and City operational costs.

Wastewater Fund revenues are essentially as budgeted and expenditures are less than budget, primarily due to savings in operating costs. A 4.0 percent rate increase is recommended for Fiscal Year 2015-16 for operational needs and an additional 2.0 percent is recommended for the incremental phasing in of funding for capital replacements at the Treatment Plant for a total 6.0 percent rate increase.

Solid Waste Management Fund revenues (City) are higher than budget and expenditures (City) are less than budget. The third year of the Recology contract provides for a 2.85 percent increase and the SMaRT Station has submitted an operating cost increase of 6.32 percent. These, along with City operating cost adjustments, would result in a recommended average 5.0 percent rate increase for Fiscal Year 2015-16. However, staff has completed the Cost of Service Study and the results would increase cart rates, but decrease bin, compactor, and debris box rates. A restructuring of debris boxes is also recommended. As a result of the annual rate adjustment, combined with the implementation of the Cost of Service Study and the restructuring of debris boxes, cart rates are recommended to increase 14.0 percent, bins and compactors 1.5 percent, and debris boxes are recommended to be restructured removing the maximum tonnage per box and over-tonnage charges.

A Proposition 218 notice will be mailed out by May 1, indicating the recommended changes for wastewater and solid waste rates, as well as the rate increases for all three utility funds. The total average increase for a single-family residential customer as recommended for all three utilities is 12.1 percent, resulting in an estimated increase of $13.11 monthly. A comparison of the current and the recommended rates is included in Attachment 9.

Most reserves are at or exceed their target or policy balance. A supplement for the General Fund Reserve is estimated at $1.6 million, but will be recalculated based on the expenditures in the Fiscal Year 2015-16 Adopted Budget. The Compensated Absences Reserve and Workers' Compensation Reserve require supplements of $800,000 and $1.0 million, respectively, from the estimated General Fund carryover and other funds. It is recommended $1.0 million be allocated to PERS, with any remaining carryover between $1.0 million and $3.0 million to be allocated to the Capital Improvements Reserve.

NEXT STEPS

Council input and direction are sought on the material in this report at the April 28, 2015 Study Session. On May 19, 2015, the Study Session for the Proposed Capital Improvement Program (CIP) will be held. Based on the feedback from the City Council, the Fiscal Year 2015-16 Proposed Budget will be prepared for distribution to the City Council prior to budget hearings. The evening of June 9 is scheduled for the first public hearing and final adoption is scheduled for the City Council Special Meeting of June 16, 2015.

PUBLIC NOTICING

Agenda posting and notice published in the *San Jose Post Record.*

DHR/PJK/7/CAM
614-04-28-15SS-E

Attachments:
1. Fiscal Year 2015-16 Recommended Fee Modifications
2. Fiscal Year 2015-16 Recommended Non-Discretionary Ongoing Changes
3. Janitorial Costs for Fiscal Year 2015-16
4. Fiscal Year 2015-16 Recommended Discretionary Ongoing Changes
5. Fiscal Year 2015-16 Recommended Limited-Period Expenditures
6. Fiscal Year 2015-16 Recommended Capital Outlay
7. Fiscal Year 2015-16 Recommended Equipment Replacement
8. Credit Card Processing Fees
9. Comparison of Current and Recommended Utility Rates
10. Solid Waste Cost of Service Study
11. Solid Waste Fund—Debris Box Rate Analysis
12. Friends of Caltrain Funding Support Request