DATE: May 1, 2018

TO: Honorable Mayor and City Council

FROM: Patty J. Kong, Finance and Administrative Services Director
Daniel H. Rich, City Manager

TITLE: **Fiscal Year 2018-19 Narrative Budget Report**

STUDY SESSION MEMO

CITY OF MOUNTAIN VIEW

PURPOSE

This Study Session provides the City Council an opportunity to review and discuss the Fiscal Year 2018-19 Narrative Budget Report, which includes the City Manager's recommendations and is the foundation for the Proposed Budget. Based on input from the Narrative Budget Study Session, the Proposed Budget will be presented at public hearings on June 12 and June 19, and is scheduled for adoption after the public hearing on June 19, 2018.

The information in this report is for the following major funds: General Operating Fund (GOF), Development Services, Shoreline Golf Links, Shoreline Regional Park Community (Shoreline Community), Water, Wastewater, Solid Waste Management, and Reserves. For each fund, the report includes a current fiscal year status update of revenues, expenditures, and balance available, as well as budget recommendations for Fiscal Year 2018-19. To provide some context and assist with decisions that have longer-term implications, a 10-Year Financial Forecast (Forecast) for the GOF has been prepared and is included in this document.

BACKGROUND

The City is benefiting from the continued strong economy and high demand for development, resulting in significant property tax growth. The Assessed Value (AV) growth for the City is 11.1 percent year over year. This includes growth in property taxes resulting from new development being added to the tax roll, as well as increases in AV from changes in ownership. Property Tax revenues for the City's General Operating Fund (GOF) are currently estimated to be 11.8 percent higher than the Fiscal Year 2017-18 adopted and projected 4.5 percent higher for Fiscal Year 2018-19 compared to the current fiscal year estimated. The other major category projected with a significant increase in Fiscal Year 2018-19 is Use of Money and Property, which includes Investment Earnings and Rents and Leases. The Federal Reserve has taken recent actions to raise rates and additional rate increases are anticipated to continue during the next fiscal year. Rents and Leases are increasing as a result of the anticipated Ameswell ground lease revenues commencing. Most other revenue sources are remaining stable or with modest changes.

Although the City's revenues are cyclical and reflect the boom and bust of economic cycles, the City has addressed past recessions, balancing the GOF by strategically reducing expenditures, establishing more efficient operating models, and working closely with employee groups to contain employee compensation costs, as well as implementing limited revenue enhancements where appropriate. While the City has added positions back in recent years as the economy has improved, the City continues to operate with fewer staff than before the recession. In Fiscal Year 2001-02, the City peaked with 651.25 positions and in Fiscal Year 2012-13 there was a low of 564.75 positions Citywide. In the GOF, over the periods of retrenchment during this period, the City reduced approximately 70.0 positions or over 14.0 percent of its workforce.

The City organization has found methods to improve efficiencies, to do more with less staff, but heavy workloads have continued to place pressure on the organization. Therefore, to address some of the staffing needs within the City, there were a total of 29.0 positions, including limited-period positions, for all funds added in the Fiscal Year 2017-18 Adopted Budget; 4.5 of these are ongoing positions in the GOF. Total Citywide, all funds, position count is still down 51.5 positions from the peak, supplemented with 19.0 limited-period positions (net deficit of 32.5 positions).

Continuing to focus on adding resources where most needed and to the extent the budget will allow, long-term, additional positions are recommended for Fiscal Year 2018-19. A total of 12.50 net positions are recommended as ongoing positions and there are a net of 14.50 new personnel added. A summary of the positions recommended is as follows:

	GF	**Other Funds**	**Total Positions**
New Ongoing Regular	4.50	6.00	10.50
Limited-Period to Regular	1.50	0.50	2.00
Continuing Limited-Period	10.45	4.55	15.00[1]
New Limited-Period	2.65	1.35	4.00
TOTAL	19.10	12.40	31.50[1]

(1) Does not include 2.0 FTE limited-period positions reimbursed by Google per the agreement that expires June 30, 2018.

With the new positions recommended, this would provide for 613.25 ongoing positions and 19.0 limited-period positions, or a total of 632.25 positions, still lower than the peak of 651.25 positions. There have been some changes in operations (e.g., adding positions from contracts, such as insourcing IT, or contracting out positions, such as Shoreline Golf Links, etc.) but overall there are still fewer positions while the working environment has become more complex. The positions recommended are for almost all departments; however, about half of the resources being added or continued are development services-related, for Community Development and Public Works, in response to the continued heavy workload.

The City is fortunate to be experiencing strong revenue growth, with economists currently believing the regional fundamentals are strong and are not forecasting a downturn in the economy over the next 12 to 18 months, with certain caveats. Historically, recessions have generally occurred between 3 and 9 years, post-World War II, with the longest period of expansion lasting 10 years, from 1991 to 2001. It has been approximately 9 years since the end of the last recession (June 2009); however, the recovery has been long and slow and, therefore, it appears this expansion could surpass the expansion of the 1990s. Although it is uncertain when the next economic slowdown will occur, based on history, it is certain there will be another recession sooner or later; therefore, it is assumed there will be a recession during the Forecast period. While staff had previously included a slowdown in Fiscal Year 2018-19, based on more recent economic information, the City's Forecast assumes that the next recession will occur in Fiscal Year 2020-21 and continue into Fiscal Year 2021-22.

EXECUTIVE SUMMARY

General Operating Fund

Fiscal Year 2017-18 revenues are estimated to exceed budget and expenditures are estimated below budget. This results in an estimated $18.4 million operating balance, prior to the contributions of $4.0 million to the California Public Employees' Retirement System (CalPERS), $2.0 million to the Retirees' Health Other Post-Employment Benefits (OPEB) to increase the funding status of these liabilities, and $2.0 million to the Strategic Property Acquisition Reserve (SPAR). It is recommended the remaining $10.4 million balance be used to fund limited-period expenditures, supplement reserves, and make an additional contribution towards the City's unfunded CalPERS liability. In addition, a new Transportation Reserve is recommended to be established to begin to address some of the major transportation and infrastructure capital projects being proposed (see Reserve Section for additional information).

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

Fiscal Year 2018-19 revenues are projected to continue to rise to $137.4 million and expenditures are projected at $124.8 million (including recommendations). Revenues are at a level sufficient to fund expenditures and additional funding of $1.0 million for the General Fund Reserve, $2.0 million to the new Transportation Reserve, $4.0 million to the Capital Improvement Reserve, and a contribution of $2.0 million to CalPERS (for a total of $9.0 million). There is a projected balance of $3.6 million after these allocations. Recommendations include $338,800 in nondiscretionary increases, as well as $1.2 million in discretionary increases in high-priority areas. As in the Fiscal Year 2017-18 Adopted Budget, $2.3 million of budget savings is built into the budget.

In the Forecast, revenues are projected to continue growing; however, the Forecast assumes a recession will occur during the 10-year period. It is unknown exactly when a recession will occur, but staff has incorporated the impact of a recession beginning in Fiscal Year 2020-21, surpassing the longest economic expansion in decades. At that point, the projected operating balance declines and modest deficits are projected in Fiscal Year 2021-22 though the end of the forecast in Fiscal Year 2027-28.

Items for City Council Discussion and Direction

In addition to the direction on the recommendations in this report, there are a few specific items staff would like direction on regarding whether these are items should be included in the Fiscal Year 2018-19 Proposed Budget. This section can be found at the end of the General Operating Fund. Staff would also like direction from Council on the funding towards the General Fund Reserve, new Transportation Reserve, Capital Improvement Reserve, and the City's unfunded pension obligation.

Other Major Funds

- Development Services: Development activity for Fiscal Year 2017-18 remains strong and is anticipated to continue into the upcoming fiscal year. The Development Services Fund (DSF) is able to meet its current financial obligations; however, revenues are received in advance of the services provided and, therefore, a significant balance should be maintained in the fund for these services and to continue operations during the next slowdown in development activity.

- Shoreline Golf Links (SGL): Course conditions continue to improve and both revenues and expenditures are below budget for Fiscal Year 2017-18. For Fiscal Year 2018-19, revenues are projected to be higher than the current fiscal year estimated and the transfer is projected at $125,000, $35,000 higher than the current fiscal year estimated.

- Shoreline Regional Park Community (Shoreline Community): Fiscal Year 2017-18 revenues are estimated to be $2.8 million higher than the Adopted Budget, primarily related to changes in ownership and new development added to the tax roll. Fiscal Year 2017-18 estimated expenditures are essentially on target with budget. Fiscal Year 2018-19 operating revenues are projected with an increase over both the current fiscal year adopted and estimated. Fiscal Year 2018-19 operating expenditures are higher than the Fiscal Year 2017-18 adopted, primarily due to the recommendations and higher debt service payments. Staff will be bringing a report to Council concerning debt to fund major transportation projects in the Shoreline Community later in May.

Utility Funds

- Water Fund: The financial position of this fund had been severely impacted by reduced water sales from conservation efforts due to the drought. However, prior fiscal year usage was up approximately 7.0 percent and for the current fiscal year, water usage is trending approximately 9.0 percent higher. This is having a positive financial impact, but usage is still approximately 24.0 percent below the 2013 drought baseline.

  For the upcoming fiscal year, the San Francisco Public Utilities Commission (SFPUC) is currently proposing no wholesale water rate increase, and the Santa Clara Valley Water District (SCVWD) is proposing a 9.6 percent increase for ground (well) water, which corresponds to an 8.8 percent increase for treated water. **A 1.0 percent rate increase is recommended for the average cost of potable water** to fund the increased cost of water and operating expenditures. The recycled water rate is no longer covering the cost of the program based on current usage. The increase required to bring the rate into alignment is recommended to be phased-in over three years, and for Fiscal Year 2018-19, it is recommended to be increased from $3.07 to $3.75 per unit.

- Wastewater Fund: The financial position of this fund had been severely impacted by increased and unforeseen Palo Alto Regional Water Quality Control Plant (Treatment Plant) costs that would have required a rate increase of 26.0 percent. Staff recommended and Council adopted a phasing in of increase over three fiscal years at 6.0 percent per fiscal year (Fiscal Years 2016-17, 2017-18 and 2018-19), and using half of the rate stabilization reserve. For Fiscal Year 2017-18, the rate increase included the second-year 6.0 percent increase, and revenues are trending higher than budget. The financial position has improved; therefore, the third and final year of the phased-in rate increase is recommended to be reduced from 6.0 percent to 2.0 percent.

For Fiscal Year 2018-19, the Treatment Plant is currently proposing a 5.8 percent increase in treatment costs which, along with operating cost increases, result in a 4.0 percent rate increase. This, combined with the 2.0 percent noted above and the additional 2.0 percent rate increase (the fifth year of 10 years) recommended to gradually increase rates to pay for major capital improvements at the Treatment Plant, result in a **total rate increase recommended for Fiscal Year 2018-19 of 8.0 percent**.

Staff is also reviewing the major City infrastructure projects that are needed and will be returning to City Council during Fiscal Year 2018-19 with a recommendation for funding these additional capital projects with some form of debt issue.

- <u>Solid Waste Management Fund</u>: For Fiscal Year 2017-18, revenues are trending higher than budgeted and expenditures are trending less than the Adopted Budget. For Fiscal Year 2018-19, there is a 3.22 percent increase for Recology and a 5.51 percent increase for the SMaRT® Station, as well as City operating cost increases and annual maintenance projects. This results in an overall average rate increase of over 3.0 percent; however, the fund is in stable financial condition and staff is not recommending an overall rate increase for Fiscal Year 2018-19. There is **a 5.0 percent rate increase recommended for carts only** for the new residential food scraps program. This program was implemented in July 2017; however, the rate increase was deferred from Fiscal Year 2017-18 in order to keep the cart rate as low as possible due to the final rate increase from the Cost of Service Study.

<u>Non-Major Funds</u>

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

<u>Reserves</u>

With the recommendations to supplement the General Fund Reserve and the Compensated Absences Reserve, most reserves are at or higher than the target or policy balance. Any remaining GOF carryover balance up to $3.0 million is recommended to be transferred to the Capital Improvement Reserve. Should the balance exceed the amount recommended, staff will return to Council for approval of the allocation of additional funds.

There is also a sufficient GOF surplus for Fiscal Year 2018-19 to recommend allocations of $1.0 million to the General Fund Reserve, $2.0 million to the Transportation Reserve, $4.0 million to the Capital Improvement Reserve, and a $2.0 million contribution towards the CalPERS unfunded liability.

Next Steps

Based on the feedback provided by the City Council at the Narrative Budget Report (NBR) Study Session, staff will prepare the Proposed Budget to be presented to the City Council at a public hearing on June 12, 2018. The Proposed Budget is scheduled for adoption after another public hearing on June 19, 2018. Staff is available to meet with Councilmembers to discuss the Narrative Budget Report before or after the May 1, Study Session.

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DISCUSSION

GENERAL OPERATING FUND

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

Building on this strong financial foundation and with the current continuation of revenue growth, this report provides the recommendations for the General Operating Fund budget for Fiscal Year 2018-19.

Updated General Operating Fund Status for Fiscal Year 2017-18

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

	2017-18 Adopted Budget	2017-18 Adjusted Budget(1)	**2017-18 Estimated**	Variance of Estimated to Adopted Budget
Revenues	$128,022	128,646	**134,388**	6,366
Expenditures	(117,687)	(120,515)	**(115,975)**	1,712
Rebudgets(1)	-0-	2,260	**-0-**	-0-
Operating Balance	10,335	10,391	**18,413**	8,078
CalPERS Contribution	(4,000)	(4,000)	**(4,000)**	-0-
OPEB Contribution	(2,000)	(2,000)	**(2,000)**	-0-
Transfer to SPAR	(2,000)	(2,000)	**(2,000)**	-0-
Ending Balance	$ 2,335	2,381	**10,413**	8,078

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

Overall, total revenues for Fiscal Year 2017-18 are currently estimated to be $6.4 million, or 5.0 percent higher than adopted revenues. Many of the GOF major revenue sources are estimated to be performing better than expected this fiscal year. However, Sales Tax, Rents and Leases, and Charges for Services revenues are estimated below budget.

On the expenditure side, total operating expenditures for Fiscal Year 2017-18 are estimated to be $4.5 million, or 3.8 percent, lower than the Adjusted Budget and $1.7 million lower than the Adopted Budget. After accounting for higher revenues, the ending balance is estimated to be $10.4 million this fiscal year compared to the $2.3 million budgeted. This is an improvement in both revenues and expenditures from the estimates provided in the Midyear Report, where the operating balance was estimated at $7.7 million.

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

After the $4.0 million contribution to CalPERS, $2.0 million contribution to OPEB, and $2.0 million transfer to the SPAR included in the Fiscal Year 2017-18 Adopted Budget, the estimated Fiscal Year 2017-18 carryover balance of $10.4 million (subject to changes in assets and liabilities and grants/donations carryovers), in addition to the $2.0 million remaining unallocated balance from Fiscal Year 2016-17 for a total of $12.4 million, is available to fund a net $3.8 million of limited-period expenditures and other recommendations.

It is recommended the City transfer $1.8 million and $1.1 million to the General Fund Reserve and Compensated Absences Reserve, respectively, to bring the balances to policy levels. Also recommended are $2.0 million to a new Transportation Reserve and a contribution of $2.0 million to CalPERS. Any remaining carryover available up to $3.0 million is recommended to supplement the Capital Improvement Reserve. The final carryover available will be determined after the fiscal year-end close and audit of the City's financial records.

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

General Operating Fund Projections for Fiscal Year 2018-19

In presenting the Preliminary GOF revenues and expenditures in the Midyear Budget Status Report on February 13, 2018, staff projected a $10.1 million operating balance for Fiscal Year 2018-19. With additional information available on both revenues and expenditures as the fiscal year has progressed and the addition of budget recommendations, the updated projection is an operating balance of $12.6 million, but after allocation recommendations to the General Fund Reserve, a new Transportation Reserve, the Capital Improvement Reserve, and CalPERS, a balance of $3.6 million, or 2.6 percent of projected revenues, is recommended. This balance is after recommendations for expenditure increases and includes $2.3 million of budget savings. A brief discussion of revenues and expenditures for Fiscal Year 2018-19 follows.

Compared to the current Adopted Budget and including recommendations, total revenues are anticipated to grow by $9.4 million, or 7.3 percent, next fiscal year, and total expenditures are projected to increase $7.1 million or 6.0 percent.

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

	2016-17 Audited	2017-18 Adopted Budget	2017-18 Estimated	**2018-19 Recommended**	Variance of 2018-19 Recom-mended to 2017-18 Adopted
Revenues	$126,689	128,022	134,388	**137,379**	9,357
Expenditures	(104,436)	(117,687)	(115,975)	**(124,778)**	(7,091)
Rebudgets(1)	(697)	-0-	-0-	**-0-**	-0-
Operating Balance	21,556	10,335	18,413	**12,601**	2,266
Transfer to GNOF	(15,556)	-0-	-0-	**-0-**	-0-
Transfer to GF Reserve	-0-	-0-	-0-	**(1,000)**	(1,000)
Transfer to Cap Imp Res	-0-	-0-	-0-	**(4,000)**	(4,000)
Transfer to Transp Res	-0-	-0-	-0-	**(2,000)**	(2,000)
CalPERS Contribution	(2,000)	(4,000)	(4,000)	**(2,000)**	2,000
OPEB Contribution	(2,000)	(2,000)	(2,000)	**-0-**	2,000
Transfer to SPAR	(2,000)	(2,000)	(2,000)	**-0-**	2,000
Ending Balance	$ -0-	2,335	10,413	**3,601**	1,266

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

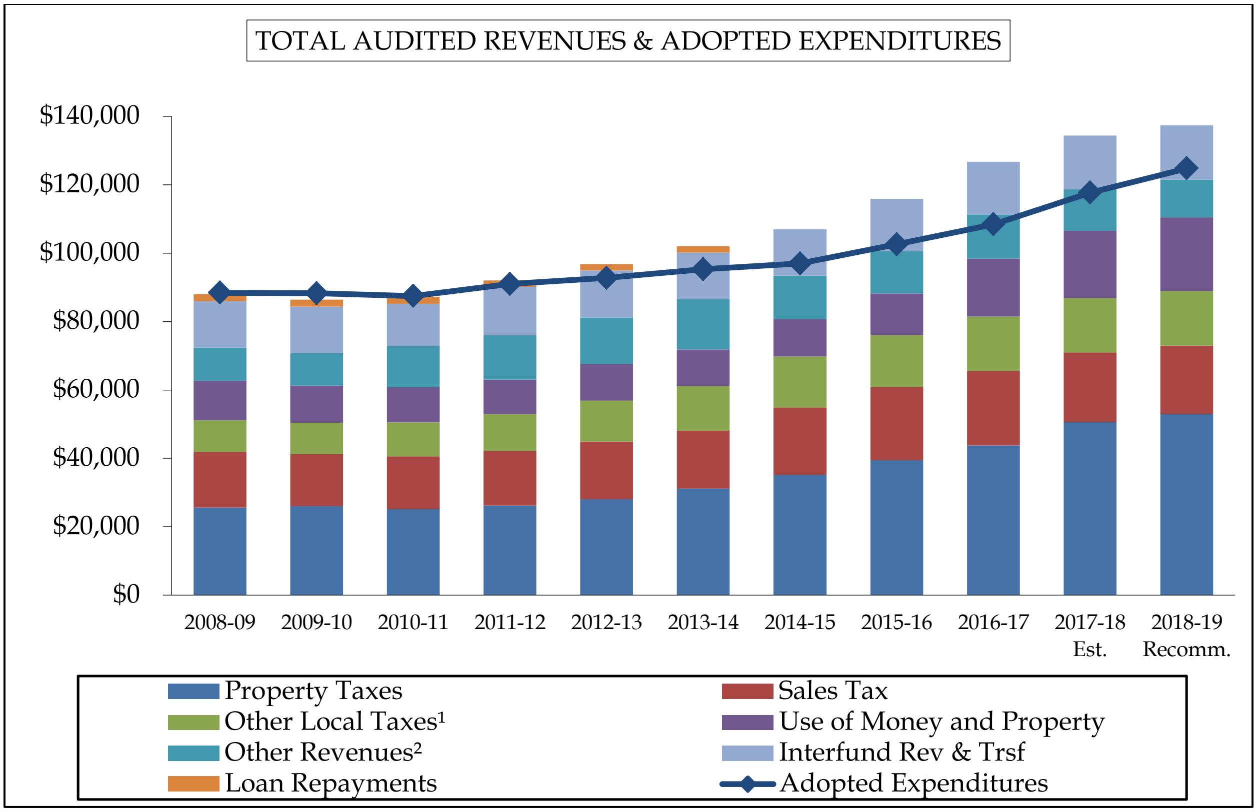
A summary of the Fiscal Year 2018-19 budget is as follows (dollars in thousands):

Total Revenues	$137,222
Total Net Expenditures	(123,208)
Recommendations:	
Non-Discretionary	(339)
Discretionary Increases	(1,231)
Revenue Changes	157
Operating Balance	12,601
Transfer to General Fund Reserve	(1,000)
Transfer to Transportation Reserve	(2,000)
Transfer to Capital Improvement Reserve	(4,000)
CalPERS Contribution	(2,000)
Balance	$ 3,601

Revenue Projections for Fiscal Year 2018-19

For Fiscal Year 2018-19, GOF revenues are projected to grow by 7.3 percent compared to the current fiscal year adopted, to $137.4 million, including recommendations. All major categories of revenues except Sales Tax are projected with increases over the current fiscal year adopted. More detail on each revenue source can be found in the Forecast.

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



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

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

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

Expenditure Projections for Fiscal Year 2018-19

The recommended expenditures for Fiscal Year 2018-19 include the addition of $338,800 of non-discretionary increases, which preserves current service levels, and $1.2 million discretionary additions for resources to meet demands and reduce some of the strain on staff.

While several new expenditure requests by departments are being recommended, there were more requests by departments for ongoing expenditure increases, many of which would be desirable and would ease more of the stress on staff. However, as can be seen in the Forecast, although more expenditures could be afforded in the Fiscal Year 2018-19 Budget, it is recommended to only add expenditures that are generally sustainable through the next economic recession, when the GOF could be once again facing an operating deficit, requiring budget reductions to maintain a balanced GOF. To address heavy workloads, many current demands for resources are being addressed through limited-period funding.

Although service levels are generally not increasing, the City's costs are increasing. As a service organization, approximately 80.0 percent of expenditures are for personnel. Total costs of personnel are increasing $6.8 million. Although there were structural changes adopted Statewide with pension reform in 2012, retirement costs are still projected to increase by $2.7 million for Fiscal Year 2018-19 over the current fiscal year Adopted Budget. The changes resulting from pension reform will likely not be realized for 15 years or more, until there are a majority of employees under the new formula.

The categories of changes in costs from the Fiscal Year 2017-18 Adopted Budget to the Fiscal Year 2018-19 recommended budget are as follows (dollars in thousands):

Expenditure Changes:		
Compensation Changes	$2,462	
Retirement (CalPERS)	2,708	
Health and Other Benefits	268	
New Personnel Recommendations	1,328	
Total Changes Personnel Costs		6,766
Nonpersonnel Recommendations, net		242
Other Recommendations, net		83
Total Expenditures Increase		$7,091

All labor contracts and resolutions expire June 30, 2020, and Fiscal Years 2018-19 and 2019-20 reflect COLAs and other benefit changes as included in the labor contracts and resolutions. Open enrollment for health care is on a calendar year, and new premiums are effective each January 1. The premiums budgeted for Fiscal Year 2018-19 are actual rates through December 2018 and assume an increase of 5.0 percent to 10.0 percent, depending on the plan for medical, and 2.0 percent for dental beginning January 2019. CalPERS rates are budgeted based on the actuarial rates provided by CalPERS.

Other net recommendations of $83,000 include increases to Capital Outlay, Equipment Replacement, Transfers, and Fleet, offset by reductions in Liability self-insurance and the amortization of the Retirees' Health unfunded actuarial accrued liability (UAAL). Most of the increase, $660,000, is for increases to transfers to the Budget Contingency and Capital Improvement Reserves, while most of the decrease is related to the reduction of the Retirees' Health UAAL.

Fiscal Year 2018-19 Budget Recommendations

The following is a discussion of non-discretionary and discretionary recommended expenditure increases. Departments have reviewed their programs, work levels, and preliminary goals for the upcoming fiscal year and developed their budget requests. The Citywide non-discretionary increase is primarily related to the City's minimum wage, information technology, contractual services, and gas and electricity cost increases. The discretionary items are based on requests made by departments that have been reviewed by the City Manager and are recommended for City Council consideration. These recommendations are included in the Fiscal Year 2018-19 numbers presented and complete lists of the non-discretionary, discretionary, and limited-period recommendations can be found in Attachments 2, 3 and 4, respectively.

Non-Discretionary Increases

Non-discretionary increases totaling $338,800 are recommended to fund existing and new required operational costs such as increases in the City's minimum wage, information technology costs, gas and electricity, and contract services. A listing of recommended items, $25,000 and over, are as follows (see Attachment 2 for a complete listing, with descriptions, of non-discretionary items):

- **Minimum Wage Impact One-Half-Year (Community Services):** $170,000
- **Gas and Electricity Cost Increase:** $73,000
- **Information Technology Licenses and Maintenance:** $66,400

- **Janitorial Cost Increases for City Facilities:** $32,400

- **CalPERS Replacement Benefit:** $31,500

- **Minimum Wage Impact One-Half-Year (Library):** $30,000

Discretionary Recommendations

New expenditures totaling $1.2 million, offset by $157,500 in new revenue, are recommended for high-priority ongoing programs; $1.3 million is related to positions. A listing of recommended items, $25,000 and over, are as follows (see Attachment 3 for a complete listing, with descriptions, of discretionary items):

- **CSD Succession Plan:** $242,400 (See Attachment 5)

- **FASD Senior Management Analyst (Contracts Coordinator) Position:** $195,100

- **Analyst I/II—Environmental Sustainability Position:** $180,200 (See Attachment 6)

- **Fire Analyst I/II Position:** $180,200

- **CSD Contract Services—Recreation Classes:** $100,000 (offset by $130,000 in revenue from fees)

- **Program Assistant—Engineering Division Position (0.50):** $73,300

- **CSD Office Assistant I/II Position:** $61,300 ($122,700 offset by a reduction in wages) (See Attachment 7)

- **Employee Commute Benefit Program:** $60,000

- **Police Assistant Position (0.50):** $38,500 ($65,500 offset by a reduction in wages)

- **Librarian I/II Position (0.50):** $38,400 ($81,200 offset by a reduction in wages)

- **Personal Protective Equipment (PPE):** $37,200

- **CDD Secretary Position Redistribution of Funding:** $31,600

- **HR Contract Services—Personnel-Related:** $30,000

- **PW Contract Services—HVAC Systems:** $28,000
- **Employee Engagement and Appreciation Program:** $25,000
- **Turf Cleaning:** $25,000

Limited-Period Recommendations

Limited-period funding totaling $3.8 million (excluding rebudgeted items), offset by $10,000 in revenue, is recommended; $2.8 million is related to positions, much of which is a continuation of current staffing. A listing of items recommended as limited-period expenditures, $25,000 and over, are as follows (see Attachment 4 for a complete listing, with descriptions, of limited-period items):

- **Firefighter Recruit Academy:** $450,000
- **Two Public Safety Dispatcher Overhire Positions (one continuing)* :** $386,200
- **Police Officer Position (two-year)-Community Outreach*:** $259,800
- **Senior Deputy City Attorney Position*:** $234,400
- **Associate Civil Engineer—Land Development Section Position*:** $191,200
- **Human Resources Analyst I/II Position*:** $180,200
- **Two Police Officer Trainee Positions*:** $164,000
- **Citywide Succession Planning:** $160,000 (See Attachment 8)
- **Management Fellow Position*:** $140,200
- **November 2018 Election:** $100,000
- **Human Resources Analyst Wages:** $100,000
- **Contract Services—Utility Locating:** $95,000
- **Performing Arts Supervisor Position (0.50)* :** $92,300
- **Community Services Officer (CSO) Position (0.50):** $ 90,100

- **Associate Civil Engineer—Traffic Section Position (0.45)* :** $86,000
- **IT Secretary Position (0.50) :** $75,700
- **Manager's Mobility Partnership (MMP) Regional Bike Route:** $75,000
- **Office 365 Migration Consultant:** $60,000
- **PW Hourly Staff to Support the Traffic Section:** $60,000
- **PW Hourly Staff to Support the Capital Projects Section:** $60,000
- **Labor Negotiations:** $50,000
- **Environmental Sustainability Fellow:** $50,000 (See Attachment 6)
- **Program for Sidewalk Ramping and Grinding:** $50,000
- **Nonprofit Agency Funding:** $49,600
- **Safe Routes to Schools (SRTS) Education Program:** $46,000
- **New Community Center—Pilot Program for Day Porter Services:** $42,800 (See Attachment 7)
- **Employee Wellness Program:** $35,000
- **Deferred Compensation Plan:** $35,000
- **Pilot Power Washing of Downtown Sidewalks:** $31,100
- **Agency Cyber-Attack Training:** $30,000
- **2017 Community Greenhouse Gas (GHG) Inventory:** $30,000 (See Attachment 6)
- **Downtown Economic Vitality Program:** $30,000
- **Fire Entry-Level Recruitment Program:** $30,000

- **CMO Hourly Support Staff:** $25,500

- **Regional Airplane Noise Round Table:** $25,000

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*Represents a continuing limited-period position

Listings of Fiscal Year 2018-19 Recommended Capital Outlay and Equipment Replacement are included as Attachments 9 and 10, respectively.

Items for City Council Discussion and Direction

There are a few items staff is providing additional information on and requests Council direction before preparing the Proposed Budget:

- **Recycled Water**—At the CIP Study Session, City Council requested additional information regarding Recycled Water (see Attachment 11) with regard to reuse of treated contaminated groundwater from the Middlefield-Ellis-Whisman Superfund Site for nonpotable purposes, potential use of potable water for golf course irrigation while under the City's minimum water purchase requirement, and the evaluation of recycled water rates as part of the current budget cycle (see Water section).

- **Homeless Initiatives**—Provides information regarding the recent actions on the City's homeless initiatives (see Attachment 12).

- **N.O.I.S.E. Membership**—N.O.I.S.E. is a nationwide, community-based association composed of local elected officials committed to reducing the impact of aviation noise in local communities. Members receive regular updates on Federal legislation and aviation noise issues. N.O.I.S.E. coordinates lobbying strategy with other organizations such as the National League of Cities, U.S. Conference of Mayors, etc. A membership in N.O.I.S.E. is based on population and would be $1,540 for the City.

- **Environmental Sustainability**—The recommended budget provides additional funding for the City's environmental sustainability efforts (see Attachment 6).

- **Police/Fire Building Remodel Debt Service**—The Council has requested reviewing the funding of the Police/Fire Administration Building capital improvement project and will discuss this as part of the CIP Study Session.

- **Transportation Reserve**—Staff is recommending establishing a new Transportation reserve. A number of priority transportation projects have been identified and whether or not any new revenue measure is targeted for transportation, the needs are significant and long-term. Therefore, a new reserve is recommended with $2.0 million of initial funding from the City.

- **Council's Budget:**

  The Council Procedures Committee (CPC) met on April 17, 2018 to discuss the Council's Budget in accordance with the revised Council Policy A-2. The CPC recommended the following:

  - Council Team Building: $ 5,000

    With the 2018 election and new member(s) joining the Council, the CPC recommends additional funding for a Council team building facilitator for 2019, as was done in early 2015 and 2017.

SUMMARY

With the strong economic growth, combined with fiscally responsible actions taken in prior fiscal years, the City is poised to invest funds in needed areas such as additional staff, the General Fund Reserve, a new Transportation Reserve, capital projects, and CalPERS. The growing economy has resulted in overall revenues projected to increase 7.3 percent over the Fiscal Year 2017-18 Adopted Budget. This results in the ability to include ongoing non-discretionary expenditure increases of $338,800 and discretionary increases of $1.2 million for the most needed areas, as well as $3.8 million in limited-period expenditures. The recommendations include 31.50 positions, and a net of 14.50 new staff.

The result of the recommendations is a projected GOF surplus for Fiscal Year 2018-19 of $3.6 million after recommended transfers of $1.0 million to the General Fund Reserve, $2.0 million to a new Transportation Reserve, $4.0 million to the Capital Improvement Reserve, and a contribution of $2.0 million to CalPERS. Further ongoing expenditure increases are not recommended at this time, based on the assumption of a slowdown in the economy in later years, leading to deficit balances within five years.

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OTHER MAJOR FUNDS

General Fund: Development Services Fund

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

For the current fiscal year, development activity continues to remain strong. Operating revenues estimated for Fiscal Year 2017-18 are $14.9 million, $2.6 million higher than adopted; however, $661,000 lower than the prior fiscal year audited. Development-related revenues are cyclical in nature, and there is a timing difference for each project as plan check revenue is collected at the beginning of the development process and permit revenue just prior to construction; all services are provided subsequent to the payment of fees.

Operating expenditures for the current fiscal year are estimated at $17.4 million, $3.0 million (20.9 percent) higher than the Adopted Budget, primarily as a result of encumbrances carried over from the prior fiscal year which are estimated to be spent. Included in operating expenditures is $1.6 million to reimburse the cost of administrative support by the GOF. In addition, Development Services contributed $689,000 to CalPERS (proportionate to the General Fund contribution), $22,000 to the Compensated Absences Fund, and funded capital projects of $40,000.

The Land Use Document Fee was approved with the Fiscal Year 2015-16 Adopted Budget to establish a reserve for the purpose of accumulating costs associated with the update of Land Use Documents (e.g., General Plan, Precise Plans, Zoning Ordinance, etc.). For the current fiscal year, Land Use Document fees of $1.9 million have been received, $1.1 million more than budgeted. The fund is estimated to end the current fiscal year with a balance of $8.4 million and a Reserve for Land Use Documents of $6.5 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):

	2016-17 Audited	2017-18 Adopted	2017-18 Estimated	2018-19 Recommended
Revenues:				
Investment Earnings	$ 262	206	335	441
Permits	7,080	5,621	8,832	7,755
Charges for Services	8,139	6,403	5,671	5,648
Other	78	20	60	6
Total Revenues	15,559	12,250	14,898	13,850
Operating Expenditures	12,636	14,370	17,367	14,636
Operating Balance (Deficit)	2,923	(2,120)	(2,469)	(786)
Land Use Documents	1,109	800	1,913	800
CalPERS Contribution	(239)	(689)	(689)	(335)
Transfer to Comp Absences	(66)	(22)	(22)	(56)
Retirees' Health UAAL	(754)	-0-	-0-	(250)
Capital Projects	(781)	(40)	(40)	(25)
Excess (Deficiency) of Revenues	2,192	(2,071)	(1,307)	(652)
Beginning Balance	13,946	16,138	16,138	14,831
Land Use Doc Reserve	(4,723)	(5,523)	(6,451)	(7,251)
Ending Balance	$11,415	8,544	8,380	6,928

The Fiscal Year 2018-19 recommendations total $1.8 million and there is $238,300 recommended to be rebudgeted. Those recommendations $25,000 and over are as follows (see Attachments 2, 3, and 4 for complete listings with descriptions):

- **Consultants to Support Land Development Section:** $450,000 (limited-period)

- **East Whisman Precise Plan and Environmental Impact Report (EIR):** $270,000 (limited-period)

- **Consultants to Support Construction Section:** $200,000 (limited-period)

- **Associate Civil Engineer—Construction Section Position*:** $191,200 (limited-period)

- **Associate Planner Position*:** $183,800 (limited-period)
- **Consultants to Support Traffic Engineering Section:** $100,000 (limited-period)
- **Program Assistant—Engineering Division Position (0.50):** $73,300 (ongoing)
- **Office Assistant III Position (0.50):** $65,800 (ongoing)
- **PW Hourly Staff to Support the Land Development Section:** $60,000 (limited-period)
- **PW Hourly Staff to Support the Construction Section:** $60,000 (limited-period)
- **Associate Civil Engineer—Traffic Section Position (0.30)*:** $57,400 (limited-period)
- **SB 743—Transit-Oriented Infill Projects:** $50,000 (limited-period)
- **Associate Civil Engineer—Land Development Section Position (0.20)*:** $38,200 (limited-period)
- **Digital Imaging of Building and Fire Permits:** $30,000 (ongoing) (offset by $30,000 in revenues)
- **Certified Access Specialist (CASp) Training:** $28,000 (ongoing) (offset by $28,000 in revenues)

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

Fiscal Year 2018-19 operating revenues are projected at $13.9 million, $1.6 million higher than the current fiscal year Adopted Budget, and $1.0 million lower than the current fiscal year estimate. Development is projected to remain strong through Fiscal Year 2018-19, but the timing of project approvals and payment of fees is uncertain. Fiscal Year 2018-19 operating expenditures are recommended at $14.6 million, $266,000 more than the current fiscal year Adopted Budget. The fund is projected to end the 2018-19 fiscal year with operating expenditures exceeding revenues by $786,000. Land Use Document fees are projected at $800,000 and, after funding the $335,000 contribution to CalPERS (proportionate to the General Fund contribution), $56,000 transfer to

Compensated Absences, $250,000 contribution to Retirees Health UAAL, and $25,000 for capital projects, there is a projected ending balance of $6.9 million and a Reserve for Land Use Documents of $7.3 million. This ending balance, which has continued to decline over the last few fiscal years, will be necessary to continue funding operations during the next slowdown in development activity. The ending balance represents fees paid in advance of the services provided, including multi-year development projects.

General Fund: Shoreline Golf Links Fund

Shoreline Golf Links (SGL) is an 18-hole course designed by Robert Trent Jones II & Associates that was completed in 1983. The course is owned by the City and generally open to the public 364 days a year. Touchstone Golf, LLC (Touchstone), assumed management and operations of SGL (Pro Shop and maintenance) in January 2012. 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.

For Fiscal Year 2017-18, total revenues are estimated at $2.4 million, $166,000 (6.5 percent) lower than the Adopted Budget, but $112,000 more than the prior fiscal year audited. Consistently better weather September through December allowed for higher rounds to be played compared to the prior fiscal year. However, the revenue estimate is below budget due to an unusually slow July and August resulting from very hot temperatures, the increased popularity of Moffett Golf Course since being open to the public and the anticipated reopening of the Palo Alto Municipal Golf Course in late May 2018.

The Fiscal Year 2017-18 operating expenditures are estimated at $2.3 million, $115,000 (4.8 percent) less than the Adopted Budget of $2.4 million. Included in operating expenditures is the management fee of $108,000 to Touchstone, $77,000 to reimburse the cost of administrative support provided by the GOF, and annual funding of liability insurance and equipment replacement. After allowing for a minimum ending balance of $5,000, there is $90,000 available to transfer to the GOF, less than the budgeted transfer of $125,000.

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

	2016-17 Audited	2017-18 Adopted	2017-18 Estimated	2018-19 Recommended
Revenues:				
Green Fees	$1,491	1,665	1,537	1,613
Golf Cart/Other Rentals	321	395	365	351
Range Revenue	240	249	251	327
Retail Sales	169	181	177	191
Other	39	48	42	50
Total Revenues	2,260	2,538	2,372	2,532
Operating Expenditures	2,091	2,415	2,300	2,394
Operating Balance	169	123	72	138
CalPERS Contribution	(3)	-0-	-0-	-0-
Transfer to GOF	(150)	(125)	(90)	(125)
Excess (Deficiency) of Revenues	16	(2)	(18)	13
Beginning Balance	7	23	23	5
Ending Balance	$ 23	21	5	18

The Fiscal Year 2018-19 recommendations total a net reduction of $3,200. Those recommendations $25,000 and over are as follows (see Attachments 2 and 3 for complete listings with descriptions):

- **Water Cost Increases:** $75,800 (ongoing)

Projected revenue for Fiscal Year 2018-19 is $2.5 million, $160,000 higher than the current fiscal year estimate and $272,000 higher than the prior fiscal year Audited. Touchstone continues to monitor the membership programs and incorporates adjustments as appropriate. Frequent Player fees are recommended to increase 2.6 percent to 4.3 percent; Loyalty Program fees and all other Greens fees are recommended with a $2 to $3 per player increase and $1 per player increase, respectively; and club rentals are recommended with a 50.0 percent increase.

Fiscal Year 2018-19 projected expenditures by Touchstone and the City of $2.4 million are approximately $21,000 lower than the current fiscal year adopted. The operating costs reflect recommended increases for utilities offset by decreases in funding for supplies and personnel costs. Included in the Fiscal Year 2018-19 recommended operating expenditures are contributions of $212,400 for annual equipment replacement and $77,600 for reimbursement of administrative support provided by the GOF. Fiscal Year 2018-19 is projected with an operating balance sufficient for $125,000 to be transferred to the General Operating Fund and allow for the $5,000 minimum balance.

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

Shoreline Regional Park Community Fund

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

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

Fiscal Year 2017-18 property taxes and investment earnings are estimated higher than budget resulting in estimated operating revenues of $43.5 million, $2.8 million (7.0 percent) higher than budget and essentially the same as the prior fiscal year audited. The property tax revenue adopted for Fiscal Year 2017-18 anticipated a net increase compared to the July 1, 2016 tax roll resulting from changes in ownership, the 2.0 percent annual CCPI, and resolution of appeals. The Fiscal Year 2017-18 estimated property tax exceeds budget as a result of increased AV from new developments based on inspection of construction in progress and less of an impact than anticipated from the resolution of appeals.

Operating expenditures for the current fiscal year are estimated at $27.9 million, $360,000 (1.3 percent) below the Fiscal Year 2017-18 Adopted Budget of $28.3 million, the net result of savings in salary and benefits, and supplies and services offset by an increase in intergovernmental payments. This estimate includes the operations of the Shoreline Regional Park, landfill, and street maintenance, as well as the Shoreline Community's share of costs for services such as Police and Fire protection, planning, and general administration.

The intergovernmental payment to the County, in accordance with the agreement authorized in December 2004, is estimated to be $163,000 higher than budget as a result of the higher than budgeted property taxes. Contributions to the Mountain View Whisman School District (MVWSD) and the Mountain View Los Altos Union High School District (MVLAUHSD) have been made in accordance with the 10-year Joint Powers Authority (JPA) Agreement approved in June 2013 and are $138,000 higher than budget, also related to increased property taxes.

North Bayshore Development Impact Fees (NBSDIF) of $19.2 million have been received through February 2018. Of this, $13.8 million is for transportation-related projects and $5.4 million is for water and sewer infrastructure projects (see Water and Wastewater Funds). The total available for transportation projects through February is $20.5 million (including interest earnings) and $13.4 million of this amount was utilized as a portion of the funding for CIP 18-70 (Acquisition of Property for the Plymouth Street Realignment) adopted by Council on February 13, 2018. The remaining fees will be held in the Development Impact Fees Reserve for funding of future transportation projects.

The estimated operating balance of $15.5 million is funding a $302,000 contribution to CalPERS (proportionate to the General Fund contribution), $20,000 to the Compensated Absences Fund, and a $995,000 contribution to the Retirees' Health UAAL. In addition, there is funding of $56.7 million for capital projects, including $28.5 million for the Acquisition of the Plymouth Street Realignment, $10.0 million for the Shoreline Boulevard Interim Bus Lane and Utility Improvements, $5.0 million for the South Bay Salt Ponds Restoration Project- MV Ponds Component, and $4.2 million for the Shoreline Bus Lane Property Acquisition. The Shoreline Community Fund is estimated with a $15.7 million ending balance and $17.8 million in reserves, which includes the General, Landfill and Development Impact Fee Reserves.

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

	2016-17 Audited	2017-18 Adopted	2017-18 Estimated	2018-19 Recommended
Revenues:				
Property Taxes	$41,636	39,306	41,329	41,808
Investment Earnings	881	954	1,299	1,339
Other	634	363	830	366
Total Revenues	43,151	40,623	43,458	43,513
Expenditures:				
Operating	12,386	13,316	12,656	14,093
Intergovernmental Payments	8,213	9,994	10,295	10,272
Debt Service	6,514	4,980	4,979	6,566
Total Expenditures	27,113	28,290	27,930	30,931
Operating Balance	16,038	12,333	15,528	12,582
CIP Refunds	547	-0-	-0-	-0-
Development Impact Fees	5,052	-0-	13,784	-0-
CalPERS Contribution	(112)	(302)	(302)	(135)
Transfer to Comp Absences	(52)	(20)	(20)	(42)
Retirees' Health UAAL	(924)	(995)	(995)	(195)
Capital Projects from Fees	(100)	-0-	(13,370)	(6,400)
Capital Projects	(4,962)	(28,175)	(43,369)	(6,758)
Excess (Deficiency) of Revenues	15,487	(17,159)	(28,744)	(948)
Beginning Balance	46,701	62,188	62,188	33,444
Reserve	(4,900)	(4,600)	(4,600)	(5,200)
Reserve for Landfill	(5,000)	(6,000)	(6,000)	(7,000)
Reserve for Sea Level Rise	-0-	-0-	-0-	(3,000)
Reserve for Dev Impact Fees	(6,482)	(6,578)	(7,166)	(766)
Ending Balance	$45,806	27,851	15,678	16,530

The Fiscal Year 2018-19 recommendations total $480,600 and there is $59,100 recommended to be rebudgeted. Those recommendations $25,000 and over are as follows (see Attachments 2, 3, and 4 for complete listings with descriptions):

- **Employee-Staffed Ranger Program:** $215,500 (ongoing) (See Attachment 13)
- **CSD Succession Plan:** $57,800 (ongoing) (See Attachment 5)
- **District Sustainability Performance Monitoring:** $50,000 (ongoing)
- **Consultants to Support Traffic Engineering Section:** $50,000 (limited-period)
- **Associate Civil Engineer—Traffic Section Position (0.25)*:** $47,800 (limited-period)
- **Associate Civil Engineer—Land Development Section Position (0.20)*:** $38,200 (limited-period)

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*Represents a continuing limited-period position.

- Major Capital Projects:
  - NB Shoreline Blvd/101 Off-Ramp Realignment, Design: $6,400,000 (NBSDIF)
  - Charleston Road Improvements, Design: $2,365,000
  - Shorebird Way and Charleston Road Recycled Water Extension and Water System Improvement, Construction: $1,580,000
  - Circulation Feasibility Study from NBSPPII (Charleston Road Underpass and SC Transit Bridge): $1,100,000

Projected revenues for Fiscal Year 2018-19 are $43.5 million, $2.9 million higher than the current fiscal year adopted and essentially the same as the Fiscal Year 2017-18 estimated. The 2.0 percent CCPI, changes in ownership, new development and projected reductions from resolved appeals result in a net increase in property tax compared to Fiscal Year 2017-18 estimated property taxes. Unsecured AV is reported by business owners and can fluctuate significantly. As of January 2018, the County has approximately 5,300 active appeals for properties throughout the County, including properties located in the Shoreline Community. The County has provided summarized information about pending appeals and the Fiscal Year 2018-19 revenue includes a projected tax loss based on historical resolution of appeals. In addition, certain revenues, such as precise plan reimbursements, are not budgeted. The intergovernmental payments to the school districts are projected to decrease slightly as this calculation is based on the percent change in total property tax received between the two prior fiscal years.

Fiscal Year 2018-19 expenditures are recommended at $30.9 million. In addition, there is a $135,000 contribution to the CalPERS liability (proportionate to the General Fund contribution); $42,000 transfer to the Compensated Absences Fund; $195,000 contribution to the Retirees' Health UAAL; and $13.2 million for capital projects, of which $6.4 million is funded from development impact fees. The capital projects total includes $9.9 million for transportation-related projects.

Staff is recommending $3.0 million be set aside annually in a Sea Level Rise Reserve over the next 10 fiscal years to fund approximately $30.0 million for projects identified in the Shoreline Sea Level Rise Study. If the recommendations are adopted, the Shoreline Community Fund is projected to end the 2018-19 fiscal year with an ending balance of $16.5 million, and $16.0 million in Reserves.

As previously discussed with City Council, there are significant capital projects anticipated in future years related to transportation, landfill, and sea level rise. The Council adopted the NBSDIF in February 2016 to assist with funding improvements detailed in the NBSDIF Nexus Study and over $20.0 million has been paid to date. On March 27, 2018, staff presented to the Council Finance Committee recommended modifications to Council Policy A-11—Financial and Budgetary Policy (Policy A-11) in preparation for the potential issuance of debt. There are two significant transportation projects proposed in the CIP for Fiscal Year 2019-20 that would require funding beyond available resources. Staff will be providing information to the City Council at its meeting on May 22, 2018 to present the recommended policy modifications and preliminary potential debt issuance recommendation.

UTILITY FUNDS
WATER, WASTEWATER, SOLID WASTE MANAGEMENT

The City's enterprise utility funds are fully funded by the rates charged to customers; there is no General Fund support to the utility funds. Utility rates charged by governmental entities for water, sewer, and trash and recycling services are considered property-related fees and are subject to the procedural requirements of Proposition 218, Article XIII, of the California Constitution. Proposition 218 requires governmental agencies to conduct a majority protest hearing prior to adopting any changes in utility rates. A notice is required to be mailed no later than 45 days prior to the public hearing and is required to include the proposed rate adjustment, the calculation methodology, and describe the process for submitting a protest vote. The legislation also provides for future rate increases within prescribed limits to be approved without holding a hearing each year for up to an additional four years.

A Proposition 218 hearing is not required for the recommended water and wastewater rate increases as these recommended increases for Fiscal Year 2018-19 are within the prescribed limits as noticed May 6, 2016 and approved at the June 21, 2016 public hearing. However, the recommended solid waste rate increase for carts requires a Proposition 218 hearing as it includes a rate increase for the new food scraps collection program (see more detail in each section below). A Proposition 218 hearing is scheduled, prior to the adoption of any rate modifications, for June 19, 2018. Staff will be mailing a notification of the recommended rate changes on or before May 4 to meet the 45-day prescribed noticing requirement of Proposition 218.

Water Enterprise Fund

The Water Enterprise Fund is a utility fund accounting for the revenues and expenditures associated with the provision of retail water service to Mountain View residents and businesses. The City provides potable water service to approximately 96.0 percent of water customers within the City limits while California Water Service (a private company) provides service to the remaining 4.0 percent of water customers in a few previously unincorporated neighborhoods. Potable water for the City's system is obtained primarily from the San Francisco Public Utilities Commission (SFPUC) regional Hetch Hetchy water system (88.0 percent). Water is also purchased from the Santa Clara Valley Water District (SCVWD) (10.0 percent) and City well production (2.0 percent). The primary costs associated with water service are the purchase of water, staffing to operate and maintain the system, ongoing maintenance, and capital replacement and improvement projects. Charges for services are designed to fully fund ongoing annual costs and a base level of annual capital projects as well as to maintain adequate reserves in accordance with Council policy.

A 7.0 percent increase for the average cost of water and meter rates, and a 3.0 percent increase for recycled water rates were adopted for Fiscal Year 2017-18. Operating revenues for Fiscal Year 2017-18 are estimated at $36.5 million, approximately $3.9 million (11.9 percent) higher than budget. Although this fund has been significantly impacted by previous water conservation efforts due to the drought, the financial condition of the fund is now benefiting from increased water usage from the past two years. However, usage is still approximately 24.0 percent below the 2013 drought baseline.

Operating expenditures for Fiscal Year 2017-18 are estimated at $31.7 million, $480,000 (1.5 percent) lower than the budget of $32.2 million. This is primarily the result of savings in operations offset by slightly higher SCVWD retail water costs than budgeted. The City's long-term contract with the SFPUC has a minimum water purchase requirement and an individual supply guarantee (ISG) maximum purchase through 2040. During the drought, the SFPUC waived the minimum purchase requirement. However, the SFPUC is no longer waiving the City's minimum water purchase and the Fiscal Year 2017-18 budget reflects full funding of the minimum purchase requirement. As the City is subject to the minimum purchase requirement, the water below the minimum purchase requirement can be used at Shoreline Golf Links (see Attachment 11).

During Fiscal Year 2016-17, staff evaluated options to minimize or eliminate future penalties as a result of the City's minimum water purchase requirement with the SFPUC. The City of East Palo Alto (EPA) was approaching their ISG with the SFPUC which precluded approval of large development projects in EPA. The City is not anticipated to reach its ISG through 2040. Therefore, staff negotiated with EPA to transfer 1.0 million gallons per day of the City's ISG to EPA in return for $5.0 million. The agreement was approved in 2017, and the $5.0 million is reserved to be used toward any potential future minimum water purchase penalties.

The estimated operating balance for Fiscal Year 2017-18 is $4.8 million, which is sufficient to fund the CalPERS contribution of $590,000 (proportionate to the General Fund contribution), Retirees' Health UAAL of $294,000, and the current fiscal year's $2.9 million for capital projects.

Restructured capacity fees were adopted by Council effective July 1, 2015. The capacity fees are currently estimated at $2.4 million compared to the $2.3 million budget based on projected building permits to be issued during the fiscal year. Various Development Impact Fees have been adopted by City Council, and for Fiscal Year 2017-18, $5.4 million of NBSDIF revenue has been received. These fees are designated for specific projects which are identified in the Five-Year Capital Improvement Program (CIP) and have been set aside in reserves. Capacity and Development Impact Fees received are sufficient to fund the $2.3 million in additional capital projects. The Water Fund is estimated with a $7.6 million ending balance and $25.3 million in reserves, which includes the water transfer reserve, and the balance of capacity and development impact fee revenues received and interest earned on the balance.

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

	2016-17 Audited	2017-18 Adopted	2017-18 Estimated	2018-19 Recommended
Revenues:				
Investment Earnings	$ 398	397	645	502
Water Sales	28,516	30,454	33,665	34,002[1]
Recycled Water Sales	481	600	596	660
Other	1,821	1,196	1,630	1,203
Total Revenues	31,216	32,647	36,536	36,367
Expenditures:				
Operating	9,485	10,486	9,806	11,022
Water Purchases	17,088	20,768	20,968	21,090
Loan Repayment— Recycled Water	300	300	300	300
Debt Service	630	634	634	629
Total Expenditures	27,503	32,188	31,708	33,041
Operating Balance (Deficit)	3,713	459	4,828	3,326
Capacity/Development Impact Fees	4,721	2,303	7,823	-0-
Water Transfer	-0-	-0-	5,000	-0-
CalPERS Contribution	(217)	(590)	(590)	(258)
Retirees' Health UAAL	(635)	(294)	(294)	(200)
Capital Projects from Fees	(1,079)	(2,287)	(2,287)	(3,640)
Capital Projects	(2,079)	(2,942)	(2,942)	(3,038)
Excess (Deficiency) of Revenues	4,424	(3,351)	11,538	(3,810)
Beginning Balance	16,896	21,320	21,320	32,858
Capacity/Dev Impact Fees Reserves	(3,740)	(3,756)	(9,436)	(5,796)
Water Transfer Reserve	-0-	-0-	(5,000)	(5,000)
Reserves	(9,946)	(10,830)	(10,830)	(11,120)
Ending Balance	$ 7,634	3,383	7,592	7,132

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

The Fiscal Year 2018-19 recommendations total $307,600. Those recommendations $25,000 and over are as follows (see Attachments 2, 3, and 4 for complete listings with descriptions):

- **Associate Civil Engineer—Engineering and Environmental Compliance Section Position*:** $191,200 (limited-period)

- **Contract Services—Recycled Water Program:** $50,000 (limited-period)

- **Associate Civil Engineer—Land Development Section Position (0.20)*:** $38,200 (limited-period)

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*Represents a continuing limited-period position.

- Major Capital Projects:

  - Leong Drive Water and Sewer Main Replacement, Construction: $2,000,000

  - Miscellaneous Water Main/Service Line Replacement: $2,584,000

  - Well Abandonment (10 and 17) and Well Siting Study: $650,000

  - Water System Improvements and Recycled Water System Improvements: $628,000

  - Shoreline Boulevard Interim Bus Land and Utility Improvements, Phase I Construction: $350,000 (project amendment)

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

The recycled water rate was previously set to recover the cost of the program, including the loan repayment and ongoing recycled water program operating costs. Costs have increased over the last three fiscal years due to added limited-period and operating costs for regulatory compliance. This results in the rate no longer covering the cost of the program based on current usage. Staff is recommending phasing in the rate increase needed to cover the cost of the program over a three-year period. The rate for Fiscal Year 2018-19 is recommended to increase from $3.07 per unit to $3.75 per unit, and the following two fiscal years are recommended to increase to $4.50 per unit and $5.00 per unit, respectively. If recycled water consumption increases or decreases, the rate increases recommended will be reduced or increased, respectively. Staff continues efforts to convert customers from potable water to recycled water when possible.

For Fiscal Year 2018-19, a 1.0 percent rate increase is recommended for the average cost of water and meter rates and a 22.0 percent increase is recommended for the recycled water rate. The recycled rate will be 45.4 percent lower than the potable Uniform water rate. The Uniform and Tier 2 rates reflect the average cost of water; Tier 1 is set at 75.0 percent and Tier 3 is set at 160.0 percent of the average cost of water. Meter rates are tied to the capacity ratios published by the American Water Works Association (AWWA). Because of these relationships, individual rate increases may be slightly more or less than the 1.0 percent stated. This 1.0 percent rate increase is for rate increases from providers and CPI as allowed. Recommended fee modifications are included in Attachment 1, and a comparison of the current rates and the recommended rates are included in Attachment 14.

Fiscal Year 2018-19 projected revenues, with the recommended rate adjustments and water consumption based on the current fiscal year trend, are $36.4 million and recommended expenditures are $33.0 million (after eliminating the budget effect of depreciation expense). Included in expenditures are the proposed rate adjustments to wholesale water costs. For Fiscal Year 2018-19 the SFPUC has proposed a zero rate increase and SCVWD is proposing 9.6 percent for groundwater, which corresponds to an 8.8 percent rate increase for treated water (treated water is $100 more per acre-foot than groundwater). Final rates will not be approved by the SFPUC until May 8, 2018 and by SCVWD on April 24, 2018. Staff will provide an update to Council if there are any changes to the proposed rate increase with the Proposed Budget on June 12, 2018.

The recommendation results in an operating balance of $3.3 million. There are also capital projects of $3.0 million, contribution to CalPERS of $258,000 (proportionate to the General Fund contribution), and funding for Retirees' Health UAAL of $200,000. This results in projected Fiscal Year 2018-19 reserve balances of $21.9 million, which includes the water transfer reserve, and the balance of capacity and development impact fee revenues received and the interest earned on the balance. The projected ending balance for this fund is $7.1 million.

Capacity fees are not included in the projection for Fiscal Year 2018-19 as the fees are uncertain. Therefore, staff recommends funds be available for capital projects after the fees are actually received. The current estimated balance of fees will fund $3.6 million in additional capital projects for Fiscal Year 2018-19. The NBSDIF received in Fiscal Year 2017-18 will fund future capital projects as identified in the Five-Year CIP. These fees provide funding for additional capital projects and mitigate the need to fund these projects with rate increases.

The SFPUC has provided estimated future water rate increases of 0.0 percent through Fiscal Year 2021-22 and 9.0 percent in Fiscal Year 2022-23.

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; and personnel costs for the operation and maintenance of the system. This fund is affected by costs associated with stringent requirements for the Treatment Plant, stormwater discharges into San Francisco Bay, and fluctuations in water usage. Revenues are partially governed by the amount of water used by commercial dischargers in the City each fiscal year.

A 10.0 percent overall rate increase was adopted for Fiscal Year 2017-18. This includes a 2.0 percent rate increase for operations, a 2.0 percent rate increase for future Treatment Plant capital costs, and 6.0 percent for unanticipated Treatment Plant costs in Fiscal Year 2015-16 (rate impact phased in over three fiscal years). As previously outlined, there are future capital expenditures forecasted for the Treatment Plant as the facility began operations in 1972 and is in need of major renovations. A cumulative rate increase of 20.0 percent is projected and City Council approved a gradual phase-in of 2.0 percent annually for 10 years to fund these long-term capital costs, of which Fiscal Year 2017-18 is the fourth year.

Unforeseen Treatment Plant costs in Fiscal Year 2015-16 caused the fund to be in a distressed financial condition. To fully fund the impact of the increases in Treatment Plant costs, there would have been a 26.0 percent rate increase for Fiscal Year 2016-17. City Council approved staff's recommendation to spread the increase needed to stabilize the financial position of this fund over three years (6.0 percent in each of Fiscal Years 2016-17, 2017-18, and 2018-19) and utilize half of the rate stabilization reserve for Fiscal Years 2016-17 and 2017-18 to balance the fund. These rate increases were noticed and approved at the rate hearing on June 21, 2016.

Operating revenues for Fiscal Year 2017-18 are estimated at $22.2 million, $973,000 (4.6 percent) higher than the budget of $21.3 million, as wastewater service charges are trending higher than budget. Operating expenditures are estimated at $15.6 million, $2.3 million (13.0 percent) lower than the budget of $17.9 million. This is primarily due to a $1.8 million credit for prior fiscal year Treatment Plant expenses and savings in operations.

Each fall, an annual reconciliation of the prior fiscal year's actual treatment costs (based on volume) is performed by the Treatment Plant, and an adjustment is provided to each member agency. The City's share of audited expenditures of the Treatment Plant for last fiscal year were $1.8 million lower than budgeted, resulting in a credit that is applied towards the current fiscal year's treatment costs. The credit from the Treatment Plant is related to obligations encumbered but not spent and, therefore, is being reserved in anticipation the expenditures will be included in the reconciliation for Fiscal Year 2017-18. The estimated operating balance of $6.7 million will fund the CalPERS contribution of $349,000 (proportionate to the General Fund contribution), Retirees' Health UAAL of $246,000, and $2.1 million for capital projects, as well as the $1.8 million Treatment Plant credit being reserved.

Restructured capacity fees were adopted by Council effective July 1, 2015. The capacity fees are currently estimated at $4.5 million compared to the $4.1 million budget, based on actual fees received and projected building permits to be issued for the remainder of the fiscal year. Various Development Impact Fees have been adopted by City Council, and for Fiscal Year 2017-18, $1.0 million of NBSDIF have been received. These fees are designated for specific projects which are identified in the Five-Year CIP and have been set aside in reserves. Capacity and Development Impact Fees received are sufficient to fund the $627,000 in additional capital projects.

The fund is estimated with a $4.0 million ending balance and $18.3 million in reserves, which includes the accumulation of the rate increases needed for future Treatment Plant capital expenditures, the reservation of the $1.8 million prior year Treatment Plant credit, the balance of capacity and development impact fee revenues received and the interest earned on the balance, as well as the full reserve requirement for the fund. The Adopted Budget included using half of the rate stabilization reserve; however, the estimated higher wastewater service charge revenue is allowing the reserve to be restored to the policy level.

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

	2016-17 Audited	2017-18 Adopted	2017-18 Estimated	2018-19 Recommended
Revenues:				
Hazardous Materials/ Fire Safety Permits	$ 502	425	462	425
Investment Earnings	248	290	362	271
Wastewater Service	19,145	20,519	21,384	23,096[1]
Other	482	34	33	34
Total Revenues	20,377	21,268	22,241	23,826
Expenditures:				
Operating	3,672	7,241	6,871	7,197
Wastewater Treatment	10,385	10,668	8,710[2]	11,254
Total Expenditures	14,057	17,909	15,581	18,451
Operating Balance	6,320	3,359	6,660	5,375
Capacity/Development Impact Fees	3,439	4,050	5,505	-0-
CalPERS Contribution	(128)	(349)	(349)	(115)
Retirees' Health UAAL	(387)	(246)	(246)	(50)
Capital Projects from Fees	(1,520)	(627)	(627)	(6,500)
Capital Projects	(1,759)	(2,103)	(2,103)	(2,409)
Excess (Deficiency) of Revenues	5,965	4,084	8,840	(3,699)
Beginning Balance	7,511	13,476	13,476	22,316
Capacity/Dev Impact Fees Reserves	(2,936)	(6,359)	(7,925)	(1,425)
Treatment Plant Reserve	(891)	(2,077)	(3,844) [2]	(6,354) [2]
Reserves	(5,597) [3]	(5,647) [3]	(6,542)	(6,781)
Ending Balance	$ 4,052	3,477	4,005	4,057

(1) Based on a recommended 8.0 percent rate increase and includes $1.6 million in revenue generated by the rate increases for planned Treatment Plant capital costs that is being reserved.
(2) Includes $1.8 million credit for the prior fiscal year.
(3) Includes borrowing 5.0 percent of the 10.0 rate stabilization reserve.

The Fiscal Year 2018-19 recommendations total $52,400 and rebudgets of $20,000. Those recommendations $25,000 and over are as follows (see Attachments 2, 3, and 4 for complete listings with descriptions):

- **Associate Civil Engineer—Land Development Section Position (0.20)*:** $38,200 (limited-period)

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*Represents a continuing limited-period position.

- Major Capital Projects:
  - Leong Drive Water and Sewer Main Replacement, Construction: $6,500,000
  - Miscellaneous Storm/Sanitary Sewer Main Replacement: $1,617,000
  - San Antonio Area Sewer Improvements Construction, Phase I: $530,000

Costs for the Treatment Plant are proposed to increase 5.8 percent for Fiscal Year 2018-19, resulting in the cost of wastewater treatment to be approximately 61.0 percent of the total recommended operating expenditures. **An 8.0 percent overall rate increase is recommended for Fiscal Year 2018-19:** 4.0 percent is due to the increase from the Treatment Plant for Fiscal Year 2018-19 and operating cost increases up to the CPI, 2.0 percent is the fifth year of the phase-in of planned Treatment Plant capital costs, and 2.0 percent for unanticipated Treatment Plant costs in Fiscal Year 2015-16 (reduced from 6.0 percent as noticed and approved for Fiscal Year 2018-19 at the rate hearing on June 21, 2016). For rate-setting purposes, a $2.2 million base level of annual maintenance capital projects is assumed for Fiscal Year 2018-19.

Based on the recommended rate increase, operating revenues for Fiscal Year 2018-19 are projected at $23.8 million and recommended operating expenditures are $18.5 million (after eliminating the budget effect of depreciation expense). The operating balance of $5.4 million will fund the contribution to CalPERS of $115,000 (proportionate with the General Fund contribution), funding for Retirees' Health UAAL of $50,000, and $2.4 million for capital projects. Additionally, there is $1.6 million in revenue generated by the rate increases for planned Treatment Plant capital costs that is being reserved. This results in a reserve balance of $6.8 million, in addition to the Capacity/Development Impact Fee and Treatment Plant reserves of $7.8 million. The projected ending balance for Fiscal Year 2018-19 is of $4.1 million.

As with the Water Fund, capacity fees are not included in the projection for Fiscal Year 2018-19 as the fees are uncertain. Therefore, staff recommends funds be available for capital projects after the fees are actually received. The current estimated balance will fund $6.5 million in additional capital projects in Fiscal Year 2018-19. The North Bayshore Development Impact Fees revenue received in Fiscal Year 2017-18 will fund future capital projects as identified in the Five-Year CIP.

The majority of the trunk main infrastructure was installed in the 1950s and 1960s. Staff has previously indicated through the budget and CIP process that there are major City sewer main replacement projects necessary over the next 10 years and the possibility of issuing debt for these projects has been identified as an option. Approximately $15.0 million of major capital projects is included in Fiscal Years 2019-20 and 2020-21 of the Five-Year CIP. While capacity and development impact fees are providing a source of funding for some projects, at this time, it is insufficient to fund all projects and staff recommends some debt will be required in order to fund all of the additional capital projects. Staff is also reviewing the current major sewer capacity upgrades needed due to the increased density allowed in the City from the General Plan Update, Precise Plan adoptions, and Gatekeeper approvals. Staff will return to City Council during Fiscal Year 2018-19 with a recommendation for funding these additional capital projects.

Solid Waste Management Enterprise Fund

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

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

For Fiscal Year 2017-18, a 10.0 percent rate increase was adopted for carts, incorporating the third and final year of the Cost of Service (COS) Study for phase-in of cart rates, and a 2.0 percent rate increase was adopted for all other services. With this final year of implementation, the COS Study to review the rate structure to realign rates to reflect the true cost of collection and disposal is complete.

The City's Solid Waste Fund operating revenues for Fiscal Year 2017-18 are estimated at $14.5 million compared to the budget of $14.2 million. Trash and recycling service charges are trending $325,000 (2.3 percent) higher than budget, mainly due to higher debris box revenue associated with the high level of development activity. City operating expenditures are estimated at $12.1 million, $504,000 (4.0 percent) lower than the Adopted Budget of $12.6 million, as a result of savings in operations and lower SMaRT Station costs due to the prior fiscal year SMaRT Station reconciliation. The SMaRT Station performs an annual reconciliation of the prior fiscal year's costs and an adjustment is provided to each member agency. For Fiscal Year 2016-17, the City received a credit of $133,000, which has been applied against payments in the current fiscal year. Recology revenues and expenditures are not considered part of the City's budget as these are contractually passed through to Recology, but are shown for informational purposes.

In December 2016, City Council approved a residential food scraps collection program. Under this program, all residents with curbside (cart) trash services can place all food scraps in their yard trimmings cart for weekly collection. Trash collection remains weekly and recycling collection continues on an every-other-week schedule. Trash cart customers who did not have a yard trimmings cart (e.g., rowhouses and townhomes) were provided an option for a 24-gallon cart to participate in the program. The cost of the program was estimated to have a cart rate impact of 5.0 percent. Due to the third-year impact of the COS Study in Fiscal Year 2017-18, City Council approved deferring this rate increase for carts to Fiscal Year 2018-19.

Operating revenues are estimated higher than operating expenditures by $2.5 million. After funding the additional CalPERS contribution of $241,000 (proportionate with the General Fund contribution), Retirees' Health UAAL of $876,000, and the current fiscal year's $338,000 for capital projects, there is an estimated ending balance of $7.0 million and reserves of $3.6 million.

Included in the $3.6 million of reserves is $440,000 for a new reserve for debt service. As a partner in the SMaRT Station, the City funded a portion of the debt originally issued for operating equipment of approximately $440,000. The debt was fully paid in Fiscal Year 2016-17 and, therefore, this funding is no longer required. However, the SMaRT Station partners agreement expires in 2021 and staff is in the early stages of evaluating future options. If the City chooses to enter into a new agreement with the SMaRT Station or another processor, funds may be needed for an overhaul of operating equipment or equipment purchases. Staff recommends accumulating and reserving the annual allocation for debt service in order to pay down any future debt that may be required and reduce the impact this future debt may have on rates.

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

	2016-17 Audited	2017-18 Adopted	2017-18 Estimated	2018-19 Recommended
Revenues:				
Investment Earnings	$ 96	102	135	169
Trash and Recycling Service Charges	13,841	13,874	14,199	13,676[1]
Other	213	195	198	195
City Revenues	14,150	14,171	14,532	14,040
Recology Revenues[2]	14,439	15,052	15,167	15,655
Total Revenues	28,589	29,223	29,699	29,695
Expenditures:				
Operating	4,245	5,328	5,049	5,699
Disposal and SMaRT Station Charges	7,240	7,245	7,020[3]	7,616
City Expenditures	11,485	12,573	12,069	13,315
Recology Payments	14,439	15,052	15,167	15,655
Total Expenditures	25,924	27,625	27,236	28,970
Operating Balance	2,665	1,598	2,463	725
CalPERS Contribution	(91)	(241)	(241)	(106)
Retirees' Health UAAL	-0-	(876)	(876)	-0-
Capital Projects	(279)	(338)	(338)	(594)
Excess (Deficiency) of Revenues	2,295	143	1,008	25
Beginning Balance	7,301	9,596	9,596	10,604
Reserve for Debt	-0-	-0-	(440)	(880)
Reserves	(3,186)	(3,186)	(3,186)	(3,329)
Ending Balance	$ 6,410	6,553	6,978	6,420

(1) Based on a 5.0 percent rate adjustment recommended for carts only.
(2) Neither revenues nor expenditures are adopted for Recology.
(3) Includes $133,000 credit from SMaRT Station reconciliation for the prior fiscal year.

The Fiscal Year 2018-19 recommendations total $255,400. Those recommendations $25,000 and over are as follows (see Attachments 2, 3, and 4 for complete listings with descriptions):

- **Analyst I/II—Solid Waste Section Position:** $180,200 (limited-period)

- **Associate Civil Engineer—Land Development Section Position (0.20)*:** $38,200 (limited-period)

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*Represents a continuing limited-period position.

- Major Capital Improvements:

  — Solid Waste Agreement, Phase II: $310,000

  — Shoreline Landfill Cap Maintenance and Repairs: $137,000

  — Landfill Gas/Leachate System Repairs and Improvements: $137,000

The agreement with Recology provides for an increase based on CPI and for Fiscal Year 2018-19 is 3.22 percent. The City's share of SMaRT Station costs is currently proposed to increase 5.51 percent. These provider increases, as well as increases in the cost of City programs up to the CPI, result in an overall average rate increase of over 3.0 percent. However, this fund is in a stable financial condition and staff is not recommending an overall rate increase for Fiscal Year 2018-19.

A 5.0 percent rate increase for carts only for the new residential food scraps program is recommended. As stated above, this program was implemented in July 2017; however, due to the third-year impact of the COS Study in Fiscal Year 2017-18, the City Council approved deferring this increase for cart rates to Fiscal Year 2018-19.

Incorporating the new residential food scraps program for cart rates, for Fiscal Year 2018-19, **a 5.0 percent rate increase is recommended for carts, and no increase for all other services is recommended**. With a 5.0 percent rate increase for carts, the rate for a 32-gallon cart will increase by $1.65 a month to $33.90 per month, which is still lower than our neighboring cities' rates. Attachment 1 includes recommended fee modifications and Attachment 14 includes a comparison of the current rates and the recommended rates. Revenues for Fiscal Year 2018-19, including the rate adjustments recommended, are projected to total $29.7 million (City revenues of $14.0 million) with total expenditures of $29.0 million (City expenditures of $13.3 million). There is also funding of $594,000 for capital projects and a contribution to CalPERS of $106,000 (proportionate with the General Fund contribution). The fund is projected to end the 2018-19 fiscal year with a reserve at the policy level of $3.3 million, the recommended new Debt Reserve of $880,000, and a $6.4 million ending balance.

Non-Major Funds

The Fiscal Year 2017-18 recommendations ($25,000 and over) for non-major funds are as follows (see Attachments 2, 3, and 4 for complete listings with descriptions):

Child-Care Commitment Reserve

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

Below-Market-Rate (BMR) Housing Fund

- **Contract Services—BMR Administration:** $30,000 (ongoing)

Housing Impact Fund

- **Redistribution of Funding for a Secretary Position:** $31,600 (ongoing)

Downtown Benefit Assessments Districts Fund

- **Secretary—Economic Development Position (0.25 FTE):** $37,900 (limited-period)

Community Development Block Grant Fund

- **Monitoring Federally Funded Activities:** $35,000 (ongoing)

Equipment Maintenance and Replacement Fund

- **Hourly Staff to Support Fleet Section:** $50,000 (limited-period)

RESERVES

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

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

Reserve Classifications

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

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

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

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*Recommended new reserve.

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

Background and Analysis

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

	6/30/18 Estimated Balance	Amount Recommended for Allocation	Other Funds	7/1/18 Recommended Balance	Policy/ Target Balance
Uncommitted but Designated for Specific Purpose:					
GF Reserve	$ 23,390	1,800[1]	-0-	25,190	25,190[1]
GF Budget Contingency	5,209	-0-	-0-	5,209	5,209
GF Earned Lease Revenue	4,603	-0-	-0-	4,603	4,081
GF Transportation[2]	-0-	2,000	-0-	2,000	2,000
GF Capital Improvements	16,388	1,732[3]	-0-	18,120[4]	8,100[4]
GF Open Space Acquisition	3,456	-0-	-0-	3,456	3,456
GF Strategic Property Acquisition	11,645	-0-	-0-	11,645	11,645
GF Child-Care Commitment	520	-0-	-0-	520	-0-
Minor Trust	420	-0-	-0-	420	412
Subtotal	65,631	5,532	-0-	71,163	60,093
To Fund Liabilities:					
GF Property Management	1,560	-0-	-0-	1,560	1,560
Graham Site Maintenance	802	-0-	-0-	802	802
Compensated Absences[5]	6,100	1,100	100	7,300	7,300[6]
Equipment Replacement[5]	26,000	-0-	-0-	26,000	24,900
Workers' Compensation[5]	11,600	-0-	-0-	11,600	9,146[7]
Unemployment[5]	550	-0-	-0-	550	550
Liability Self-Insurance[5]	4,868	-0-	-0-	4,868	4,462[7]
Subtotal	51,480	1,100	100	52,680	48,720
Total	$117,111	6,632	100	123,843	108,813
Retirees' Health[8]	$122,782	-0-	-0-	122,782	151,268[9]

(1) Policy balance is between 20.0 percent and 25.0 percent of the Net General Operating Fund budget.
(2) New reserve recommended
(3) Balance recommended up to $3.0 million, to be determined based on actual results for Fiscal Year 2017-18.
(4) Includes $3.1 million balance for prepaid lease from Downtown Family Housing Project.
(5) Funding provided by the General Fund, Development Services, Shoreline Golf Links, Parking District, Community Development Block Grant (CDBG), Shoreline Regional Park Community, Enterprise Funds, and Fleet Maintenance, as applicable.
(6) Based on the liability established as of June 30, 2017.

(7) Actuarial liability, in addition to reserve for catastrophic claims per policy, as applicable.
(8) Funds accumulated in the California Employers' Retiree Benefit Trust (CERBT).
(9) Based on the actuarial valuation as of July 1, 2017 for Fiscal Year 2018-19 at the recommended discount rate of 6.5 percent.

General Fund Reserve

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

For Fiscal Year 2018-19, staff is recommending an estimated allocation from the GF carryover of $1.8 million to maintain this reserve at 20.0 percent. The final amount necessary will be calculated with the Adopted Budget. If there is any use of this reserve for the remainder of the current fiscal year, it will modify the amount available. For Fiscal Year 2018-19, staff is also recommending an additional $1.0 million be allocated to this reserve to raise the level above the minimum 20.0 percent.

General Fund Budget Contingency Reserve

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

During this past recession, this reserve was used for the transitioning of positions to be eliminated, the phasing out of certain expenditures, in addition to funding for the transitioning of employee benefit changes, transitioning Shoreline Golf Links to a new operating model, and the elimination of the City's redevelopment agency. The reserve is estimated with a balance of $5.2 million, as of June 30, 2018, and will be available for similar purposes during the next economic downturn.

The full projected annual revenue from the Ameswell (Moffett Gateway) property after a few years of operations is estimated at over $4.0 million. The majority of this revenue is currently recommended to be earmarked for debt service to fund the Police/Fire Administration Building Remodel and Expansion. During the Fiscal Year 2017-18 budget process, a strategy was adopted for the revenue received in the fiscal years prior to the beginning of debt service be used for a limited-period need and transferred to this reserve. Fiscal Years 2017-18 and 2018-19 (Forecasted) included transfers in the amount of $755,400 and $1.3 million, respectively, to the Budget Contingency Reserve. However, the project has been delayed and to date, the building permit has not been issued and no revenue has been received. For Fiscal Year 2018-19, it is projected $1.3 million will be generated and available to be transferred to this reserve. The Council has requested reviewing the funding of the Police/Fire Administration Building capital improvement project that could modify this strategy, and will discuss this as part of the CIP Study Session.

<u>General Fund Earned Lease Revenue</u>

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

Beginning in Fiscal Year 2011-12, $1.1 million was transferred to the GOF from this reserve. However, due to the unprecedented low interest rate environment, the transfer was reduced to $750,000 for Fiscal Years 2012-13 and 2013-14, and in Fiscal Year 2014-15 transfers were ceased altogether. The estimated balance at the end of this fiscal year will be $4.6 million, higher than the target balance of $4.1 million. Staff will reevaluate projected interest earnings, but at this point it is recommended that no transfers be made and funds continue to be accumulated in this reserve.

<u>General Fund Transportation Reserve</u>

As the City contemplates significant transportation projects identified to mitigate traffic congestion, improve infrastructure, and allow for continued growth in the City, the City Council is considering placing a revenue measure on the November 2018 ballot that would restructure the City's Business License Tax. Council's prior discussions have focused on the potential for a tax measure in conjunction with the Comprehensive Modal Plan to fund transportation capital projects or ongoing revenue for transportation needs. A number of priority transportation projects have been identified. Whether or not any new revenue measure is targeted for transportation, the needs are significant and long-term. Therefore, a new reserve is recommended with initial funding from the City of $2.0 million from the Fiscal Year 2017-18 GF carryover and an additional $2.0 million from the GOF in Fiscal Years 2018-19 and 2019-20. In Fiscal Year 2020-21, the recommendation is reduced to $1.0 million. Based on the current Forecast, this would provide $7.0 million of funding over the next four fiscal years.

General Fund Capital Improvement Reserve

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

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

Additional contributions to the Capital Improvement Reserve are recommended from the funds set aside, identified as at risk, from the increases generated from the Google Leases revaluations. During Fiscal Year 2017-18, the decennial revaluation process has been completed for the three City-owned land leases between the City and Google. Based on the revaluations of the three sites, annualized rent payments are increasing approximately $6.8 million. Since it is probable that during the time span before the next decennial adjustment in April 2026, there will be at least one economic downturn and if a downturn occurs when a revaluation occurs, the lease revenues to the City could decline. Staff reviewed the changes in AV for the past 13 years and identified a potential 15.0 percent loss in secured AV in the event of an economic downturn. Therefore, to reduce the dependency on these revenues, staff recommended, and the City Council adopted, a strategy to set aside 10.0 percent of this potential decline in lease revenues to fund future capital projects. In Fiscal Year 2017-18, a potential 10.0 percent decline in revenues, calculated at $1.2 million, was transferred to the Capital Improvement Reserve to fund projects in Fiscal Year 2018-19 or later.

This reserve generally receives an allocation from the General Fund carryover balance and received $4.0 million from the Fiscal Year 2016-17 carryover. It is recommended the balance up to $3.0 million of the Fiscal Year 2017-18 carryover be transferred to this reserve, currently estimated at $1.7 million. Additional $4.0 million allocations each year for Fiscal Years 2018-19 and 2019-20 are recommended for potential debt service to fund the Police/Fire Administration Building Remodel and Expansion if Council desires to fund this project sooner than when the revenues from the Ameswell development will be available.

In June 2009, $3.5 million was appropriated for the acquisition of the property at 263 Escuela Avenue (now The View Teen Center) and was repaid from the land lease prepayment for the Downtown Family Development Project in Fiscal Year 2011-12. However, these funds are considered unearned revenue and are available to be allocated as rent is earned. There is a remaining balance of $3.1 million of unearned revenue.

General Fund Open Space Acquisition Reserve

This reserve was established for the purpose of acquiring open space to meet the needs of the City. Council Policy A-11 provides the proceeds from sale of surplus property be allocated to this reserve if there is no other recommendation. These funds are designated to be available as supplemental funding to Park Land Dedication fees for open space acquisition. During Fiscal Year 2016-17, $2.9 million was deposited in this reserve from the sale of the Mora Drive property. There is a balance of $3.5 million in this fund.

General Fund Strategic Property Acquisition Reserve (SPAR)

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

During the current fiscal year, $2.0 million was transferred to this fund as part of the GOF budget. This reserve funded $5.0 million towards the capital improvements for the Community Center. Additional activity in this reserve is the lease and sublease of the property on Villa and View Streets. The estimated balance available in this reserve is $11.6 million.

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

General Fund Child-Care Reserve

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

As the annual $201,000 lease payment from Community Gatepath is no longer needed for repayment of the loan, on December 6, 2016, Council approved using up to $100,000 per fiscal year for low-income subsidies through the initial term of the Operator Agreement with Community Gatepath. During the current fiscal year, $50,000 has been used for this purpose for the first half of the fiscal year and it is anticipated the remaining $50,000 will be used for the second half of the fiscal year. The Fiscal Year 2018-19 recommended budget includes an additional $100,000. The balance of this reserve is estimated at $520,000. As there are sufficient revenues for the low-income subsidies through the term of the Operator Agreement with Community Gatepath, the annual $201,000 is recommended to be transferred to the GOF for the remaining of the term.

Minor Trust

On September 13, 2016, the Council accepted a donation in the amount of $400,000 from the Minor Trust, to be invested on behalf of the Mountain View Public Library. A residual amount of $10,235 was received later in the fiscal year for a total donation of $410,235. Per the terms of the Trust, the funds are to be placed in a separate account and up to 75 percent of the annual income may be appropriated each year to support Library materials and programs at the discretion of the Library Services Director. The balance in this reserve is estimated to be $420,000.

General Fund Property Management Reserve

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

Graham Site Maintenance Reserve

This reserve was established in Fiscal Year 2004-05 to fund maintenance obligations for the Graham Sports Complex. In the agreement with the school district to construct the reservoir beneath the playing fields at Graham Middle School, the Water Fund contributes $220,000 per year to this reserve. The City agrees to maintain this site and the GOF is reimbursed from this reserve for the maintenance costs of the Graham Sports Complex. The Council also approved costs associated with the Mountain View Sports Pavilion to be reimbursed from this reserve. The reserve has an estimated balance of $802,000 to fund future maintenance or improvements to the site.

Compensated Absences Reserve

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

As of March 31 for the current fiscal year, $1.1 million has been paid out and an additional estimated $200,000 will be utilized by the end of the fiscal year. The calculated liability for this reserve has decreased $81,000 from the prior fiscal year. The current estimated reserve balance of $6.1 million is below the calculated liability of $7.3 million based on 80.0 percent of the liability as of June 30, 2017. Although it has been a long-standing policy to fund 100.0 percent of the liability in this reserve, 100 percent funding is unlikely to ever be required at any particular time. As part of the CalPERS strategy to increase the funding of the City's pension obligation, the funding level was approved to be decreased to 80.0 percent for Compensated Absences. To bring the funding level to the current policy level of 80.0 percent funding would require $1.2 million of additional funding. The liability will be recalculated at the close of the current fiscal year.

Equipment Replacement Reserve

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

The annual funding level is projected at $4.0 million and the current estimated balance of $26.0 million is slightly higher than the policy balance; however, the target balance is under review. Equipment replacements scheduled for Fiscal Year 2018-19 total $1.9 million, plus there is $1.2 million recommended to be rebudgeted (from the $5.9 million budgeted in the current fiscal year) for a total of $3.1 million. Staff generally reviews all items before purchasing and will only replace those items necessary due to expected failure or that will provide improved efficiencies.

Workers' Compensation Self-Insurance Reserve

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

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

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

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

The Reserve has an estimated balance of $11.6 million, which is higher than the $9.1 million policy level as of June 30, 2017. Staff is not recommending any reduction in this reserve at this time and will evaluate as needed.

Unemployment Self-Insurance Reserve

The Unemployment Self-Insurance Reserve was approved by Council in 1978. This program provides for the State-mandated unemployment insurance benefits for former employees. The City pays for unemployment claims on a pay-as-you-go basis and generally, contributions for the estimated payments are made annually. Annual expenditures will fluctuate in this fund and during the Great Recession higher unemployment and longer eligibility periods resulted in higher unemployment costs. However, with the economic recovery, unemployment claims have decreased. The balance in this reserve is approximately $550,000.

Liability Self-Insurance Reserve

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

Council Policy A-11 specifies the policy level of this reserve to be $2.0 million for the self-insured exposure for two catastrophic incidents and an amount to fund estimated incurred claims. The estimated incurred claims are determined by an actuarial valuation performed every year and are reviewed on an annual basis with the close of the City's financial records. The actuarial valuation, last updated as of June 30, 2017, indicates a liability of $2.5 million, resulting in the policy level for this reserve at $4.5 million. The current estimated balance of $4.9 million is slightly higher than the policy level, but staff is recommending the surplus balance remain in the fund to offset potential future liability increases.

Retirees' Health Insurance Program Reserve

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

The Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions* (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 and it was recently updated as of July 1, 2017.

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

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

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

The City has made great strides toward funding the AAL of $151.3 million (projected for Fiscal Year 2018-19), with estimated assets set aside of $122.8 million, or 81.2 percent funded, at a discount rate of 6.5 percent. Previously, all funds other than the GOF had contributed their share of the unfunded AAL (UAAL). However, certain factors have caused some volatility in calculating the UAAL for each fund, and some funds are no longer fully funded. Many factors can cause the liability for each fund to change: (1) the actuarial accrued liability (AAL) generally increases with each updated valuation; (2) the unfunded AAL (UAAL) can be reduced when greater than expected interest is earned or reduced when less is earned; (3) lump-sum contributions such as the $1.5 million and $3.0 million made in Fiscal Years 2015-16 and 2016-17, respectively, reduces the UAAL; (4) position count increases or decreases due to budget changes (moved between funds or added); and (5) position count in the Defined Benefit (DB) Plan increases or decreases as a result of nonsafety employees being able to choose the Defined Contribution (DC) Plan option. The last factor has caused some volatility in calculating the UAAL for each fund; therefore, some funds are no longer fully funded. Staff is attempting to smooth the effect that position turnover and the choice of benefit option is having on funding status in order to avoid large spikes in the amount of funding needed.

To reduce the GOF share of its UAAL, a total of $10.5 million additional funds have been budgeted and transferred to the CERBT since Fiscal Year 2014-15, including $2.0 million from the GOF and $2.0 million from the GNOF from the Fiscal Year 2016-17 GF carryover budgeted in Fiscal Year 2017-18 and also includes funding from other funds to maintain the other funds' funding level. As this liability is estimated to be over 80.0 percent funded, staff continues to focus on the City's pension liability as a higher priority. The Fiscal Year 2018-19 budget includes recommended funding from other funds to maintain their share of the liability with consideration of the volatility factors mentioned above.

Reserve Recommendations

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

CONCLUSION

Strong revenue growth has continued and the GOF is in a good financial position. For Fiscal Year 2018-19, the economy is anticipated to remain strong with growth in revenues primarily in Property Taxes and Rents and Leases, with other major categories remaining stable or with modest changes. The GOF revenues are projected to increase to $137.4 million, or 7.3 percent, compared to the current fiscal year adopted revenues. Including consideration of the budget recommendations, totaling $338,800 in non-discretionary, $1.2 million in discretionary spending, which contributes to a 6.0 percentage total expenditure increase, the GOF is projected to have an operating balance of $12.6 million at the end of Fiscal Year 2018-19. Additional recommendations to transfer funds to reserves and towards unfunded liability, leaves a balance of $3.6 million or 2.6 percent of projected revenues. A total of 31.5 positions, including a net increase of 14.5 personnel are recommended. Although there are other areas where additional resources could be added, more are not recommended at this time as it is anticipated there will be a slowdown in the economy in the next few years, at which time operating deficits will return. Additional net limited-period expenditures of $3.8 million are recommended to address additional staff resources.

The Development Services Fund revenues for the current fiscal year are estimated to exceed budget as development activity remains strong. The Fund is estimated to end Fiscal Year 2017-18 with an available balance of $8.4 million and a reserve of $6.5 million. This balance is necessary due to the timing of development-related revenues and expenditures. Revenues for development activity are often collected well in advance of the performance of services and occurrence of the corresponding expenditure. Development activity is anticipated to remain strong through Fiscal Year 2018-19.

The condition of the Shoreline Golf Links continues to improve under the management of Touchstone. Fiscal Year 2017-18 revenues and expenditures are estimated less than budget, allowing for a reduced transfer of $90,000 to the GOF. Continued improvement is projected for Fiscal Year 2018-19 with modest fee increases recommended.

The Shoreline Community's total Fiscal Year 2017-18 property taxes are estimated $2.0 million higher than budget due to new development and increases related to changes in ownership. Fiscal Year 2018-19 revenues are projected with an increase over both the current fiscal year adopted and estimated. Fiscal Year 2018-19 expenditures are projected higher than the current fiscal year adopted due to recommendations and higher costs in administration, intergovernmental and debt service payments.

The financial position of the Water Fund was severely impacted by reduced water sales from conservation efforts during the drought, resulting in approximately 30.0 percent less water usage. During the last fiscal year, water usage increased 7.0 percent and the current fiscal year is trending with an additional 9.0 percent increase. This has resulted in an improved financial condition of the Water Fund. For Fiscal Year 2018-19, the SFPUC is proposing no rate increase in wholesale water costs and SCVWD is proposing a 9.6 percent for ground (well) water and 8.8 percent rate increase for treated water. A 1.0 percent rate increase in the average cost of water and meter rates is recommended for Fiscal Year 2018-19 to fund the increased cost of water and City operational costs. Due to increased costs for regulatory compliance, a 22.0 percent increase in the recycled water rate is recommended as part of a three-year phase-in of increased rates to cover the cost of the program.

Wastewater Fund revenues are trending higher than budget and expenditures are trending lower than budget. Expenditures are below budget, primarily due to savings in operating costs and the credit from the Treatment Plant from the prior fiscal year. For Fiscal Year 2018-19, an 8.0 percent rate increase is recommended, 4.0 percent for increased cost of the Treatment Plant and City operating costs, 2.0 percent due to increases in Treatment Plant costs from a prior fiscal year, and the additional 2.0 percent for the incremental phasing in of funding for capital replacements at the Treatment Plant (the fifth year of 10). Approximately $15.0 million of major capital projects is included in Fiscal Years 2019-20 and 2020-21 of the Five-Year CIP. While capacity and development impact fees are providing a source of funding for some projects, at this time, it is insufficient to fund all projects and staff recommends some debt will be required in order to fund all of the additional capital projects. Staff will return to the City Council during Fiscal Year 2018-19 with a recommendation for funding these additional capital projects.

Solid Waste Management Fund revenues are higher than budget and expenditures are less than budget. For Fiscal Year 2018-19, the increase attributable to increased costs for Recology, the SMaRT Station, and City operating costs can be absorbed and, therefore, staff is not recommending an overall rate increase. However, a 5.0 percent rate increase for carts only is recommended for the new residential food scraps collection program that was implemented, but the rate deferred from Fiscal Year 2017-18.

The recommended rate increases for Water and Wastewater are within those provided, noticed, and approved under Proposition 218 in 2016. A Proposition 218 hearing is required for the recommended 5.0 percent rate increase for carts for the food scraps collection program. The total average increase for a single-family residential customer as recommended for all three utilities is 3.7 percent, resulting in an estimated increase of $5.49 monthly. Rates will generally still be comparable, or lower, than our neighboring cities. A comparison of the current and the recommended rates is included in Attachment 14.

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

There is also a sufficient GOF surplus for Fiscal Year 2018-19 to recommend allocations of $1.0 million to the General Fund Reserve, $2.0 million to a new Transportation Reserve, $4.0 million to the Capital Improvement Reserve, and a contribution of $2.0 million to CalPERS.

NEXT STEPS

Council input and direction are sought on the material in this report at the May 1, 2018 Study Session. Based on feedback from the City Council, the Fiscal Year 2018-19 Proposed Budget will be prepared for distribution to the City Council prior to the first budget hearing on June 12. A second public hearing and final adoption is scheduled for the City Council meeting of June 19, 2018.

PUBLIC NOTICING

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

PJK-DHR/HA/2/FIN/530-05-01-18M-E

Attachments:

1. Fiscal Year 2018-19 Recommended Fee Modifications
2. Fiscal Year 2018-19 Recommended Non-Discretionary On-going Changes
3. Fiscal Year 2018-19 Recommended Discretionary On-going Changes
4. Fiscal Year 2018-19 Recommended Limited-Period Expenditures
5. Community Services Department Succession Plan
6. Environmental Sustainability Program Funding
7. New Community Center Budget Requests for Fiscal Year 2018-19
8. City of Mountain View Succession Planning
9. Fiscal Year 2018-19 Recommended Capital Outlay
10. Fiscal Year 2018-19 Recommended Equipment Replacement
11. Recycled Water Study Session—Update
12. Fiscal Year 2018-19 Budget for Homeless Initiatives
13. Employee-Staffed Ranger Program
14. Comparison of Current and Recommended Utility Rates