



DATE: June 9, 2020

CATEGORY: Public Hearing

DEPT.: City Manager's Office/
Finance and Administrative Services

TITLE: **Public Hearing for the Fiscal Year
2020-21 Proposed Budget**

RECOMMENDATIONS

1. Convene a public hearing, accept public comment, and provide input to staff on the Fiscal Year 2020-21 Proposed Budget (see Attachment 1 to the Council report).
2. Approve the revised City Council Major Goals Work Plan for Fiscal Year 2020-21.
3. For Fiscal Year 2019-20, appropriate \$600,000 in the General Non-Operating Fund for emergency expenses related to COVID-19. (Five votes required)
4. For Fiscal Year 2019-20, appropriate and transfer \$500,000 from the General Non-Operating Fund to the Shoreline Golf Links/Michaels at Shoreline Restaurant Fund to cover a projected deficit for Fiscal Year 2019-20 related to the impact of COVID-19. (Five votes required)
5. For Fiscal Year 2019-20, appropriate and transfer \$1.5 million from the Workers' Compensation Self-Insurance Fund to the Liability Insurance Fund. (Five votes required)

BACKGROUND

The Fiscal Year 2020-21 Proposed Budget has been prepared in accordance with Section 1103 of the City Charter, the State Constitutional limit on the proceeds of taxes, and all applicable regulations. It contains the proposed financial plan for the General Operating Fund (GOF) and all other City funds, as well as the Shoreline Regional Park Community (Shoreline Community), a separate component unit of the City.

The budget process for Fiscal Year 2020-21 started in November 2019, with instructions to departments for preparation of budget requests. At the time of developing the Fiscal

Year 2020-21 Proposed Budget, the world has been grappling with the effects of COVID-19.

A brief summary of the budget development and adoption timeline is as follows:

- December 13, 2019: Department budget requests due to the Finance and Administrative Services Department.
- February 11, 2020: The Midyear Budget Status Report and GOF Preliminary Forecast for Fiscal Year 2020-21 were presented to the City Council.
- February 25, 2020: Update on City Council Goals and Work Plan.
- February 2020: Department budget meetings with the Interim City Manager and Budget Review Team.
- April 21, 2020: Proposed Fiscal Year 2020-21 Capital Improvement Program Study Session.
- May 5, 2020: Fiscal Year 2019-20 General Operating Fund Budget Status Update Report on the impacts of COVID-19.
- April/May 2020: City revenues, expenditures, and department budget requests were reassessed due to the impacts of COVID-19.
- June 9, 2020: Public hearing on the Fiscal Year 2020-21 Proposed Budget, including water, sewer, and trash and recycling rates, and various fees, and Adoption of the Proposed Fiscal Year 2020-21 CIP.
- June 23, 2020: Public hearing on the Fiscal Year 2020-21 Proposed Budget, including water, sewer, and trash and recycling rates, and various fees and funding for the Fiscal Year 2020-21 CIP with final adoption scheduled after the public hearing.
- June 30, 2020: Community Development Block Grant (CDBG) public hearing.

ANALYSIS

This has been an unprecedented time for the City of Mountain View, the nation, and the entire world, due to the impacts of COVID-19. The World Health Organization (WHO) declared COVID-19 a global pandemic on March 11, 2020. The City subsequently

declared a local emergency on March 12, 2020, and a Countywide shelter-in-place order began on March 17, 2020. The shelter-in-place order has been extended twice and is currently in effect with some easing of restrictions since the initial order.

The economic impacts of COVID-19 to the Federal, State, and regional economies have been unparalleled and continue to remain uncertain. Since the pandemic began, almost 39 million Americans have lost their jobs and filed for unemployment benefits, including more than 4.8 million Californians. As of April 2020, the Statewide unemployment rate has climbed to 15.5 percent. In Mountain View, some businesses have closed and thousands of residents have lost their jobs. The stock market has lost several trillion dollars in a few short weeks; the Federal Open Market Committee (FOMC) reacted sharply with a 50-basis-point reduction in the Federal Funds Discount Rate (Discount Rate) on March 3, 2020 and again on March 15, 2020 with an additional 100-basis-point reduction, impacting the City's investment income.

And yet even during this unprecedented event, over these last few months, the City has pivoted quickly to respond to the crisis, and staff is adapting to changes on a daily basis while serving the Mountain View community at the highest standard. The Citywide team has embraced new innovations and efficiencies, and we are transforming the way we do business, including:

- Conducting meetings virtually by Zoom videoconference, including eight City Council meetings to date and numerous advisory body meetings;
- Using digital signatures for contracts in all departments;
- Implementing a paperless permitting process and digital plan review for new projects;
- Offering virtual recreation classes;
- Deploying an online appointment scheduling system for Building, Fire, Planning, and Police;
- Increasing the City's online Library by more than 500 e-books and e-audiobooks;
- Installing automatic pedestrian recall ("no touch") at 23 traffic intersections;
- Redeploying staff to help nonprofit community organizations with food distribution efforts and translation services;

- Streamlining the telecommuting program to more than 400 employees working from home;
- Activating the Emergency Operations Center (EOC) and drafting the COVID-19 recovery plan;
- Piloting three Safe Parking Lots for unstably housed residents to park 24/7;
- Placing more than 15 portable restrooms and handwashing stations around the City for the homeless and unstably housed;
- Providing over 5,000 face masks to the community and assessing vulnerable populations on a daily basis;
- Creating a small business call center where employees called over 700 small businesses to provide resources and support;
- Implementing an online employee wellness program;
- Partnering with Santa Clara County to provide COVID-19 mobile testing services at City parking lots;
- Networking through 90 Spanish-language Ambassadors and Chinese and Russian community groups;
- Planning for the closure of downtown Castro Street to vehicles so restaurants can expand services and allow for safe pedestrian access and physical distancing;
- Delivering the latest COVID-19 updates to the community through *"The Briefing,"* a mobile-friendly daily newsletter with curated content;
- Holding a virtual Town Hall to provide the latest information to our residents and hear from our Congressional leadership; and
- Creating the Mountain View Resiliency Roundtable for stakeholders to collaborate on how to move forward together as a community.

In addition, over the last three months, the City Council has enacted a package of measures designed to assist the most impacted members of the community, the efforts of which will continue in Fiscal Year 2020-21, including:

- \$2.6 million for the Rent Relief Program to help renters in need;
- \$400,000 for the Small Business Assistance Program, with a \$400,000 match from Google, and \$100,000 from LinkedIn, providing microloans to more than 150 small businesses;
- \$100,000 for the Small Landlord Assistance Program to help small apartment complex owners with fewer than nine units;
- \$100,000 for the Utility Bill Assistance Program to help residents offset a portion of their utility bill;
- \$100,000 for the safe parking program at Evelyn and Terra Bella Avenues;
- \$50,000 for mobile sanitation stations; and
- \$50,000 for food gift cards for homeless and unstably housed residents.

In addition to these initiatives, the #TogetherMV effort began in March with the creation of an online donation portal on the City's website where individuals can donate money to either the Rent Relief Program or the Small Business Assistance Program. To date, the fund has received donations from more than 630 individuals, raising more than \$138,000.

Although the City has devoted available one-time funding resources towards the aforementioned efforts, the City's revenues have been negatively impacted with an estimated loss of approximately \$8.2 million in the GOF for Fiscal Year 2019-20 since the shelter-in-place order began, similar to what other government agencies are experiencing. For the GOF, Sales Tax revenue has sharply declined as nonessential businesses and some restaurants have closed or ceased providing services. Conferences, business travel, and large-group gatherings have been halted or canceled, impacting hotel stays and reducing Transient Occupancy Tax (TOT) revenue. In addition, Charges for Service revenue has also been impacted as Recreation events and classes were canceled and refunds processed. For the Development Services Fund, permit revenues have sharply declined due to City Hall closure and a temporary halt in construction activity. For the Shoreline Golf Links/Michaels at Shoreline Fund, all

revenues have been affected due to closure of the facilities. For the Enterprise Funds, service charge revenues are down due to business closures.

Even though there has been a significant loss of revenue in the current fiscal year, the GOF budget will remain balanced. A positive net operating balance at the beginning of the fiscal year, coupled with expenditure savings and reductions to certain reserve transfers, offsets the revenue loss.

Due to the timing of when revenues are received and the timing of preparing this Proposed Budget document, staff had to make various assumptions on the potential future financial impact of COVID-19. In making these assumptions, staff obtained information from the City's revenue consultants and reviewed how the City's revenues were impacted in prior recessions, taking into consideration how revenues may be impacted differently due to the unique and unprecedented circumstances of COVID-19.

The City has historically taken proactive and strategic steps to ensure the City's fiscal health and sustainability, including diversifying its revenues, adopting a structurally balanced annual budget, funding long-term needs, and maintaining prudent reserves. These practices have positioned the City to better withstand the economic disruption caused by the COVID-19 pandemic.

Consequently, current projections indicate the City can maintain current service levels in Fiscal Year 2020-21 with sufficient revenues to fund operating expenditures, including salary and benefit costs, and other priorities. Notably, unlike in past years, there is a limited amount of funding available for long-term liabilities and strategic reserves, and the City is filling staffing vacancies on a case-by-case basis, prioritizing sworn safety personnel and positions critical to providing essential services and COVID-19 response efforts.

Taking into account the ongoing situation we are currently experiencing, development of the Fiscal Year 2020-21 Proposed Budget incorporates the following priority areas:

- Essential service delivery and COVID-19 community response efforts, including services for the most vulnerable residents;
- Return or recovery of Citywide operations once the shelter-in-place order is modified;
- Economic development and small business strategy efforts;
- Public communications, engagement, and community-building; and

- Strategic planning for the future, with an emphasis on innovation, efficiency, and operational improvements designed to better serve the community and achieve desired outcomes as we adapt to the crisis and the “next normal.”

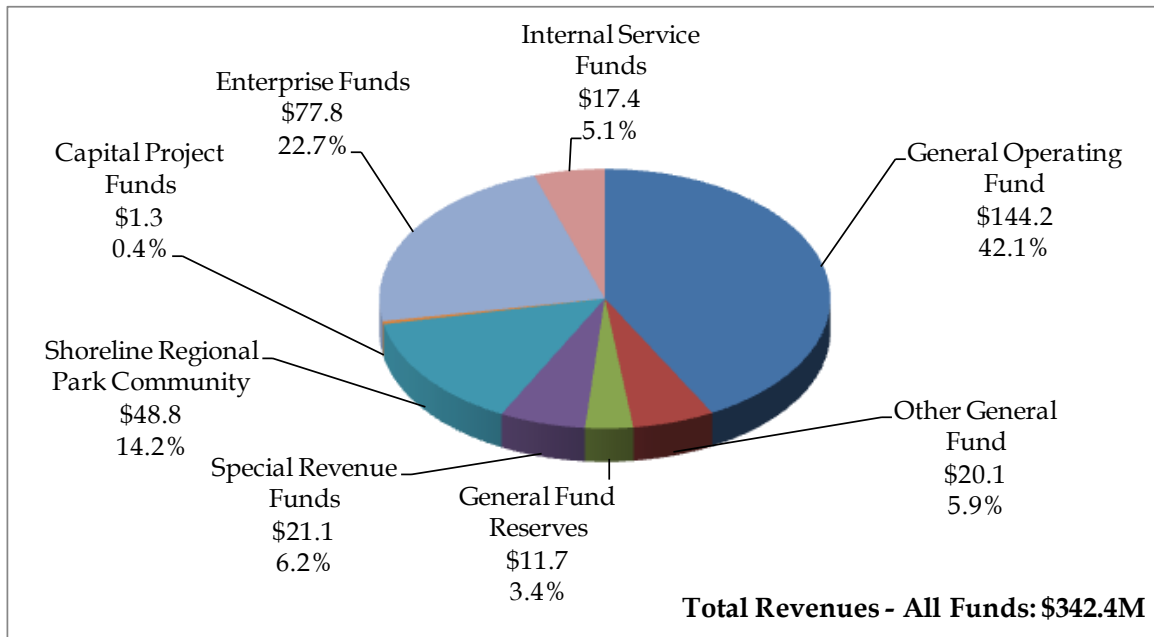
There are many unknown impacts on the horizon, and if additional adjustments for Fiscal Year 2020-21 are determined to be necessary, they may be requested and assessed at midyear, or sooner, if essential and feasible based on the City’s fiscal condition. To maintain a focus on the fiscal condition, staff will bring quarterly updates to Council to maintain an ongoing conversation regarding potential budget impacts and necessary adjustments.

Fiscal Year 2020-21 Budget Overview

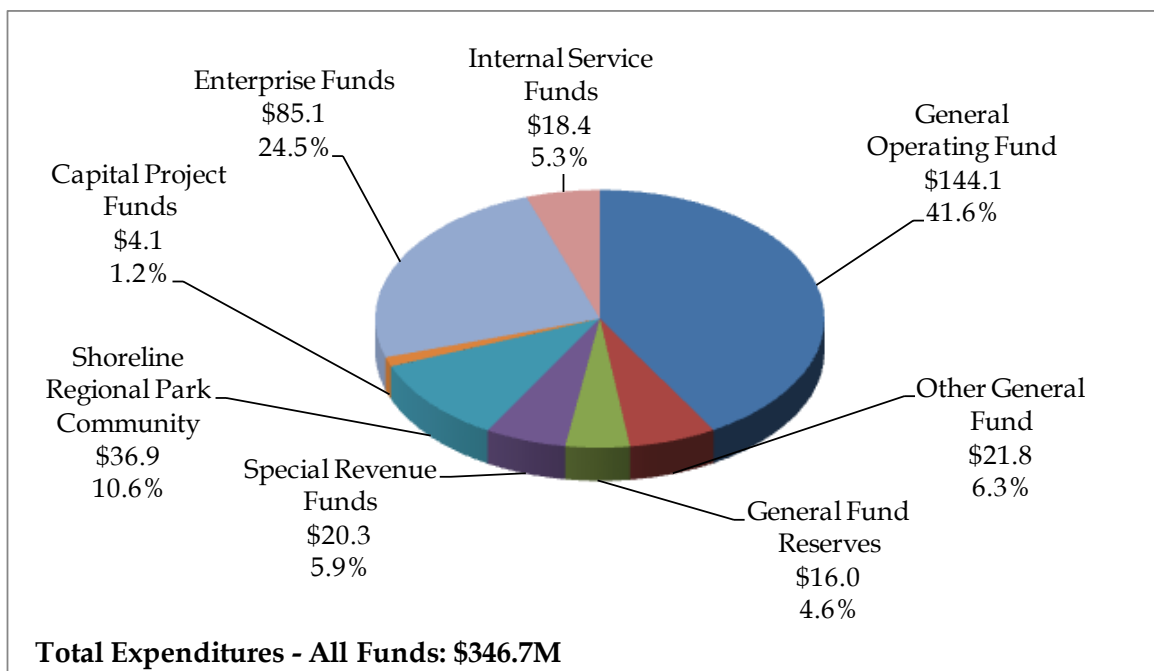
Due to the onset of COVID-19, the City’s revenues, expenditures, and departmental budget requests required careful evaluation, and the Narrative Budget Study Session was canceled. On May 5, 2020, staff provided Council with an update on the financial impacts of COVID-19. The Proposed Budget provides the City Manager’s Fiscal Year 2020-21 Budget recommendations.

The Proposed Budget for Fiscal Year 2020-21 **totals \$342.4 million in revenues and \$346.7 million in expenditures.** Expenditures are greater than revenues as some expenditures, such as capital projects, are funded from existing balances. **The GOF budget for day-to-day operations is \$144.1 million, net of the \$4.0 million estimated budget savings.**

**Total Fiscal Year 2020-21 Proposed Revenues – All Funds
(dollars in millions)**



**Total Fiscal Year 2020-21 Proposed Expenditures – All Funds
(dollars in millions)**

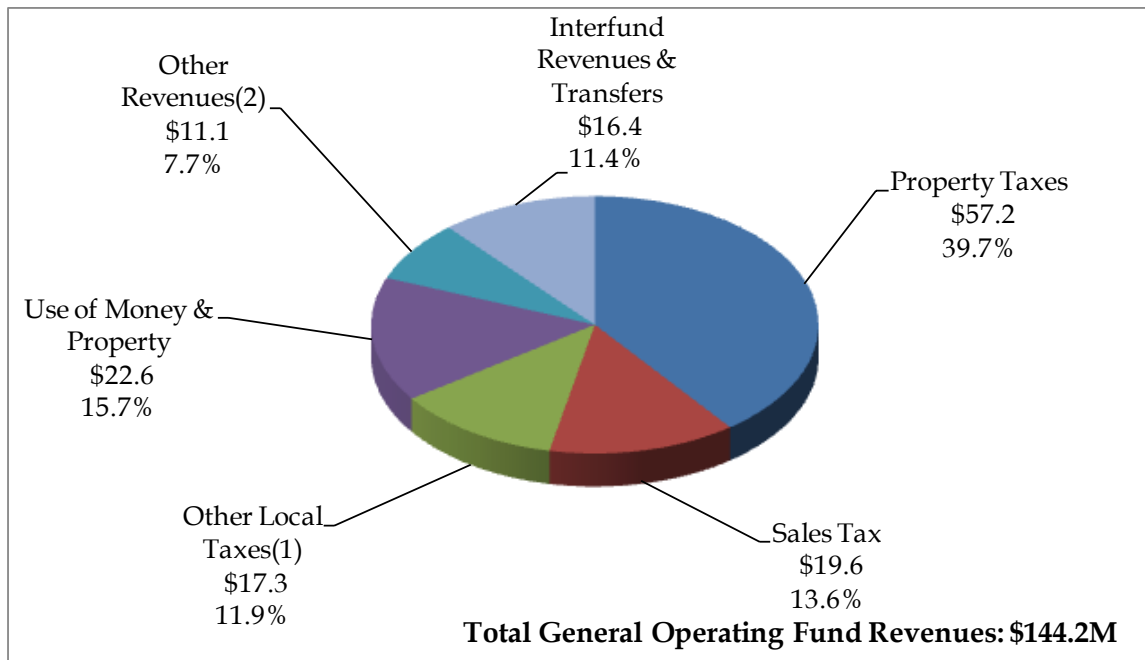


Note: General Operating Fund net of \$4.0 million estimated budget savings.

The GOF is the single largest City fund and provides funding for the core services of the City, such as Police, Fire, Parks, Recreation, Library, some Planning and Public Works, and all City Administration functions, including the City Attorney, City Clerk, City Manager's Office, Finance and Administrative Services, and Information Technology. The GOF Proposed Budget includes the City Manager's recommendations. A summary is as follows (dollars in thousands):

Total Revenues	\$144,162
Total Expenditures	(144,052)
Operating Balance	\$ <u>110</u>

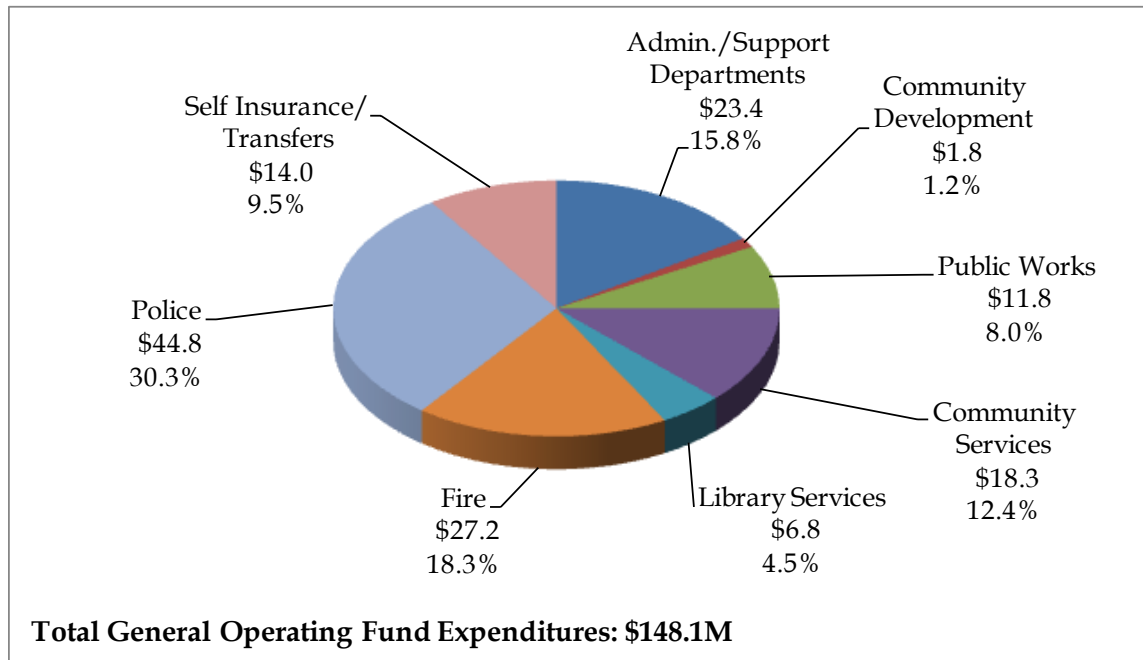
Total Fiscal Year 2020-21 Proposed Revenues – GOF
(dollars in millions)



¹ Other Local Taxes consist of Transient Occupancy Tax, Business Licenses, and Utility Users Tax.

² Other Revenues consist of Licenses, Permits and Franchise Fees, Fines and Forfeitures, Intergovernmental, Charges for Services, and Miscellaneous Revenues.

**Total Fiscal Year 2020-21 Proposed Expenditures – GOF
(dollars in millions)**



Admin./Support Departments include: City Council, City Clerk, City Attorney, City Manager, Information Technology, and Finance and Administrative Services.

Note: Excludes the \$4.0 million estimated budget savings.

General Operating Fund Five-Year Financial Forecast (Forecast)

Included in this Proposed Budget document (Attachment 1) is the Forecast beginning on Page 3-1. Forecasting is an important part of a city's financial planning process. While it is challenging to accurately predict local government revenues due to the variable nature of the revenue sources and their connection to regional, State, national, and even international economic conditions, it is generally possible to identify reasonable financial trends and provide a conceptual financial picture for a multi-year period which is useful to the City Council's decision-making. However, forecasting the impacts of COVID-19 is even more challenging, and financial trends are difficult to project with so much uncertainty surrounding the current economic climate and length of time the shelter-in-place order will continue, as both the short- and long-term impacts on the State and regional economy are unknown. The Forecast includes staff's best estimates for the projected fiscal outlook for the GOF (including the Fiscal Year 2020-21 Proposed Budget).

At this time, assuming the shelter-in-place order will be lifted by June 30, 2020 followed by a transition period before businesses are able to resume, the forecast indicates the

City will experience a modest budget deficit starting in Fiscal Year 2021-22, and is expected to grow to approximately \$3.4 million in Fiscal Year 2022-23. The last two fiscal years of the forecast currently indicate positive balances, primarily due to revenue from projected development projects. It is important to note if development is hampered and does not occur, these balances would be reduced. Staff is continuing to refine the City's five-year forecast, and these projections will change as more information is known. Should the shelter-in-place be extended beyond June 30, 2020, there will be a larger decline in revenues and other actions may need to be taken to remain balanced. These additional scenarios are provided in the Forecast section of this Proposed Budget document and shown in Attachment 2.

CITY COUNCIL MAJOR GOALS WORK PLAN

During Fiscal Year 2018-19, the City Council undertook its biannual goal-setting process and established the following major goals as priorities for Fiscal Years 2019-20 and 2020-21:

- Promote a Community for All with a focus on strategies to protect vulnerable populations and preserve Mountain View's socioeconomic and cultural diversity;
- Improve the quantity, diversity, and affordability of housing by providing opportunities for subsidized, middle-income, and ownership housing;
- Develop and implement comprehensive and innovative transportation strategies to achieve mobility, connectivity, and safety for people of all ages; and
- Promote environmental sustainability and quality of life for the enjoyment of current and future generations with a focus on measurable outcomes.

The Council Major Goals Work Plan was adopted on May 21, 2019 with 62 projects, including 57 related to the four Major Goals and five additional projects. During the first several months of the two-year goal cycle, Council expressed interest in additional potential projects and also recognition of staff capacity limits, leading to a Study Session on February 4, 2020 to revisit the Major Goals Work Plan. Following the direction from that session, staff brought a revised work plan to Council for adoption on February 25, 2020. This work plan included extended time frames for some projects, one deferred project, and several new projects, resulting in a new total of 69 projects.

As the midway mark of the two-year plan approaches, the City is now facing the unanticipated and unprecedented impacts of responding to the COVID-19 emergency. Staff has necessarily focused on addressing community needs related to the pandemic

and are finding new ways to operate and provide a high level of service to ensure continuity of government operations. In addition, in accordance with public health shelter-in-place orders, many activities have ceased or have not been able to proceed as usual. Looking ahead to the next phase of recovery from the pandemic, significant community and organizational needs will continue to require staff attention. At the same time, the City's resources will be more limited due to the fiscal impacts of the emergency.

Consequently, it has been necessary for staff to assess whether the current Major Goals Work Plan is feasible in light of significant workloads and resource constraints, while at the same time focusing on Council's current priorities.

The list of all the proposed work plan projects, including those recommended for addition or deferral, are included in Attachment 3 to the report. Of the 69 projects approved at midyear: 15 have been completed; 45 are currently under way or ongoing, including some with revised dates due to interruptions caused by COVID-19; and nine are recommended for deferral due to workload constraints. In addition, four new projects have emerged during the last few months related to critical COVID-19 efforts.

The updated list of projects will be incorporated into departmental pages in the Fiscal Year 2020-21 Adopted Budget document.

On a related topic, staff also recommends that any new Gatekeeper application process be deferred until fall 2021. In prior Council meeting discussions, staff had anticipated that a new round of Gatekeeper projects might be considered in the fall of this year. However, given the capacity constraints noted above and the need to focus on the priorities in the Council Major Goals Work Plan, it is not feasible to undertake the application process and review of new Gatekeeper projects at this time.

RECOMMENDED ITEMS FOR FISCAL YEAR 2019-20

Emergency Expenses Related to COVID-19

Since the declared local state of emergency, the City has incurred costs related to emergency supplies and EOC staffing of approximately \$500,000. It is expected there will be additional costs incurred through the end of the fiscal year. The City will seek reimbursement from the Federal Emergency Management Agency (FEMA) and other funding sources. However, these funds may not be received for some time.

Shoreline Golf Links/Michaels at Shoreline Restaurant Fund

The Shoreline Golf Links and Michaels at Shoreline Restaurant have been significantly impacted by the shelter-in-place restrictions beginning in March, ceasing both operations. With the easing of restrictions in May, the Golf Links was able to reopen with limitations, but the Restaurant remains closed. This has impacted revenues significantly, and it is estimated the Fund will be in a deficit position of approximately \$500,000. In prior years, there has been an operating balance in this Fund. It is anticipated that once the shelter-in-place order is further modified, operations will slowly recover.

Liability Insurance Fund

The City self-insures for the first \$1.0 million of liability exposure per occurrence, and by Council Policy A-11, the available balance in this fund should be maintained at a minimum level of \$2.0 million, plus expected claim settlements for the current fiscal year. The estimated available balance in the Liability Insurance Fund for Fiscal Year 2019-20 is \$984,000. The Workers' Compensation Self-Insurance Fund currently has a healthy estimated available balance of \$5.6 million for Fiscal Year 2019-20. Because these two Internal Service Funds are essentially funded the same way, by all operating funds, staff recommends transferring \$1.5 million from the Workers' Compensation Self-Insurance Fund to the Liability Insurance Fund to bring it up to the required balance while still meeting reserve requirements in the Workers' Compensation Fund.

FISCAL IMPACT

The Proposed Budget provides a fiscal plan for the City for Fiscal Year 2020-21 with a structurally balanced GOF and projected year-end operating balance of \$110,000.

The Fiscal Year 2019-20 recommendations provide funding from the General Non-Operating Fund (GNOF) for COVID-19 emergency expenditures and to bring the Shoreline Golf Links/Michaels at Shoreline Restaurant fund out of a deficit position due to COVID-19. There are sufficient available funds in the GNOF for these. There is sufficient available balance in the Workers' Compensation Self-Insurance Fund to transfer \$1.5 million to the Liability Insurance Fund to bring the available balance to the minimum policy level of \$2.0 million.

ALTERNATIVES

Council may request modifications to the Fiscal Year 2020-21 Proposed Budget as presented or provide other direction prior to finalizing the budget on June 23.

PUBLIC NOTICING

Agenda posting, notice of fee modification as required, and notice of the public hearing was published in two newspapers of general circulation.

Prepared by:

Ann Trinh
Senior Financial Analyst

Rafaela Ocegueda Duran
Principal Financial Analyst

Suzanne Niederhofer
Assistant Finance and Administrative
Services Director

Approved by:

Jesse Takahashi
Finance and Administrative
Services Director

Kimbra McCarthy
City Manager

AT-ROD-SN/5/CAM
541-06-09-20CR
200190

Attachments: 1. [Fiscal Year 2020-21 Proposed Budget](#)
2. General Operating Fund Forecast
3. City Council Major Goals Work Plan for Fiscal Year 2020-21
(Updated June 9, 2020)