

**MEMORANDUM**

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**DATE:** April 14, 2026

**TO:** City Council

**FROM:** Grace Zheng, Assistant Finance and Administrative Services Director  
Derek Rampone, Finance and Administrative Services Director

**VIA:** Kimbra McCarthy, City Manager

**SUBJECT:** **Fiscal Year 2026-27 Preliminary Budget Review—Reserves**

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**Overview**

Council Policy A-11 establishes reserve requirements and guidelines for the City's financial management. The following provides a summary of the major General Fund reserves and their projected balances, uses, and recommended actions as part of the Fiscal Year 2026-27 Preliminary Budget Review.

**General Fund Reserve**

Council Policy A-11 establishes a target reserve level of 20% to 25% of the General Operating Fund (GOF) 's adopted net expenditures. This reserve provides funding for: (1) City Council-approved expenditures not appropriated during the annual budget process; (2) to cover unanticipated revenue shortfalls; (3) in situations of extreme physical or financial emergency (with the approval of the City Council); (4) to generate ongoing investment earnings; and (5) as a funding source for interfund loans and other loans or advances from the General Fund as approved by the City Council.

For Fiscal Year 2026-27, staff recommends an estimated \$2.3 million allocation from the carryover balance to maintain the reserve at the 20% minimum policy level. The final contribution will be determined with the Adopted Budget. Any use of this reserve for the remainder of the fiscal year will increase the amount necessary to supplement this reserve.

**General Fund Budget Contingency Reserve**

This reserve was created during the downturn in the economy in the early 2000s to position the City to adjust to anticipated lower revenues and provides financial flexibility in case revenue estimates were not met or state actions forced further budget reductions. In Fiscal Year 2006-07, the City Council consolidated and eliminated what was believed at the time to be an unnecessary reserve as the economy and City revenues had improved. Shortly after that, the economy

plunged into the deepest recession since the Great Depression, and this reserve was reestablished in Fiscal Year 2008-09.

The reserve remains with a balance of \$3.1 million available for the next economic downturn.

### **General Fund Earned Lease Revenue**

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 to fund one-time expenses of the City. The City Council has previously approved using \$6.0 million of this reserve to fund the Mountain View Employee Homebuyer Program. In Fiscal Year 2023-24 and 2024-25, approximately \$4.0 million in total was transferred to the Employee Loan Reserve, which was the remaining balance net of the existing \$2.0 million loan which will remain with this reserve until repaid. There is an estimated available balance of \$8.7 million at the end of this fiscal year.

### **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 legal services, certain responsibilities identified in land leases, environmental testing, or other costs normally incurred by a lessor. There is an estimated balance of \$1.4 million in this reserve at the end of this fiscal year, and it is estimated that \$150,000 is needed in Fiscal Year 2026-27 for property management costs.

### **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 Mountain View Whisman School District to construct the reservoir beneath the playing fields at Graham Middle School, the Water Fund contributes \$220,000 annually 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. There is an estimated balance of \$254,000 in this reserve at the end of this fiscal year and \$250,000 in estimated expenditures for Fiscal Year 2026-27.

### **General Fund Transportation Reserve**

The General Fund Transportation Reserve was established with the Fiscal Year 2018-19 budget and initially funded with \$2.0 million from the GF carryover and \$2.0 million from the GOF. In

November 2018, Mountain View voters approved Measure P, which restructured the City's Business License Tax. The new structure is an incremental, progressive tax based on the number of employees in a business. The City Council earmarked by resolution 80.0% of the increased business license tax revenue for transportation. It shall be used for the purpose of major priority transportation projects to mitigate traffic congestion, improve infrastructure, and meet the needs of the City, as authorized by the City Council. There is an estimated balance of \$8.8 million in this reserve, with \$3.6 million projected to be needed for Community Shuttle services in Fiscal Year 2026-27. This reserve will primarily be used for the community shuttle and CIP projects related to transportation. This balance does not include any CIP funding discussed in the April 14 CIP Study Session.

### **General Fund Capital Improvement Reserve**

The City has a goal to maintain this reserve at a minimum balance of \$5.0 million. 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.

Annual contributions from the GOF to the 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 was completed for the three City-owned land leases between the City and Google. Based on the revaluations of the three sites, annualized rent payments increased by approximately \$6.8 million. As the April 2026 decennial adjustment approaches, the potential for an economic downturn remains. If a downturn occurs during the revaluation, the City's lease revenues could decline. Staff reviewed the changes in AV for the past 13 years and identified a potential 15.0% 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% of this potential decline in lease revenues to fund future capital projects.

In Fiscal Year 2025-26, \$1.9 million of potential at-risk funds were transferred to this reserve along with \$1.0 million from the GOF carryover and \$2.0 million from the GOF. There is an estimated \$5.6 million available at year-end out of the total \$13.2 million cash balance which excludes the \$5.0 million minimum policy and \$2.7 million prepaid lease for the Downtown Family Housing Project. This balance does not include any CIP funding discussed in the April 14 CIP Study Session.

### **General Fund Open Space Acquisition Reserve**

This reserve was established for the purpose of acquiring open space to meet the needs of the City. City Council Policy A-11 provides the proceeds from excess City-owned properties shall fund

this reserve. Effective December 20, 2024, pursuant to resolutions adopted by the City Council, 30% to 35% of Measure G revenues will be allocated to this reserve.

The reserve is estimated to have a balance of \$2.5 million at the end of this fiscal year.

### **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 in order to take advantage of economic development opportunities. The proceeds from the sales of City-owned property have been placed in this reserve as one source for its funding.

The City has had 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. The lease revenues from 310 Escuela Avenue, 312 Escuela Avenue, 990 West Dana Street, 992 West Dana Street, and 538 Thompson Avenue generate ongoing revenues for this reserve.

Fiscal Year 2025-26 estimated revenue is about \$3.1 million, consisting of \$107,000 from lease revenues, \$2.0 million from the GOF carryover, and \$1.0 million from the GOF. The reserve is projected to have an estimated balance of \$22.9 million at the end of the fiscal year, with expenditures of \$834,000 projected in Fiscal Year 2026-27.

### **General Fund Child-Care Commitment 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. AbilityPath (formerly Community Gatepath) was selected as the operator of the Child-Care Center through Fiscal Year 2028-29.

As the annual \$201,000 lease payment from AbilityPath was no longer needed for repayment of the loan, lease revenues were moved to the GOF beginning December 2018. The City Council approved using up to \$100,000 per fiscal year for low-income subsidies through the Operator Agreement. This reserve has enough budget to cover the Fiscal Year 2025-26 low-income subsidies and is expected to close out at year-end. Subsidies for future years will be funded by the City's General Operating Fund.

### **Compensated Absences Reserve**

The Compensated Absences Reserve was established in Fiscal Year 1991-92 to fund the City's liability for the accrued vacation, compensatory time, and sick leave obligations of employees in all funds except the Enterprise and Internal Services Funds. The liabilities of the Enterprise and

Internal Services Funds are recorded in those respective funds as required by governmental accounting standards. This reserve is drawn down for leave payoffs to separating and retiring employees (for accumulated vacation and sick leave, if applicable, under the City's Personnel Rules) and current employee vacation cash-out payments during the fiscal year. The leave liability is recalculated, in accordance with generally accepted accounting principles, each fiscal year with the close of the City's financial records. Council Policy A-11 requires to maintain this reserve at a minimum of 80.0% of the accrued liabilities.

Due to the recent accounting pronouncement and implementation of GASB 101, staff is recommending an update to this reserve requirement to better reflect the operational needs of the vacation cash-out practice. This policy change will be discussed at the upcoming Council Finance Committee meeting (CFC) and proposes removing the 80.0% reserve requirement, instead using average cash-out history to determine an appropriate reserve level.

The estimated year-end reserve balance is \$8.2 million. Staff recommends supplementing the reserve with an additional \$2.2 million based on the proposed reserve requirement. The \$2.2 million contribution is based on the past five years of cash-out history.

### **Parental Leave Reserve**

The Parental Leave Reserve was established in Fiscal Year 2023-24 to provide up to 320 hours, equivalent to eight weeks of paid leave, to all benefited employees for each qualifying event (birth of a child, adoption, or foster care). It supports a workplace culture that values employees, so they may provide care to and focus on their newest family members.

This reserve is reviewed annually and maintained at a level sufficient to meet estimated benefit liabilities. The projected year-end balance is \$1.7 million.

For Fiscal Year 2026–27, staff recommends including ongoing funding from the General Operating Fund to support the program. A transfer of \$1.1 million from the GOF is recommended, bringing the available balance to \$2.8 million.

### **Employee Loan Reserve**

The Employee Loan Reserve was established Fiscal Year 2023-24 to provide a source of funds for the employee homebuyer and relocation assistance programs administrated by Council Policy D-13. In total, the City Council approved up to \$6.0 million from General Fund Earned Lease Revenue Reserve and \$2.0 million from the General Non-Operating Fund may be used for the Mountain View Employee Homebuyer Program through Fiscal Year 2029-30. Within the last two years, about \$4.0 million was transferred from the General Fund Earned Reserve (previously discussed above) and \$2.0 million from the General Non-Operating Fund.

A \$1.8 million loan was disbursed this fiscal year, with the reserve balance projected to total approximately \$4.7 million at year-end, including ongoing investment earnings.

### **Public Safety Building Reserve**

The Public Safety Building Reserve was established to set aside funds for the Public Safety Building project and related debt service. Effective December 20, 2024, pursuant to resolutions adopted by the City Council, 35% to 40% of Measure G revenues will be allocated to this reserve each year. The reserve will also generate ongoing investment earnings based on its available balance.

During the current fiscal year, the City also transferred one-time funding previously set aside for the Public Safety Building into this reserve, including \$16.5 million from the Budget Contingency Reserve, \$6.7 million from the GOF (\$1.4 million reallocated from the Equipment Replacement Reserve), \$6.0 million from the GOF carryover, and \$2.0 million from the CIP Reserve. In addition, \$7.5 million was transferred from the reserve at midyear to fund capital projects.

Including staff's recommended \$2.0 million transfer from the GOF, scheduled as a consent item on the April 14 City Council agenda, the reserve is estimated to have a balance of \$28.6 million at the end of the fiscal year.

For Fiscal Year 2026–27, staff recommends including ongoing funding of \$6.1 million annually from the GOF, as well as a one-time \$1.8 million transfer from the GOF, representing funding that would otherwise have been allocated to the Equipment Replacement Reserve. This would bring the available balance to \$36.6 million.

### **Minor Estate Trust Reserve**

On September 13, 2016, 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 75.0% 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 \$445,000.

### **Equipment Replacement Reserve**

The Equipment Replacement Fund (ERF) Reserve was established to stabilize the annual funding needed for the replacement of certain City equipment. Annual contributions are received from various funds, and this reserve absorbs the large fluctuations in equipment replacement expenditures from fiscal year to fiscal year. Only major categories of fixed assets are included in the Equipment Replacement Fund. The assets include all vehicles, information technology

equipment (e.g., computers, printers, servers), Police and Fire radios, CAD/RMS system hardware, and Communications Center furniture and equipment.

In Fiscal Year 2023-24, the City engaged an external consultant to review the fund's long-term sustainability and identify opportunities to enhance operational efficiency. Based on the consultant's recommendations, the ERF Reserve target was informally established at 25.0% of the total equipment replacement cost. Staff continues to actively monitor the fund's performance and reserve levels on an ongoing basis to ensure alignment with this target and support informed, data-driven funding decisions.

For Fiscal Year 2025-26, the ERF Reserve is estimated to expend \$9.9 million on equipment replacement, including several large vehicle purchases - such as dump trucks, street sweepers, large backhoes, and fuel trucks - that were ordered in Fiscal Year 2024-25 and are expected to be delivered in the current fiscal year. As a result, the projected ending balance is \$19.7 million. With a total estimated replacement value for all assets of \$63.0 million, the 25.0% target reserve is \$15.8 million, leaving the projected balance approximately \$3.9 million above the target.

During the Fiscal Year 2024–25 budget adoption, Council directed staff to pause funding GOF contributions to the ERF and redirect those funds to the Public Safety Building project. Consistent with this direction, the \$1.8 million (for Fiscal Year 2026-27) that would have otherwise been contributed from the GOF to the ERF will continue to be redirected.

For Fiscal Year 2026–27, the ERF replacement budget is estimated at \$5.6 million. The current reserve position provides capacity to prudently utilize the \$3.9 million above the target reserve to partially fund these planned expenditures, thereby reducing the need for additional funding sources while maintaining fiscal discipline.

The ERF will also continue to receive transfers from other benefiting funds. A total of \$1.2 million in transfers – primarily from enterprise funds – is recommended to support their respective equipment replacement needs. When combined with the strategic use of reserves above the target level, and excluding GOF contributions, these funding sources are expected to maintain the ERF at the recommended 25.0% reserve level.