



MEMORANDUM

DATE: April 8, 2025

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 2025-26 Preliminary Budget Review—Reserves

Council Policy A-11 establishes reserve requirements, and below are the major reserves in the General Fund for the City Council's consideration.

General Fund Reserve

Per Policy A-11, the General Fund Reserve has a policy balance of between 20% and 25% of the GOF adopted net expenditures. This reserve is the source of 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 2025-26, staff is recommending an estimated allocation from the General Operating Fund (General Fund or GOF) carryover of \$2.0 million to maintain this reserve at 20%. The final amount necessary will be calculated with the Adopted Budget. Any use of this reserve for the remainder of the fiscal year will increase the amount necessary to supplement this reserve.

General Fund Budget Contingency Reserve—Public Safety Building

Since the Fiscal Year 2017-18 budget, the City began transferring leasing-related revenues generated from the Ameswell Hotel and Office development into the City's Budget Contingency Reserve to be utilized for funding limited-period expenditures until such time as these funds could be used to pay for debt service on a new Public Safety Administration Building. The Fiscal Year 2024-25 estimated Ameswell revenue of \$4.9 million, along with the \$18.3 million previously deposited, shall be set aside and dedicated for the Public Safety Building. This is anticipated to be the last fiscal year the Ameswell revenue will be transferred from the GOF to this reserve since

revenue bonds will be issued soon, and debt service payments will commence next fiscal year. For Fiscal Year 2025-26, staff recommends transferring \$5.0 million from the GOF carryover to reduce the funding gap between the debt the City plans to issue and the cost of the project.

General Fund Budget Contingency Reserve—Other

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 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 \$3.5 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, approximately \$3.6 million was transferred to the Employee Loan Reserve, which was the remaining balance net of the existing two loans which will remain with this reserve until repaid. This fiscal year, \$362,000 was transferred to the Employee Loan Reserve as one loan was repaid. Approximately \$2.0 million of an existing loan still resides in this reserve. There is an estimated available balance of \$3.0 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 \$1.5 million in this reserve at the end of this fiscal year, and it is estimated that \$120,000 is needed in Fiscal Year 2025-26 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 \$353,000 in this reserve at the end of this fiscal year and \$250,000 in estimated expenditures for Fiscal Year 2025-26.

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 \$6.2 million in this reserve, with \$3.7 million projected to be needed for Community Shuttle services in Fiscal Year 2025-26. 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 March 25 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 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 increased approximately \$6.8 million. Since it is possible there will be at least one economic downturn during the time span before the next decennial adjustment in April 2026, 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% 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 2024-25, \$1.8 million of potential at-risk funds were transferred to this reserve along with \$5.0 million from the GOF carryover. There is an estimated \$4.3 million available at year-end out of the total \$14.0 million cash balance which excludes the \$5.0 million minimum policy, \$2.7 million prepaid lease for the Downtown Family Housing Project, and \$2.0 million potential debt service for the Public Safety Building.

For Fiscal Year 2025-26, staff recommends transferring \$1.0 million from the GF carryover to this reserve for CIP projects, with \$500,000 to be applied towards implementation of active transportation projects, and \$500,000 towards increasing the City's pavement condition. It is likely that the funds for active transportation will be applied to existing projects that need enhanced or new active transportation elements. This balance does not include any CIP funding discussed in the March 25 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. There is a balance of \$956,000 in this reserve.

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, and 992 West Dana Street generate ongoing revenues for this reserve. Fiscal Year 2024-25 estimated revenue is about \$77,000. At year end, there is an estimated balance of \$20.4 million at the end of this fiscal year and \$810,000 expenditure in Fiscal Year 2025-26. For Fiscal Year 2025-26, staff recommends transferring \$2.0 million from the GOF carryover to bring the balance to \$22.4 million.

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 within a year or so. Subsidies for future years will be funded by the City's General Non-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.

The estimated year-end reserve balance is \$7.4 million. Staff recommends supplementing the reserve \$2.5 million to bring the funding level to the current policy level. The liability will be recalculated at the close of the current fiscal year. An estimated payout of \$1.9 million is expected in Fiscal Year 2024-25. The \$2.5 million contribution will ensure the reserve maintains the required 80.0% funding level.

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 adequate to meet estimated benefit liabilities. The estimated balance at year-end is \$956,000. For Fiscal Year 2025-26, staff recommends transferring \$1.0 million from the GOF carryover to bring the available balance to \$2.0 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. The reserve balance is estimated to be \$6.3 million by year end as this reserve also generates ongoing investment earnings.

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 \$436,000.

Equipment Replacement Reserve

The Equipment Replacement Fund (ERF) Reserve was established to stabilize the annual funding needed for the replacement of certain City equipment. Level annual contributions are received from various funds, and this reserve absorbs the large fluctuations in annual expenditures for equipment replacement from fiscal year to fiscal year. Only major categories of fixed assets are included in the Equipment Replacement Fund. The assets included are all vehicles, information technology equipment (e.g., computers, printers, servers, etc.), Police and Fire radios, CAD/RMS system hardware, and Communications Center furniture and equipment.

In Fiscal Year 2023-24, the City engaged an external consultant to review the fund's long-term sustainability and improve operational efficiency. Based on the consultant's recommendations, the ERF Reserve aims to maintain a balance of 25.0% of the total replacement cost of the equipment.

For Fiscal Year 2024-25, the Equipment Replacement Fund (ERF) Reserve is estimated to spend \$11.7 million on equipment replacement, including the purchase of several large vehicles such as dump trucks, street sweepers, large backhoes, and fuel trucks. This will bring the projected ending balance to \$21.6 million. The total estimated replacement value of all assets is \$59.6 million, meaning the 25% target reserve would be \$14.9 million. The current balance exceeds this target by \$6.7 million.

Notably, vehicles and fleet assets account for approximately \$44.1 million (74.0%) of the ERF's total replacement value. Most of these vehicles are currently budgeted as diesel or gas models. As the City transitions toward more sustainable electric and environmentally friendly alternatives, the total replacement value is expected to increase significantly.

The reserve balance is intended to offset future costs for planned electric vehicle (EV) replacements as part of the City's sustainability efforts, rather than requiring significant increases in contributions to this reserve to accommodate fluctuations in replacement costs. The electrification of the City's fleet is already underway and aligns with upcoming state and federal requirements for zero-emission fleets, including heavy- and medium-duty federal fleet electrification mandates and general state EV regulations.

Additionally, fleet electrification supports City Council's 2045 carbon neutrality declaration and the City's decarbonization strategy, which is currently under development.

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