City of
Mountain View

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June 1, 2023

Honorable City Council
City of Mountain View

Honorable Mayor and Members of the City Council:

I am pleased to submit the Fiscal Year 2023-24 Recommended Budget to the City Council for consideration. The City Council will be presented with the Recommended Budget at a public hearing on June 13, 2023, with formal adoption anticipated at a public hearing on June 27, 2023. This transmittal letter summarizes the key components of the Recommended Budget.

INTRODUCTION

Over the past year, the City has emerged from the COVID-19 pandemic and is back to business and more resilient than ever. Thanks to the leadership of the City Council and through the support and hard work of the Executive Leadership Team and our outstanding City employees, we have provided an exceptional level of service to our community and maintained fiscal stability. The Fiscal Year 2023-24 Recommended Budget is structurally balanced and allocates resources toward long-term service delivery, increased staffing levels, and innovative programs for Mountain View to thrive in the future.

While we welcome the return to normalcy from these past few transition years, we are cautiously optimistic about fiscal growth. There is still economic uncertainty on the horizon. Although overall unemployment is still relatively low in the Bay Area, there have been significant numbers of corporate layoffs in the region, with more expected. Supply chain issues persist, and the increases in interest rates orchestrated by the Federal Reserve to ward off inflation are starting to achieve the intended economic dampening. Commercial real estate vacancy rates are rising in our region, due in part to businesses grappling with hybrid and remote work force strategies. A continuation of this trend could exacerbate an already stretched financial sector due to recent regional bank failures. All of this, in conjunction with a looming State of California budget deficit, makes a recession a possibility.

The Recommended Budget and General Operating Fund Forecast currently show sufficient financial resources to maintain the Mountain View of today, but building the Mountain View of tomorrow will require that we continue to enhance and diversify the City's revenue streams to maintain ongoing fiscal stability and accomplish the bold initiatives the City is advancing.

This includes exploring additional funding via a revenue measure in 2024 for necessary Citywide enhancements, which may include addressing aging facilities and Citywide infrastructure, building new parks and open spaces, implementing ambitious decarbonization and sustainability programs, and building more affordable housing.

Building the Mountain View of Tomorrow

For more than 20 years, the City has studied and discussed the need for constructing a new public safety administration building, which houses the Police Department, Fire Department administration, the Emergency Operations Center, and the 9-1-1 emergency dispatch. The current building is antiquated and does not meet current seismic standards. In fact, the very building that we rely on for emergencies could fall victim itself to a seismic event. The current estimate for a new building is approximately $150 million and growing. In addition, the City has two fire stations that are 55 and 61 years old, respectively, that are in need of modernization and repairs. As with most municipalities, repairs, maintenance, and eventual replacement of facilities and infrastructure will continue to be an ongoing need in the future.

The City will also continue to make efforts to meet our open space goal to provide three acres of open space for every 1,000 residents. Based on current data, the City is expected to create, on average, one to two new parks per year through the year 2030. The overall park acreage will be growing with these future identified parks; however, there are specific planning areas within the City that are not reaching this goal currently and do not have identified funding, and future City growth will impact the gains being made toward increased open space per 1,000 residents. The forthcoming Parks and Recreation Strategic Plan will identify funding strategies to meet the parks and open space needs of the future, which will require a significant financial investment.

As a leader in local climate action and in recognition of the serious threat of climate change, Mountain View is committed to achieving carbon neutrality. In 2020, in response to State, national, and internal action on climate change, the City adopted a goal of carbon neutrality by 2045. We recognize that we must rapidly reduce emissions and that, through ambitious decarbonization strategies, real progress can be made. In the coming fiscal year, the City will develop a decarbonization strategy to achieve significant emissions reductions by 2035. Initial decarbonization work is already under way. To decarbonize our buildings and transition away from natural gas to clean electricity, an electrification program for multi-family residential properties has been developed, and a pilot program will launch in fall 2023. The City will also explore opportunities to enhance capacity of the electrical grid and achieve neighborhood-scale electrification in partnership with Silicon Valley Clean Energy and Pacific Gas and Electric. The City's costs will be upwards of $10 million to implement decarbonization projects and more than $40 million to increase the City's electrical grid capacity.

In the past year, in addition to sea level rise, the City has had glimpses of future climate impacts through extreme heat events in the fall and numerous atmospheric rivers in the winter. For several years, we have witnessed the impacts of wildfires across the State. These climate risks illustrate the need to further the City's work of building a resilient Mountain View for the future.

The City will continue to make progress mitigating sea level rise risks. At the end of 2022, the City joined other communities across the country in the ICLEI (Local Governments for Sustainability) Race to Resilience challenge. Work has begun on the development of a Climate Vulnerability Study and Resiliency Plan for Mountain View. The City is also supporting regional climate resilience through participation in the leadership group of the Countywide climate collaborative and co-chairing the sea level rise working group of the collaborative.

With climate change upon us, Mountain View holds to the belief that we can do amazing things together with the community. Through creativity, collaboration, and community action, we are building a sustainable and resilient Mountain View for today and the future. However, a sustainable future with zero carbon emissions will require significant financial investments.

Lastly, the City is and will continue to be a Statewide leader in the development and preservation of affordable housing. The following table shows the current 100% affordable housing pipeline, composed of nine projects and three land dedication sites, totaling approximately 1,310 units.

Affordable Housing Pipeline

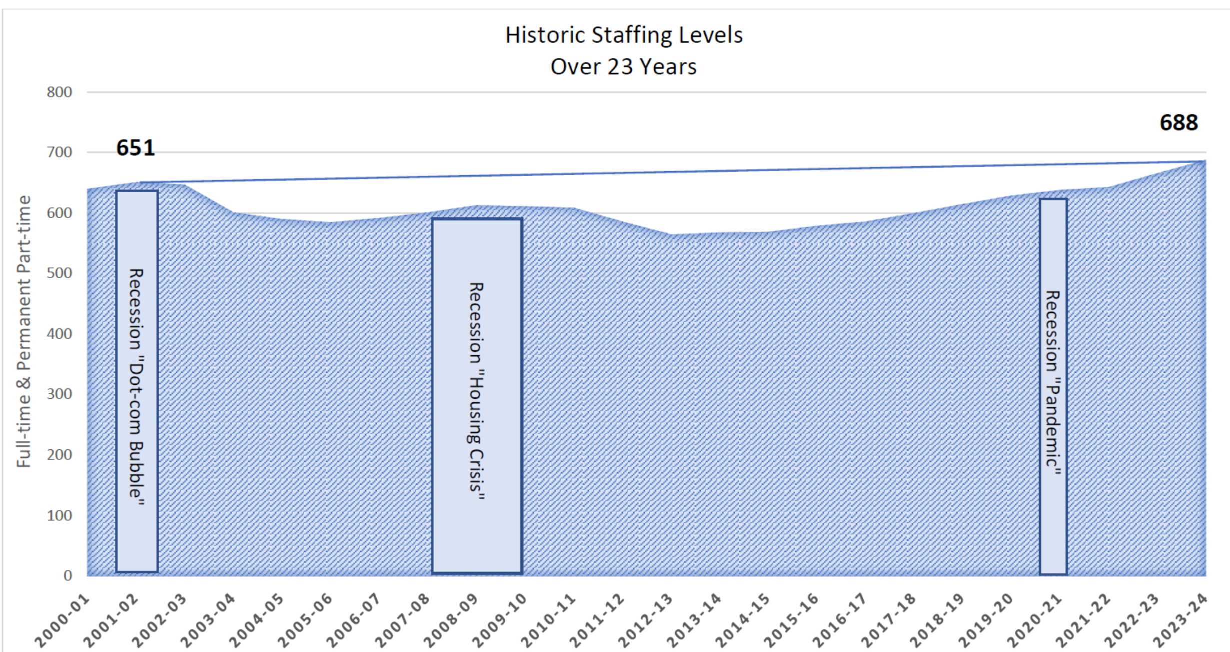
Five-Year Project Pipeline (100% Affordable)	Units
La Avenida	100
Montecito	85
Lot 12	120
Terra Bella	108
Linda Vista	70
96 West El Camino Real	79
87 Evelyn (City RFP)	150+
57-67 Evelyn (Charities site)	~100
Crestview Hotel	48+
1255 Pear Ave (Sobrato land dedication)	~110
Middlefield Park—Site 1 (Google land dedication)	~160
Middlefield Park—Site 2 (Google land dedication)	~180
TOTAL	**~1,310**

Additionally, there are 380 Below-Market-Rate (BMR) units in the pipeline across multiple market-rate projects. In sum, the total pipeline of affordable units (100% affordable and BMR) is approximately 1,690 units. This is a significant pipeline that will double the City's affordable housing supply. At this time, there is an estimated gap of approximately $50 million to fully fund the affordable housing projects in the pipeline.

Importantly, creating additional, ongoing revenue is essential to bring the Mountain View of tomorrow to fruition. As such, the City Council has established exploring a potential 2024 revenue measure as a Council work plan priority project. Once Council formally adopts the work plan with the Recommended Budget, staff will bring an item to Council in September 2023 to initiate next steps toward a revenue measure.

City Staffing Levels

To accomplish the City's ambitious goals and carry out essential and routine work, we must continue to build more organizational capacity. As we envision the organization of tomorrow, it is important to understand how the organization has evolved over the decades. The chart below shows the City experienced a significant contraction between 2000 and 2012, necessitated by two recessions within the same decade. Over the past decade, the City has been rebuilding and increasing the number of employees that are necessary to meet the ongoing needs of our residents and address the significant workload. To continue providing the high level of service the Mountain View community deserves, the Recommended Budget includes an increase in budgeted positions of 22 (compared to the Fiscal Year 2022-23 Adopted Budget) in full-time equivalent employees (FTEs) in strategic areas, including 11.6 in the General Operating Fund (GOF). Notably, with these budget requests, the City organization will have 37 more staff members than it did 23 years ago.



New Housing Department

The future of Mountain View is highly dependent on the creation and maintenance of a spectrum of affordable housing options. A new Housing Department with increased resources is necessary to implement both existing programs (which have significantly expanded) and new initiatives to continue to be responsive to the wide range of housing needs of the community. As a result, the

Recommended Budget includes the recommendation to form a stand-alone Housing Department separate from the Community Development Department.

As previously mentioned, the City currently has nine 100% affordable housing projects and three land dedications in the pipeline, composed of approximately 1,310 units. Additionally, there are 380 BMR units in the pipeline across multiple market-rate projects, resulting in a total of 1,690 units in the pipeline. This is in addition to the existing 1,619 deed-restricted units developed/managed by affordable housing developers (typically referred to as Notice of Funding Availability (NOFA) projects or 100% affordable projects), plus 185 BMR units, for a total of 1,804 affordable units. This is a significant pipeline that will virtually double the City's affordable housing supply in the coming years. Looking beyond the currently programmed pipeline projects, the City anticipates receiving the first phase of Google land dedications (three sites totaling 3.75 acres) as part of the Google North Bayshore Master Plan. Notably, last year, the City and County executed an $80 million Measure A Memorandum of Understanding to help fund seven of the City's affordable housing pipeline projects.

The new Housing Department will be directly involved in 22 work plan projects related to the implementation of the 2023-31 Housing Element, 18 of which as the lead and four as co-leads. Other significant priorities for the Department will include advancing the displacement response strategy, developing an asset management system/program to monitor and track the City's rapidly expanding affordable housing supply, expanding Housing's legislative efforts in coordination with our legislative team, and further integrating the City's Race, Equity, and Inclusion planning into the Housing Department's work.

The Recommended Budget includes a new 1.0 FTE Senior Housing Officer position to support the increased workload of the existing affordable housing programs, particularly the NOFA affordable housing program, as well as new actions related to the City's displacement response strategy and the 2023-31 Housing Element. Over the next two years, additional positions are expected to be recommended to implement the ambitious projects.

The Housing Department will also continue to build on the enhanced community outreach and customer service that Housing and Rent Stabilization staff have already begun incorporating into their work, including outreach to those with limited English proficiency, to reduce barriers and increase access to housing. This includes different modes of outreach, including in-person meetings with child-care and community groups, virtual meetings, webinars, and the Housing and Eviction Help Center.

The new Housing Department will solidify the City's position as a recognized leader in housing and as a partner of choice for a wide variety of housing initiatives. Recent examples include Mountain View being awarded the 2022-24 Breakthrough Grant through the Partnership for the Bay's Future, including award of a Fellow to assist the City with developing its displacement response strategy and, most recently, being asked by Meta/Facebook and the Urban Land

Institute (ULI) to partner on conducting a middle-income housing assessment as part of ULI's Technical Assistance Panel (TAP) program. The TAP for the City will be fully funded by Meta.

In addition, the City, with our partner LifeMoves, implemented the first interim housing project in the State through the Project Homekey program. This project has led to a proliferation of other interim housing projects in the Bay Area and throughout California and was recognized by Governor Gavin Newsom as a model project. The project also received the 2022 award for development excellence in North America from the Urban Land Institute.

The proposed Housing Department would include two Divisions, Affordable Housing and Rent Stabilization, as described below.

Affordable Housing Division

Nearly three decades ago, the Housing and Neighborhood Services Division was once the Neighborhood Preservation Division. At that time, the Division focused its work on code enforcement, neighborhood studies, working with neighborhood associations, ensuring compliance with City housing and zoning codes, and supporting the Council Neighborhoods Committee (CNC).

Over time, the Division began to include policies and programs specific to affordable housing (such as the BMR housing program, the NOFA program, among others), which the Division continues to implement. Currently, each of these affordable housing programs have significantly increased workloads. The Federal grants program includes new initiatives, such as HOME-ARP and updated fair housing requirements. Additionally, the Division is increasingly leading or supporting the development of complex, major strategies, such as the displacement response strategy and a homelessness response strategy, and implementing new actions associated with the strategies. It is anticipated that the work with the CNC will be transitioned to another department over the next fiscal year so the Division may focus on affordable housing initiatives. Updating this division to be the Affordable Housing Division under a new Housing Department will accurately reflect the scope of this group's work.

Rent Stabilization Division

On November 8, 2016, the residents of Mountain View voted to adopt Measure V, also known as the Community Stabilization and Fair Rent Act (CSFRA), to stabilize rents and provide just cause eviction protections for certain rental units in Mountain View. Subsequently, in December 2016, the City established the Rent Stabilization Division to implement the CSFRA and the City's Tenant Relocation Assistance Ordinance (TRAO). Subsequently, the Mountain View Mediation Program was implemented as well as the more recent Housing and Eviction Help Center, which was created during the pandemic.

This Division has been expanded through Council's adoption of the Mobile Home Rent Stabilization Ordinance (MHRSO) in September 2021. Currently, the Rent Stabilization Program and Housing and Neighborhood Services Division staff regularly collaborate on outreach, program implementation, and policy development, and formalizing a Rent Stabilization Division as part of a new department clarifies this organizational structure.

Development Review Process Improvements

In 2021, the City audited the effectiveness of the development permit review process with the help of Matrix Consulting Group, Inc. (Matrix). The review included stakeholder interviews and surveys with developers, applicants, community members, decision-makers, and staff. The study resulted in 53 recommendations for the Community Development, Public Works, Information Technology, Fire, and other City departments involved in the review of development.

The Community Development Department has implemented improvements throughout the development review process in coordination with the help of over 100 staff in the City. The effort has been multi-level and coordinated, resulting in the creation of:

- An *Innovation Team* for timely problem-solving;

- A multi-department *Permit Navigation Team* headed by a newly created Assistant Community Development Director who oversees the permit navigation process; and

- A *Permit Technology Team*, in partnership with the Information Technology Department, that works on implementing interim and new technologies related to development review. These coordinated teams have already assisted with improving planning and building permit reviews since their implementation.

Importantly, the City launched an online permit system, "ePermitsMV," for Building permits in April 2023, and Planning and Public Works online permits are targeted for launch in Fiscal Year 2023-24.

Moreover, we are creating a new development review website for online services focused on an enhanced user experience for obtaining development permits, which is anticipated to launch by fall 2023. The new content will provide clear information on the development review process, permit requirements, fees, and time frames for common permits. This web content will continue to evolve over time to incorporate reporting/performance dashboards and online interactive tools as additional technologies are implemented by the City.

As a result of these efforts, the *Project Coordinating Committee*, which reviews planning permits across seven City departments and over 100 staff, has improved timely review of projects with on-time response rates increasing from 57% in October 2021 to 95% currently.

Building Division Reorganization

The Building Division is responsible for reviewing and issuing building permits through its permit team, conducting inspection services to ensure safe buildings, and providing fire plan checks and inspections to ensure fire and life safety. Workload volumes from 2019 to 2022 for building/fire permits and plan checks have increased beyond prepandemic levels, as shown below.

Building/Fire Permit and Inspection Volumes, 2019 to 2022

Item	FY 2019-20	FY 2020-21	FY 2021-22	% Increase (2019-2022)
Building and Fire Plan Checks	4,912	4,818	5,067	+3.16%
Total Fire/ Building Permits Issued	5,980	6,099	6,446	+7.7%
Building and Fire Inspections	57,009	55,282	59,570	+4.4%

In addition to volume, the nature of development applications has increased in scale (more density and square footage), complexity (State laws, local and regional regulations), and community expectations for quick processing. As a result, building permits require increased attention, specialized knowledge and processing, greater reporting requirements, and a higher level of project management and technical expertise to process. Additionally, new State laws have been enacted that mandate shorter review timelines and same-day, online plan check services, which requires the Building Division to coordinate with over 100 City staff to meet the new timelines and requirements.

Due to the complex requirements of building permit review, new timelines required per State law, and the volume of permits, the Building Division will be reorganized into three teams in Fiscal Year 2023-24. The establishment of these teams will create a sustainable structure that is able to deliver improved customer service and ensure a long-term succession strategy for the Division. The three teams include:

- *Permit Center Team*, which will oversee building administration, all permit services, and public counter operations of the Division;
- *Building Inspection Team*; and
- *Fire Protection Team*, which will conduct fire permit review and inspection services.

The newly created Permit Center Team will implement a new project management approach whereby each permit technician is responsible for a set of projects from initial building permit intake through issuance. This approach allows for consistency for the customer, greater knowledge of the details of a permit, and quicker troubleshooting and resolving of any issues, resulting in improved customer service. Additionally, permits for single-family home improvements and small commercial tenant improvements, which are currently reviewed by consultant plan checkers outside of the City organization, will be handled internally.

The Recommended Budget includes 2.0 new FTE positions, a Plan Check Examiner and a Senior Permit Technician, to help accomplish the goals of the Building Division reorganization to provide improved customer service and a more efficient process.

Multicultural Engagement Program Expansion

The City provides a unique service to meet the needs of our growing and diverse community through the Multicultural Engagement Program (MEP), which advances the Council Strategic Priority of "Community for All." MEP staff provides information to residents in four languages—English, Spanish, Chinese, and Russian—and attend City meetings and community events, host Citywide multicultural events, provide outreach to schools and nonprofits, and provide translation and interpretation services about City initiatives, programs, and services.

The City has developed a nine-week long Spanish Language Civic Leadership Academy, which encourages civic participation and engagement in Mountain View. In spring 2022, the program expanded to a Chinese Language Civic Leadership Academy. These academies now have over 110 Spanish-speaking graduates and 18 Mandarin-speaking graduates. Based on feedback from several Chinese Language Civic Leadership Academy graduates, the City held its first Lunar New Year Celebration in January 2023, bringing together more than 40 volunteers, including seniors and young adults, and attracting approximately 2,000 people to the celebration.

Building upon this success, a new Citywide Language Access and Multicultural Engagement Policy will be created in Fiscal Year 2023-24, and staff will be conducting even more in-person outreach at community events, neighborhood gatherings, and nonprofit meetings. The Recommended Budget includes a new 1.0 FTE Community Outreach Specialist position to support the continued growth of the MEP Program and increased demand for services.

In addition, the new Housing Department will be working in close collaboration with MEP to provide translation and interpretation for community members to access housing programs and services and to engage in the policy development process. The Recommended Budget includes a recommendation of $40,000 for enhanced MEP services to support housing programs and initiatives.

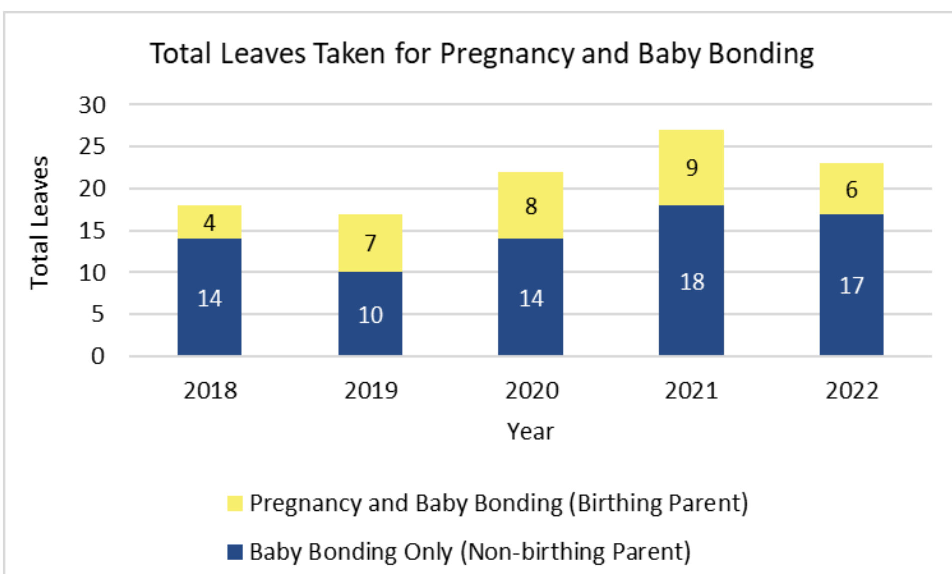
New Paid Parental Leave Pilot Program

One of the major enhancements to City employee benefits in the Recommended Budget is the development of a Paid Parental Leave Pilot Program. This program will provide up to 320 hours, equivalent to eight weeks of paid leave, to all benefitted employees for each qualifying event (birth of a child, adoption, or foster care). Leave hours will be prorated for part-time and converted for Fire Suppression employees who work a 56-hour average workweek so that the leave hours received are equivalent to eight weeks at an employee's regular work schedule.

This pilot program demonstrates the City's focus on maintaining Mountain View's great organizational culture to include supporting work-life harmony and well-being. Offering paid parental leave is mutually beneficial. It supports employees so they may provide care to and focus on their newest family member while still maintaining financial stability. Research indicates that there is improved health and well-being of both the parent(s) and the child. Additionally, this program reflects positively on the City organization, increases employee retention, and attracts new talent into our workforce.

Funding for this program will initially come from the General Non-Operating Fund (GNOF) and will be reviewed annually for replenishment. Based on prior leave data, we expect the program to cost approximately $500,000 annually to provide up to eight weeks of parental leave. To fund and launch the pilot program, the Recommended Budget includes creation of a $1.0 million reserve to start.

The below graph shows leave of absences taken from 2018 through 2022 that were specific to leave for pregnancy, the birth of a child, and baby bonding.



The City has a long-standing practice of providing exceptional service and support to employees in need of leave and continuously goes above and beyond statutory leave requirements. This includes leave to care for themselves or a family member due to a serious health condition, those seeking military leave, for pregnancy and baby bonding, and other qualifying events. Programs and policies that have been established include the City's catastrophic leave program where employees can donate leave time to another employee, as well as expanding leave time for baby bonding to be up to six months (currently unpaid). The Paid Parental Leave Pilot Program will be a strong enhancement to our benefit package, leave program, and culture of well-being in the workplace.

Mental Wellness and Leadership Initiatives

Emerging from the pandemic, we are working together to develop and deliver programs that will maintain and enhance the City's organizational culture, build strong teams for succession planning and collaboration, and focus on our employees' well-being. Included in the Recommended Budget is approximately $145,000 toward succession planning efforts and coaching for employees and $135,000 in employee wellness funds, distributed proportionally within each department, to be used for wellness events, customer service training, team-building events, ergonomic equipment, or facilitation of in-person retreats and team meetings, at the discretion of each department. Each department will provide a written report annually to the City Manager's Office on how the funds were spent each year to enhance employee engagement and wellness. This funding will be examined each year during the budget development process to ensure the objectives and goals of the program are being met. Any enhancements or changes to the program will be included in subsequent Recommended Budgets.

While Mountain View has always placed considerable emphasis on health and wellness initiatives for our employees, the past three years have made the emphasis on wellness paramount. Working closely with the Human Resources team, the City will continue to prioritize employee engagement to address the impacts of workload, productivity, and burnout related to ongoing employee separations and retirements and the requisite filling of vacancies.

Castro Street Pedestrian Mall Implementation

In October 2022, the City Council adopted an ordinance to establish the Castro Street Pedestrian Mall between West Evelyn Avenue and California Street, permanently eliminating vehicular traffic from the 100 to 300 blocks of Castro Street. This action was a major step forward in transforming a temporary solution to keep businesses operational during the COVID-19 pandemic into a new vision for Castro Street to create a vibrant, vehicle-free, walkable downtown area.

In February 2023, the City Council approved midyear budget adjustments that included adding two Parks Maintenance Workers to maintain cleanliness and landscaping and adding a

Downtown Business Development Specialist and a Real Property Analyst to enhance economic vitality and administer the outdoor patio program for the Interim Pedestrian Mall. The approved midyear budget adjustments also included limited-term funding to support maintenance and activation/programming of the pedestrian mall for this summer. The Recommended Budget includes an ongoing budget appropriation of $93,500 for increased pressure washing, maintenance supplies, and continuing programming for the pedestrian mall.

Over the next fiscal year, staff will be working to fully implement the Interim Pedestrian Mall. For the summer season, staff is beautifying Castro Street with enhanced landscaping and flowers and supporting businesses in decluttering and creating more attractive outdoor dining spaces. A summer weekly music program on Castro Street was started in May, and the Friday Concerts on the Plaza begin in June. After the summer season, Castro Street will be repaved, followed by installation of the new outdoor patios for business use consistent with the design standards/guidelines recommended by the Council's Pedestrian Mall Ad Hoc Subcommittee and approved by the City Council. The City will also be providing furnishings and play equipment for the public areas along the pedestrian mall.

The implementation of the Interim Pedestrian Mall will be further supported by City initiatives occurring throughout Fiscal Year 2023-24 to support small businesses, including a program establishing $5,000 microgra"nts for the replacement of outdoor furnishings, including tables, chairs, heaters, and umbrellas, and a small business building facade grant program that provides matching grants of up to $15,000 to improve signs, awnings, add exterior paint, windows, and doors.

40th Anniversary of Shoreline at Mountain View Regional Park

Shoreline at Mountain View Regional Park (Shoreline) is an approximately 750-acre recreation area and wildlife refuge located in the North Bayshore Area of the City of Mountain View. The park's 40th anniversary will occur in Fiscal Year 2023-24. Shoreline is a unique regional destination offering a wide variety of recreation activities that can be enjoyed alongside protected wildlife species while being located over critical municipal infrastructure, including a closed and regulated landfill. Visitors from Mountain View and the Bay Area visit Shoreline to enjoy an 18-hole golf course (Shoreline Golf Links), 47-acre lake (Shoreline Sailing Lake), two restaurants, a historic home museum (Rengstorff House), kite flying area, and dog park. In addition, guests of Shoreline take advantage of the approximately nine miles of hiking, jogging, and bike trails that are maintained by the City, which includes a segment of the larger Bay Trail system that connects Sunnyvale to Palo Alto.

The Shoreline Community is responsible for preserving and managing the wildlife habitat in the Shoreline at Mountain View Regional Park and other areas in North Bayshore, such as the Charleston Retention Basin and Shorebird Way egret/heron rookery. These areas greatly contribute to the biodiversity of the region and make North Bayshore a place of ecological significance due to the diversity of species, vegetation, and habitats located there.

Shoreline is the ecological crown jewel for Mountain View and the Bay Area, supporting at least 23 special-status species across eight types of habitats. These habitats are found in the various areas of Shoreline, which includes two tidal marshes, Vista Slope and Crittenden Hill, Coast-Casey Forebay, and Charleston Slough. The Charleston Retention Basin is 13 acres of recently restored wetland and riparian habitat that provides a high-quality breeding and foraging environment for many migratory songbirds. The Shorebird Way egret/heron rookery is a unique wildlife area in an otherwise urbanized setting, where a cluster of trees creates a regionally significant habitat as one of the largest egret colonies in the South Bay.

The Recommended Budget includes appropriations of $250,000 in limited-period funding in the GNOF for Shoreline activities, communications, tours, and events that will occur over the course of the fiscal year to recognize and celebrate the 40th anniversary. In addition, the Recommended Budget also includes appropriations of $75,000 in limited-period funding in the Shoreline Community Fund for permanent park improvements, including signage and displays.

COUNCIL STRATEGIC WORK PLAN FISCAL YEAR 2023-24 AND FISCAL YEAR 2024-25

On June 22, 2021, the City Council adopted seven Strategic Priorities to support the City of Mountain View vision:

> *"A welcoming, vibrant city that plans intentionally and leads regionally to create livable, sustainable neighborhoods, access to nature and open spaces, and a strong, innovation-driven local economy."*

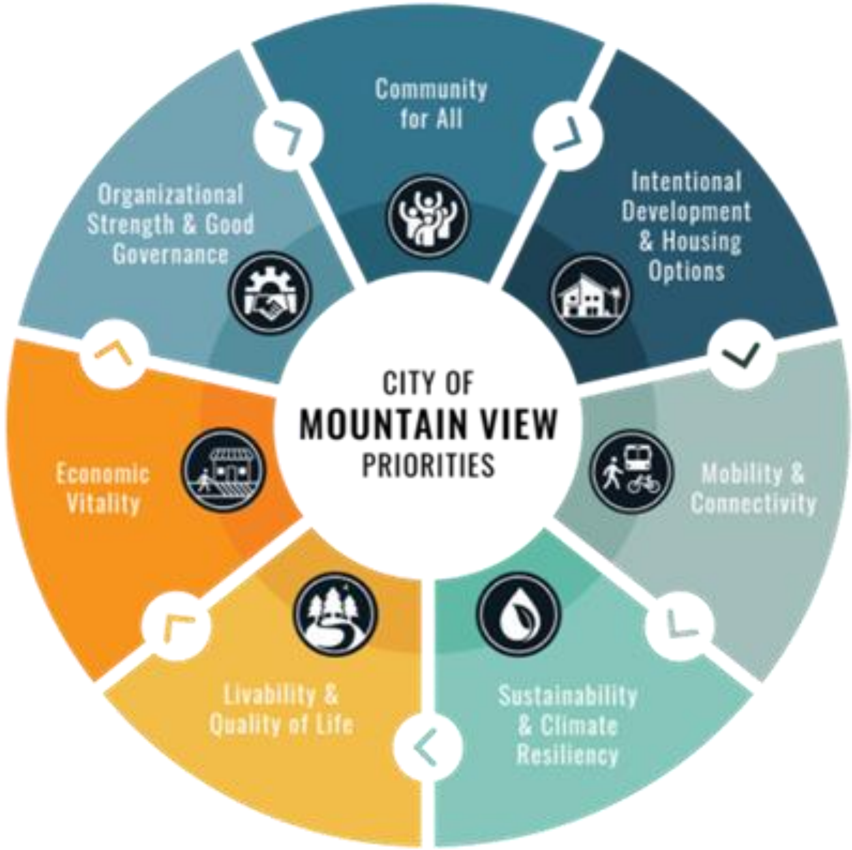


Figure 1: Council Strategic Priorities

In January 2023, the City Council began the process of developing a new two-year Strategic Work Plan spanning Fiscal Year 2023-24 through Fiscal Year 2024-25. Over the past several months, Council has reviewed and reaffirmed the City's seven Strategic Priorities; proposed and approved new and carryover projects for inclusion in the Work Plan to fulfill the seven Strategic Priorities; received feedback on the proposed projects from all the Council boards, commissions, and advisory bodies; and prioritized the timing and allocation of resources for the projects.

The recommended Council work plan for Fiscal Years 2023-25 is comprised of 41 projects and is organized into priority categories "A," "B," and "C," as follows.

Council Strategic Work Plan Fiscal Years 2023-24 and 2024-25 Projects

Priority A — Highest Priority

1. Review and update the Gatekeeper process
2. Conduct a holistic citywide review of street parking regulations
3. Explore implementing a temporary downtown office cap on new development
4. Explore placing a measure on the ballot to amend the City Charter
5. Explore the feasibility of a potential 2024 revenue measure
6. Update the Race, Equity, and Inclusion Action Plan
7. Review and update the Shoreline Community Area Plan
8. Implement Displacement Response Strategy actions
9. Adopt the Local Road Safety/Vision Zero Action Plan
10. Expand the Safe Routes to School program
11. Develop a Citywide Decarbonization Plan (transitioning from SAP-4)
12. Implement strategies for a vibrant downtown, including the Castro Pedestrian Mall
13. Complete a Cost Allocation Plan and Master Fee Study
14. Develop a Homelessness Response Strategy
15. Negotiate a Community Workforce Agreement
16. Develop a Moffett Boulevard Precise Plan
17. Adopt a Citywide Transportation Demand Management Ordinance
18. Develop a City Active Transportation Plan
19. Develop a Parks and Recreation Strategic Plan
20. Implement an online permitting system
21. Develop a Biodiversity Strategy
22. Update the Community Tree Master Plan to create an Urban Forest Plan

Priority B — High Priority

23. Work on the Stevens Creek Trail extension
24. Develop a Dark Skies ordinance
25. Develop an ordinance to ban vaping sales citywide
26. Develop a comprehensive citywide storefront activation program
27. Develop comprehensive updates to the Downtown Precise Plan
28. Complete a Climate Change Vulnerability Assessment
29. Implement the Economic Vitality Strategy
30. Explore expanding access to broadband
31. Propose revisions to R3 zoning standards
32. Develop a strategy to facilitate low- and middle-income home ownership
33. Facilitate affordable housing development at the VTA Evelyn Site
34. Design and construct the Castro Grade Separation
35. Review and update the historic preservation ordinance
36. Prepare the Citywide Travel Demand update
37. Conduct a Public Services Study

Priority C — As time and resources allow

38. Explore strategies for enhancing childcare options
39. Consider revitalization of Gateway Park
40. Review and make periodic amendments to the Municipal Code in a phased approach to remove contradictory, unenforceable, or otherwise outdated sections
41. Develop guidelines for micromobility, including a scooter share pilot

OVERVIEW OF BUDGET DOCUMENT

The Fiscal Year 2023-24 Recommended Budget document, which includes all City funds, is divided into nine sections as follows:

1. Introduction—Includes a summary of the City's overall financial plan and recommended changes;

2. City and Community Information—Includes the community profile and other information about the City;

3. General Operating Fund Forecast—Includes the GOF five-year revenue and expenditure forecast and an economic update on Federal, State, and local trends;

4. Department Budgets—Includes operating plans for all City departments;

5. Fund Schedules—Includes recommended budgets for all funds;

6. Capital Improvement Projects—Includes the Recommended Capital Improvement Program (CIP) for Fiscal Year 2023-24;

7. Miscellaneous Information—Includes description of the budget process, position listing, debt administration and payments, and other information;

8. Shoreline Regional Park Community—Includes the recommended budget for the Shoreline Regional Park Community; and

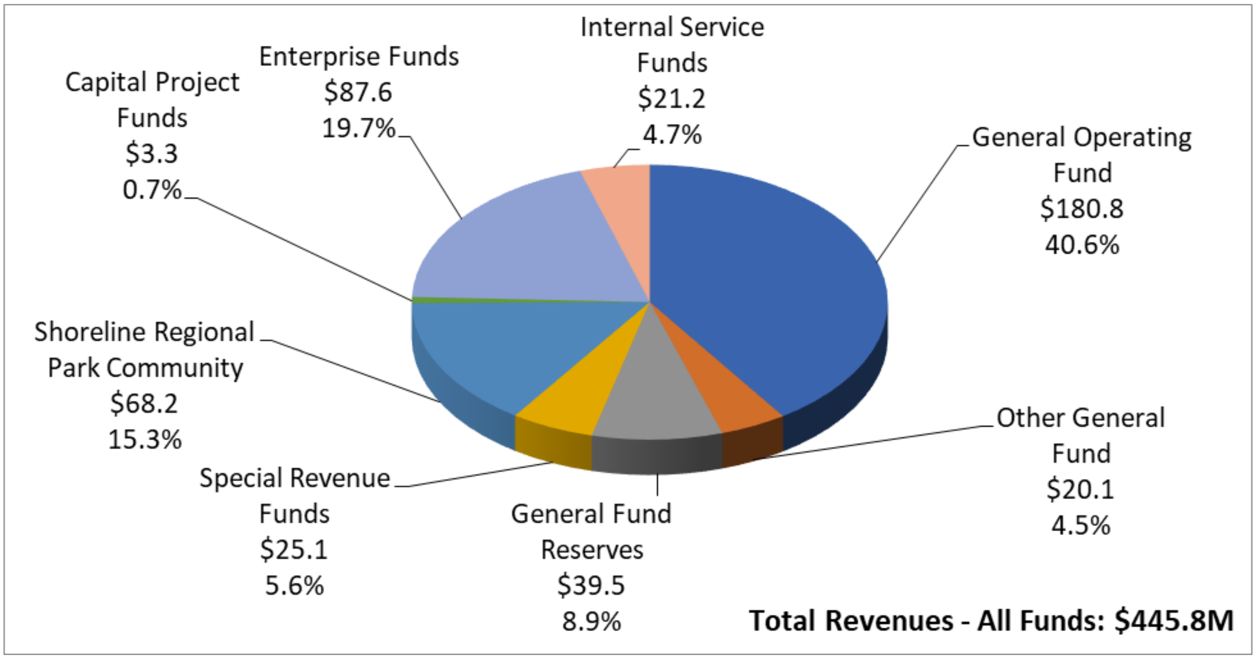
9. Glossary and Index—Includes the glossary and index for this document.

This 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.

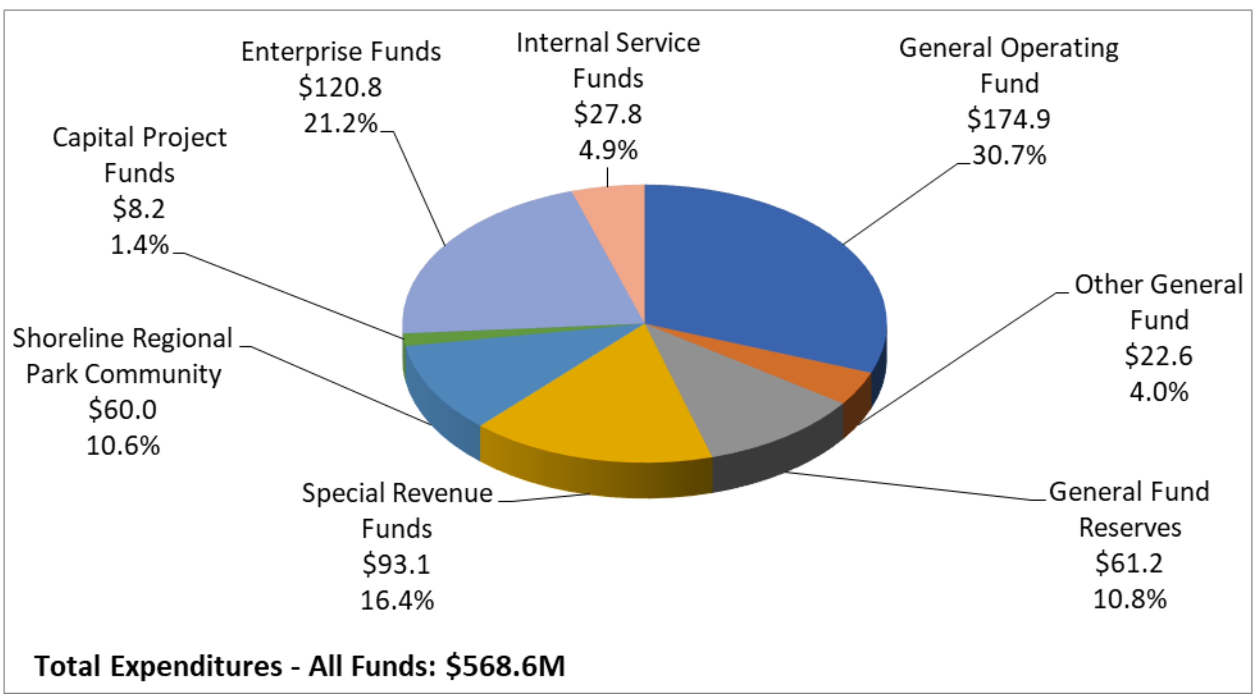
FISCAL YEAR 2023-24 BUDGET OVERVIEW

The total Recommended Budget for Fiscal Year 2023-24 is $445.8 million in revenues and $568.6 million in expenditures. Expenditures are greater than revenues as some expenditures, such as capital projects, are funded from existing available resources. The Fund Schedules Section of this document presents the City's financial picture in detail.

Total Fiscal Year 2023-24 Recommended Revenues—All Funds
(dollars in millions)



Total Fiscal Year 2023-24 Recommended Expenditures—All Funds
(dollars in millions)



GENERAL OPERATING FUND

The GOF is the single largest City fund and provides funding for core services, including Police, Fire, Parks, Recreation, Library, some Planning, Public Works, Sustainability, and all City Administration functions, including City Attorney, City Clerk, City Manager, Human Resources, Finance and Administrative Services, and Information Technology. The GOF's financial health is shaped in large part by positive and negative economic forces beyond the City's control. Many GOF revenues are driven by the economic climate of Silicon Valley, the greater Bay Area, and the State. During the Great Recession of 2008, due primarily to declines in Property Taxes, Sales Taxes, and Transient Occupancy Tax (TOT) revenues, the GOF faced structural deficits before corrective actions were taken for four consecutive fiscal years. In strategically and proactively addressing these ongoing structural deficits, the City was able to better position itself for the economic recovery in the ensuing years leading up to today. In addition, the City's sound fiscal practices and budget discipline have allowed the City to maintain its AAA credit rating for more than 10 years, a status held by only a minority of other California cities.

The local economy continues to experience a rebound from the COVID-19 pandemic, primarily due to higher-than-expected revenues, specifically transient occupancy taxes, sales taxes, and use of money and property (investment and rental income). Staff continually monitors the GOF revenues and expenditures throughout the year. Notably, revenue projections included in this Recommended Budget were difficult to project due to the uncertainty of the current economic climate. For the Recommended Budget, staff used best estimates based on the latest available information.

The City maintains fiscally prudent budgeting practices of balancing ongoing expenditures with ongoing revenues and adopting structurally balanced operating budgets. In recent years, the City has experienced strong revenue growth with a larger-than-normal net operating balance that allowed the City to address infrastructure needs and unfunded liabilities. This situation has helped the City to weather the revenue losses experienced during the COVID-19 pandemic. Although it is difficult to forecast revenues under this climate of extreme uncertainty, the Recommended GOF budget for Fiscal Year 2023-24 is projected to achieve an operating balance.

A summary of the GOF Recommended Budget is summarized below (dollars in thousands):

Total Revenues	$180,846
Total Expenditures	(171,847)
Transfer to General Fund Reserve	(3,000)
Operating Balance	$ 5,999*

* Not included in this operating balance of approximately $6.0 million is potential clawback of an estimated $7.0 million of prior-year excess Education Revenue Augmentation Fund (ERAF) monies that may need to be paid back to the County of Santa Clara due to current litigation brought by advocacy groups against the State of California.

Based on the current available information and assumptions, the GOF is projected to end the fiscal year with an operating balance of approximately $6.0 million.

In November 2021, Santa Clara County notified cities that the California School Boards Association and its Education Legal Alliance filed a lawsuit against the Controller of the State of California disputing the calculation and disbursement of excess ERAF funds. As a result, the County of Santa Clara estimates that 20% to 30% of ERAF disbursed to all cities over three years is subject to litigation. The City estimates that 30% of excess ERAF revenue for Fiscal Years 2020-21 through 2022-23 is approximately $7.0 million. It is expected that the $6.0 million operating balance will be utilized if there is an unfavorable outcome to this Statewide litigation.

ERAF is the fund used to collect and disburse property taxes that have been shifted from cities, the County, and special districts prior to their reallocation to K-14 school agencies. When the State shifts more local property tax than required, these funds are returned to cities, counties, and special districts and are known as excess ERAF.

In this budget, the City can address some of the critical staffing needs that have been on hold for several years. In Fiscal Year 2023-24, the Recommended Budget includes $6.2 million of new ongoing expenditures, including 11.6 new regular and converted limited-period to regular positions in the GOF.

A summary of the Fiscal Year 2023-24 GOF Recommended Budget is provided below. Details of the Recommended GOF revenues and expenditures are included on Page 5-4 and in the General Operating Fund Forecast section of this document.

California Public Employee Retirement System (CalPERS) Pension and Post-Employment Benefits

The City of Mountain View provides a defined benefit pension plan for all full-time employees and some part-time benefitted employees as part of their total compensation package. Defined benefit plans provide a fixed, pre-established benefit payment for employees in retirement based on a formula which considers an employee's years of service and highest average annual salary. The defined benefit pension has been a standard part of compensation in governmental organizations and in Mountain View and is in lieu of participating in Social Security, except for the required Medicare rate of 1.45% of all wages.

The City's pension plans over the past several decades, like all other CalPERS participants, have experienced unfavorable investment returns, changes in actuarial assumptions, and unfavorable demographic shifts which have outweighed any positive plan experiences. These unfavorable actuarial experiences have resulted in rising employee-related costs due to the corresponding escalation in payments to fully fund benefits.

An Unfunded Accrued Liability (UAL) obligation represents the market value of the assets minus the discounted value of the future liabilities. When a plan's Market Value of Assets is less than the Actuarial Accrued Liability, the difference is the plan's UAL. When there is a UAL, the City must make up the difference. The City's most recent actuarial report from CalPERS (released in July 2022) indicates that the City has an UAL of $168.3 million as of June 30, 2021, down from $249.4 million a year prior, a decrease of 32.5%. This large decrease is primarily attributable to CalPERS realizing an investment return of over 21.0% in Fiscal Year 2020-21.

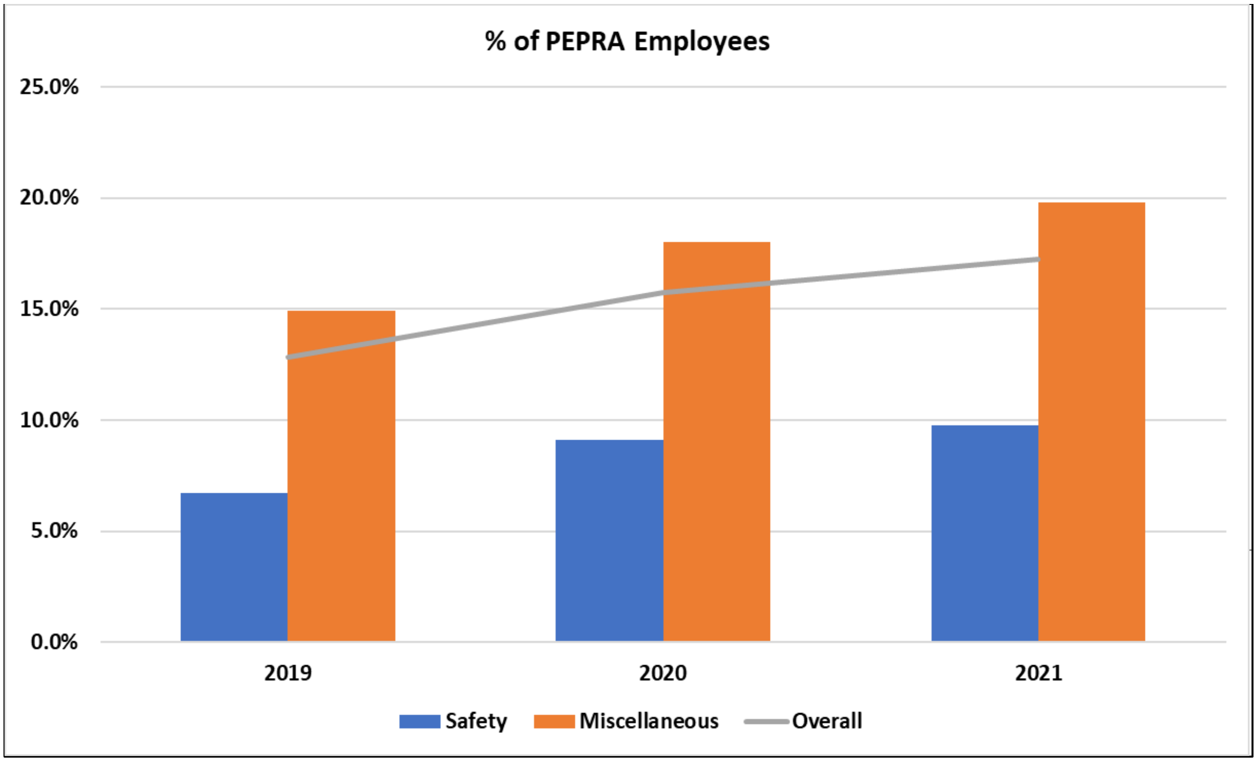
As of June 30, 2021, the City's funded status was 79.6% for its Safety Plan and 84.3% for its Miscellaneous Plan, up from 70.3% and 73.1%, respectively. However, the unfunded liability amounts and funded status percentages do not take into consideration the 6%+ loss that CalPERS investments experienced in Fiscal Year 2021-22. As a result, the unfunded liability amounts and funded status percentages are expected to return to June 30, 2020 levels when updated actuarial reports are released by CalPERS by August 2023.

The City prudently recognized the potential impacts to future service delivery if unfunded pension and Other Post-Employment Benefits (OPEB) obligations were not addressed, and additional funding strategies not identified. For the CalPERS pension liability, the City Council adopted a strategy to contribute a significant lump-sum contribution of $10.0 million (General Fund) in Fiscal Year 2017-18 as well as proportionate contributions from other funds. As part of this strategy, an additional $10.0 million General Fund payment was proposed to come from future Google Parking Lease revenues as well as proportionate contributions from other funds. These lease payments are on a calendar-year basis and began January 2021. Last year, staff recommended making the contribution the fiscal year after funds are received. Therefore, $2.0 million was available to contribute to CalPERS in Fiscal Year 2022-23. With other funds contributing their share, the total additional contribution to CalPERS was $2.6 million for Fiscal Year 2022-23 and is expected to be $5.6 million in Fiscal Year 2023-24. Of note, future additional contributions may be reduced based on lower annual lease revenues expected from Google.

In 2013, California pension reform became law under the Public Employees' Pension Reform Act (PEPRA). PEPRA, effective for all new employees hired after January 1, 2013, made broad prospective changes to pensions in California with the goal to create a more sustainable pension system by reducing an employer's pension liabilities and increasing employee contributions toward their pension benefits. As a result, the pension costs associated with a PEPRA employee are lower than an employee hired prior to January 2013. However, it is expected that substantial savings from the reform will take many years to be realized.

As shown in the chart below, the overall percentage of PEPRA employees employed by the City has gradually increased over the last three years, from 12.8% to 17.2%, based on the most recent valuation from CalPERS. There are more PEPRA employees in the Miscellaneous plan than in the

Safety Plan, by a ratio of two to one, with 19.8% of miscellaneous employees versus 9.7% of safety employees.



The City has recently engaged a pension consultant to explore potential budget and interest savings that would result if additional discretionary payments (ADP) above the contributions calculated by CalPERS were allocated. In addition, the pension consultant's scope of work will include research and the possible recommendation of implementing a Section 115 pension trust fund that could assist in paying off the City's pension liability early by allowing the City to safely and securely set aside funds, separate and apart from the State retirement system, in a tax-exempt, irrevocable trust to reduce pension liabilities and stabilize pension costs.

A second category of retirement-related benefits which impact the City's finances is the City's retiree health program, also called other post-employment benefits. In 2009, the City established a Section 115 OPEB trust account through the California Employer's Retiree Benefits Trust (CERBT) program to fund retiree health benefits. As of March 2023, there was a balance of approximately $154.6 million in the trust account. As of the most recent actuarial report dated June 30, 2021, the City's unfunded liability for these benefits was $148.7 million. Using the current trust asset balance of $154.6 million and the most recent unfunded liability balance results in an estimated funded status of 104%. With an estimated liability at June 30, 2023 of $154.2 million, assuming the trust balance stays at $154.6 million, the City's expected OPEB funded status would still be just over 100%. An updated actuary report will be prepared as of June 30, 2023 and will be available in early 2024.

General Operating Fund Five-Year Financial Forecast

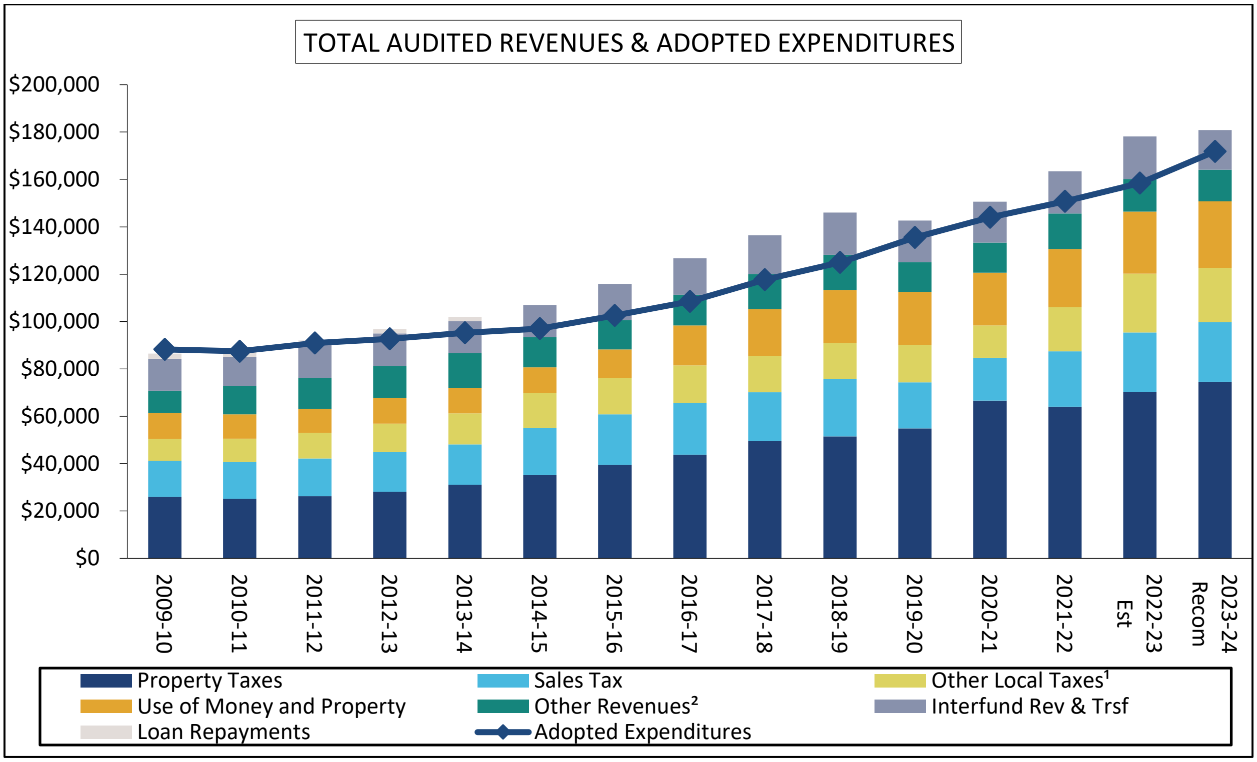
Included in this Recommended Budget document is a detailed Forecast beginning on Page 3-1. Forecasting is a best practice and an important part of a city's financial planning process as it provides an outlook on the City's future financial condition by identifying financial needs and potential budget imbalances. The Forecast is designed to enhance the City's ability to identify key drivers and trends in revenues and expenditures and paint a helpful picture of the future economy of the City. 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, with the degree of uncertainty surrounding the current economic climate, forecasting financial trends is difficult to project. The Forecast includes staff's best estimates for the projected fiscal outlook for the GOF (including the Fiscal Year 2023-24 Recommended Budget).

The Forecast was prepared assuming positive revenue trends for the future years and does not include a recession. For Fiscal Year 2023-24, the General Operating Fund is estimated to end with an estimated $6.0 million operating balance. The Forecast also projects the fund will end with a smaller balance in the third and fourth year due to higher projected expenditures. The fifth Forecast year is projected to have a healthy operating balance.

Fiscal Year 2023-24 General Operating Fund

Revenues

For Fiscal Year 2023-24, GOF revenues are projected to grow $17.0 million (10.4%), compared to the Fiscal Year 2022-23 Adopted Budget, to $180.8 million. 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 Fiscal Year 2023-24 are as follows (dollars in thousands).



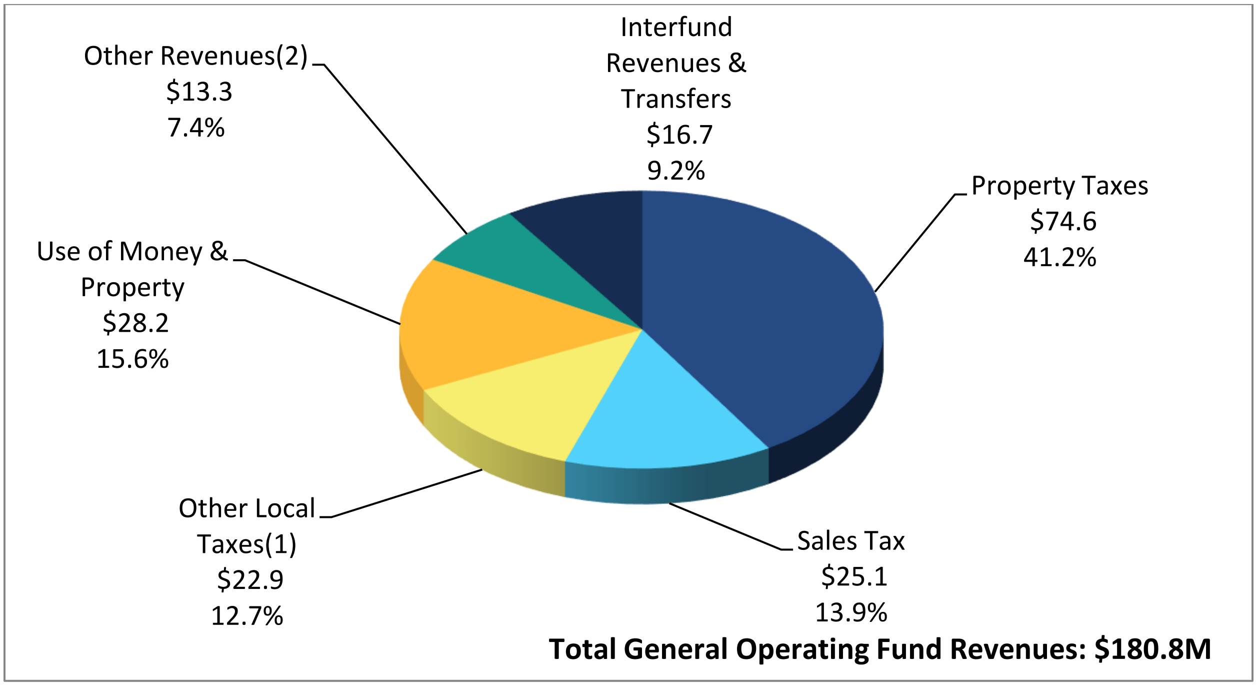
1 Other Local Taxes consist of Transient Occupancy Tax, Business Licenses, and Utility Users Tax.

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

This chart 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. The recommended expenditures in the chart include budget savings; however, for Fiscal Years 2008-09 through 2010-11 and again in Fiscal Year 2020-21, 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, in Fiscal Years 2011-12 through 2014-15, actual budget savings declined, but actual revenues were higher than adopted.

A summary of the major categories of GOF Revenues for the Fiscal Year 2023-24 Recommended Budget is as follows.

Fiscal Year 2023-24 General Operating Fund Recommended Revenues
(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.

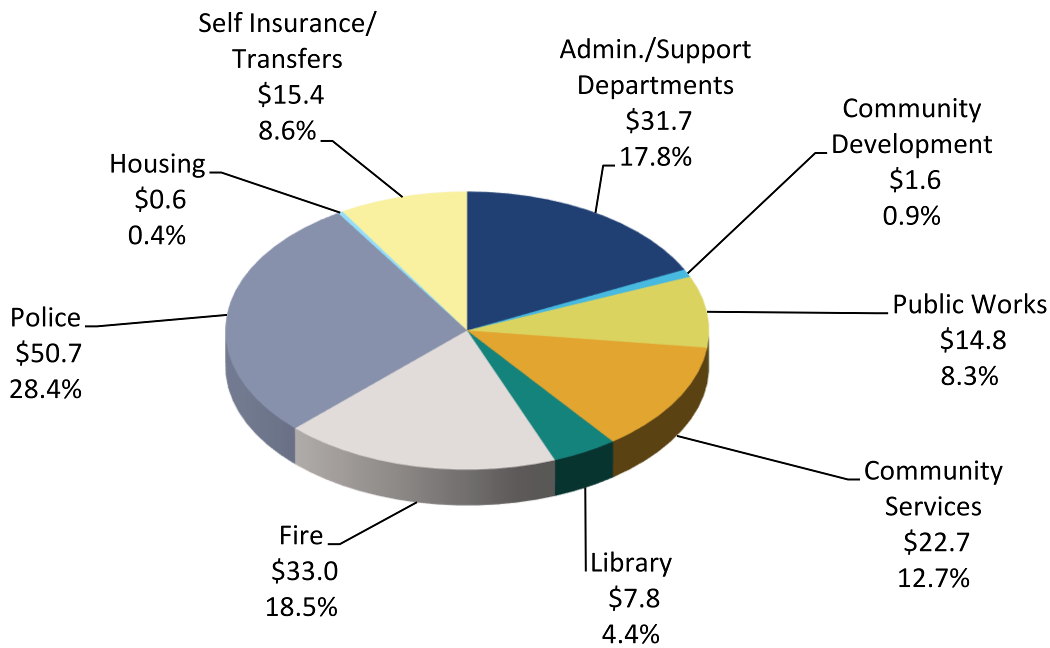
Expenditures

The Recommended Budget includes the addition of necessary expenditures. To address heavy workloads, some current demands for resources are being addressed through limited-period funding.

Recommended expenditures for Fiscal Year 2023-24 include the addition of $1.2 million of net nondiscretionary increases, which preserve current service levels, and $5.0 million of net discretionary additions for resources to meet demands. In total, including increases for personnel costs, there is an 8.6% increase in expenditures from the Fiscal Year 2022-23 Adopted Budget. The majority of the increase (9.1%) is related to personnel cost increases. Included in Recommended expenditures is an estimated budget savings of $6.5 million based on average savings over the prior five fiscal years.

The major components of GOF recommended expenditures by department are as follows.

Fiscal Year 2023-24 General Operating Fund Recommended Expenditures (dollars in millions)



Total General Operating Fund Expenditures: $178.3M

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

NOTE: Excludes the $6.5 million estimated budget savings and $3.0 million transfer to the General Fund Reserve.

Fiscal Year 2023-24 Recommended Budget Changes

The following is a discussion of major recommended expenditure changes for Fiscal Year 2023-24.

Nondiscretionary Increases

For Fiscal Year 2023-24, a total of $1.2 million of net nondiscretionary increases are included to fund existing and new required operational costs, such as crossing guard services, utility cost increase, janitorial cost increases, and increases in information technology costs. A listing of all nondiscretionary items, $50,000 and over, are as follows (see the complete listing of nondiscretionary items with descriptions under the Miscellaneous Information Section).

- **Information Technology Services, Licenses, and Software Renewals: $386,200**
- **Gas and Electricity Cost Increase: $267,500**

- **Crossing Guard Services: $223,600**
- **Janitorial Cost Increases: $187,600**
- **Public Safety Systems Support: $52,000**

Discretionary Expenditures

Net new expenditures totaling $5.0 million are included for high-priority ongoing programs; $2.8 million is related to personnel (fully loaded cost). These are included in the Fiscal Year 2023-24 Recommended Budget and future projections in the Forecast. A listing of all discretionary items, $50,000 and over, is as follows (see the complete listing of discretionary items with descriptions under the Miscellaneous Information Section).

- **Fire Overtime: $793,300**
- **Rengstorff Park Aquatics Center: $383,300**
- **Legal Services: $350,000**
- **Police Officer Position (1.0 FTE)—Community Outreach: $332,400**
- **Assistant Community Services Director (1.0 FTE): $ 321,600**
- **Senior Information Technology Analyst Position (1.0 FTE): $ 255,100**
- **Systems Specialist Position (1.0 FTE): $221,300**
- **Human Resources Analyst I/II Position (1.0 FTE): $216,300**
- **Open Space Planner Position (0.85 FTE): $191,900**
- **Paralegal Position (1.0 FTE): $185,600**
- **Program Assistant (1.0 FTE): $175,600**
- **Recreation Coordinator Position (1.0 FTE): $175,300**
- **Community Outreach Specialist Position (1.0 FTE): $139,500**
- **Employee Wellness and Team Building: $135,600**
- **Communications Enhancement: $100,000**
- **Traffic Maintenance and Repairs: $100,000**
- **Castro Street Pedestrian Mall: $93,500**
- **Reclassification of Office Assistant to Administrative Assistant (0.5 FTE): $85,600**
- **Consultant Services—Transportation: $70,000**
- **Employee Relations Legal Counsel: $65,000**

Limited-Period Expenditures

Funding of $7.0 million for limited-period items is included in the Recommended Budget; $1.1 million is related to personnel, most of which is a continuation of current staffing (notated with an asterisk (*)). A listing of all limited-period items, $50,000 and over, is as follows (see the complete listing of limited-period items with descriptions under the Miscellaneous Information Section).

- **Community Services Agency Capital Funding: $1,000,000**
- **Safe Parking Program: $625,000**
- **Firefighter Recruit Academy: $414,100**
- **888 Villa Lease: $389,700**
- **Shoreline Events: $250,000**
- **Revenue Measure Consulting Services: $250,000**
- **Website Coordinator Position (1.0 FTE)*: $235,100**
- **Personal Protective Equipment Compliance: $229,300**
- **Federal and State Legislative Advocacy: $220,000**
- **Library Security Services: $200,000**
- **Human Resources Technician Position (1.0 FTE): $188,600**
- **Systems Coordinator Position (1.0 FTE)*: $183,600**
- **Management Fellow Position (1.0 FTE)*: $182,100**
- **Hourly Staff to Support the Traffic Section: $180,000**
- **Administrative Assistant Position (1.0 FTE): $159,400**
- **Employee Relations/Labor Negotiations Attorney Services: $150,000**
- **Training and Career Development: $150,000**
- **Winter Holiday Event: $150,000**
- **Library Security Services Guard (1.0 FTE): $149,100**
- **Citywide Succession Planning: $145,000**
- **Employee Relations Consultants: $140,000**
- **Homelessness Response Funding: $125,000**
- **Public Services Study: $125,000**
- **Sustainability Fellow Contract: $110,000**
- **Fee Study: $100,000**
- **Broadband (rebudget): $100,000**
- **Nonprofit Funding for Community Needs (rebudget): $95,500**
- **Technology Enhancements (rebudget): $84,000**
- **Program for Sidewalk Ramping, Grinding, and Inspecting: $75,000**
- **Laserfiche Upgrade: $65,200**
- **Data Management System Replacement: $55,000**

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* Represents a continuing limited-period position.

General Fund Carryover Available for Allocation

The Fiscal Year 2022-23 estimated GOF operating balance carryover of $6.8 million (subject to changes in assets and liabilities and grant/donations carryover), prior fiscal year unallocated balance of $14.2 million, and one-time revenue of $8.7 million provides an available balance of $29.7 million, which is sufficient to fund the following items included in the Recommended Budget:

- $6.8 million for limited-period expenditures;
- $3.0 million for the Capital Improvement Reserve;
- $2.0 million for the Strategic Property Acquisition Reserve;
- $2.0 million Budget Contingency Reserve for the Public Safety Building;
- $2.0 million for the Employee Loan Program Reserve;
- $1.4 million for the Compensated Absences Reserve;
- $1.1 million for the Development Services Fund;
- $1.0 million additional payment to CalPERS;
- $1.0 million for the Parental Leave Reserve; and
- $1.0 million for the General Liability Fund.

Staff will return to Council after the conclusion of the fiscal year-end audit with any modifications and final balances available for allocation.

OTHER MAJOR FUNDS

Other General Funds

Development Services Fund

Development Services is a General Fund program separated from the GOF 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 in Fiscal Year 2014-15 to encompass all development activity more fully.

Fiscal Year 2023-24 total projected operating revenues are $14.4 million (net of Land Use Document Fee), $329,000 (2.3%) higher than Fiscal Year 2022-23 adopted, and $2.0 million higher than estimated actuals. The higher revenue estimates are mainly the result of higher projected building permits. Total recommended operating expenditures are $17.6 million. This includes nondiscretionary and discretionary increases of $736,500 and new limited-period items of $1.1 million primarily targeted to address the existing workload related to development activity. In addition, there is an estimated $800,000 for Land Use Document Fees, a transfer of $85,000 to the Compensated Absences Reserve, and CalPERS contribution of $203,000 proportionate to the GOF share.

The Development Services Fund is projected to end the fiscal year with a Land Use Document Reserve of $11.4 million and ending balance of $493,000. The Development Services Fund recommended expenditures exceed revenue by $2.7 million, of which $950,000 is related to one-time expenditures. This deficit has arisen from fees that have not been increased in years and are not fully recovering the costs of providing the related services. A new master fee study is necessary and will be completed in the upcoming year to increase fees to appropriate cost-recovery levels. The Recommended Budget includes $100,000 for a consultant to conduct the master fee study.

Shoreline Golf Links and Michaels at Shoreline Restaurant Fund

Shoreline Golf Links and Michaels at Shoreline Restaurant returned to full operations in Fiscal Year 2021-22. This fund is being impacted by the increase in the City's minimum wage and the labor shortage, which resulted in additional overtime pay to be able to support the operation. For Fiscal Year 2023-24, revenues are projected at $4.9 million, and expenditures are recommended at $4.5 million, leaving an operating balance that is expected to generate a $150,000 transfer to the GOF.

Special Funds

Shoreline Regional Park Community Fund (Shoreline Community)

The Shoreline Community was created by legislation in 1969, known as the Shoreline Regional Park Community Act (Act), for the development and support of the Shoreline at Mountain View Regional Park (Shoreline Park) and to economically and environmentally enhance the surrounding North Bayshore Area. In accordance with the Act, all tax revenues received by the Shoreline Community are deposited into a special fund and used to pay the principal of and interest on loans, advances, and other indebtedness of the Shoreline Community. 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, and 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, and financial activities are reported with the City's financial documents. A separate budget for the Shoreline Community is adopted by the Board of the Shoreline Community and is included in a separate section of this Recommended Budget document.

For Fiscal Year 2023-24, operating revenues are projected at $68.2 million, $9.5 million higher than the Fiscal Year 2022-23 Adopted. This is primarily due to higher property tax revenues. It is important to note that Assessed Value in the Shoreline Community can be significantly impacted by economic conditions. Operating expenditures are recommended at $37.8 million, $2.5 million higher than Fiscal Year 2022-23 Adopted, primarily due to payments to the County and school districts increasing by $1.6 million. Ongoing changes of $72,000 are included as well as limited-period expenditures of $226,000. In addition, there is a $55,000 transfer to the Compensated Absences Reserve, a CalPERS contribution of $71,000 proportionate to the GOF share, and capital projects of $22.1 million, of which $14.6 million is funded from the Development Impact Fee and $1.5 million is funded from the Sea Level Rise Reserve.

The General Reserve, based on 25.0% of operating expenditures (similar to other reserves) net of intergovernmental payments, is $5.6 million; a new Site Contamination reserve for expected clean-up obligations is $5.0 million; the Landfill Reserve is increasing from $11.0 million to $12.0 million (incrementally increased in case of a catastrophic event); the Sea Level Rise Reserve is increasing $3.0 million (as part of a plan to fund $3.0 million annually for 10 years); and the Development Impact Fee Reserve is estimated at $212,000. After meeting policy reserve requirements, the remaining balance available is projected to be $57.6 million. Importantly, remaining reserve balances are obligated for current and future funding requirements of the Shoreline Community referenced in the prior section.

The 2021 Shoreline Sea Level Rise Study identified sea level rise projects costing $122.0 million. Staff is developing a feasibility analysis to prioritize the projects for funding. It is anticipated additional reserves will be needed to provide for increased mitigation over that which was recommended by the initial study. In addition, the Educational Enhancement Reserve Joint Powers Agreement (JPA) with the school districts expires in June 2023 but is expected to be renewed for another year while staff is developing a long-term forecast for a new long-term agreement. Future payments to the school districts could impact the financial condition of this fund.

Utility Funds

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 was not required for the recommended water and wastewater rate increases as the recommended increases for Fiscal Year 2023-24 were within the prescribed limits as noticed May 7, 2021 and approved at the June 22, 2021 public hearing. However, the recommended solid waste rate increase requires a Proposition 218 hearing, scheduled for June 27, 2023, prior to the adoption of any rate modifications. A Proposition 218 hearing will be held on June 27, 2023 for the recommended solid waste rate increases for Fiscal Year 2023-24, and notices were mailed on or before May 12, 2023.

Water Fund

For Fiscal Year 2023-24, the proposed wholesale water rate increase from the San Francisco Public Utilities Commission (SFPUC) is 9.7%. The Santa Clara Valley Water District (Valley Water) proposed a 15.0% increase for groundwater (well production) and a 14.1% increase for treated water. Due to the SFPUC and Valley Water rate increases and City cost increases, potable water and meter rates are recommended with a 8.0% increase for Fiscal Year 2023-24. This results in a monthly increase of $9.88 for the average single-family residence. The Recycled Water rate is recommended with a 5.0% rate increase corresponding to the Consumer Price Index (CPI). There are significant capital improvement projects recommended for Fiscal Year 2023-24 that will draw from the $13.0 million estimated available balance. On March 22, 2022, the City Council approved the Recycled Water Feasibility Study Update Draft Report, which discussed future CIP needs ranging from $92.0 million to $102.0 million over approximately 25 years. The cost of these projects will most likely require a bond issue and will have a significant impact on the recycled water rate.

Fiscal Year 2023-24 projected operating revenues, with the recommended rate adjustments, are $39.8 million, and recommended operating expenditures are $41.5 million (excluding depreciation expense and transfers to capital projects), resulting in an operating deficit of $1.6 million. Included in expenditures are the rate adjustments to wholesale water costs as provided and the minimum water purchase from SFPUC.

For Fiscal Year 2023-24, there is a CalPERS contribution of $117,000 proportionate to the GOF share, capital projects of $5.8 million funded from the rate, and additional capital projects of $3.7 million funded by capacity and development impact fees. There are projected Fiscal Year 2023-24 reserve balances of $23.5 million, which includes the water transfer reserve, 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 projected ending balance for this fund is $4.6 million, and the cash available goal is $5.3 million, or 10.0% of total expenditures.

Wastewater Fund

For Fiscal Year 2023-24, costs for the Palo Alto Regional Water Quality Control Plant (Treatment Plant) are increasing 3.7%. A 6.0% overall rate increase is recommended: 4.0% due to Treatment Plant and City operating cost increases and 2.0% for the last year of the phase-in of planned Treatment Plant capital costs.

The majority of the City's sanitary sewer 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. As identified previously, capacity and development impact fees have provided a source of funding for some projects; however, the fees received are not sufficient to fund all projects, and staff recommended issuing debt to secure additional funds. On October 23, 2018, the City Council approved a $10.1 million loan financing for Wastewater infrastructure projects, and the proceeds have funded multiple capital projects allocated over three fiscal years. The financing structure includes the ability to draw funds as needed for the first 18 months, lowering interest cost, and the ability to prepay 10.0% of the outstanding balance each year and all of the outstanding balance after 10 years without penalty. All funds have been fully drawn, and annual payments will be approximately $852,000 henceforth.

There are infrastructure capital projects beyond the annual capital projects included in the rate. In addition to the $10.1 million loan noted above to fund infrastructure capital projects, Capacity and other Development Fees have provided an additional source of funding for some of these infrastructure capital projects where allowed. There continue to be significant capital improvement projects above the annual $2.5 million funded annually from rates, of which $10.5 million is scheduled for Fiscal Year 2023-24, drawing from the available balance, and $36.1 million is unscheduled. While some projects can be funded from the capacity and development fees collected, there is insufficient available balance to fund all the $36.1 million in unscheduled projects in the near future. In addition, Treatment Plant capital cost estimates have increased significantly, and it is likely that the additional 2.0% increase will need to continue past the original 10-year plan.

With an overall 6.0% rate increase, operating revenues for Fiscal Year 2023-24 are projected at $31.7 million (including $3.5 million in revenue generated by the rate increases for planned Treatment Plant capital costs that is being reserved), and operating expenditures are recommended at $29.0 million (after eliminating the budget effect of depreciation expense), resulting in an operating balance of $2.7 million. The Operating expenditures budget increased by $1.7 million compared to the Fiscal Year 2022-23 Adopted Budget mainly due to a $1.8 million capital improvement cost increase to the Treatment plan. The increase is funded by the revenue generated by the rate increases for planned Treatment Plant capital costs that is being reserved.

For Fiscal Year 2023 24, there is a CalPERS contribution of $71,000 proportionate to the GOF share, $3.9 million for capital projects funded by rates and available balance, and $6.5 million in capital projects funded by capacity and development impact fees. There are projected Fiscal Year 2023-24 reserve balances of $31.3 million, which includes the Treatment Plant reserve, 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 projected ending balance for Fiscal Year 2023-24 is $8.6 million ($2.1 million more than the Fiscal Year 2022-23 adopted), and the cash-available goal is $3.4 million.

Solid Waste Management Fund

For Fiscal Year 2023-24, the increase for Recology for collection services is 8.13%, based on projected expenditure increases and revenue requirements in accordance with the City's contract with Recology. The City's share of SMaRT® Station costs are lower for Fiscal Year 2023-24, after taking into consideration the reduction in the City's share of tonnage processed, costs are estimated to increase 6.8%. Operations for services provided through both agreements include efforts to reduce the amount of waste sent to landfills as well as to abide by Senate Bill 1383, which mandates residential and commercial organics composting.

City operating costs increased significantly last fiscal year due to changes to include these efforts and resulted in an unbalanced operating budget. There is sufficient available balance to absorb the increases over a period of time, and the City is recommending a 7.0% rate increase to cover the cost increases for Fiscal Year 2023-24 only. However, it is expected that higher increases in the future will be needed to bring the operating budget into balance. This results in a monthly increase of $2.75 for a 32-gallon cart.

Operating revenues for Fiscal Year 2023-24 are projected at $16.1 million ($37.0 million, including Recology), and operating expenditures are recommended at $21.8 million ($42.7 million, including Recology, and after eliminating the budget effect of depreciation expense). The operating balance is projected to be a negative $5.7 million, and there is a CalPERS contribution of $50,000 proportionate to the GOF share and $320,000 for capital projects. This fund is projected to draw from reserves to fund ongoing expenditures and capital projects. The fund is projected to end the 2023-24 fiscal year with a reserve at the policy level of $5.5 million. The projected ending balance for Fiscal Year 2023-24 is $7.0 million, and the cash available goal is $2.2 million.

Reserves

Most reserves are established pursuant to Council Policy A-11, Financial and Budgetary Policy, and others have been approved as needed by Council (see summary in Miscellaneous Section). Reserves can be classified as those uncommitted but designated for a specific purpose and those created to fund liabilities. Given the Fiscal Year 2022-23 estimated GOF operating balance carryover surplus, the Recommended Budget provides strategic allocations to multiple reserves. Among others, this includes $3.0 million to the Capital Improvement Reserve, $2.0 million to the Strategic Property Acquisition Reserve (SPAR), $2.0 million to the Employee Loan Program Reserve, and $1.0 million in initial funding for the newly created Parental Leave Reserve.

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. Until the City establishes a funding plan for the project, the annual revenue being generated from Ameswell, estimated to be $3.9 million in Fiscal Year 2023-24, along with an estimated $12.3 million previously deposited into the Budget Contingency Reserve, be set aside and dedicated for the Public Safety Building until such time it is needed for debt service. In addition, the Recommended Budget allocates an additional $2.0 million toward the Budget Contingency Reserve for the Public Safety Building.

In total, the Recommended Budget allocates $14.5 million toward reserves. For more information on the City's reserve policy, please refer to the Miscellaneous Information section of the Recommended Budget.

SUMMARY AND CONCLUSION

Although there is economic uncertainty ahead, the City has emerged stronger from the pandemic as key City revenues have surpassed prepandemic levels, which allows the City to continue to improve services and programs for the community and advance Council's Strategic Priorities. The Fiscal Year 2023-24 Recommended Budget complements the City's strong fiscal foundation and includes strategic enhancements necessary to build the Mountain View of tomorrow. Looking toward the future, the City will need additional revenue to tackle critical projects, including addressing our aging facilities and Citywide infrastructure, acquiring more land for parks and open space, implementing ambitious decarbonization and sustainability initiatives, and building affordable housing. We are well-positioned to bring the City and our residents together and work toward these important community needs.

I would like to express my appreciation to the City Council and to staff in all departments for their cooperation and assistance in the development of this budget. In particular, I would like to thank the department heads and the Budget Review Team, including Assistant City Manager Arn Andrews and Finance and Administrative Services Director Derek Rampone, and with special thanks to Assistant Finance and Administrative Services Director Grace Zheng, Senior Financial Analysts Ann Trinh and Elliot Young, and Financial Analyst Natalie Poon for their assistance with the Operating Budget; Purchasing and Support Services Manager Ann Mehta, Library Manager Laura Shea-Clark, and Assistant City Clerk Merry Monlux for their assistance with the capital outlay process; and the Document Processing Center and Copy Center staff for their invaluable support in the preparation of this document.

Respectfully submitted,

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546-06-01-23L