

**CITY OF MOUNTAIN VIEW
MEMORANDUM**

DATE: February 3, 2011

TO: Shoreline Community Board of Directors (City Council)

FROM: Kevin C. Duggan, City Manager/Shoreline Regional Park Community Manager

SUBJECT: FEBRUARY 8, 2011 STUDY SESSION—SHORELINE REGIONAL PARK COMMUNITY EDUCATIONAL ENHANCEMENT FUNDING

PURPOSE OF STUDY SESSION

To seek City Council/Shoreline Community Board of Directors authorization for staff to pursue a potential alteration to the current Joint Powers Agreement with the Mountain View Whisman School District (MVWSD) and the Mountain View-Los Altos Union High School District (MVLAHSD), collectively "School Districts," for an interim period lasting through Fiscal Year 2012-13.

EXECUTIVE SUMMARY

The School Districts, the City of Mountain View and Shoreline Regional Park Community (Shoreline Community) have a long history of collaboration on efforts that have enhanced both educational and municipal services and have helped to make Mountain View a quality community in which to live and work. One of these collaborations began in 2005 when the Shoreline Community offered educational enhancement funding to the School Districts and entered into the January 2006 Educational Enhancement Reserve Joint Powers Agreement (JPA). After five years of experience with the current formula in the JPA, the MVWSD's change from a State-funded school district to a basic-aid district that relies on property taxes, and the current significant economic recession and prolonged California State Budget challenges, staff recommends it is time to review and adjust the current revenue-sharing formula. The conceptual option recommended by staff involves working with the School Districts to enact a three-year augmentation to the JPA that would provide the School Districts between \$9.1 million and \$13.6 million from the Shoreline Community over Fiscal Years 2010-11 to 2012-13. A five-year financial forecast of the Shoreline Community (Attachment 1) suggests this option could be accomplished without jeopardizing the Shoreline Community. During the period of this interim enhancement, staff would undertake appropriate and diligent steps to assess the numerous and complex long-term obligations and responsibilities of the Shoreline Community,

evaluate the impacts of likely State Budget actions and assess the extent of recovery from the impacts of the recent recession. Following these assessments, staff would work with the School Districts toward a revised JPA that would provide permanent enhanced tax sharing with the School Districts while continuing to provide for the immediate and long-term needs of the Shoreline Community, while avoiding negative impacts to services to the Mountain View community as a whole. Staff is requesting Shoreline Community Board of Directors (Board) feedback to guide continuing efforts toward interim and long-term changes to educational enhancement funding provided for in the existing JPA.

INTRODUCTION

This memorandum provides information about the origin and current needs of the Shoreline Community in the context of assessing the potential to increase funding to the School Districts and based on the recently completed five-year financial forecast of the Shoreline Community (Attachment 1).

Financial resources for both the City and School Districts have been substantially reduced by the recession and the State of California's (State) perennial budget instability. Given the significant needs faced by the School Districts, staff from the School Districts, as well as a group of parents of school-age children in Mountain View, have expressed interest in increased funding from the Shoreline Community to the School Districts. The current JPA states that the Shoreline Community recognizes there is a potential financial impact on the School Districts from the existence of the Shoreline Community and the School Districts, in turn, recognize the continuing nature of the Shoreline Community in meeting critical environmental, open space and recreation needs of the Mountain View community and the South Peninsula region as a whole.

BACKGROUND

Shoreline Regional Park Community – Origin, Purpose, Financing and Progress

The Shoreline Regional Park Community was created by the State Legislature in 1969 by legislation known as The Shoreline Regional Park Community Act ("the Act"). The purpose of The Act was to form a local government to develop a significant public recreation facility, Shoreline Regional Park, and enhance the Shoreline Community economically and environmentally. The Act states that special legislation was necessary to provide representative local government to achieve its purposes since it was partially incorporated in the City and partially unincorporated in the County (The Act, Sec. 32). Because of this unusual structure, the State adopted specific legislation to accommodate this area.

The Shoreline Community is sometimes mistaken for a redevelopment district, which it is not. It was created to provide funding to develop and own a major regional asset, Shoreline Regional Park, and fund ongoing park operations and maintenance as well as public improvements in the Shoreline Community that provide access to and benefit and protect the park and the region. 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 and levees, as well as operation and maintenance of the regional park. Under The Act, all City services and facilities are to be provided to the Shoreline Community and the Shoreline Community can appropriate the funds necessary for the direct administrative and overhead expenses associated with these services.

The primary source of revenues for the Shoreline Community is property taxes. The assessed value of property taxes within the Shoreline Community was frozen in 1977 after the Shoreline Community was created. All local taxing agencies receive their proportional share of property taxes from the frozen base. All tax increment generated by subsequent increases to the assessed values of property within the Shoreline Community is directed back to the Shoreline Community to achieve the purposes described in The Act. The property taxes have grown because the value of property in the Shoreline Community has increased from the frozen base of \$33.9 million to the current assessed value of \$2.4 billion. This growth in assessed value is attributable to the public and private investments made in the Shoreline Community over the years.

The City of Mountain View made a series of loans to the Shoreline Community in the 1980s, totaling \$17.8 million, which financed a portion of the Shoreline Amphitheatre and landfill gas collection systems under the golf course and the Amphitheatre. These loans were consolidated in Fiscal Year 1988-89 at a then-market interest rate of 10.0 percent and amortized to mature in Fiscal Year 2015-16.

As provided for in The Act, the Shoreline Community has issued tax allocation bonds over the years to finance various important improvements to the Shoreline Community, such as improvements to overpasses over Highway 101, landfill closure, purchase of land to expand open space and recreational areas, and roadway and infrastructure improvements. As of June 30, 2010, the Shoreline Community has \$35.4 million of tax allocation bonds outstanding with final maturity dates of 2021. The Shoreline Community has been very judicious in issuing debt and has financed many of the projects and improvements on a pay-as-you-go basis instead.

Since its inception, the Shoreline Community has made significant progress toward achieving the purposes of the Shoreline Community. For example, the Shoreline Community has been able to manage the significant environmental challenge of closing

461 acres of landfill. The landfill continues under postclosure maintenance regulatory requirements which have grown more extensive and expensive over time. The Shoreline Community has also significantly improved public works infrastructure, including streets, trail access, water and wastewater systems, which have contributed to the economic growth of the area. Such improvements require ongoing maintenance and eventual replacement. A list of capital improvement projects funded in the Shoreline Community since Fiscal Year 2001-02, averaging \$7.8 million per year, is provided as Attachment 2. All of these improvements, including the Shoreline Regional Park itself, have created a very desirable location for businesses, propelling the increases in assessed values in the Shoreline Community. Although Shoreline Regional Park and improvements in the rest of the Shoreline Community have served as a beacon in the South Peninsula region for recreational and economic interests, there are significant ongoing management and maintenance requirements and future improvements that are necessary to continue its success.

Shoreline Regional Park Community—Continuing and Future Obligations

Managing long-term environmental liabilities such as landfill closure and postclosure maintenance, groundwater contamination concerns, wetland and wildlife preservation, tidal and upstream flooding concerns, and conversion of agricultural lands to clean and developable properties, has been and continues to be a challenge for the Shoreline Community. In addition, significant infrastructure and circulation needs in the Community remain. These obligations are summarized below.

Landfill Management

The Shoreline Community is responsible for managing and controlling methane gas and the containment of leachate at three former landfill sites in the Shoreline Community. At the time of landfill closure in 1994, City engineers and professional engineering consultants estimated the total cost for potential landfill pollution containment and control to be approximately \$24.1 million, excluding postclosure costs. A catastrophic landfill systems failure due to an earthquake could require reconstruction of the systems (gas, leachate and cap). The Shoreline Community does not currently designate funds for this liability. This risk is one of the critical long-term issues for the Shoreline Community that will require diligent assessment to determine a prudent level of reserve funding to guarantee funds in the event expensive future landfill repairs are needed to protect public health and safety.

Transportation and Circulation

Transportation and circulation have been and continue to be significant challenges for the Shoreline Community. Despite capital investments by the Shoreline Community to

improve its two main access points, North Shoreline Boulevard and Rengstorff Avenue, traffic congestion has increased significantly with development in the Shoreline Community. Inadequate and inefficient vehicular traffic patterns are not new issues for the Shoreline Community. They are specifically identified in The Act in 1969 as needing to be addressed and improved. In addition, City-wide greenhouse gas reduction goals and progress toward healthier and more sustainable commute alternatives have driven alternative access improvements such as the Stevens Creek Trail and the Permanente Creek Trail. Alternative transit improvements to the Shoreline Community, such as the Permanente Creek Overcrossing project (currently under construction), are a necessity for its continued success.

Without continued investments into circulation improvements within the Shoreline Community and between the Shoreline Community and the rest of Mountain View and the region, businesses will be less likely to locate and expand in the Shoreline Community. If Mountain View were to become a less attractive place to work, it would also become a less attractive community in which to live. Over time, the City's primary economic engine would be impacted, threatening both City and School District revenues.

Public Safety Services

Public safety services must be provided to those working and recreating in the Shoreline Community. With the increased traffic congestion, fire and emergency medical response times increased over the years, necessitating the creation of a fire station in 1999 to serve the Shoreline Community within acceptable response times. Construction of the permanent Fire Station 5 began in 2010.

Environmental Mitigation

Shoreline Regional Park and its surroundings are a complex ecosystem of a variety of natural habitats, wildlife and wetlands. The Shoreline Community has obligations for wetlands restoration, as well as wildlife and endangered/threatened species protection. Another environmental liability for the Shoreline Community is flood protection from sea-level rise and upstream creek corridor flooding. Studies ranging from the Mountain View Environmental Sustainability Community Task Force Report to those under way by the Bay Conservation and Development Commission, the Army Corps of Engineers, the Santa Clara Valley Water District, United States Fish and Wildlife Service, and the Coastal Conservancy examine the risk of flooding to the North Bayshore Area. The South Bay Shoreline Study by the Army Corps of Engineers and the Santa Clara Valley Water District is currently in the environmental document phase. The study will evaluate potential detrimental and beneficial impacts related to hydrology and flood protection, including "impacts on tidal flooding frequency and extent, and flood

protection due to breaches in salt pond levees, improvement of existing levees and construction of new levees."

Although necessary levee improvements to protect the Shoreline Community have not yet been identified, nor associated cost estimates or the agencies responsible for funding future improvements, the importance of prudently preparing for flood protection improvements cannot be underestimated. This risk is another critical long-term issue for the Shoreline Community that will require diligent assessment to determine a prudent level of reserve funding to guarantee funds in the event of a major flooding event or if the Shoreline Community were required to contribute to levee improvement projects to protect public health, safety, and property.

Near-Term Public Investments

In June 2010, the Board adopted a reimbursement resolution for tax allocation bonds and directed staff to begin preparing bond documents for Board approval to fund three public projects that benefit the Shoreline Community as well as the entire Mountain View community and the South Peninsula region. The three projects are the Permanente Creek Trail Overcrossing project and Fire Station 5, both discussed above, and the Athletic Fields project in Shoreline Regional Park. Altogether, **new debt of approximately \$25.0 million is proposed to be issued** for these three projects, which is anticipated to cost the Shoreline Community approximately **\$2.5 million annually** in debt service. This financial obligation has been factored into staff's evaluation of the Shoreline Community's capacity to provide increased educational enhancement funding to the School Districts.

Collaboration With Other Agencies

While The Act does not obligate the Shoreline Community to share property tax increment revenues with other entities, the Shoreline Community has initiated collaborations in the past in order to share revenues in ways that help the Shoreline Community fulfill its purpose and benefit the wider Mountain View community. First, in June 2005, the Shoreline Community entered into an agreement with Santa Clara County to share a portion of tax increment revenues. Simultaneous to these discussions with the County, discussions were initiated with the School Districts to offer educational enhancement funding from the Shoreline Community to the School Districts, discussed more below.

Although not related directly to the Shoreline Community discussion, it should be noted the City specifically and voluntarily designed the proposed extension of the Downtown Revitalization Authority in a manner to assure that the School Districts and other taxing agencies were not negatively impacted by the extension. The

Revitalization Authority will be foregoing a projected \$3.3 million over the next two years to ensure the School Districts and other taxing agencies are protected while the City winds down the Downtown Revitalization Authority.

City and Shoreline Community Collaborations with the School Districts

As mentioned, the City and the Shoreline Community have a history of collaboration with the School Districts. Through Library services, Police and Fire resources, and Parks and Recreation services that are specifically provided to augment School Districts' resources, staff estimates that approximately \$2.0 million per year is spent in support of the School Districts. For example, the City provides two full-time School Resource Police Officers, maintains approximately 130 acres of playing fields at 11 School District sites and provides numerous personnel to run afterschool programs. Land collaborations have occurred as well. The City's underground water storage reservoir is located on school land at Graham Middle School while the City constructed and maintains the Graham Sports Complex located above the reservoir. Alta Vista High School is located on City land. The City and the MVWSD jointly own and operate the Whisman Sports Complex and the Graham Sports Pavilion. These collaborations result in more comprehensive, efficient and effective services for the Mountain View community.

As summarized in greater depth in the Shoreline Community Five-Year Forecast, over the years the State has redirected property taxes from local governments, including the Shoreline Community, to meet the State's requirements of funding schools by way of the Educational Revenue Augmentation Fund (ERAF). ERAF shifts from the Shoreline Community for Fiscal Years 2004-05 and 2005-06 total approximately \$3.6 million in property taxes to schools instead of to the Shoreline Community.

In January 2006 the Shoreline Community and the School Districts entered into the Educational Enhancement Reserve Joint Powers Agreement (JPA) as a means for the Shoreline Community to benefit local education in order to attract and retain a quality employment base and future supply of quality employees. The Shoreline Community initiated the formation of this agreement. Currently, the School Districts each receive approximately \$464,000 annually in Shoreline Community funding through the JPA. The annual amount is adjusted up to 3 percent per year. As of Fiscal Year 2010-11, the School Districts have received a combined \$5.2 million from the Shoreline Community.

Although these collaborations provide significant funding to the School Districts, City staff recognize that State education budget declines continue to take a toll on the School Districts, which may affect the JPA's stated purpose to "enhance the educational and technology capacity of students in Mountain View schools who, in turn, will contribute to the availability of a local technology workforce necessary to further [Shoreline Community] objectives." Although staff are still assessing the long-term legal and

policy-based financial obligations of the Shoreline Community, staff's preliminary evaluation indicates that the Shoreline Community has capacity to increase educational enhancement funding to the School Districts.

It should be noted that some in the Mountain View community have raised the concept of "winding down" the Shoreline Community over a short period of time to fund only essential ongoing operations and long-term maintenance and debt obligations. They suggest that other expenses, such as future capital projects, should not be shouldered by the Shoreline Community so that maximum property taxes flow to the School Districts.

As the five-year financial forecast shows, the Shoreline Community currently requires approximately \$9.0 million per year in operating expenses for Fire and Police protection, park operations and maintenance, landfill and street maintenance, and related planning, administration and Library services. In accordance with The Act, the Shoreline Community can appropriate the funds necessary for the direct administrative and overhead expenses for the City services that are provided. Were the Shoreline Community tax increment funding for these expenses to be reduced, the City's General Operating Fund could be significantly impacted if it were required to provide funding to maintain the park and the related obligations of the Shoreline Community. Should this occur, it would dramatically impact City services City-wide. Such a decline in services would eventually impact the desirability of Mountain View as a community to live and work in, slowing property value and job growth, and negatively impacting the School Districts as well.

ANALYSIS

Over the last several months, staff have developed a five-year financial forecast, enclosed as Attachment 1, estimating future needs for the Shoreline Community. As noted above, there are significant potential future obligations which cannot be fully quantified at this time. These include evolving environmental requirements associated with the landfill, transportation and circulation needs for the Shoreline Community, and mitigation of the potential impacts associated with sea-level rise and flooding. A number of studies will be completed over the next 18 to 24 months which would provide additional data to help inform any decision-making regarding any potential long-term changes to the current financial arrangements between the Shoreline Community and School Districts.

Staff also recognize that, as is true for the City, the School Districts have had to make difficult decisions to adjust to declining resources over the last several years, and continue to face significant challenges in providing quality services. These pressures have fueled interest in both additional funding and long-term changes to the financial arrangement between the Shoreline Community and School Districts.

Should the Board be willing to entertain changes to the current financial relationship between the Shoreline Community and School Districts, staff recommends that the Board consider two potential approaches. Each of the approaches, labeled as Option 1 and Option 2, are anticipated to allow the Shoreline Community to continue its legal and policy-based obligations in the interests of Mountain View residents and businesses while helping address the significant financial constraints being experienced by the School Districts.

In **Option 1 (recommended)**, additional funding would be provided to School Districts from the Shoreline Community over a three-year period as a bridge to developing a long-term financial arrangement following additional study regarding future needs of the Shoreline Community. In Option 2, no additional funding would be provided until City and School District staff have determined an appropriate long-term financial arrangement between the Shoreline Community and School Districts.

There are advantages and disadvantages to both options. Staff understands the desire of some school advocates to develop a new, long-term arrangement between the School Districts and the Shoreline Community in the very near future. Unfortunately, this would be very challenging and would pose substantial risks. The City and School Districts continue to face significant current economic challenges and there is currently great uncertainty regarding the State Budget. Given these uncertainties, and the time necessary to comprehensively evaluate the future needs and liabilities of the Shoreline Community related to the environment, infrastructure, transportation, planning and more, City staff would have great difficulty recommending a long-term arrangement in the near future. At the same time, staff understands the financial pressures placed on the School Districts and believes it may be appropriate to create an interim arrangement for increasing funding to the School Districts during the remainder of the current fiscal year and the next two fiscal years. This option would allow appropriate time for a diligent assessment of the long-term issues.

Staff has developed a **conceptual pro forma** to analyze the Shoreline Community's capacity to **increase educational enhancement funding** to the School Districts. It is included as **Attachment 3**.

Staff would appreciate the Board's input in three areas: (1) whether to continue to consider the potential for increased funding from the Shoreline Community to the School Districts; (2) whether to increase funding on a short- or long-term basis; and (3) guiding policy principles for potential changes to the financial arrangement between the Shoreline Community and the School Districts. To date, staff have worked under two guiding principles: to continue the positive history of collaboration with the School Districts and to provide for the immediate and long-term needs of the Shoreline

Community while avoiding negative impacts to services to the Mountain View community as a whole. The Board may wish to provide additional input on these principles in anticipation of future discussions of this issue.

Option 1 – Three Year Augmentation to JPA

The first conceptual option involves working with the School Districts to enact a three-year augmentation to the JPA. This option would provide the School Districts between \$9.1 million and \$13.6 million from the Shoreline Community over three years—Fiscal Years 2010-11 to 2012-13. Discussions would commence during this period for a permanent formula change starting with Fiscal Year 2013-14. Details of this option include:

- School Districts would receive the approximately \$464,000 they now receive through the JPA for Fiscal Year 2010-11 only;
- In Fiscal Years 2011-12 and 12-13, the JPA formula would be replaced by a formula tied to property value increases. Staff proposes a formula structured similarly to the current formula used for the Shoreline Community's payments to Santa Clara County. This would result in the MVWSD receiving approximately \$2.2 million over the two years based on current property tax projections, in-lieu of the current annual JPA payments of approximately \$464,000. Under the same formula, the MVLAHSD would receive approximately \$1.4 million over the two years based on current property tax projections, in-lieu of the annual current JPA payments of approximately \$464,000.
- The School Districts would receive additional one-time funding for Fiscal Years 2010-11, 2011-12 and 2012-13. The total amount of that funding, for both districts combined, could range from \$1.5 million to \$3.0 million annually. It could be provided based on the proportional property tax distribution prior to the creation of the Shoreline Community, with approximately 60 percent of school funding going to MVWSD and 40 percent of school funding to the MVLAHSD. This would result in additional funding of \$900,000 to \$1.8 million each year to the MVWSD and \$600,000 to \$1.2 million each year to the MVLAHSD.
- The Shoreline Community would reduce capital spending, using undesignated reserve funds as needed to cover capital expenses, in order to provide this enhanced School District funding.
- The Shoreline Community would continue to prudently manage debt and plan for future environmental liabilities and infrastructure improvements in continuing to fulfill its purpose.

Option 2 – Modify the JPA

The second option involves working with the School Districts to modify the JPA at this time on a longer-term basis, reassessing its scope, governance structure and an appropriate long-term financial arrangement between the Shoreline Community and the School Districts. The current annual funding of approximately \$464,000 annually to each district would continue until agreement is reached on a new JPA. For the reasons stated above, this will be challenging and time-consuming, potentially taking 18 to 24 months, since significant additional information will need to be developed.

NEXT STEPS

Following the Board's review and discussion of the potential for providing additional funding to the School Districts, City staff will pursue additional dialogue with staff from the School Districts on key terms of a potential agreement, scheduling a JPA meeting as necessary and return to the Board for action if conceptual agreement can be reached. The timing to return to the Board is likely to depend on which approach is pursued.

CONCLUSION

The City and the Shoreline Community value the past collaborations with the School Districts. These efforts have helped to create a great community with excellent schools and municipal services, two essential ingredients that make Mountain View a desirable place to live and work. The City recognizes the School Districts have been severely impacted by revenue reductions. In light of those impacts and the positive history of collaboration, City and School District staff have begun working to explore alternatives for making changes to the Educational Enhancement Reserve JPA. The Shoreline Community is a local government whose purposes and ongoing obligations are complex. This memorandum has sought to identify a number of these complexities and

Shoreline Community Board of Directors (City Council)
February 3, 2011
Page 12

suggest the current relative fiscal health of the Shoreline Community can support a three-year augmentation to the JPA, while its longer-term obligations are further assessed before entering into a longer-term augmentation to the JPA.

Prepared by:

Kevin C. Duggan
City Manager/Shoreline Regional Park Community Manager

KCD/KSW/5/CAM
610-02-08-11M-E-1^

- Attachments:
1. Shoreline Community Five-Year Financial Forecast
 2. 10-Year History of Capital Improvement Projects in Shoreline Community
 3. Option 1 Pro Forma, Versions 1A and 1B