



Fremont City Council

3300 Capitol Avenue
Fremont, CA 94538

SCHEDULED

Meeting: 06/04/19 07:00 PM
Div/Dept: Finance Department
Category: Budget

STAFF REPORT (ID # 3749)

Sponsors:
DOC ID: 3749

FIRST PUBLIC HEARING ON FY 2019/20 PROPOSED OPERATING BUDGET - First Public Hearing (Published Notice) on FY 2019/20 Proposed Operating Budget

Contact Persons:

Name:	Mike Sung	David Persselin
Title:	Deputy Finance Director	Finance Director
Div/Dept:	Finance Department	Finance Department
Phone:	510-494-4608	510-494-4631
E-Mail:	msung@fremont.gov	dpersselin@fremont.gov

Executive Summary: The purpose of this report is to recommend that the City Council hold a public hearing on the FY 2019/20 Proposed Operating Budget. The second public hearing and adoption are scheduled for June 11, 2019.

BACKGROUND: The following information is from the Budget Overview section of the FY 2019/20 Proposed Operating Budget document. It sets the context for the proposed budget by describing the opportunities and challenges the City will address and the major initiatives underway. It also summarizes the budget strategies proposed for FY 2019/20.

As a result of prudent policy decisions, support from City employees and the community, and a steady economy, the City's financial condition remains stable. With guidance from the City Council on priorities and community values, and a focus on planning for future needs, I present the Fiscal Year 2019/20 Proposed Operating Budget.

Total General Fund budgeted resources in the coming fiscal year will be adequate to support total budgeted expenditures of \$219.9 million. The FY 2019/20 budget also maintains the City Council's and community's long-standing funding priorities by allocating over three-quarters of the budget to direct costs for public safety and maintenance. The share of General Fund resources budgeted for these purposes is actually 89% when overhead costs required to support these functions are allocated. The FY 2019/20 budget is 6.9% higher than the FY 2018/19 adopted budget and just slightly greater than last year's estimated actual expenditures.

Over the next few years, the City will continue to see modest increases in its General Fund net resources. At the same time, we anticipate significant growth in the community's needs for public safety services, continued traffic safety and congestion improvements, addressing housing costs and homelessness, streets and facilities maintenance, and reinvestment in the City's aging infrastructure. While we have significant challenges ahead, this proposed budget provides a sensible and responsible combination of funding for maintaining and improving on the current level of services, while preserving capacity for the City's future needs.

Consistent with the theme of planning for future needs while reflecting community priorities, the majority of service level enhancements included in the proposed budget are devoted to some of the most pressing issues facing our community: public safety, traffic safety and congestion, streets and facilities maintenance, and homelessness. I look forward to working

with the Council, City staff, and the community to address the opportunities for maintaining and improving essential quality of life services, as well as the fiscal challenges, that lie ahead.

The report provides information about the following:

- FY 2019/20 Fiscal Outlook
- The Current Economic Update
- Key Budget Assumptions
- Planning for Future Needs
- Major City Initiatives

FY 2019/20 Fiscal Outlook

Looking ahead to FY 2019/20, staff anticipates that the national economy will continue to grow at a moderate pace. Although we anticipate our revenue growth will continue through the next several years, we project increasing budgetary pressure as the California Public Employees Retirement System (PERS) continues to mandate significantly higher required pension contributions. Based on the most recent actuarial valuation report from PERS, in five years our annual pension contribution will have grown by 30%; an increase of about \$13 million.

Following our City's sustainable budgeting principles, we will be limiting any proposed service enhancements or staffing increases for FY 2019/20 to levels that can be supported on an ongoing basis. We are also setting aside additional reserves to help maintain services to the community as we adjust to the changes in our cost structure. These increased reserve funds will be used to offset or prevent drastic budget and essential services reduction measures that might otherwise be necessary in future years.

Although we continue to make up for position reductions and streets and facilities maintenance that was deferred during the economic downturn, our ability to improve on the current level of services and invest in the City's future will depend on continued revenue growth and sustained fiscal discipline by the City's collective leadership.

Property tax and sales tax are the City's most significant revenue sources. Property tax revenues are estimated to total \$99.6 million in FY 2018/19, and staff projects those revenues will increase to \$106.0 million in FY 2019/20, an increase of 6.4%. The City's FY 2019/20 property tax revenues are based on assessed property values as of January 1, 2019. Under Proposition 13, assessed values of all real property adjust with the California Consumer Price Index (CCPI), with a 2% limit, unless there is a change in ownership or new construction. The CCPI adjustment for the FY 2019/20 tax roll is an increase of 2.0%. Changes in ownership constitute the primary driver of projected growth in property tax; although sales activity declined in 2018, prices continued to climb. New construction activity is also adding value to the tax roll.

Sales tax revenues are estimated to total \$67.2 million in FY 2018/19, decreasing to \$63.9 million in FY 2019/20. The projected strong performance in FY 2018/19 stems from a one-time spike in revenue in the first quarter of the year related to delayed prior-year payments from the state, unusually high new auto sales, and a larger than typical share of the County sales tax pool. The FY 2019/20 estimate includes a one-time reduction of \$1.9 million to

recover amounts that the state had erroneously paid the City in prior years. Without those one-time distortions, sales tax revenues would be estimated to grow approximately 5.0% from the prior year. The largest contributors to sales tax growth are coming from the business and auto sales sectors, with significant additional growth coming from online sales transactions allocated through the County sales tax pool.

Although there has been no recent use of the Budget Uncertainty Reserve, the current reserve balance of \$3.7 million is insufficient to address the revenue shortfalls that could accompany a slowdown in economic growth or unexpected increases in operating costs. Accordingly, staff is proposing to use a portion of the projected FY 2018/19 General Fund ending fund balance to increase the Budget Uncertainty Reserve to \$8.3 million, an amount roughly equivalent to the next three years of sales tax growth. Staff is also proposing to consolidate the City's three "core" reserves into a single General Fund Contingency Reserve equal to 16.7% of budgeted expenditures and transfers out, or \$36.7 million, a level consistent with the recommended practice of the Government Finance Officers Association of the United States and Canada. The FY 2019/20 budget anticipates ending the current fiscal year with \$13.2 million in unreserved fund balance, \$8.4 million of which is proposed to be allocated to the Budget Uncertainty and Contingency Reserves.

Economic Update

The key national economic indicators suggest continued moderate growth. Following strong performance in the second quarter of 2018 (4.2% increase from the previous quarter), growth in Gross Domestic Product (GDP) slowed over the following two quarters, but picked up again with an advance estimate of 3.2% for the first quarter of 2019. The seasonally adjusted unemployment rate has remained in the high 3% range throughout most of the past year, declining slightly in May 2019 to 3.6%. Generally positive consumer sentiment has been tempered over the last six months by domestic and international political tensions. According to Lynn Franco, Director of The Conference Board Consumer Research Center, "Consumer confidence partially rebounded in April, following March's decline, but still remains below levels seen last Fall.... Overall, consumers expect the economy to continue growing at a solid pace into the summer months."

The press release from the most recent meeting of the Federal Reserve Open Market Committee on May 1, 2019, notes that "the labor market remains strong and that economic activity rose at a solid rate.... The Committee continues to view sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective as the most likely outcomes." According to Beacon Economics, GDP is expected to slow from its 2018 pace, falling into the low 2% range, and the State Department of Finance sees the unemployment rate remaining at its current level.

Key Budget Assumptions

Based on the data we have at this time and economic forecasts from a range of sources, we are making the following key assumptions for the FY 2019/20 proposed budget:

1. The local economy will continue to expand during FY 2019/20, resulting in total General Fund resources (revenues and transfers in) increasing by 2.0% over estimated actual resources in FY 2018/19.

2. Total General Fund use of resources (expenditures and transfers out) is proposed to be just slightly more (0.3%) than the estimated actual amounts for FY 2018/19.
3. The costs of the FY 2019/20 proposed budget will be covered by projected resources and unreserved fund balance, without requiring the use of reserves to balance the budget.
4. As the City is currently engaged in a collective bargaining process with its employee groups, the FY 2019/20 proposed budget includes a placeholder salary adjustment of 2.5%.
5. Total expenditures in the FY 2019/20 proposed budget include a savings assumption of \$7.0 million (approximately 3.2% of total budgeted expenditures and transfers out in FY 2019/20) to reflect the City's historical experience of under-spending total allocated resources, primarily due to salary savings from vacant positions.
6. The FY 2019/20 proposed budget includes CIP funding for streets, sidewalks, and facilities maintenance, parks and street medians capital replacement, capital improvements to achieve compliance with ADA standards, and the City's Downtown Plan.
7. In accordance with City Council policy, an additional pension contribution of \$2.4 million to more rapidly pay down the City's unfunded liability has been incorporated into the proposed budget.
8. Reflecting the possibility of an economic slowdown and the increased budgetary pressure from escalating state-mandated pension contributions, the Budget Uncertainty Reserve has been increased from \$3.7 million to \$8.3 million, an amount roughly equivalent to three years of projected sales tax growth.
9. The General Fund's three primary reserves have been consolidated into a single Contingency Reserve established at 16.7% of total expenditures and transfers out, the minimum level recommended by the Government Finance Officers Association of the United States and Canada (GFOA).
10. The proposed budget includes the allocation of \$8.4 million of FY 2018/19 ending unreserved fund balance to increase Budget Uncertainty Reserve and the Contingency Reserve. As part of the FY 2018/19 Year-End Update in fall 2019, staff will bring forward recommendations for allocating any remaining available General Fund unreserved ending fund balance to address one-time priority projects, programs, or reserve augmentation.

Planning for Future Needs

Fremont is a great place to live, work and do business. However, like many cities throughout California, our City faces long-term fiscal challenges that impact the City's ability to maintain quality of life services at the level residents want and deserve. Important quality of life services we must continue to protect, maintain and improve include:

- Police/Fire protection and emergency response services
- Garbage and recycling services
- Maintaining public parks
- Streets/Roads repair
- Protecting the safety of drivers, bikers, and pedestrians.

As we begin to face the fiscal challenge of rapidly rising state-mandated pension contributions, we continue to grapple with increasing needs for public safety services and the growing cost of maintaining Fremont's roads and other infrastructure. The anticipated

construction of 4,000 new residential units in Warm Springs, as well as other development throughout the City, will require adequate police staffing and the addition of a new fire engine company over the next several years to protect public safety. The majority of Fremont's public infrastructure was constructed many years ago and now requires either an increased level or increased frequency of repairs, compounded by not having had adequate resources to spend on maintenance in the past. The recently completed Building Facilities Condition Assessment identified \$46 million of funding needs over the next five years. Moreover, as Fremont continues to grow, additional infrastructure is added that must be maintained, further stretching the City's limited maintenance resources.

Finally, new requirements result in increased costs. Some of these requirements are voluntary, such as the City's commitment to improving traffic and pedestrian safety and traffic congestion, and encouraging alternative forms of transportation, through implementation of the Mobility Action Plan. Components of the Mobility Action Plan, such as completion of the Safe Routes to Schools program (\$25 million), signal modernization (\$20 million), and construction of major bicycle and pedestrian infrastructure (\$200 million) are costly and will necessitate development of enhanced funding sources. Other new requirements, which are regulatory in nature, have increased dramatically over the last few years, and have added significant costs to City operations. The City's Americans with Disabilities Act (ADA) Transition Plan is projected to need \$107 million over the next 25 years.

The inability to adequately fund ongoing maintenance and recapitalization of the City's infrastructure is a major concern, but the FY 2019/20 proposed budget includes allocations to step up street repair and building maintenance activities. The proposed budget also addresses pressing needs in other areas of the organization and the community, including the addition of adequate public safety staffing and services, technology investments to expand public access to online services, increase transparency, and secure the City's data, assistance to developers of affordable housing, and resources to help the City's homeless population find shelter and services.

Major City Initiatives

Although the City's current fiscal situation is challenging, affecting the breadth and depth of essential services offered to the community, there are many important initiatives currently underway. These initiatives are important elements of our sales tax diversification strategy, and the investments will position the City well for long-term growth and stability.

Development: There are a number of significant development projects and initiatives underway. These are all important elements of our sales tax diversification strategy.

Warm Springs/South Fremont: The Warm Springs/South Fremont area is critically important to the City because of a unique convergence of forces. The Warm Springs/South Fremont BART station, located just northeast of the Tesla Factory, opened for service on March 25, 2017. The station enhances intermodal access to local bike routes and bus lines that serve the entire Bay Area (VTA and AC Transit) and provides critical connectivity to the City's existing and future employment centers in the general Warm Springs area. This connectivity will serve as a catalyst for attracting business and jobs to the area, allowing Warm Springs to become the City's preeminent employment hub. Under a partnership with

BART, the 10-mile BART extension south to San Jose by VTA is anticipated to be ready for passenger service in 2019, connecting Fremont to the rest of Silicon Valley for the first time.

The Warm Springs/South Fremont Community Plan, adopted in July 2014, incorporates market analysis, an environmental review of the area, and results of the City's community engagement into a land use plan and accompanying development and design standards for the area. Major infrastructure projects that serve as catalysts for development within the Warm Springs area were identified, including the Warm Springs West Access Bridge project which is now under construction. The project will improve multimodal access to the new BART Station by connecting the existing and proposed workforce west of the station. Construction of the project is funded by Alameda County Measure BB. The project is anticipated to be completed by early 2020.

The Warm Springs Innovation District is actively undergoing a significant transition with large-scale mixed-use development projects, significant public infrastructure improvements, and planned expansions of innovative companies. The City Council has approved development master plans, which are under construction by Lennar, Toll Brothers, Valley Oak Partners and their affiliates. These projects collectively will provide extensive public benefits, including complete streets, a new elementary school, an urban park and plazas, 4,000 residential units of which 524 are affordable rental units and 1.7 million square feet of new commercial space, and a new hotel. These master-planned projects are at various stages of permitting and construction. Construction of the first buildings, including the new school, park facilities, and affordable housing units, are underway and will be completed this year.

Other entitled projects adding additional job growth include 584,000 square feet of Class A office space and 110,000 square feet of advanced manufacturing space proposed by Sobrato. Tesla's master plan approval by City Council in December 2016 has also paved the way for the carmaker's planned expansions. Tesla continues to make efficiency improvements to its automation assembly line to reach its production goals.

To support marketing the commercial/employment development opportunities, efforts are underway to enhance the Warm Springs brand as an Innovation District. In 2018, a study was completed to assess the feasibility of establishing an innovation center in the area. The study revealed an opportunity to establish activities in the District that support growth-stage hardware companies.

Downtown/Capitol Avenue: With its ideal Silicon Valley location, Downtown Fremont is poised to become a vibrant, urban mixed-use district that will serve as a destination for the city and the region. This 110-acre centrally located commercial district is bounded by Fremont Boulevard, Mowry Avenue, Paseo Padre Parkway, and Walnut Avenue. Incentives are in place for new development that will help create an exciting new Downtown for Fremont.

Downtown's main street extension and multimodal improvements along Capitol Avenue have been completed to serve as the district's "retail spine," connecting two major north/south thoroughfares along a well-designed, pedestrian-oriented, mixed-use corridor. This provides a focal point and community gathering space – a more sustainable, pedestrian-friendly public realm activated with street-level commercial, retail, and civic

uses, and public open spaces that stimulate economic activity and attract high-quality, vibrant development to the district.

In addition, construction of connectivity and aesthetic improvements through Gateway Plaza and along BART Way will be completed this year, making walking and bicycling inviting and safe between Downtown and the Fremont BART Station. This will be accomplished with wider sidewalks, pedestrian-scaled lighting, new way-finding signage, improved bike lanes, and additional landscaping. Development projects will be able to take advantage of the close proximity and enhanced connections to the Fremont BART station. The proposed building development patterns will enhance the district's character to a mid-density, transit-oriented community directly fronting, and integrating with, streets and sidewalks.

The ultimate plan calls for development to expand from 1.25 million square feet to 5.2 million square feet, much of which will be additional office (including new, consolidated City offices) and residential uses. Other uses will include retail, entertainment, open space, and cultural arts organized around the main street, Capitol Avenue.

Some elements of the overall plan have been completed; for example, Urban Housing completed a 300-unit apartment project in 2013, and construction of Downtown's first public-private partnership mixed use project between the City, TMG Partners, Sares Regis and SummerHill will be completed this year. The project includes 157 ownership housing units, including condos, stacked flats, and row homes, and 21,000 square feet of critical ground floor retail space that will set the tone for a vibrant pedestrian environment. Leasing of this retail space is actively underway. The completion of Downtown's new main street has become a catalyst for attracting additional private investment as several projects in the immediate area are in the planning and design stages, by a variety of developers, including Fore Properties and Bay Rock.

In addition, the City has been planning the development of the Civic Center, which will be located in the heart of the Downtown and provide a public realm designed to include a gathering place for governmental and community activities. Construction of Phase 1, a new Downtown event center and civic plaza, was approved by Council in April 2018 and is anticipated to break ground late this year. In the time remaining prior to the ground breaking, the city has partnered with Public Space Authority to enliven the space with food trucks, a beer garden, maker spaces, a stage and other leisure activities.

The Downtown District has also been designated as a federal opportunity zone. As one of only a few Bay Area cities to receive such a designation, the associated tax benefits will make investment in Downtown even more compelling.

Economic Development: Building Fremont's robust Advanced Industry profile remains a top priority for the City and is critical to maintaining a diverse sales tax base. Important initiatives and accomplishments related to this effort are outlined below.

Sector Highlights

Fremont's largest sector, **biotechnology**, continues to be an important source of growth. The fact that most of Fremont's biomedical companies also manufacture is of particular importance given the ripple effects in the larger economy – encompassing job creation and a growing supply chain network. Pharmaceutical manufacturer, **Boehringer Ingelheim**,

has invested \$300 million to expand its Ardenwood operation and will be adding 300 additional jobs, doubling its workforce. In the Warm Springs Innovation District, U.K.-based **Orchard Therapeutics** announced it is building out a large gene therapy manufacturing operation. Fremont also welcomed biomedical startup **PrinterPrezz**, who is revolutionizing “medifufacturing”, through advanced 3D printing, and **NovoNordisk**, a world leader in diabetes care. To support this growing ecosystem, the City has partnered with a variety of organizations, including **Biocom**, the **Biomedical Manufacturing Network**, and **Bio Supply Management Association** to hold industry events and seminars in Fremont regarding product commercialization and to facilitate B2B interaction.

The City continues to be a top location choice for the **clean technology** sector, both at the early stage and for companies beginning to scale. In 2018 we welcomed several new cleantech firms such as **Raxium**, **Amprius**, and **Antora Energy**. Industry partnerships are also an important tool for the City in raising its visibility within the cleantech community. We are continuing our collaboration with the **Cleantech Open** (CTO). The organization holds two of its main events– the CTO Business Briefing and the CTO Western Region Academy in June –in Fremont. With cleantech being one of Fremont’s most prominent industry clusters, we are committed to supporting the growth of our innovation economy by serving as a test bed and demonstrating market opportunities for our local companies. In 2018, we celebrated the completion and activation of a **microgrid** demonstration project at our fire stations. Through a public-private partnership between the City, **Gridscape Solutions**, and the **California Energy Commission (CEC)**, the microgrids installed at three of the City’s fire stations are now a model for other California cities.

Fremont’s long-standing leadership in **advanced manufacturing** is at the foundation of the aforementioned sector strength. In addition to biotechnology and clean technology, the City is experiencing rapid growth in technologies related to **industrial automation equipment and autonomous vehicles**. In these categories, Fremont is now home to several new companies that represent these new clusters including **Zoox**, **Pony.ai**, and **Kuka Robotics**, all of which are enablers of ‘smart’ manufacturing.

At the center of this advanced manufacturing ecosystem and supply chain is **Tesla**. As the largest manufacturer in the state of California (and the largest employer in Fremont) Tesla is an economic engine unto itself. The City’s development services team continued to work closely with Tesla as they completed the implementation of the Model 3 line and began producing their newest vehicle. This included the construction of new buildings on the factory site and other site improvements, which were a direct result of Tesla’s Master Plan.

With a heightened focus on the future of the **workforce** in advanced manufacturing, the City has increased its own efforts on the topic. **The Aviation Institute of Maintenance** relocated to a new facility in Fremont to grow student population and improve training amenities. Fremont is continuing its partnership with the **FUSE Corps Fellow**, who is working with the Alameda County Library to foster innovation in education in Library programs and exposing the next generation to new models of learning. This builds on the City’s very successful **Manufacturing Day** program that connects education and industry, exposing students to the prospect of a career in manufacturing. For six years in a row, Fremont has organized this effort, coordinating students and teachers from Mission Valley ROP, Fremont Unified School District, Ohlone College, and the public at-large on tours of manufacturing facilities in Fremont. Economic Development staff continues to serve on the **Alameda County Workforce Investment Board (ACWIB)** and is taking a leadership role

in strengthening existing relationships with workforce partners. The City is also part of the advisory roundtable for Ohlone College to provide input on the new Advanced Manufacturing curriculum that is currently being developed. And finally, Fremont supported the relocation of Alameda County **Small Business Development Center (SBDC)** to Ohlone College's One-Stop Career Center.

Business Growth and Real Estate Development

Last year was again a very strong year for business expansion and new business growth, resulting in significant leasing activity and driving commercial vacancy rates to unprecedented lows. The historically low vacancy rates and higher rents in R&D have led to investments in both existing commercial real estate assets and new development projects in Fremont's **Innovation District**. Among recent asset acquisitions was **Duke Realty** purchasing a series of buildings in Bayside and proposing a new Class A industrial project in their place. Real estate investment firm **Vertical Ventures** recently purchased three industrial buildings on Milmont Drive totaling approximately 210,000 SF for more than 500% increase in valuation from when the buildings were last sold in 2009. Similarly, **JLL Income Property Trust** recently acquired approximately 240,000 SF of industrial space in Bayside at a nearly 50% higher valuation than the buildings last sold for in 2014. Each of these examples represents a substantial increase in property tax assessment.

Much of the City's business growth is also occurring in the **Ardenwood Technology Park**, which is benefiting from the strength of the region's real estate market with significant tenant 'spillover' activity from areas to the west. Recognizing the opportunity, new and expanding tenants are establishing operations in the district. Most notably, **Facebook** has now leased nearly 1 million SF of existing space, where they have begun to build out a new campus to serve growing operations and workforce commuting from Fremont and the surrounding east bay. Meanwhile, as mentioned previously, existing Ardenwood biotech tenant, **Boehringer Ingelheim**, completed a significant expansion in the District.

Strong business growth and a robust real estate market also continue to drive demand for new commercial/industrial space in Fremont. The new development project, **Pacific Commons South**, is actively under construction and is the largest industrial development project in the Bay Area. A joint development by Overton Moore Properties and Conor Commercial, the project includes approximately 2.7 million square feet of Class A industrial space in a series of buildings, along with two new sites for auto dealership development. Combined, this project will be a significant new source of employment and revenue for the City.

Startups and Small Business

Nurturing future innovators is a critical part of the economic development program. Fremont's **Startup Grind** chapter continues to be very active, bringing in an impressive lineup of speakers to its monthly meetings and has earned broad recognition for attracting this caliber of thought leaders and for addressing topics of local interest.

In order to help anchor Fremont's startup ecosystem, the City is pursuing strategies to establish an **innovation center** in the Innovation District, further distinguishing the City as having one of the only manufacturing-anchored Innovation Districts in the nation. In 2018, the City completed a feasibility study in partnership with **the Los Angeles Cleantech**

Incubator (LACI), to analyze the feasibility for such activities and staff is now implementing recommendations from their report, including contracting with a qualified organization or individual to assist in establishing and operating a series of innovation cultivator activities in the District, targeting growth-stage manufacturing/hardware companies

Some of the most important work we do is supporting small businesses and commercial districts in the City. Considered a staple of the City's economic development program, a variety of engagement occurs on an ongoing basis to support this sector, including permit assistance through our **Business Ally** program, educational workshops/seminars in collaboration with **SBDC**, and regular commercial district **'walkabouts.'** Adding to this set of activities, the City has also begun to enact a **marketing campaign** to promote Fremont's main street environments, including the development of a new website module featured on the City's business website. Going forward, additional opportunities and resources will also be made available for our small business district community through a newly established partnership with the National Main Street Association.

Retail / Amenities

There are several new additions to the City's retail environment for the community to enjoy. **Pacific Commons** continues to attract a diverse retail mix, including **Koja Kitchen, The Halal Guys,** and **Meet Fresh.** The new Artist Walk mixed-use project in Centerville has also provided a variety of new retail amenities for the community. Now fully leased, the project boasts both local and national tenants, including **Rapid Fired Pizza, Bun Appétit Donuts, Orange Theory Fitness, Momo and Kebab,** and **Sola Salon.**

Fremont's **Auto Mall** has been recognized as one of the most successful in the Bay Area. Not only is this an important amenity for our community and the broader region, but it's a critical part of our tax base and the City's economic health. Citing strong performance, several existing auto dealers invested in their facilities and expanded their operations last year. With the recent approval of the Pacific Commons South industrial project adjacent to the existing Auto Mall, **two new auto dealership sites** have been entitled and purchased by Auto Nation.

The City's hospitality sector is also growing, driven by a strong economy. Three new hotel development projects are currently underway (securing permits or under construction), including **Homewood Suites** by Hilton, **Hilton Garden Inn,** and **Springhill Suites** by Marriott. In addition, the City has also recently received an application for a dual-branded **Marriott AC and Residence Inn** hotel in the Warm Springs Innovation District, within walking distance to the Warm Springs/South Fremont BART station.

Capital Projects: Despite the challenges in the City's General Fund, the City continues to pursue a variety of major capital projects that will help address regional traffic congestion, improve safety for drivers, bikers, and pedestrians, and enhance Fremont's economic development opportunities. These projects can proceed because, for the most part, they do not rely on the City's General Fund. Rather, their funding comes from such sources as traffic impact fees, competitive grants, and State and regional sources.

- Significant regional transportation capacity projects are under construction and will be completed in the near-term: the 10-mile extension of BART into San Jose (Warm Springs to Berryessa) is scheduled to open at the end of 2019, and the widening of northbound I-680 through Fremont will be complete in late 2020.
- In Warm Springs, the new \$41 million West Access Bridge and Plaza is under construction and is scheduled for completion in summer 2020. The project will connect the west side of the Warm Springs BART station to the newly developing urban community and the expanding Tesla factory. Measure BB grant funding has been allocated to plan and design a new bicycle and pedestrian bridge over I-880 to continue the East Bay Greenway Trail and connect the Warm Springs BART station area, Tesla Motors factory, Bayside Business District and the Bay Trail.
- The multimodal streetscapes around Downtown Fremont will continue to be enhanced with grant funding targeted toward projects on BART Way (completed in May 2019), Walnut Avenue and Fremont Boulevard. Additionally, the segment of Fremont Boulevard in the Centerville area is funded for streetscape improvements by a Federal grant and with construction planned to start in 2021.
- The City's transportation infrastructure is continuing to be rehabilitated and modernized through a combination of Measure BB and new State transportation funds (SB1) targeted towards pavement maintenance, sidewalk repairs, ADA curb ramps, traffic safety improvements, and traffic signal upgrades. A significant \$10 million project funded by Measure BB, will modernize the traffic signals along Fremont Boulevard to be a showcase for advanced traffic signal technologies allowing for improved traffic flow and safety, priority for transit buses and emergency vehicles, and electronic communications between signals, cars, pedestrians and bikes.

Legislative Advocacy: The City has continued to be proactive with its legislative advocacy efforts and has forged ahead with building partnerships at the federal, state, and regional levels to ensure the interests of Fremont and the region are preserved. The Council's annual review and approval of the City's Legislative Guiding Principles and Priorities – which serve as a foundation for pursuing the City's major initiatives – remains proven as an effective instrument for garnering broad support, protecting local control, and creating alliances that work to resolve regional challenges.

At the City Council Retreat, held in January 2019, Councilmembers established three top priority areas for staff to place a particular legislative focus. The priority areas include:

- Balanced Growth
- Traffic Management and Mitigation
- Support to Neighborhood Commercial Districts

Conclusion

Fremont prides itself on being a fiscally responsible, lean organization, making the most of the resources entrusted to us. The prolonged recession forced us to focus those resources on providing essential quality of life services valued by the community. Fiscal discipline and

wise stewardship over many years have made it possible for us to take a balanced approach as we have strategically restored service levels. Those same traits will serve us well as we begin to address the new set of fiscal challenges and planning for future needs.

FISCAL IMPACT: The City Council is not being asked to take action tonight on the FY 2019/20 Proposed Operating Budget other than to hold a public hearing and provide comments to staff. A second public hearing and adoption of the budget are scheduled for June 11, 2019.

ENVIRONMENTAL REVIEW: N/A

LINK: The FY 2019/20 Proposed Operating Budget is posted on the City's website at: https://www.fremont.gov/DocumentCenter/View/41232/FY201920-Proposed-Budget_PDF-Web-Version.

RECOMMENDATIONS:

1. Hold a public hearing.
2. Provide direction to staff on issues pertaining to the FY 2019/20 Proposed Operating Budget.