

THE WALL STREET JOURNAL.
CFONETWORK

VIEW THE PROGRAM

Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit www.djreprints.com

See a sample reprint in PDF format.

Order a reprint of this article now

THE WALL STREET JOURNAL.

WSJ.com

SAN FRANCISCO BAY AREA | JUNE 2, 2011

City Faces \$30 Million Dilemma

Google's Lease Payment to Mountain View Leaves Officials at Odds Over How to Spend the Money

By JUSTIN SCHECK



Winni Wintermeyer for The Wall Street Journal

Mountain View councilman Tom Means, at the site Google leases from the city. Mr. Means wants the city to use the interest plus some of the principal each year from Google's lease payout for municipal expenses.

MOUNTAIN VIEW, Calif.— Facing a \$2 million deficit and the prospect of deep budget cuts this year, officials in Mountain View are hoping a \$30 million windfall the city is receiving from Google Inc. will alleviate some of the financial pain. But first, the city needs to decide how, and when, to use the money.

The Internet giant is paying

the city an upfront fee to lease 9.4 acres of vacant land for 52 years. Google plans to build offices on the property, which sits next to Google's headquarters and adjacent to another vacant parcel Google is planning to develop. "This development is integral to our expansion plans as we continue to grow in Mountain View," a Google spokesman said in a statement.

City leaders say the payout is a good deal for Mountain View—"a feather in our cap," said Mayor Jac Siegel—since the city had been trying unsuccessfully for years to get a hotel built on the land. But like a lottery winner faced with unexpected cash, the money has forced the city council to confront differing views on long-term fiscal responsibility.

Council member Laura Macias supports the city finance director's recommendation to use the \$30 million as an endowment, spending only the interest it generates for the next five decades. "To draw down the principal would be really irresponsible," said Ms. Macias.

But council member Tom Means suggests using the interest plus some of the principal each year to pay city expenses. "The problem with some of the council members is they don't know how to do present-value analysis," Mr. Means said. The \$30 million in today's dollars will be worth far less in 50 years, he said.

Mayor Siegel, on the other hand, wants to use a sizable chunk of the cash for the city to buy land or build infrastructure.

The debate stems in part from the unconventional nature of the Google deal. Upfront lease payments are uncommon for local governments, said Jeff Small, a partner with Capitol PFG, a Sacramento consulting firm that provides financial advice to local governments. There are few, if any, examples for Mountain View to follow.

Mr. Small, who doesn't work for Mountain View, said that since the Google lease is considered "unrestricted revenue, then it's up for the city council to decide" how to use it.

Google's money does come with a catch: If Google were to terminate the lease agreement due to delays in the construction-permitting process or other setbacks, the city would have to pay back the principal. The city therefore shouldn't spend much of the \$30 million in the near term, said Patty Kong, the city finance director. The city does get to keep annual interest the money has generated no matter what happens.

Ms. Kong has outlined several options to the city council. Creating an endowment would give the city about \$1 million a year in interest to use; Ms. Kong suggests using \$750,000 a year of it for general expenses, reserving the rest for special projects. In the first year, the entire interest payment would be used to help offset next year's \$2 million deficit, she suggests. "We're looking at this money as helping to bridge that deficit," Ms. Kong said.

Another option would be to slowly draw down the \$30 million, withdrawing interest and a small amount of principal annually, a plan that would generate substantially more than the \$1 million a year for the city to use for purposes like offsetting next year's budget shortfall.

Mountain View is viewed by some as the birthplace of Silicon Valley—early advances in microchip technology took place here—and has been subject to multiple tech booms and busts over the past 40 years. In addition to Google, Mountain View is home to software companies including Intuit Inc. and Symantec Corp., as well as a big Microsoft Corp. campus.

Over the years, the city has been able to keep its finances relatively stable in part by leasing land near San Francisco Bay to tech firms such as Google. With fairly steady income from real estate, the city's finances have been less volatile than those of other municipalities in California.

The recent recession and rising pension obligations nevertheless have depleted city coffers. Mountain View leaders have been discussing ways to curb the budget shortfall, including trying to win concessions from public-employee unions. But union officials say worker contributions already are substantial and that the Google money should be tapped for city services.

Council members say the Google money will fill only a small piece of the shortfall, and that with pension expenses rising in coming years, the city will have to make structural changes to its budget to avoid chronic deficits. But Mr. Means said he believes there is nothing wrong with using the money to pay for normal annual expenditures.

Ms. Macias says she wants to be more cautious, and hold on to the principal in case the economy worsens. As the council debates how to use the money over the next month or so, she said, they will have to factor in the possibility of another slump. In coming years, she said, "we don't know how tough it's going to be for cities."

The council is expected to make a decision about the money later this month or early next month.

Write to Justin Scheck at justin.scheck@wsj.com

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com

UPCOMING GAMES:

MLB

Padres @ SF Giants

Monday July 4, 2011 at 2:05 pm

[GET TICKETS](#) »

MLB

Indians @ SF Giants

Saturday June 25, 2011 at 1:10 pm

[GET TICKETS](#) »

MLB

Indians @ SF Giants

Sunday June 26, 2011 at 5:05 pm

[GET TICKETS](#) »

MLB

Indians @ SF Giants

Friday June 24, 2011 at 7:15 pm

[GET TICKETS](#) »

MLB

Twins @ SF Giants

Wednesday June 22, 2011 at 7:15 pm

[GET TICKETS](#) »

[See More Games From Seat Geek](#) »
