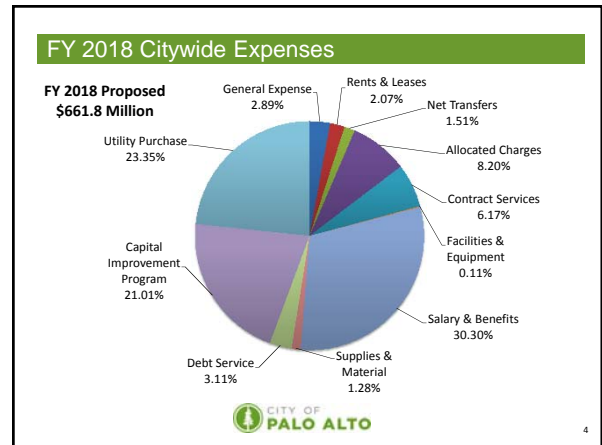
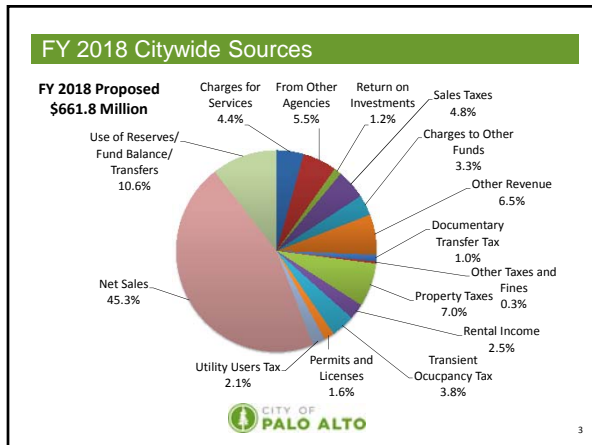
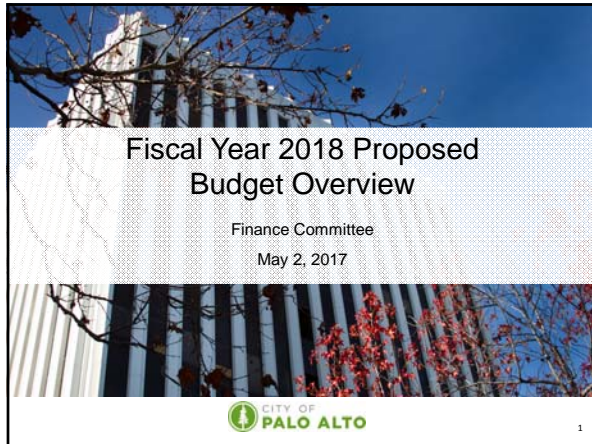


May 2, 2017

Received Before Meeting



**FY 2018 Citywide Positions**

	GF	ENT	Other*	Total
FY 2017 Adopted Budget	603.94	353.61	94.55	1,052.10
FY 2017 Approved Adjustments	1.25	0.75	-	2.00
FY 2017 Modified Budget	605.19	354.36	94.55	1,054.10
FY 2018 Reallocations	0.35	2.50	1.00	3.85
FY 2018 Net Additions	(1.12)	-	1.12	-
<b>Subtotal of 2018 Changes</b>	<b>(0.77)</b>	<b>2.50</b>	<b>2.12</b>	<b>3.85</b>
<b>FY 2018 Proposed Budget</b>	<b>604.42</b>	<b>356.86</b>	<b>96.67</b>	<b>1,057.95</b>

\* Other Funds include the Capital Improvement, Internal Service, and Special Revenue Funds.


CITY OF PALO ALTO

**Average Salary & Benefit Changes**  
(compared to FY 2017 Adopted Budget)

Expenses Category	GENERAL FUND			ALL FUNDS		
	FY 2018 Proposed	\$ Change	% Change	FY 2018 Proposed	\$ Change	% Change
Salary	74,333	3,681	5.2%	127,846	6,019	4.9%
Pension	23,363	2,295	10.9%	37,647	3,581	10.5%
Healthcare	13,654	356	2.7%	24,010	851	3.7%
Retiree Health	9,808	485	5.2%	14,527	719	5.2%
Other Benefits	4,673	2,620	127.6%	6,986	3,924	128.1%
<b>Total</b>	<b>\$125,831</b>	<b>\$ 9,437</b>	<b>8.1%</b>	<b>\$211,016</b>	<b>\$15,094</b>	<b>7.7%</b>

CITY OF PALO ALTO

## Internal Service Funds




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### Internal Service Fund Allocated Charges


(compared to FY 2017 Adopted Budget)

Fund	GENERAL FUND			ALL FUNDS		
	FY 2017 Adopted	FY 2018 Proposed	% Change	FY 2017 Adopted	FY 2018 Proposed	% Change
General Benefits Fund	0	350	N/A	0	600	N/A
General Liability Fund	0	973	N/A	0	1,775	N/A
Print & Mail Fund	823	974	18.3%	1,297	1,453	12.0%
Retiree Healthcare Fnd	9,323	9,808	5.2%	13,808	14,527	5.2%
Technology Fund	6,320	6,036	-4.5%	13,788	13,736	-0.4%
Vehicle Fund	5,021	5,020	0.0%	8,885	8,886	0.0%
Workers' Comp Fund	1,250	3,559	184.7%	1,871	5,225	179.3%
<b>Total</b>	<b>\$ 22,737</b>	<b>\$ 26,720</b>	<b>17.5%</b>	<b>\$39,649</b>	<b>\$46,202</b>	<b>16.5%</b>

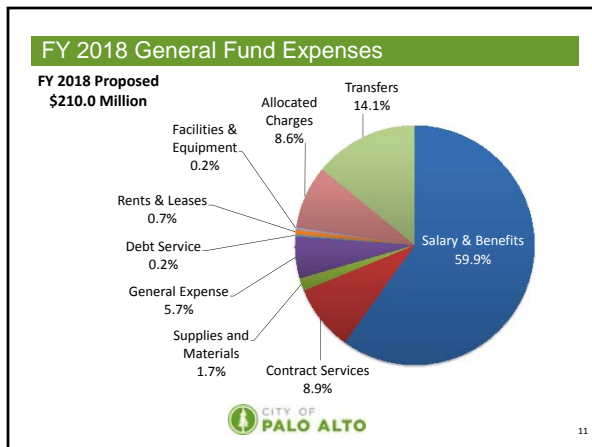
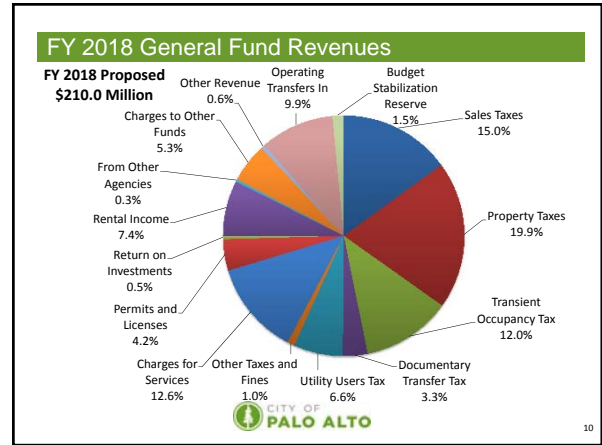


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## General Fund



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### General Fund Gap Drivers


- Project Safety Net – Track Watch (\$1.7 million)
- City streetlights & traffic signal electricity costs (\$2.3 million)
- Stanford negotiations for fire services (\$2.0 million)




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### General Fund - Balancing

	FY 2018	Ongoing
<b>General Fund Gap</b>	<b>\$ (4,537)</b>	<b>\$ 786</b>
<i>Source of Funds</i>		
New Fees	250	250
Community Services Fees	236	236
Various other charges for services and permits	230	230
<b>Subtotal Source of Funds</b>	<b>\$ 716</b>	<b>\$ 716</b>
<i>Use of Funds</i>		
Service Level Investments & Enhancements	1,248	1,589
Reserves (created for specific projects)	900	500
One-time Investments/Savings	140	-
Cost Reductions/Service Delivery Efficiencies/Funding Shifts	(2,921)	(4,301)
General Fund Budget Stabilization Reserve at 18.5% or \$38.9 million	(3,461)	-
<b>Subtotal Use of Funds</b>	<b>\$ (4,094)</b>	<b>\$ (2,212)</b>
<b>Total Balancing Strategy</b>	<b>\$ 4,810</b>	<b>\$ 2,928</b>
Unspent General Fund	\$ 273	\$ 3,714



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### General Fund - Major Budget Proposals

**Cost Reductions/Service Delivery Efficiencies/Funding Shifts:**


- Fire Services Deployment Changes (-\$1.3 million, ongoing)
- Project Safety Net – Track Watch (-\$460,000, ongoing - \$1.7 million)
- Reduced IT allocated charges (-\$365,000, one-time)
- 10 Year Tree Trimming Cycle (-\$338,000, ongoing)
- Aquatics Program position freeze (-\$143,000, one-time)
- Reduced facilities and street operations (-\$124,000, ongoing)
- Elimination of Community Service Officer (-\$110,000, ongoing)





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- ### General Fund - Major Budget Proposals
- Service Level Investments & Enhancements:**
- Parking evaluation study (\$150,000, one-time)
  - Labor negotiations (\$100,000, one-time)
  - Fire medical supplies, equipment maintenance & replacement (\$206,000, ongoing \$80,000)
  - Caltrain Video Management System (\$300,000, ongoing \$600,000)
  - Police Public Information Officer (\$192,000, ongoing)
  - Interfund Loans – Airport Fund & Cal Ave Parking Fund (\$275,000, ongoing \$200,000)
  - Community Services: art classes, JMZ special events, theater (\$64,000, ongoing)
- 
- 15

### Special Revenue Funds



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- ### Special Revenue Funds - Major Initiatives
- Federal & State Revenue Funds**
- Delays in the FY 2018 allocation process for Community Development Block Grant Funding due to changes at the Federal level (approx. \$818,000)
- Street Improvement Funds**
- New legislation passed: SB 1; effective July 1, 2017 raising revenues up to \$1.2 million in out years (\$600,000 in FY 2018)
- Parking Funds**
- Increased revenue estimates 25% to 75% reflecting increases in permit prices
  - Significant investments on the horizon
- Stanford University Medical Center (Development Agreement)**
- Next phase of funding anticipated in calendar year 2017, estimated at \$11.7 million
- 
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### Enterprise Funds




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### FY 2018 Utility Rate Changes

Utility Service	Proposed Rate Change
Electric	10.8%
Gas	4.6%
Wastewater	0.0%
Water Utility*	-3.4%
Refuse	5.0%
Storm Drain	4.8%
User Tax	2.1%
<b>Total</b>	<b>2.5%</b>


Total monthly bill is estimated to increase \$6.79 per month, or 2.5% to \$278.39 per month.

\* Amended subsequent to the last Finance Committee presentation



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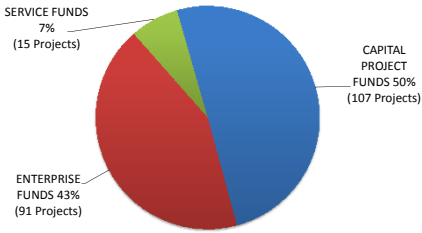
### Capital Budget




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### Capital Budget Overview

**Fiscal Year 2018-2022 Proposed Projects by Fund Type**



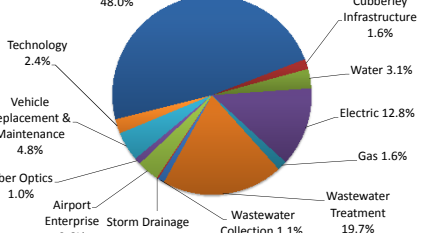
Fund Type	Percentage	Number of Projects
Capital Project Funds	50%	107
Enterprise Funds	43%	91
Internal Service Funds	7%	15




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### FY 2018 Proposed Capital Budget Expenses

**2018 Capital Budget Expenditures - \$157.2 Million**



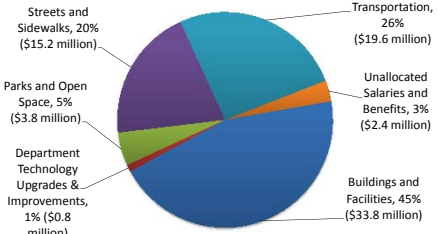
Category	Percentage
Capital Improvement	48.0%
Wastewater Treatment	19.7%
Electric	12.8%
Gas	1.6%
Vehicle Replacement & Maintenance	4.8%
Fiber Optics	1.0%
Technology	2.4%
Water	3.1%
Cubberley Infrastructure	1.6%
Storm Drainage	0.2%
Wastewater Collection	1.1%
Airport Enterprise	3.6%




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### FY 2018 Capital Improvement Fund Expenses

**Fiscal Year 2018 Proposed Capital Improvement Fund Projects by Category (\$75.5 million)**



Category	Percentage	Amount
Buildings and Facilities	45%	\$33.8 million
Traffic and Transportation	26%	\$19.6 million
Streets and Sidewalks	20%	\$15.2 million
Parks and Open Space	5%	\$3.8 million
Department Technology Upgrades & Improvements	1%	\$0.8 million
Unallocated Salaries and Benefits	3%	\$2.4 million




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### Infrastructure Plan

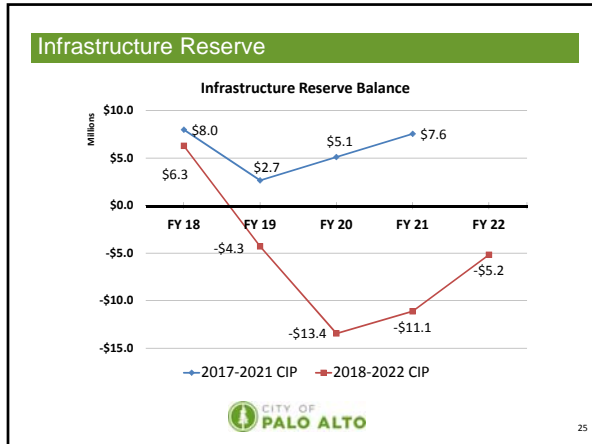
**\$196 million estimated cost**  
(excludes full salaries & benefits and public art funding)

- Public Safety Building (potential \$75.3 million)
- California Avenue Area Parking Garage (\$34.8 million, CMR #7738, 4/3/17)\*
- Downtown Area Parking Garage (\$23.5 million, CMR #7942, 4/11/17)\*
- Bicycle/Pedestrian Transportation Plan (\$20.0 million)
- Replacement of Fire Stations 3 and 4 (\$15.6 million)
- Highway 101 Bicycle/Pedestrian Bridge (\$14.0 million)
- Charleston/Arastradero Corridor Improvements (\$10.0 million)
- Byxbee Park Completion (\$2.8 million)

\* Includes additional costs of \$35.7 million as approved by the City Council in April 2017



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### Summary

### Costs/Revenues - Not Included

**Year 1**

- Transportation costs to mitigate traffic issues
- Parking Management Comprehensive Plan
- Animal Shelter Service Delivery
- Transient Occupancy Tax (TOT) increases related to two new, potential hotels
- Junior Museum and Zoo Phase II
- Cubberley Community Center Master Plan
- Parks Master Plan
- Unfunded Actuarial Liability for Pension and Retiree Healthcare Trusts
- City owned assets operated by non-profit organizations
- Potential recession

**Year 5**

### Looking Forward

- Manage expectations of the Council, community, & staff
- Address pension and retiree healthcare unfunded liabilities (continue discussions fall of FY 2018)
- Continue service delivery evaluations to maintain high quality services while mitigating cost escalation
- Upcoming labor negotiations will necessitate holistic analysis balancing long term financial implications while remaining a competitive employer of choice
- Significant investments requiring new revenues to fund strategic initiatives such as grade separation and Cubberley master plan and improvements
- Capital Improvements – emerging gap in available funding

### Budget Hearing Proceedings

- Schedule

Monday	Tuesday	Wednesday	Thursday	Friday
1	2	3	4	5
	FC @ 6pm		FC @ 7pm	
8	9	10	11	12
	FC @ 6pm			
15	16	17	18	19
			FC @ 2pm	
22	23	24	25	26
	FC @ 6pm			

- Meeting proceedings:
  - Department presentations will review accomplishments/initiatives and significant budget proposals
  - Finance Committee questions

Follow-up items: staff will do their best to complete follow-up by the next hearing.



### FY 2018 Proposed Operating Budget

#### City Council Appointees

Operating Budget pp. 127-173  
Finance Committee  
May 2, 2017


### Significant Budget Proposals

- **City Attorney:** simplify Attorney classification structure (-\$7,000, ongoing)
- **City Auditor:** N/A
- **City Clerk:** Boards & Commission recruitment cost savings (-\$35,000, ongoing)
- **City Council:** N/A
  - City Council contingency to be discussed during *Non-Departmental*
- **City Manager:** Citywide parking evaluation and change management (\$150,000, one-time)

## FY 2018 Proposed Operating Budget Office of Sustainability

Operating Budget pp. 305-313  
Finance Committee  
May 2, 2017



### Accomplishments & Initiatives

**Accomplishments**

- Sustainability and Climate Action Plan (S/CAP)
- Sustainability Implementation Plan (SIP)
- Carbon neutral natural gas plan
- \$1m FTA Mobility Sandbox grant
- Cool Block pilot
- USDN Finance Scan and Toolkit
- USDN Sustainable Purchasing toolkit
- Multi-city ZNE workshop
- Funding for 56 additional EV chargers

**Initiatives**

- Adopt and implement 2017 - 2020 SIP
- Integrate sustainability into City operations
- Pilot "mobility as a service" initiatives
- Develop climate action financing resources





### Significant Budget Proposals

- Maintain current Office of Sustainability Resources (\$110,000)




## FY 2018 Proposed Operating Budget Human Resources Department

Operating Budget pp. 243-256  
General Fund  
Finance Committee  
May 02, 2017



### Accomplishments & Initiatives

**Accomplishments**

- Reached agreement with the Palo Alto Fire Chiefs' Association
- Recruited for 278 positions

**Process Improvements**

- Digitized official employee personnel files
- Enhanced on-boarding process
- Streamlined open enrollment process


**Initiatives**

- Re-engineer the recruitment process to reduce time to fill vacancies
- Implement Case Management System
- Enhance City wide training program




### Significant Budget Proposals

- Department staffing realignment: 2.00 position reclassifications (Cost neutral)
- Public Safety Recruitment assessment method improvement (\$50,000, one-time)
- FY 2018 Labor negotiations contractual services (\$100,000, one-time)

## FY 2018 Proposed Operating Budget Human Resources Department

Operating Budget pp. 257-268, pp. 479-486  
Other Funds  
May 02, 2017



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### Accomplishments & Initiatives

**Accomplishments**

- Enhanced Cyber Liability coverage
- Completed RFP process of a third party administrator for the Workers' Compensation program


**Initiatives**

- Implement an Injury Prevention training program to reduce Workers' Compensation claims




### Significant Budget Proposals

- Adjust Workers' Compensation excess insurance policy to realize a reduction of \$200,000 in the annual insurance premium.




## Employer Share of Pension Costs


May 2, 2017



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### Glossary



- **Rate of Return:** Expected investment performance by CalPERS funds. CalPERS voted to phase in a reduction from 7.5% to 7.0% beginning in FY 2019.
- **Normal Cost (NC):** Amount paid per pay period as regular pension cost for current active employees. Percent growth is over the current normal cost and is not cumulative.
- **Unfunded Accrued Liability (UAL):** amount needed to bring plan to fully funded status. Percent growth is over current actuarial amount for a given year. This uses a 30 year amortization period.
- **Employer Share:** Amount of pension costs the City is required to pay CalPERS; amount varies by plan type, bargaining group, and employee retirement tier.
- **Employee Share:** Amount of pension costs employees are required to pay CalPERS; amount varies by plan type, bargaining group, and employee retirement tier.
- **Employee Pick-Up of Employer Share:** Amount of employer share that is paid by employees, per bargaining agreements and CalPERS contracts.
- **Net Employer Share:** Amount that the City pays for pension costs. This equals the employer share less employee pick-up of employer share.



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### CalPERS Changes


- CalPERS has issued a number of changes over the past fiscal year, most notably:
  - Split out normal costs and unfunded accrued liability. No longer eligible to prepay normal cost.
  - Voted to lower the rate of return from 7.5% to 7.0% over three years beginning in FY 2019.

### Net Employer Share Marginal Costs: Miscellaneous

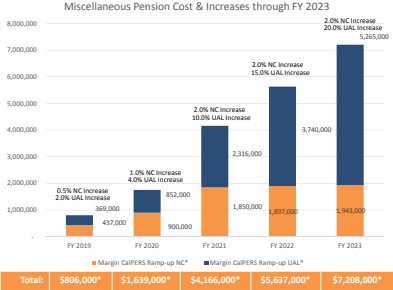
Misc	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Rate of Return:	7.375%	7.25%	7.0%	7.0%	7.0%
Current NC Rate*:	9.0%	9.0%	9.0%	9.0%	9.0%
New NC Rate*:	9.5%	10.0%	11.0%	11.0%	11.0%
<b>Dollar Impact:</b>	<b>\$437,000**</b>	<b>\$900,000**</b>	<b>\$1,850,000**</b>	<b>\$1,897,000**</b>	<b>\$1,943,000**</b>
Current UAL:	\$18,465,000	\$21,312,000	\$23,164,000	\$24,930,000	\$26,324,000
UAL Growth:	2%	4%	10%	15%	20%
<b>Dollar Impact:</b>	<b>\$369,000**</b>	<b>\$852,000**</b>	<b>\$2,316,000**</b>	<b>\$3,740,000**</b>	<b>\$5,265,000**</b>
<b>Combined Impact:</b>	<b>\$806,000**</b>	<b>\$1,639,000**</b>	<b>\$4,166,000**</b>	<b>\$5,637,000**</b>	<b>\$7,208,000**</b>

\* The Normal Cost for Miscellaneous is 10%; both the 9.0% current NC rate and the new NC rates presume the 1.0% employee pick-up of the employer share.  
 \*\* Approximately 46% of miscellaneous pension costs are borne by the General Fund. These marginal costs have been factored into the outyears' forecast for the General Fund.




### Net Employer Share Marginal Costs: Miscellaneous

Miscellaneous Pension Cost & Increases through FY 2023



Fiscal Year	Margins CalPERS Ramp-up NC*	Margins CalPERS Ramp-up UAL*	Total
FY 2019	\$437,000	\$0	\$437,000
FY 2020	\$900,000	\$0	\$900,000
FY 2021	\$1,850,000	\$0	\$1,850,000
FY 2022	\$1,897,000	\$0	\$1,897,000
FY 2023	\$1,943,000	\$0	\$1,943,000


\* Approximately 46% of miscellaneous pension costs are borne by the General Fund. These costs have been factored into the outyears' forecast for the General Fund.



### Net Employer Share Marginal Costs: Safety

Safety	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Rate of Return:	7.375%	7.25%	7.0%	7.0%	7.0%
Current NC Rate*:	15.9%	15.9%	15.9%	15.9%	15.9%
New NC Rate*:	16.78%	17.65%	18.4%	18.4%	18.4%
<b>Dollar Impact:</b>	<b>\$227,000**</b>	<b>\$465,000**</b>	<b>\$951,000**</b>	<b>\$969,000**</b>	<b>\$988,000**</b>
Current UAL:	\$8,469,000	\$9,885,000	\$10,739,000	\$11,630,000	\$12,326,000
UAL Growth:	2%	4%	10%	15%	20%
<b>Dollar Impact:</b>	<b>\$169,000**</b>	<b>\$395,000**</b>	<b>\$1,074,000**</b>	<b>\$1,744,000**</b>	<b>\$2,465,000**</b>
<b>Combined Impact:</b>	<b>\$396,000**</b>	<b>\$860,000**</b>	<b>\$2,025,000**</b>	<b>\$2,713,000**</b>	<b>\$3,453,000**</b>

\* The Normal Cost for Safety is 18.9%; both the 15.9% current NC rate and the new NC rates presume the 3.0% employee pick-up of the employer share.  
 \*\* These marginal costs have been factored into the outyears' forecast for the General Fund.




### Net Employer Share Marginal Costs: Safety

Safety Pension Cost & Increases through FY 2023





Fiscal Year	Ramp-up Marginal NC*	Ramp-up Marginal UAL*	Total
FY 2019	\$227,000	\$0	\$227,000
FY 2020	\$465,000	\$0	\$465,000
FY 2021	\$951,000	\$0	\$951,000
FY 2022	\$969,000	\$0	\$969,000
FY 2023	\$988,000	\$0	\$988,000

\* These costs have been factored into the outyears' forecast for the General Fund.



### Next Steps

- City proactively established irrevocable Section 115 Pension Trust Fund; contributions from various funds detailed in FY 2018 Proposed Budget.
- CalPERS will incorporate the changes described above into next actuarial evaluation.
- Staff will return to City Council in fall 2017 to discuss options and recommend a path forward based on updated CalPERS report.





## FY 2018 Proposed Operating Budget Administrative Services Department

Operating Budget pp. 175-187  
Finance Committee  
May 02, 2017



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### Accomplishments & Initiatives

**Accomplishments**

- Facilitated maintenance of City's AAA credit rating
- Managed the City's real estate leases - \$4.1 million in revenue
- Significant paper reduction and office supply consumption of the City by introducing a new managed print services network program (MFP/MPS)

**Initiatives**


- Continue implementation of the ASD strategic plan
- Explore option for online parking permit system
- Provide additional funding options for unfunded pension liability beyond annual contribution




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### Significant Budget Proposals

- Purchasing Staffing Realignment resulting in 1.0 FTE Contracts Administrator, 1.0 FTE Administrative Associate II, and a reduction of 0.48 FTE part-time Management Specialist (reclassification of existing staffing levels)
- Non-Salary Reductions
  - New Technology and processes were used to consolidate non-salary expenses (e.g., supplies, memberships, document scanning, and non-capital office machinery) (Ongoing net savings: \$21,774)
- Printing & Mailing Services Fund had no budget requests submitted for FY18

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## Fiscal Year 2018 Proposed Operating Budget Non-Departmental

Operating Budget pp. 473-478  
Finance Committee  
May 2, 2017

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### Significant Budget Proposals

**Operating Requests**

- FY 2018 Operations Reserve (\$500,000, one-time)
- Salary Reserve (\$400,000, one-time)
- City Council Contingency reduction to \$225,000 annually (-\$25,000, ongoing)

**Transfers to other Funds**

- Loan to California Avenue Parking District (\$75,000, one-time)
- Loan to the Airport Fund (\$200,000, one-time)

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Next Finance Committee Meeting:  
Thursday May 4<sup>th</sup> @ 7pm

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