



City of Palo Alto

City Council Staff Report

(ID # 11596)

Report Type: Action Items

Meeting Date: 10/19/2020

Council Priority: Fiscal Sustainability

Summary Title: Preliminary Q1 FY 2021 Financial Status Discussion and Potential Direction to Staff

Title: Preliminary Q1 Fiscal Year (FY) 2021 Financial Status Discussion and Potential Direction to Staff on Budget Revisions, Staffing Revisions, and Next Steps in Monitoring, Modeling, and Addressing Recovery Planning Approaches

From: City Manager

Lead Department: Administrative Services

Recommendation

Staff recommends that the City Council discuss Palo Alto's current fiscal status and provide direction to staff on potential budget actions, including the following:

1. Report on status of attrition ramps for the Police and Fire Departments that end October 31 and December 31 respectively;
2. Discuss and provide direction on rental relief for City non-profit and for-profit tenants;
3. Identify priorities for use of the \$744,000 COVID-19 Council Reserve the City Council set aside during the FY 2021 Adopted Budget process and wait on spending funds allocated until the FY 2021 Mid-Year Budget Review in early 2021; and
4. Accept this report, discuss areas of recovery within and outside of the City's control, and provide direction on next steps in developing a Palo Alto Community and Economic Recovery Strategy, financial modeling and forecasting to monitor the current fiscal year, and guidelines for preparation of the FY 2022 budget and FY 2022-2031 General Fund Long Range Financial Forecast.

Executive Summary

At this time, staff does not recommend any actions to amend the current FY 2021 Adopted Operating and Capital Budgets. The City continues to actively manage its finances in light of significant uncertainties from the ongoing pandemic and related economic challenges.

As the City and the County move through different phases of recovery, the City adapts operations to best support and serve the community. As a result of County Public Health Orders and State Public Health restrictions, these changes impact both the cost of delivering City services and the revenues that pay for them (both taxes and fees). Often, staff finds that it takes increased resources to deliver the same quantity of service in modified ways to ensure the safety of the community and employees. For example, the library is offering sidewalk services at some City libraries. To offer these services staff must manually process each item several times, where past practice allowed use of automation to return and sort materials.

In general, experts believe that we reached the bottom of financial impacts during the second quarter of 2020, when strict shelter-in-place orders restricted movement and commerce other than core essential activities. However, staff is mindful of warnings from State and County officials that a second wave of impacts may occur during the upcoming flu season. The anticipated second wave could result in similarly severe restrictions, lowering daily activities once again to levels seen during the second quarter of 2020. Several risks and uncertainties remain, including:

- A second wave of strict shelter in place State and County Public Health Orders, shutting down business activity further impacting the local economy;
- The length of the recovery period and how fast recovery could take; this will significantly impact the City's most sensitive tax bases;
- Return of daytime population, whether it be workers, students/faculty/staff at Stanford University, or changes to the City's resident population;
- Consumer behavior and confidence in both the economic stability and safety.

The City continues to be severely impacted by the recessionary period and must be mindful of this in its day to day business.

This item is intended to be a check-in providing new information since the in-depth City Council budget and fiscal discussions held in May and June 2020. This report seeks Council input on several areas of staff work ahead. The report also outlines next steps and timing for a series of City Council conversations planned to focus on fiscal monitoring, community and economic recovery, and more.

The report provides a status of key indicators in the General Fund and some reporting for all other funds. This report's preliminary findings are based on the data available at the time of reporting and does not reflect a true 1st Quarter financial activity in FY 2021. Final Q1 data will not be available until December 2020. However, this report does provide an update on highlights from the preliminary close of the prior fiscal year ending June 30, 2020, and preliminary information during the initial one to two months of the current fiscal year.

A few revenue highlights include:

- Sales Tax: Staff, along with the City's Sales Tax consultant believe that the current revenues will exceed budgeted levels by \$2 million to \$9 million, however, the consultant advises that data remains weak through June 30, 2020.
- Transient Occupancy Tax: If current activity levels continue through the full fiscal year, staff expects revenues to fall below budgeted estimates by at worst case \$11 million below, though more optimistically may fall \$5.5 million below budgeted levels.
- Property Tax: The current assessor report issued by the County of Santa Clara Assessor's Office, the City's Secured property tax roll is expected to grow 7.7% in FY 2021. It is expected that this growth may be offset by changes in unsecured property taxes and roll corrections due to flattening growth. This is in line with the FY 2021 Adopted Budget.

In December 2020, a formal Q1 FY 2021 Financial Report, the City's FY 2022-2031 Long Range Financial Forecast, and the City's FY 2020 Comprehensive Annual Financial Report and Year End Budget adjustments are all expected to be reported, as per normal annual practices.

Further, strategic work is underway focused on a Community and Economic Recovery Strategy. Staff is working on a potential study session November/December for City Council discussion and consideration of focus areas to inform and further a Palo Alto specific recovery strategy. Key to the City Council's and staff's fiscal and recovery planning, is the important work underway to understand the fiscal implications of possible recovery scenarios. This includes the potential for City actions to affect economic recovery, and associated impacts on City revenues. This, in turn, affects the level and nature of services the City can deliver to the community.

The report is seeking Council input in several areas:

- Guidance on how to address tenant requests regarding lease changes or waiving rent and other fees
- Review status of attrition ramps for the Police and Fire Departments that end October 31 and December 31 respectively;
- Identify priorities for use of the \$744,000 COVID-19 Council Reserve the City Council set aside and wait on spending funds allocated
- Discuss areas of recovery within and outside of the City's control, and provide direction on next steps

As mentioned, this report is an initial discussion in a series of fiscal and recovery discussions planned ahead.

Background

Recognizing the severity of the public health emergency and its impacts on the City's financial situation, in Spring 2020 the City Council directed staff to assume a more conservative revenue

estimate reflecting a loss of \$39 million in General Fund tax revenues in FY 2021 ([CMR 11315](#)). In prior years, Sales Tax and Transient Occupancy Taxes (TOT) alone made up nearly 30 percent of the General Fund revenues, both of which are expected to see significant declines. As a result of the City Council's direction, staff returned with service reductions to prioritize essential services and pare back discretionary services in order to align expenses with the lower revenue estimates. More than 60 percent of the City's General Fund budget funds the outstanding workforce delivering the City's services every day and staff and resource reductions were unavoidable.

Despite these reductions, the adoption of the FY 2021 budget ([CMR 11330](#)) ensured that the City continues to proactively pay for long term liabilities and continues capital investments in its most critical infrastructure. It also provides resources for the City to successfully adapt from 'shelter in place' to future service delivery models and establishes funding to support those service delivery transitions. In order to begin the process for these service delivery transitions, several specific COVID-19 recovery funding sources were established for Contact Tracing, Business and Communication Support, Workplace Restoration. In addition, a reserve of \$744,000 for the City Council to address ongoing or additional unforeseen impacts from COVID-19. As discussed and adopted by the City Council, at the May 26, 2020 Council Meeting, use of the \$744,000 was delayed to Fall 2020. This delay was to determine resources needs related to Community Services, ongoing COVID-19 Response, Public Safety Operations, and Shuttle Systems, or other priorities proposed by staff. This list is a working list that can be adjusted based on needs as recommended by staff and directed by the City Council.

Discussion

This initial fiscal discussion with the City Council is meant to be the first in a series of conversations planned over the coming months, as financial data, economic trends and recovery focus areas are defined. This report's preliminary findings are based on the data available at the time of reporting and does not reflect a true 1st Quarter financial activity in FY 2021. Final Q1 data will not be available until December 2020. However, this report does provide an update on highlights from the preliminary close of the prior fiscal year ending June 30, 2020, and preliminary information during the initial one to two months of the current fiscal year.

Further, strategic work is underway focused on a Community and Economic Recovery Strategy. Staff is working on a potential study session November/December for City Council discussion and consideration of focus areas to inform and further a Palo Alto specific recovery strategy. Understanding several elements in recovery such as the role of Stanford in our recovery and current impacts, short-term and long-term recovery approaches, market segmentation support to expedite recovery and much more will be important in any strategy the City pursues. Recent cities who have released recovery strategies include [San Jose](#) and [San Francisco](#). Attached to this report are excerpts from these strategies (Attachment A and B respectively).

As we continue into the 2021 fiscal year, staff will return to the Finance Committee and City Council over the next several months with a series of fiscal updates. Beginning in November a study of impact fees and other charges for services is expected to be reviewed by the Finance Committee. Staff will also present for Council consideration several follow-up actions based on City Council's September 14, 2020 direction (September 14, 2020 [Presentation](#) and [Action Minutes](#)). Other planned key milestones to gain City Council input and further direction include consideration of the FY 2020 Comprehensive Annual Financial Report and Year-End Budget Adjustments, FY 2021 1st Quarter Financial Report, FY 2022-2031 Long Range Fiscal Report and a status check-in on FY 2021 Adopted Budget City Council referrals in December 2020. Following in February, staff will return with the FY 2021 Mid-Year Budget Review and Preliminary 2nd Quarter Financial Status.

Council should also be aware of requests from organizations leasing City property. Staff has received several requests by City tenants to waive rents or restructure leases. Given the City's financial condition, waiving rent will cause a significant strain on resources and drawing of the Budget Stabilization Reserve below Council targeted levels or further reduction in services. Staff is not recommending action on these requests at this time. However, staff welcomes City Council guidance on how to address these requests.

Economic Update

The City, State and nation have seen unprecedented impacts of the multitude of events going on, namely the public health crisis cause by COVID-19, historic wildfires, public sentiment on race and equity, and the national political uncertainties. These continue to be contributing factors on the City's revenues and economic position. Most recently the UCLA Anderson Forecast released their September 2020 forecast. The Forecast predicts slow growth in Q4 of calendar year 2020, or October – December 2020, only if a \$1 trillion economic stimulus bill is passed. The September 2020 report is now forecasting 1.2% annualized growth (0.3% non-annualized) in the fourth quarter. On a fourth quarter to-fourth-quarter basis, the UCLA Anderson Forecast Report projects a 4.2% decline in real GDP for 2020. However, should that additional stimulus funding not come to fruition, this forecast is likely overstated.

The consumer price index (CPI) was up 1.3 percent for the 12 months ending August 2020 (not seasonally adjusted)¹. Consumer Confidence Index, based on the monthly consumer confidence survey by the Conference Board, increased in September after declining in August. Lynn Franco, Senior Director of Economic Indicators at The Conference Board says, "Consumer Confidence increased sharply in September, after back-to-back declines, but remains below pre-pandemic levels."²

As expected, economic indicators continue to lag in this prolonged public health emergency. Although a sharp rebound has been seen in the past few months, that is to be expected given

¹ United States Bureau of Labor Statistics <https://www.bls.gov/opub/ted/2020/consumer-prices-up-1-point-3-percent-in-12-months-ended-august-2020.htm>

² The Conference Board September 2020 <https://conference-board.org/data/consumerconfidence.cfm>

the sharp decline seen in the prior quarter. Best said by Jerome Powell, Federal Reserve Chair and cited in the UCLA September 2020 Forecast:

*The recovery has progressed more quickly than generally expected.... Even so, overall activity remains well below its level before the pandemic and the path ahead remains highly uncertain.... The economic downturn has not fallen equally on all Americans, and those least able to shoulder the burden have been hardest hit.... The outlook for the economy is extraordinarily uncertain and will depend in large part on our success in keeping the virus in check.*³

General Fund

Overall, the General Fund is tracking at or below adopted estimated revenues and at adopted expenses. Based on the continued phased reopening from the shelter-in-place orders imposed in March 2020, consumer behaviors continue to evolve, impacting the financial forecasts. The organization has carefully planned for the financial implications of COVID-19 on the City of Palo Alto. Staff concludes that at this time maintaining the current status with continued monitoring and updates remains the most prudent course of action. As a result of the City Council's leadership and adoption of a fiscally conservative budget, staff does not recommend further budget actions at this time. Economic trends and data continue to be too uncertain.

COVID – 19 Response Financial Highlights

- The City was allocated \$854,743 of CARES Act funding from the State of California, which is being paid out in installments beginning July 2020. The City has submitted eligible expenses related to staff costs in the areas of public safety and other departmental responses to the pandemic. These funds will be subject to audits for eligible uses in the years to come.
- The City has spent an estimated \$3 million in response to COVID-19 in FY 2020 and FY 2021. This includes \$498,000 in small business grants and \$165,000 in waived fees for parklets. The remaining expenses of \$2.4 million is comprised of regular staff time for response activities such as emergency operations center coordination, call center operations, street closures, public safety, communications and shifting to remote work.

The bulk of these expenses incurred to date are not expected to be eligible for reimbursement by FEMA since it falls in the category of regular staff time. FEMA primarily reimburses staff time when it is overtime expense as opposed to regular time. Staff optimistically will seek reimbursement from FEMA for eligible expenses in the \$200,000 range, of which only a maximum of approximately 75% would be reimbursed. It is expected that additional expenses will be incurred in FY 2021. Expense focus areas include business and communications support, testing, contact tracing, and eventually

³ UCLA Anderson Forecast September 2020

https://www.anderson.ucla.edu/documents/areas/ctr/forecast/reports/uclaforecast_Sept2020_USForecast.pdf

the workplace environment adaptations. These expenses were approved as part of the FY 2021 Adopted Budget. Since this is an ongoing federal emergency, FEMA has not set a deadline for submitting expenses and the City continues to track and accumulate expenses.

Revenues: General Fund

The FY 2021 Adopted Operating Budget approved a \$197 million estimate for sources, of which \$26.5 million has been collected to date, or 13.5 percent of the budgeted estimate. This FY 2021 Adopted Budget included approximately \$40 million in reduced revenues, primarily in Sales Tax and Transient Occupancy Tax revenues followed by reduction in Charges for Services, Documentary Transfer Tax, and Utility User Tax. Highlights of current data on major revenue sources are included below. Overall, staff is optimistically forecasting revenues to meet FY 2021 Adopted Budget levels, however, caution they may fall below budgeted levels and therefore should and will continue to be monitored closely.

- **Property Tax:** The FY 2021 Adopted Budget assumed an estimate of \$52.0 million, a 6.9% increase from the FY 2020 adopted level or \$3.4 million above. Information will not be readily available for property tax until late October at the earliest, however, with the current assessor report issued by the County of Santa Clara Assessor's Office, the City's Secured property tax roll is expected to grow 7.7% in FY 2021. It is expected that this growth may be offset by changes in unsecured property taxes and roll corrections due to flattening growth. Significant impacts to property tax receipts are not expected until FY 2022 at the earliest depending on property activities. The most recent Santa Clara County Assessor's report can be found online here: <https://www.sccassessor.org/edocman/AnnualReport2020-2021.pdf>.
- **Sales Tax:** The FY 2021 Adopted Budget assumed an estimate of \$20.5 million, a 40.3% reduction from the FY 2020 adopted level or \$13.8 million below. In FY 2020, Sales Tax receipts of \$30.6 million was received of activities through June 30, 2020. This is at the revised FY 2020 budgeted estimate but 11.0% below the original FY 2020 Adopted Budget of \$34.3 million. Staff, along with the City's Sales Tax consultant believe that the current revenues will exceed budgeted levels by \$2 million to \$9 million, however, the consultant advises that data remains weak through June 30, 2020. In addition, the consultant advises that they are typically less conservative during downturn periods and therefore may be too optimistic. Additional information on sales tax activities during April – June 2020 is available as part of the October 19 City Council meeting packet, as an informational report (CMR #11640).
- **Transient Occupancy Tax:** The FY 2021 Adopted Budget assumed an estimate of \$14.9 million, a 49.2% reduction from the FY 2020 adopted level or \$14.4 million below. This assumed that the City would remain significantly closed through December 2020, however, return to normal activities for the remaining 6 months of the fiscal year. In FY

2020, TOT receipts fell \$1 million below estimated levels at \$18.6 million. This is a 36.7% reduction from the FY 2020 adopted Budget of \$29.3 million and 5.3% below the revised budget of \$19.6 million. As a reminder this significant drop reflects shelter in place orders beginning mid-March 2020, through June 30, 2020. This revenue remains extremely low compared to typical levels, a 90% reduction or more. Therefore, if current activity levels continue through the full fiscal year, staff expects revenues to fall below budgeted estimates by at worst case \$11 million below, though more optimistically may fall \$5.5 million below budgeted levels. It is expected that a mid-year adjustment will be necessary to balance this reduction which will impact both the General Fund as well as the General Capital Improvement Program (CIP) Fund. This will also impact the five-year CIP.

- **Documentary Transfer Tax:** The FY 2021 Adopted Budget assumed an estimate of \$4.7 million, a 43.8% reduction from the FY 2020 adopted level or \$3.7 million below. FY 2020 receipts of \$6.9 million was slightly above adjusted budget levels by \$227,000, however below the FY 2020 Adopted Budget level of \$8.4 million, a 17.5% reduction. Currently, receipts through August are up 7 percent, however they remain 15% below prior year levels. As one of the most volatile revenues, this revenue will be monitored closely as it can see significant fluctuation month to month depending on real estate transactions.
- **Utility User Tax:** The FY 2021 Adopted Budget assumed an estimate of \$15.1 million, a 14.1% reduction from the FY 2020 adopted level or \$2.5 million below. FY 2020 receipts of \$6.9 million were at the adjusted budget level of \$16.1 million, however below the FY 2020 Adopted Budget level of \$17.6 million, an 8.2% reduction. To date, revenues are tracking 3% to 6% below prior year levels for utility taxes and telephone taxes respectively. This is in line with overall expectations assumed in the FY 2021 Adopted budget and at this time, revenues are tracking to meet budgeted levels 2021.
- **Charges for Services & Permits and Licenses:** The FY 2021 Adopted Budget assumed an estimate of \$25.4 million in Charges for Services, a 14.5% reduction from the FY 2020 adopted level or \$4.3 million below. The FY 2021 Adopted Budget assumed an estimate of \$8.3 million in permit and license revenue, a 29.1% reduction from the FY 2020 adopted level or \$3.4 million below. In FY 2020, these categories combined received \$31.6 million in revenues, this is slightly below the revised budget estimate by \$198,000; however, this is 18.6% below the FY 2020 Adopted Budget estimate. These revenue categories consist of charges to Stanford for fire services and paramedic services, fees related to the City's golf course, arts and science classes, plan check fees, and payments to the City for issuance of Building Permits, Fire Permits, and miscellaneous health and safety-related licenses. Overall, the FY 2021 Adopted Budget assumes a reduction in these revenues of \$5 million due to cancelled or modified services. Currently staff

expects this to be in line with activities levels anticipated thus far, based on current expectations of the continued lifting of shelter in place restrictions.

Community Services Department: Currently, all CSD revenue streams are below normal, though some are significantly lower than usual especially related to activities that are not currently allowed under State and County Public Health guidelines. Overall, CSD revenue from classes, camps, and rentals are currently at 13% of levels assumed in the adopted budget. This same time last fiscal year revenues were around 37% to target. Year-end revenues may come in as low as 20%, or \$2.0 million of budgeted expectations if public health order restrictions do not ease and weather leads to a decline in class registrations and golf play. On the other hand, revenues may rebound if public health order restrictions continue to relax and the City is able to sustain outdoor programming, increase golf play, and create all-weather spaces for rentals and classes. CSD is prepared to offer additional classes and programs when restrictions ease. Some specific program areas that are especially low due to current COVID-19 Public Health restrictions are as follows:

Facility rentals: Indoor rentals have been cancelled and refunded through October and are expected to continue to be cancelled pending County public health guidance. Some outdoor rentals are allowed based on group size and event type, but significantly below normal levels.

Golf: Increased intervals between tee times (12 minutes compared to 6 minutes Pre-COVID-19) have been put in place at the golf course in addition to the pro shop being closed. Additionally, significant heat and poor air quality due to smoke this summer have led to multiple days where golf attendance was very low.

Classes and camps: Revenue is down across all programs due to reduced class sizes, and strict limitations on indoor programming. CSD continues to program outdoor spaces but are unsure how cooler weather may impact these programs in the coming months and through the winter.

Theaters: All three of CSD's theaters have not held live performances or special events this fiscal year and it is unlikely that State and County guidance will allow for performances in the near future. The Children's Theatre continues to program classes with some limitations.

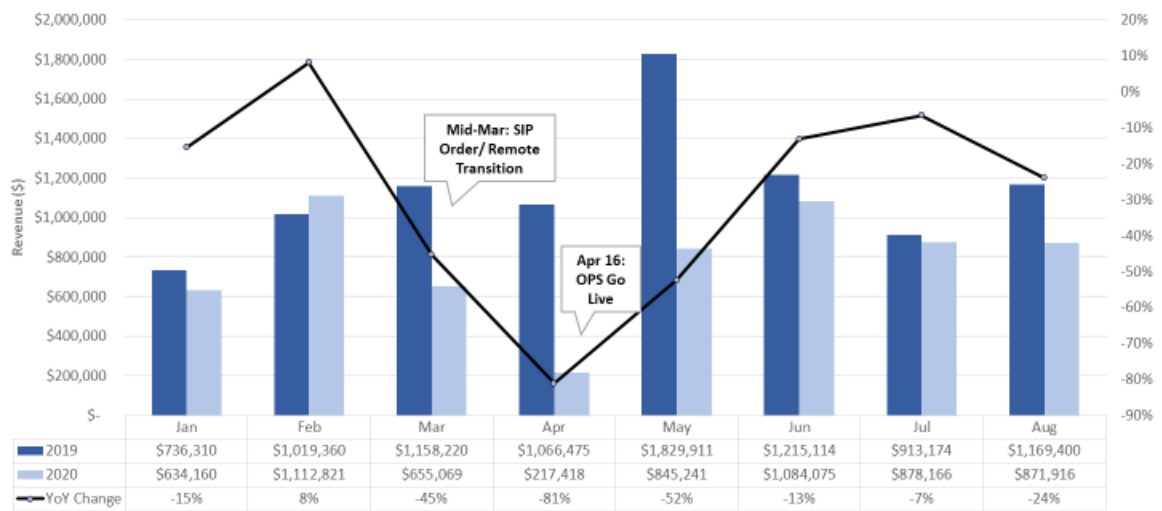
Junior Museum & Zoo (JMZ): JMZ expects to open in spring of 2021 and at this time is not expecting a reduction in ticket sales revenue, however if social distancing limitations remain in place at that time, daily attendance may be lower than expected due to maximum capacity restrictions in the facility.

To the extent practical and possible, the department continues to curb expenses for those revenue generating activities that are not currently active, however some of these program areas such as rentals and golf do have fixed costs.

Development Services: Preliminary building permit revenue overall is down 7% compared to last year and reflects 20% of the anticipated building permit revenue for FY 2021 budget. Preliminary Development Services revenue is down 16% compared to prior years and is currently pacing to 18% of the FY 2021 revenue target. There are significant monthly revenue fluctuations that limit any reliable conclusions regarding future construction activity at this time. Staff continues to monitor revenues to determine whether recent permit activity reflects a backlog of permits or the unsettled nature of construction in the current economic environment. Department-managed expenses are currently under or on pace to meet the budget. The department is monitoring this category closely on a month to month basis. The table below articulates development services revenues from January through August 2019 versus the same 2020 timeframe.

Development Services Revenue - YoY January to August

Total revenues declined by ~31%.



Note: Revenue is driven by a blend of building permits issued and building applications associated with unique Permit Number, an applicant will pay at two points in time - application submittal and permit issuance; both transactions may or may not occur within the same year.

Source: Accela – Daily GL Data | CC: 65020001-65060001

- Rental Income:** The FY 2021 Adopted Budget assumed an estimate of \$16.1 million, a 14.1% reduction from the FY 2020 adopted level or \$2.5 million below. Revenues in this category primarily reflects rent paid to the General Fund from the City’s Enterprise Funds and the Cubberley Community Center. During the pandemic, the City has allowed tenants to defer payment of rent, however, as the period continues to grow longer and longer impacting the ability for tenants to continue their normal business, an increasing number of City tenants have asked for rent relief. These tenants include those at Cubberley, the Airport, 445 Bryant (Form Fitness), and the City Hall Cafeteria. Since the County of Santa Clara Public Health Officer issued a Shelter in Place Order in response to

COVID-19, City tenants have experienced temporary closure or reduction in operating hours of their business, and/or decrease in business income resulting in difficulty in paying rent.

Cubberley: Cubberley tenants were offered the ability to defer rent payments for the months of April, May, and June 2020. The deferred rent is required to be repaid in 12 equal monthly installments with no interest starting on January 1, 2021. Contract rents for Cubberley tenants and artists total \$144,095 per month or \$432,285 for the three-month period of April, May, and June 2020. Of the \$432,285 in rent owed for the three-month period, \$42,960 has been collected from tenants/artists that have terminated their leases, \$163,735 have been collected from existing tenants/artists, and \$202,726 has been deferred into monthly installments to be repaid in calendar year 2021. The remaining \$20,698 represents rent owed by tenants/artist that did not elect to defer rent through the rent deferral program offered by the City and is considered delinquent.

Due to the continued governmental restrictions brought by the COVID-19 pandemic, many Cubberley tenants/artists remain negatively impacted by social distancing requirements to operate their businesses and reportedly have seen an overall reduction in clients, which translates into reduced revenue. Therefore, some Cubberley tenants are asking for additional rent relief from the City, specifically requesting to have the three months of deferred rent from April, May, and June, waived, in addition to reduced and/or waived rent until they are able to operate at pre-pandemic levels.

Other City Tenants: In addition to tenants at Cubberley, the City has a number of tenants at other facilities including but not limited to the Airport, 445 Bryant, and the City Hall Cafeteria. As expected, these tenants are facing hardship as well during this difficult time and are also seeking rent waivers. For example, one has requested a restructuring of their lease to be based on a percentage of revenue generated which could result in an approximate 90% rent decrease, based on their projections. Of these tenants, there is at least \$235,000 in delinquent rent at this time.

Staff sympathizes with the Cubberley tenants/artists and other City tenants and understands the difficulty brought by the pandemic. Reducing and/or waiving rent would be a departure from the lease agreements. It is important to weigh any type of concession and the precedence for existing and future tenants. In addition, due to the uncertain outlook of COVID-19 and when tenants will recover, it is unknown how much rent will need to be waived. Given the City's financial condition, waiving rent will cause a significant strain on resources. It would likely mean drawing of the Budget Stabilization Reserve below Council targeted levels or further reductions in services. Staff is not recommending action on these requests at this time. However, staff welcomes City Council guidance on how to address these requests considering current fiscal restraints.

Expenses: General Fund

Overall General Fund expenses are currently expected to remain within the FY 2021 Adopted budget levels of \$197 million. To date, \$46.9 million has been expended or approximately 23 percent of the FY Adopted Budget. As a service driven organization, the largest expenses are salaries and benefits. Total salary and benefits expenditures through preliminary September 2020 are approximately \$31.5 million, or 25.3 percent of the \$124.5 million Adopted Budget, compared to \$32.1 million in the same period in the prior year. This is slightly below prior year levels and includes costs to separate employees in frozen positions, including a 30-day notice and other related costs in Q1. The FY 2021 Adopted Budget established a \$1.1 million reserve for this purpose, and staff will allocate funding to departments as necessary as part of the Mid-Year Budget report. Also contributing to this overage is an increase in Police Department staffing to respond to protests, and an increase in Fire Department overtime for strike team deployments to California wildfires. The State will reimburse costs for strike teams later in the fiscal year.

Across the organization it is important to acknowledge the reprioritization of resources that are occurring as needs change, working to be efficient and effective within authorized levels. For example, some City facilities remain unoccupied or minimally occupied and therefore do not need traditional services such as janitorial services. However, those facilities that remain open need increased services due to safety requirements complying with Public Health Orders. Instead of seeking additional contracting authority or funds, the Public Works Department has reallocated services within the contract, focusing on facility needs as a result of increased services to ensure the health and safety of the workplace environment and its visitors, both public and employee alike. Therefore, savings in janitorial services are not expected at year end, in fact, depending on the pace of City facilities reopening, costs may rise as increased frequency of service will likely be necessary to maintain a safe environment per the Centers for Disease Control and Prevention (CDC) and State and County Public Health Officer guidelines will be required at more facilities.

Attrition of Public Safety Staffing

During the FY 2021 budget hearing process, the City engaged with the various labor groups and successfully negotiated concessions to generate cost savings with some labor groups. Staff appreciates the leadership of our public safety labor partners for partnering together generate cost savings therefore minimizing layoffs to police officers and fire fighters. The savings achieved in public safety groups were used to fund retirement incentives and offset an attrition period that allows the Fire and Police Departments to delay the separation of filled positions identified to be held vacant in FY 2021 (position freezes).

The Fire Department was reduced by a total of 8 sworn positions: 1 Training Captain, 5 Firefighters and 2 Inspectors (FTE's shared with the Development Center). Since the department was fully staffed when the reductions were due to be implemented, 8 existing staff would have been laid off to meet the budget reduction approved. The Firefighters' union, IAFF Local 1319, re-opened their union contract with the City and agreed to concessions such as a salary freeze to obtain savings that would avoid layoffs for a six-month period until December

31, 2020. By delaying layoffs through December 31, the department would be able to eliminate vacancies that occur from attrition, or turnover from retirements or resignations. This strategy is referred to as an “attrition ramp”. To date, the department has processed 3 retirements and 1 probationary release, resulting in 4 vacant positions for elimination. The Fire Department anticipates one additional retirement before December 31, for a total of 5 vacant positions. With 5 vacancies secured and 3 more needed, the department is evaluating further funding strategies, with the intention to retain the personnel who were recruited, hired and trained prior to the budget reductions. The City has invested up to \$200,000 in each new recruit at this point and staff is hopeful that layoffs will be avoided. However, should funding not be identified, separations will occur.

In the Police Department, a total of 11.00 Police Officer positions were identified to be frozen in FY 2021. Agreements reached with the Police Management Association (PMA) and Palo Alto Peace Officers’ Association (PAPOA) to defer wage increases by one-year offset an attrition period through October 2020. Of these 11.00 positions, a total of 9.00 were filled by police recruits in some phase of training at the beginning of the fiscal year. As of October 2020, the department has experienced enough turnover to move all officers into authorized and fully funded positions.

Status of Pension Plans

The CalPERS program maintains two pension plans: one for safety employees (sworn fire and police personnel) and another for miscellaneous employees (all other non-safety personnel employed by the City, including field personnel, administrative support, and managers). Annual Valuation reports will be reviewed by the Finance Committee in October 2020 and provide updated actuarial information for each pension plan as of June 30, 2019. These reports provide an update on the funding status, the results of assumption changes such as rate of return (ROR) which impacts the discount rate assumption, the new fiscal year Actuarial Determined Contribution (ADC) and the projected future ADC as a percentage of payroll. The actuarial analysis is based on current employees’ accrued benefits, former employees who have vested but have not yet retired, and retired employees as of June 30, 2019 which will inform the FY 2022 budget. CalPERS provides a five-year forecast for ADC (FY’s 2022 through 2027) and it is important to note that the forecast assumes a 7.0 percent return throughout the forecast. The forecast does not factor the preliminary 4.7 percent return on investments for the period ending June 30, 2020. If these returns materialize, the losses will likely offset the relief shown in the out-years of the current forecast. Any losses from this period will be realized beginning in the next annual valuation and the FY 2023 Budget.

Since 2017, the City has established and maintained an independent and irrevocable Internal Revenue Services (IRS) section 115 pension trust fund to proactively set aside funding that can be used to offset the City’s growing pension liability. Per City Council direction, the City currently budgets its pension contributions more conservatively than CalPERS and transmits the additional funding to this pension trust fund ([CMR 9740](#)). Additional information about this can be found in the following Internal Service Funds section in the General Benefit Fund.

Retiree Medical Obligation

In addition to providing pension benefits, the City participates in the California Public Employees' Medical and Hospital Care Act (PEMHCA) program to provide certain health care benefits for retired employees. The City uses actuarial studies, completed on a biennial basis by Bartel Associates, to inform the development of annual operating budgets. The most recent report was completed in May 2020 to inform both the FY 2021 and FY 2022 Operating Budgets. This study captured investment gains for the Retiree Healthcare Trust Fund as of June 30, 2019, lowered the assumed investment returns from 6.75 percent to 6.25 percent and restated the City's Fiscal Year 2021 annual ADC. The City's ADC for FY 2021 is \$15.9 million, or a 3.0 percent decrease from FY 2020 (\$16.4 million). This decrease aligns with actuarial expectations in the most recent report. The next actuarial study will be done in 2022 and any investment earning impacts resulting from the current fiscal downturn will be incorporated into development of the FY 2023 budget and forecasts thereafter.

City Services Continue

The City continues to provide services to the community, often adapting and modifying service delivery to ensure proper safety protocols, prioritizing the health and safety of the community and employees. Below is a brief description of service adaptations. Additional information can be found in an informational report that summarizes work completed while the City Council was on break (CMR #[11522](#)).

Neighborhood, Community and Library Services

- *Community Services Department:* CSD has been working on redeployment of staff to assist with other divisions or departments. For example, several CSD custodians have been redeployed to assist the City's Public Works Department team with cleaning the police station and other facilities. CSD staff are assisting Rangers in the Open Space Preserves with tasks such as cleaning restrooms and picking up litter, and parks staff continue to maintain neighborhood parks. Recreation and Arts and Science staff completed a successful summer camp season consisting of virtual and in-person camps and are now running fall class programming and physically distanced special events.

Recreation staff are issuing permits for allowable activities such as socially distant youth fitness programs, developing physically distanced special events, and creating in-person and virtual programming to engage the community for the current and upcoming seasons. Teen Services, jointly managed by Recreation, Library and Arts & Sciences have new cohorts for the City's five teen leadership groups as well as teen programs including MakeX and ThinkFund. Groups are meeting virtually and hosting virtual community events. Staff from all program areas continue to plan and implement exhibitions, classes, summer camps, workshops and public art installations. JMZ staff are continuing animal care and planning for the future opening of the JMZ by moving from the Cubberley site to the new facility, developing exhibits, coordinating animal acquisition,

and managing construction contracts. The Art Center is now reopened to the public and offering outdoor classes for both adults and children, in addition to virtual offerings. Open Space staff continue to maintain trails, respond to enforcement, medical and fire emergencies. Parks staff are in the process of reopening playgrounds and continue to perform daily maintenance tasks such as safety inspections of park amenities, field maintenance, irrigation maintenance, litter pickup, and mowing. The golf course is open for business. It is staffed and maintained under a management contract. Human Services staff continue to facilitate a bi-weekly meeting with Community Based Organizations to support their work during the shelter in place order and provide a time for agencies to share needs and resources with each other, monitor County-wide efforts in regards to meeting the needs of the unhoused, facilitate a bi-weekly forum with local child providers to discuss county and state mandates, share best practices and resources, and provide a support system for providers. Human Services staff has also been supporting the Human Relations Commission (HRC) as it has been working on a referral from Council on police reform (8 Can't Wait) and a history of and the current experiences of Black and Brown people in Palo Alto.

- *Library Department:* Currently, approximately 30 library staff work onsite at the Mitchell Park and Rinconada Libraries to provide sidewalk services to the Palo Alto community. This service has been refined continuously to facilitate contactless/low contact materials returns and pick up. Customers can place holds and appointments online to pick-up their items between 12-5 Tuesday-Saturday at the Mitchell Park and Rinconada Libraries. Customers are also able to return materials at the Downtown and College Terrace Libraries on Sundays. This process is extremely time intensive requiring the movement of materials from closed sites to open sites; quarantining materials for 96 hours prior to being checked-in, shelved or fulfilled by another hold; then checked in manually by library staff (previously this was completed by the customer). Since the library resumed public services in late June and through October 5, library staff have checked out 67,933 items to customers, checked in and shelved 93,380 items, fulfilled 65,649 holds, answered 16,444 phone calls, and served 11,058 hold pick up appointments. In addition, virtual programs such as Storytimes, Book Discussions, Author Visits continue as does the City's Community Support Call Center. The library has presented 139 programs that was attended by 11,174 community members.

Public Safety

- *Fire Department:* Fire administration has been able to seamlessly work remote. Projects include, but not limited to, the development of new revenue generating programs, public education and communication, implementing the traffic preemption signal program, accreditation annual compliance, Stanford reporting and agreement updates, and supporting the firefighters as they continue to respond to local and state wildfires, EMS calls during the pandemic, and all local emergencies. Fire is working with Human

Resources to determine the most effective process for COVID-19 testing for Palo Alto essential workers. The EMS and Training divisions developed continuing education solutions for the firefighters to maintain their EMS certifications and comply with new County EMS COVID-19 protocols. Fire inspectors are conducting inspections in person and remotely using video solutions to limit face to face contact with developers. The department continues to monitor the effectiveness of the emergency response deployment model for FY2021.

- *Office of Emergency Services:* All staff are working on site and in the field as essential workers. In addition to the ongoing pandemic emergency, staff are continuing the OES mission to identify risks to the community, prepare, mitigate, and respond to all hazards, including wildfires and other public safety critical incidents.
- *Police Department:* Most staff remain reporting to the worksite location(s) with over 20 employees working remotely. In the Field Services Division, our patrol officers continue to report for duty and work their regularly assigned shifts. Within our Investigative Services Division, detectives are spending more time in the office, allowing them to conduct more in-person interviews for their cases (though they will come in for any critical interviews that a case requires) than they were during the spring and early summer. Communications personnel continue to be on site and work their regularly assigned shifts in support of dispatch services for the police department, other city departments, and Stanford University.

Planning and Transportation Services

- *Planning and Development Services Department:* The majority of the forty-five department employees continue to work remotely. Building inspectors are in the field, but the number of inspections per day per inspector has been reduced in order to implement safety measures that respond to the current pandemic and Public Health Officer Orders and related restrictions. The department continues to respond to a fluctuation in available staff resources for inspection services. There have been many complaints from property owners and contractors about the delays fulfilling inspection requests. Planned vacations, workplace injury and time to hire two vacant positions have resulted in inconsistent staffing levels. It is anticipated by the end of October the department will achieve its 'new normal' for inspection services, roughly 7-10 days from inspection request to performing an inspection. The Online Permit System (OPS) launched in April. System enhancements are a regular part of our daily tasks and significant improvements to our customer interface and processing times have been made. Today, the system is seamless, though occasionally, some applicants report problems revealing previously unknown issues with the technology. The department has a dedicated team working with a consultant to be responsive to those issues as they arise.

The department is planning to vacate one of its leases on Bryant, supporting the City's building inspectors and fire prevention program, in recognition of fiscal constraints. Vacating the lease will reduce expenses approximately \$500,000, however, some of that savings will be recaptured to support additional plan review contract services and to support limited renovation to support safety protocols and social distancing measures needed in City owned facilities.

- *Office of Transportation:* Staff continues to move forward several key initiatives including the rail community-driven conversations recently concluding a virtual town hall experience, parking priorities, applying for grants and furthering transportation projects and monitoring parking and traffic related impacts as part of the City's Uplift Local effort. The Safe Routes to School team would have been conducting in-school educational programs at this time, which are now postponed or cancelled. However, to modify services and adapt, the Safe Routes to School team is now working to convert educational resources to online content to provide virtual access and training. The team worked with an online vendor to convert the former 5th-grade safety assembly to an online, module-based format, complete with a quiz that can be taken at the end of class and is also currently offering 1:1 and group bike safety appointments, presentations, and consultations to reinforce rules of the road and support physical distancing guidelines. This is an example of shifting priorities under the current pandemic situation. Most Transportation projects have continued to progress with minor modifications.

Within the parking division, Residential Preferential Parking program (RPP) enforcement has been paused but will resume in mid-October, customer-facing tasks like the RPP permit sales have been shifted entirely online and by telephone. While the installation of new parking signage is on hold, staff is ready to have installation occur once reopening restrictions relax.

Infrastructure and Environment

- *Public Works Department:* Since early summer, Public Works staffing allocations have been stable, such as 48 employees doing remote work, while 78 employees are working on-site and 60 are rotating on-site work with remote work. All Public Works services are being provided to the community, including wastewater treatment, garbage and recycling services, capital improvement project implementation, airport operations, facilities maintenance, fleet maintenance, tree trimming, and others. Employees able to remote work are primarily from the Engineering Services Division, Watershed Protection Group, and Zero Waste Group. There is a strategic focus on ensuring continued staffing for operation of the Regional Water Quality Control Plant (RWQCP).

- *Utilities Department:* The Utilities Department continues to maintain customer facing focus to provide the highest quality services within the five utilities and energy efficiency programs managed by the Department. Operations is maintaining and replacing infrastructure and on-call 24/7/365 days to respond to outages, main breaks, and other emergencies, while Engineering is managing all phases of the capital improvement projects approved by City Council. Customer Service is promoting and handling Utility payment relief programs including Project Pledge, to assist citizens dealing with the COVID financial hardships. The “dunning report” processed in SAP has been turned off and a repayment program for outstanding balances will be set up with a 24-month lead time for those in need. The Resource division is diligently creating and enforcing energy efficiency programs in energy, gas, and water supplies, to allow citizens the best possible options for renewable energy at the lowest costs. Staff has been concentrating on buying and selling energy to maintain its carbon neutrality and is diligently reviewing expenses and the department’s reserve levels.

Internal Services/Strategic Support

- *City Attorney’s Office:* Regular and customary full-service legal support activities are being provided to all City units, with emphasis on COVID-19 mitigation activities, business support and recovery projects, and race/equity discussions. Ongoing work includes: litigation defense; Government claim investigation and resolution; drafting and negotiating contracts, MOUs and intergovernmental agreements; procurement advice; construction contract administration guidance; CEQA review; PDS project review support; long range Planning support; Public Records advice; audit support; Sustainability research and advice; Board & Commission training and support, personnel and labor relations advice; etc.
- *City Clerk’s Office:* Staff (5) mainly work remotely and have successfully transitioned to this work approach. Two staff members go in on Thursdays to produce the Council packet. Staff continues to answer phones and will go into the office to assist with notarizations, proof of life, to accept claims and subpoenas, and print and mail documents for administrative hearings. Staff meets regularly on Monday afternoons to discuss what they have been working on and will be working on, these are adjusted depending on needs. We are in constant contact through the Teams application, and video phone meetings. Most work is complete on the election, until November, then work on that will pick up. Planning for the transition from the current Council members to those elected in November, including onboarding new members, offboarding former Council Members, oaths of office, reorganization meeting, etc. continues.
- *City Manager’s Office:* All staff other than the City Manager and Executive Assistant are working fully remotely. Work on key priority projects including race & equity workplans and actions, community and business support and grants implementation,

communications, and fiscal monitoring continue to areas of focus. Website update/transition continues to be a priority for Communications staff over the coming months as we implement a new website platform and redesign. Staff continues to support all COVID-19 response activities, especially related to policy decisions, public safety needs, tracking department COVID-19 work, monitor and implement County and State health responses/measures, communicating and informing the community and other stakeholders on public health emergency details, and continued planning for return to work and recovery implementation.

- *Administrative Services Department:* Operations continue relatively uninterrupted as most of the work for this department can be completed remotely. Customer facing work by the customer service windows has been adapted to mail, lock box, and phone support, with the availability of appointments by request only. Special project support including support of Race and equity initiatives, economic and fiscal monitoring and recovery planning, ERP upgrade testing and transition, implementation of a new parking permit system, administration of the small business grants, fiscal modeling for major capital investments, and monitoring and reporting as required by FEMA and CARES Act continue during this time. Staff continue annual duties including but not limited to the daily operations of both warehouses at the water quality control plant and municipal service yard, year-end close and third-party financial audit for production of the Comprehensive Annual Financial Report, development and preparation for FY 2022 annual budget process beginning with the Long Range Financial Forecast, the issuance of solicitations and contract issuance, management of the City's real estate portfolio including lease agreements and tenant transitions, and biweekly payroll.
- *Human Resources Department:* Priority activities include providing updated employee information to align with changing health orders; implementing and interpreting COVID-19 safety issues and restrictions; supporting pop-up COVID-19 testing sites in a city-county partnership; completing final close-out work related to recent layoffs and bumps, administering the ongoing hiring freeze, recruiting for positions exempted from the current hiring freeze, and providing citywide advice and consultation related to COVID-19, including return-to-work and essential worker support. Also supporting Council Ad Hoc Subcommittees on Race and Equity. Other priority work includes updating web pages for the website upgrade, conducting technical work for the SAP upgrade and open enrollment. Routine work that continues includes the administration of employee benefits plans and coordination with benefits brokers; maintenance of collective bargaining agreements, responding to State and Federal agencies related to workplace complaints and investigations; processing employee payroll changes (PAFs), maintaining employee salary plans, processing invoices for payment; manage workers' compensation leaves and benefits, intake of new injury and illness claims, oversight of

ergonomics program including tips for teleworkers, risk management review of city contracts, maintain city ten (10) city insurance policies.

- *Information Technology Department:* The majority of activities can be completed and are being completed remotely. Resources continue to be dedicated and focused on ensuring technology tools are available for staff on a daily basis, equipment is functioning and if not replaced expeditiously, and key citywide projects including the upgrade of the City's Enterprise Resources Planning system and the City's website redesign, development and migration. Staff continue to work on workforce adaptations including visitor and staff sign-in solutions in preparation for the continued relaxing of shelter in place orders and eventual planning and implementation of reopening of facilities.

Budget Stabilization Reserve: General Fund

Preliminary FY 2020 year-end financial reflect a Budget Stabilization Reserve (BSR) of \$35.9 million, this is slightly above estimated level of \$33 million that were cited in June 2020 (CMR #11382). This projected preliminary level is approximately 18.2% of the FY 2021 Adopted Budget expenses, \$575,000 below the City Council approved target level of 18.5%. It should be noted that prior to the COVID-19 public health emergency and the financial recessionary contraction, the FY 2019 BSR was at \$43.5 million.

Not included in this figure is \$744,000 that the City Council set aside in a reserve with the usage of that reserve to be determined later at City Council's discretion. As discussed previously, given the continued volatility and uncertainty, staff advises this reserve remains unused until further information is available, with planned City Council conversations on fiscal updates and recovery work scheduled over the coming weeks and months. These funds may only be allocated by City Council action.

Internal Service Funds

Minimal exceptions are expected in various internal services funds such as the Retiree Health Care Fund, and the Information Technology Fund. The Vehicle Maintenance & Replacement Fund is prioritizing and pausing replacements as per the Council approved budget adjustments. Below highlight a few areas tracking outside of expected levels.

Workers' Compensation Fund: Workers' Compensation claims costs are trending up. In FY 2020, expenditures increased by \$1.3 million or 26 percent from \$5.1 million to \$6.4 million from the prior year. The appropriation for Workers' Compensation claims expense includes an estimate for claims incurred and reserves for current filings at an 85 percent confidence level, based on actuary estimates. As part of practice, staff aligns reserves for current filings with updated actuarial estimates at the end of the fiscal year. At year-end FY 2020, the updated actuarial analysis estimated claims costs at \$3.4 million higher than anticipated, resulting in actual expenses exceeding budgeted levels. An additional \$1.3 million was charged to departments to

offset these expenses and ensure positive fund balance. Through Q1 of FY 2021 claims expenses are \$0.8 million or 14.0 percent of the \$5.7 million budget, as compared to \$0.7 million in Q1 of FY 2020.

Staff will continue to monitor expenditures in the fund and bring forward adjustments as necessary.

General liability Fund: General Liability claims costs are trending down. The method to establish the appropriation and record expenditures for General Liability claims is like the Workers' Compensation Fund, described above. However, contrary to Workers' Compensation, the updated actuarial estimates at year-end FY 2020 resulted in lower than anticipated claims costs by \$2.1 million. These savings were not refunded to departments and remain in the fund for future risks that the City continues to be susceptible to and liabilities may incur. Through Q1 of FY 2021, claims costs incurred are \$35,000 or 2.1 percent of the \$1.7 million budget. However, the City continues to work through outstanding litigation which will have financial implications.

General Benefit Fund: The FY 2021 Adopted Budget continues the practice to include a normal cost pension expense of 6.2 percent and transmit the amounts above required CalPERS payments to the City's irrevocable IRS Section 115 Pension Trust Fund as directed by the City Council through their action in December 2018, through CMR 9740. In FY 2021, a total of \$5.0 million (\$3.0 million General Fund) is planned, bringing total principal contributions to \$32.3 million since the fund's inception. Staff expects to recommend that one-time retirement savings in FY 2020 are used to make an additional \$2.0 million (\$1.3 million General Fund) contribution to the Trust Fund, in accordance with the draft pension funding policy the Council approved, bringing total planned contributions (principal) to \$34.3 million (approximately 65 percent of the total is from General Fund). As outlined in the pension policy draft, the goal of reaching a 100 percent funded status over a fifteen-year horizon was considered by the City Council in June 2020 ([CMR 11407](#)).

Enterprise Funds

At June 30, 2020, the City's Enterprise Funds reported total net position of \$781.0 million, an increase of \$39.6 million or 5.34 percent from the prior year. The increase was primarily from the Electric Fund and Water Fund.

Change in Net Position for the Year Ended June 30, 2020 (Unaudited) in millions)

Below are the details of change in net position in fiscal year 2020.

<u>Fund Name</u>	<u>2020</u>
Water	\$ 8.0
Electric	18.6
Fiber Optics	2.9
Gas	3.0
Wastewater Collection	2.1
Wastewater Treatment	0.3
Refuse	(3.1)
Storm Drainage	2.2
Airport	5.6
Total Change in Net Position	<u>\$ 39.6</u>

Utilities: Most revenues and expenses for utilities are trending lower, but overall, the trends are close to what was originally anticipated. Some utilities, such as

Gas, experienced a slightly larger variance mainly attributed to a reduction in commercial usage. Customer bill aging delinquency amounts are increasing significantly, with the restaurant sector in the worst shape overall (28 out of total 146 restaurants, roughly 19% have outstanding delinquencies in all utility services).

Airport Fund: Airport revenues are trending somewhat down due mainly to the Santa Clara County ordinance that allows business tenants to defer rent, which was recently extended to November 2020. The Airport has seen some increase in people choosing to take charter flights, which may be attributed to changing travel preferences during the pandemic toward private planes rather than commercial airlines.

Special Revenue Funds

Parking Funds: Parking permit revenues are the largest revenue source in all parking funds and on average are currently at 0.6% of budgeted levels. This represents an approximate 26.1% decrease as compared to FY 2019 and FY 2020, which by the end of September were at 26.5% and 25.7% collected respectively. FY 2021 Adopted permit revenue in the parking funds is \$3.3M in the University Avenue Parking Fund, \$1.1 million in the California Avenue Parking Fund, and \$1.1 million in the Residential Preferential Parking Fund (RPP). If similar revenue trends continue through FY 2021, all three parking funds will incur expenses exceeding their revenues.

County Public Health Shelter in Place Orders and the City's suspension of most parking enforcement in April 2020 (CMR [11238](#)) have dramatically decreased the demand for parking permits in all districts and violation revenue in the RPP fund. All revenue in the parking funds is tracking significantly below normal and estimated budget levels, however, it is projected that sufficient fund balance remains to cover this in FY 2021. For example, a 75% reduction in revenue would result in a use of fund balance of approximately \$1.9M and \$0.3M in the University and California Avenue Funds respectively.

Parking enforcement is scheduled to resume in the RPP districts in mid-October (CMR [11627](#)) so limited permit sales and violation revenue is anticipated to resume. The corresponding permit revenue impact may not be seen in the RPPs until spring 2021 when the next permit renewal cycle begins, as permit expiration dates in the RPPs were extended in light of the COVID-19 pandemic.

The transfer of approximately 100 employee parking permits is proposed from the Evergreen/Mayfield RPP into the California Avenue fund due to the opening of the new California Ave garage (CMR 11525), which will further decrease RPP's FY 2021 permit revenues by approximately \$50,000. With these factors, the RPP fund is currently estimated to receive approximately 55% of budgeted revenue. The RPP fund is forecast to remain solvent through FY 2021 by using accumulated fund balance to supplement lost revenue. A 45% reduction in permit revenue would result in a use of fund balance of approximately \$0.5M.

Staff will continue to monitor the status of all parking funds closely throughout the year and bring forward any necessary budgetary adjustments to maintain solvency.

Capital Improvement Program

Overall, work on the capital projects adopted as part of the FY 2021 budget continues as planned in most of the capital programs/funds across the City. The Infrastructure Plan projects that are under construction or planned to be awarded in FY 2021 are on schedule and currently remain within budget. Utility capital projects have noticed a few impacts which are noted below.

- Bid predictability on certain types of utility projects has continued to change in the face of ongoing uncertainties. Although gas prices are plateauing, competition with PG&E kept the volume of bids received for Gas capital projects unchanged, and similar results are expected for electric projects.
- The bid received for the new Foothills Rebuild (Fire Mitigation) project (EL-21001) was too high. Staff is considering rescoping this project and potentially performing the project in-house. Staff will return to Council with an updated plan for this project.
- Staff is planning for scenarios that show worsening utility revenue forecasts, which could lead to another year of 0% rate increases and further impact the ability to complete capital projects as planned unless alternative funding sources (i.e. bond financing) are obtained. In addition, lower staffing levels in engineering, design and inspections may cause the need to contract out more utility capital work.

Timeline, Next Steps

Staff expect to continue to diligently manage financials across the organization, providing City Council updates as information becomes available. As we continue into the 2021 fiscal year, staff is already beginning to prepare work on the FY 2022 budget as well as a number of regular reporting activities over the coming months. Below is a list of expected reports and Council updates planned over the next few months. The Council will continue to be updated on the financials of FY 2021 through these planned discussions with adjustments brought forward as necessary once more information is available and known. Expected upcoming financial status, budget reporting and Community and Economic Recovery Strategy conversations include:

November 2020: Various fee studies for impacts fees, fire medical services fees, and parking fees
November 9: Follow-up actions on business recovery direction from the September 14 City Council meeting

Nov/Dec 2020: Planned study session to discuss elements and focus to further strategic work underway to support a Palo Alto Community and Economic Recovery Strategy

Dec 2020/Jan 2021: FY 2020 Comprehensive Annual Financial Report & Year-End Budget Adjustments
FY 2021 1st Quarter Financial Report
FY 2022-2031 Long Range Financial Report

February 2021: Status check-in FY 2021 Adopted Budget City Council Referrals
FY 2021 Mid-Year Budget Review and
Preliminary 2nd Quarter Financial Status

As noted above, staff is seeking City Council input as we continue further strategic work to analyze different financial models, specifically different recovery scenarios and the impacts of those on the city's revenue sources and resources. With the public health emergency dictating much of the pace of the recovery at this point, and many economists forecasting we will see an 18 to 36 month recovery period, understanding how the City can support revenue generating activities within our control will be critical for the ability to resume investments in services and infrastructure.

The City of Palo Alto has benefited from a prosperous ecosystem of activities that support a strong local economic base, however, many of those aspects are significantly impacted by the current public health emergency and will continue to be in the short and long term. Therefore, understanding potential recovery scenarios, impacts on revenues, and consequently resources to deliver services to the community, will be key to continuing the prudent financial planning this organization and community value.

Stakeholder Engagement

This effort to manage and monitor the financial status of City funds continues to be a citywide effort coordinated among all departments. Outside consultants for expertise on major revenues categories including Sales Tax and Property Tax are consulted regularly to provide updates to the forecasted revenue collections.

Resource Impact

At this time, this report does not recommend an action amending the City's financials, however, depending on trends and further input from Council, actions may be necessary later in the year to better align revenues with expected collections. In addition, actions with financial impacts may result from Council direction on areas such as rent/lease forgiveness, usage of the \$744,000 reserve, as well as attrition ramps necessary for public safety personnel. The City has prudently planned for this economic recessionary period and at this time, should continue to monitor activities closely before making further adjustments.

Environmental Review

The action recommended is not a project for the purposes of the California Environmental Quality Act.

Attachments:

- Attachment A: Excerpt from Silicon-Valley Recovery Roundtable
- Attachment B: Excerpt from Economic Recovery Task Force

ATTACHMENT A

EXCERPT FROM:

Building a Better Normal

AUGUST 2020

EXCERPT

Introduction



Silicon Valley, a Global Pandemic, and a Better Normal

Silicon Valley has long been an engine of growth, a hotbed of entrepreneurship, and the world's leading technology hub. The companies founded and headquartered in Silicon Valley have been transforming the world for a century—starting with vacuum tubes in the 1920s and continuing through the decades with defense technology, integrated circuits, personal computers, the internet, and now Web 2.0.

As 2020 began, Silicon Valley was in the midst of its ninth-straight year of economic expansion, driven in large part by a booming innovation economy.² Unemployment stood at a 19-year low of just 2.1%.³ Silicon Valley's long run of growth and prosperity has been well documented, yet even before COVID-19 there were challenges simmering around housing costs and supply, wealth and income inequality, transportation, and environmental sustainability.

Then came COVID-19.

The pandemic has had a devastating public health and economic impact in Silicon Valley, causing the loss of lives, jobs, and homes across our communities.

California was the first state to impose a stay-at-home order, which helped bring the initial wave of COVID-19 infections under control. But as the state reopened starting in May 2020, the virus came roaring back. By August 3, 2020, California was reporting an average of more than 8,500 new cases and 135 deaths per day.⁴

As of August 2020, the situation remains dire, with over 10,000 deaths reported in the state.⁵ Moreover, the disproportionate impact of COVID-19 on our most vulnerable communities—people of color and undocumented immigrants—has been striking, reflecting the pandemic's exacerbation of existing systemic inequities and racial injustices. People of color and undocumented workers represent the bulk of the essential workforce. Although many occupy the frontlines of the pandemic, a history of perpetuating structural inequities renders them among the least likely to have access to basic medical services, or sick leave.



Photo courtesy of Mercury News

Santa Clara and San Mateo counties reported

11%^{*}

unemployment rate in June 2020 in comparison to

2-3%
in June 2019)

As of August 2020, the Latinx population in Santa Clara County had accounted for

50%[†]

of infections despite representing

26%
of the population.⁶

^{*}11%; [†]50%

Source: Pew Research Center; New York Times; Employment Development Department of the State of California

Unemployment has risen substantially in COVID-19's wake. In Santa Clara, the unemployment rate was 10.7% in June 2020 compared to 2.7% in June 2019; similarly, San Mateo reported 10.8% relative to 2.2% last year.⁷ The trend in Alameda County was no different, with 13.4% unemployed compared to 3.1% in 2019.⁸ Job losses year-over-year amounted to a devastating 93,900 in Santa Clara and San Benito according to a July 2020 report.⁹ Immigrants, undocumented workers, and people of color have been disproportionately affected—as a case in point, 61% of the Latinx community in California report they or someone they know has lost their job, compared with 38% of white individuals.¹⁰

The pandemic continues to change the rhythm of our daily lives in Silicon Valley. It has forced more than 260,000 K–12 students out of school in Santa Clara¹¹ and another 94,000 in San Mateo.¹² It remains uncertain whether these students will be able to return to their campuses for the 2020–21 academic year. COVID-19 has also catalyzed a rise in remote working and remote access to services, trends that may reshape how and where companies and organizations operate in the future.

Furthermore, COVID-19 has exacerbated long-standing challenges plaguing our region. As we act to counter the public health threat of COVID-19 and the associated economic fallout, it is imperative that we make a concerted effort to address these challenges and build a better, more inclusive normal.



Long-Standing Challenges within Silicon Valley

Pervasive income inequality, leading to huge disparities in wealth

The richest 13% of households have more than \$1 million in assets each and collectively hold more than three-quarters of the region's wealth; by contrast, 37% of Silicon Valley households have less than \$25,000 in savings.¹³ Viewing such data from a racial or ethnic lens is also telling. Per capita income is \$77,209 for white residents but just \$22,601 for Hispanic or Latinx community members in Silicon Valley—a greater racial disparity than in California or in the United States overall.¹⁴

An intractable housing crisis

Silicon Valley's housing costs are among the highest in the nation, and the situation has worsened as the pace of job growth has continued to exceed that of housing development; specifically, three times more jobs were created than housing units since 2010,¹⁵ and the median home sales price is over \$1 million.¹⁶ The rental market is no better: Santa Clara rents consume between 54% to 89% of monthly unemployment benefits for workers impacted by COVID-19 job loss, leaving little for other expenses.¹⁷ Even before COVID-19, rents were high and overcrowding severe, especially in neighborhoods with a substantial Black and Latinx presence, including East Palo Alto, North Fair Oaks, and Belle Haven in Menlo Park.¹⁸ The situation is most acute for the over 11,000 homeless individuals in Santa Clara and San Mateo who cannot afford any form of housing at all.¹⁹

Broad challenges with livability and sustainability

Long commutes are a hallmark of Silicon Valley, with average daily times topping 70 minutes (a 21.5% increase from 2010).²⁰ In addition, the cost of doing business in Silicon Valley is among the highest in the country, standing 51% higher than the national average in San Jose. This makes it difficult for small businesses to get traction, particularly those owned by individuals of color who already face the greatest setbacks in getting their businesses funded.^{21,22}





COVID-19 has magnified these problems, but it has also galvanized community stakeholders' engagement—a reflection of the resilience, dynamism, and innovative spirit of the Silicon Valley region. By making a concerted effort to build a more inclusive and equitable Silicon Valley, we can emerge stronger, better, and more sustainable than before. Many philanthropic organizations and companies in our region have already stepped up, generously devoting their time and resources to support this vision of a better Silicon Valley.

Our aspiration in writing this report has been to spur action on the part of three groups of stakeholders: (1) local and regional governments; (2) state government; and (3) non-governmental stakeholders, including companies, unions, universities, and non-governmental organizations, among other parties. We hope that each set of stakeholders will absorb the findings of this report and identify the areas where they are best positioned to lead action, understanding that cross-sectoral collaboration will be the cornerstone of implementation.

We acknowledge the multitude of complementary efforts working toward the same end, including but certainly not limited to Plan Bay Area 2050, the Governor's Task Force on Business and Jobs Recovery, and San Mateo County's Communitywide COVID-19 Long-Term Strategic Plan. It is our hope that this report inspires additional thinking about how we can guide our region's recovery, and the role that Silicon Valley employers, non-profits, educational institutions, unions, and foundations can play to that end.

**As you read this report,
ask yourself:**

**What can I do and what can
my organization do to move
Silicon Valley towards a
better normal?**

Immigrant from Guatemala

Has been in the US for 20 years
House cleaner and caretaker for elderly man

Lost her job as a caretaker due to COVID-19

"I take care full-time of an older man—in March when they started shelter in place, they asked for us to stay home. And they paid me the first month out of the kindness of their hearts, but not the second month, and how am i supposed to ask them for that when I'm not working?"

Landlord accosting her for payments

"Our landlord had our neighbor meet me and my daughter at our front door with a cell phone. My landlord was telling my daughter, 'you need to start working so you can help pay rent' and my daughter was telling her 'I can't work I'm a full-time student in college...'"

Yet, remains hopeful

"But being a single mother, I've tried to pay everything on time. But it's so hard... When the governor said they can give us \$500 I felt hope. I felt seen."

Immigrant from Ethiopia

Has been in the US for 38 years; married for 28 years to high school sweetheart
Ethiopian restaurant owner in San José

Is a community leader and a restaurant owner

"We are one community; we help each other here, that's why we survive." "He brings his food to our film festival and it goes right away. He has this food truck that he drives up... it's the place to try; let me tell you"—another community member speaking about restaurant

Because he is serving his community, he is making personal sacrifices

"Every day I quarantine myself (from my wife) because she has kidney failure and surgery about a month ago and I don't want her to get sick. It's very hard to not go home."

Business is struggling; was not able to apply for PPP loans

"Because we can't survive with a 40% income and pay rent and lights and pay our other expenses, mortgage and all that stuff...we are not connected to banks to get PPP loans; before the ink dried when the president signed the bill, the money was gone."

Focus Groups: Example stories

Student at a local college, originally from Mexico

Studying to be a doctor
Works part-time to pay rent

Has stayed distant from family to keep them safe

"Ever since this started, my uncle and I can't see each other because my grandma lives with him. The rest of my family is in Mexico."

Has had to pull from savings to make ends meet

"I've never really made more than minimum wage. I even pulled from my 401k to keep paying for rent and school."

Concerned of prospect of being unemployed after graduation

"I would love to graduate and would love to find a full-time remote position where I don't have to worry about how I'm going to pay for a studio apartment."

Local artist and community organizer

Serves the Vietnamese community in San José with art classes

Primary revenue stream for small business vanished because of COVID-19

"We normally run on a pretty low budget. But we're no longer able to offer art classes, which has basically zeroed our business."

Was not able to get connected to a bank to apply for PPP

"These banks were only giving loans to people who had loans or accounts with credit... Which is crazy, because if you already had money in the bank with them, why would you need a loan?"

Hopeful about the role that art will play in recovery

"I'm hoping that in this moment that the systems in place might actually understand that arts should be part of the solution. We're deeply rooted in our community."

Building a Better Normal: Our Focus

Our aim in “building a better normal” is to work toward an equitable economic recovery, retain and grow jobs, address the needs of vulnerable communities, and cultivate a supportive and inclusive regional community.

We structured our work around four interrelated focus areas that reflect the critical challenges and opportunities presented by COVID-19.

Reopening and resurgence planning *Focus on immediate needs*

1. How do we reopen safely and productively with minimal risk?

Near-term recovery and resilience *Focus on impact in the next three to twelve months*

2. How do we engineer a recovery that includes and benefits our most vulnerable community members?
3. How do we enable businesses to survive and thrive?

Re-imagine a better normal *Focus on the next three to five years and beyond*

4. How do we innovate to build the foundations of a new, “better normal” future?

First, we acknowledged the persistence of the virus and, as a result, the protracted need to open and close sectors of the economy in future periods of resurgence. This understanding formed the basis of **Focus Area 1** that the SVRR explored, centered on **reopening and resurgence planning**, with the aim of identifying immediate actions that could be taken to support businesses.

Beyond providing immediate support on reopening needs, the SVRR looked for ways to support Silicon Valley’s **near-term recovery and resilience**. We developed solutions to engineer a recovery that would include and benefit our most vulnerable communities (**Focus Area 2**), and help businesses to survive and thrive (**Focus Area 3**). These recommendations range from those that are designed to be pragmatic and actionable in the near-term, to those that are more aspirational but still possible to execute within the next 12 months.

Our final focus area took a longer-term, more expansive view on **reimagining the foundations of a better normal** for Silicon Valley (**Focus Area 4**). The recommendations within Focus Area 4 are by design bold and ambitious, reflecting a desire to rethink what is possible, and to add SVRR’s voice and muscle to overcome historic obstacles to change. While SVRR members recognize that some of these recommendations require significant funding and are politically complex, they have been included to spur debate and as a call-to-action.

Across our work to support near-term recovery and resilience and reimagine a better normal for Silicon Valley (Focus Areas 2 through 4), we honed in on **six priorities for Silicon Valley**, which we believe are critical building blocks toward building a better, more inclusive, and more equitable region as we work to recover from COVID-19. These priorities provided the focus for our recommendations in Focus Areas 2, 3, and 4, and are the “red threads” linking our recommendations across these focus areas. These six priorities are outlined on the next page.

Six priorities for Silicon Valley to support near term recovery and resilience and re-imagine a better normal



1

Strengthen financial stability for individuals and businesses



Provide immediate financial assistance to address urgent needs exacerbated by COVID-19, and create equitable access to banking services, particularly for people of color, undocumented individuals, small businesses, and startups.

2

Drive job creation and support displaced workers to promote economic recovery



Foster an inclusive economic recovery by facilitating job creation, particularly for low-income displaced workers and people of color. Support the recovery of small businesses and startups, who are the primary force behind job creation in our region.

3

Galvanize housing preservation, protection, and production



Break through on the housing crisis in the short-term to stabilize vulnerable populations through preservation and protection. Longer-term, produce more housing, with a particular focus on low-income, very low-income, and extremely low-income individuals and households, including the homeless.²³

4

Reimagine neighborhood districts



Rethink how important commercial, work, and community spaces are built, structured, and connected. Reinvest in our small businesses to spur growth and revive the vibrancy of places that are anchors of our community.

5

Create next-generation transportation



Demonstrate leadership in mobility by building integrated solutions and investing in location-based housing to improve transportation equity and regional access to jobs. Prioritize transformational and strategic investments that include new and legacy platforms, complete streets efforts that facilitate safe carbonless travel, and innovative transportation technology and behavior change programs.

6

Expand digital inclusion for individuals and businesses



Bridge the digital divide and build resilience for future resurgences by equipping individuals and small businesses with stronger digital tools and better connectivity.

Our Recommendations

FOCUS AREA 1: Recovery and Resurgence Planning

Through our work on reopening and resurgence planning, the SVRR, led by the Silicon Valley Leadership Group, has contributed to developing reopening policies and protocols and building an information pipeline for businesses. This work has helped to facilitate the return of tens of thousands of jobs in the manufacturing, construction, and solar industries. New channels of communication across the public and private sector have been established, as well as greater communication and coordination at the mayoral level, through the Mayor's Circle. We have also bolstered testing, tracking, and tracing efforts, and collectively these actions enable Silicon Valley communities to be better prepared to respond to resurgences.



Looking ahead, we face ongoing uncertainty as to the course and duration of the pandemic, creating the possibility of protracted periods of closing and reopening. To create the conditions that would make it easier for businesses to reopen and stay open during future resurgences of COVID-19, we **recommend five initiatives:**

- a. **Establish a private-public sector partnership** with the public health departments of the nine-county Bay Area to compare public health orders
- b. **Continue the contract tracing task force**, partnering with the counties through the Silicon Valley Leadership Group (SVLG)
- c. Call on County governments to **create a team of employees** who can help businesses stand-up their internal contact tracing and testing teams
- d. **Continue the Mayors' Circle** to test best response practices across city lines
- e. **Continue to promote collaboration** between small businesses and hear from them about their evolving challenges, needs, and opportunities

Our Recommendations (cont.)

The table below summarizes our recommendations across Focus Areas 2, 3, and 4. More detail on these recommendations, including potential actions different stakeholders can take to achieve them, are included in each of the focus area chapters.

Near-term recovery and resilience

Re-imagine a better normal

FOCUS AREA 2: How do we make the recovery inclusive for our community's most vulnerable members?

FOCUS AREA 3: Do we enable businesses to survive and thrive?

FOCUS AREA 4: How do we innovate to build the foundation of a better normal?

Strengthen Financial Stability for Individuals and Businesses



- 2a.** Expand emergency financial assistance programs and better enable vulnerable communities to access available support (pg. 31)
- 2b.** Scale equitable financial services to address needs exacerbated by COVID-19 and better communicate availability to vulnerable communities (pg. 32)
- 2c.** Spur large employers to improve living wages and increase adoption of a net disposable income approach (pg. 32)

- 3a.** Double down on SME and startup access to capital to support at-risk small businesses and to enable early stage entrepreneurs to grow and innovate (pg. 42)

Drive Job Creation and Support Displaced Workers to Promote Economic Recovery



- 2d.** Prevent further displacement of low-income workers by galvanizing large employers to halt layoffs/furloughs and prioritize reskilling individuals into new roles (pg. 33)
- 2e.** Bolster job creation and economic mobility to support displaced low-income workers, and scale up wraparound support services (pg. 34)

- 3b.** Create more opportunities for SMEs and startups to capitalize on new waves of innovation by supporting new investments and spurring the public and private sector to prioritize procurement from SMEs (pg. 43)

- 3c.** Streamline regulations and expedite permitting approvals and online inspection services to facilitate new investments and developments that generate new jobs, and ongoing General Fund revenues (pg. 43)

Galvanize Housing Preservation, Protection, and Production



- 2f.** Keep vulnerable communities housed in their current place of residence by extending the eviction moratorium and supporting landlords who are housing low-income residents (pg. 35)

- 4a.** Increase the housing supply by implementing a consistent upzoning and entitlement streamlining framework, with a concerted focus on mixed-use transit, underutilized commercial corridors, and scaling accessory dwelling units (pg. 51)

Galvanize Housing Preservation, Protection, and Production



2g. Rapidly increase affordable housing stock by identifying new opportunities to quickly create affordable residential units, to particularly support vulnerable communities who are experiencing homelessness or are at risk of homelessness (pg. 35)

4b. Support and advocate for state leaders to pass significant housing legislation by joining existing efforts or forging a new statewide 501(c)(4) or 501(c)(6) organization that brings together a diverse coalition of big-city California mayors, labor leaders, and high-profile corporate and philanthropic leaders to break through political barriers to benefit Silicon Valley (pg. 52)

4c. Ensure that the Regional Housing Needs Allocation (RHNA) is actively enforced (pg. 52)

4d. Form public-private partnerships that fund housing transformation through shared capital investments (pg. 53)

4e. Develop an emergency COVID-19 housing and prioritized transportation plan for infrastructure funding from federal, state, private, and/or philanthropic sources (pg. 53)

Reimagine Neighborhood Districts



3d. Rethink Main Street and explore new models to revive and redevelop neighborhood business districts and commercial corridors throughout Silicon Valley and adapt to community needs that have changed due to the pandemic (pg. 44)

4f. Prioritize the redevelopment of underutilized commercial corridors into higher-density mixed-use neighborhoods (pg. 54)

Create Next-Generation Transportation



4g. Develop a comprehensive and equity focused new multimodal transport system that connects jobs to housing and includes next-generation technological innovations (pg. 55)

4h. Drive commuter behavior change through city- or employer-provided incentives and disincentives (pg. 55)

Expand Digital Inclusion for Individuals and Businesses



3e. Bolster SME digital capabilities so they can better compete in the e-commerce marketplace (pg. 45)

4i. Promote equitable connectivity through new financial tools that offset costs of internet service and devices for low-income areas and individuals (pg. 56)

4j. Lower device and connectivity barriers with innovative corporate investment or donation programs (pg. 57)

4k. Streamline how local municipalities permit and approve wireless connectivity projects to speed up infrastructure deployment and reinvest cost savings into providing universal connectivity to Silicon Valley residents who do not have access to the internet at home (pg. 57)

Silicon Valley Recovery Roundtable Working Team

The SVRR focused its work on four interrelated Focus Areas. It has been supported by a working team comprised of Focus Area co-chairs and leads for each Focus Area. Each team has sought to unravel the challenges faced by our communities, identify potential solutions, and craft a meaningful set of recommendations with a sharp focus on serving the often-overlooked members of Silicon Valley. Focus Area leads were the primary authors of each chapter of the report, and sought guidance from the Focus Area co-chairs, members of the community and a broad range of experts, and the SVRR members. Additional support was provided by Silicon Valley Leadership Group, Boston Consulting Group, and the San José Mayor's office.

FOCUS AREA 1

How do we reopen safely and productively with minimal risk?



Carl Guardino
Focus Area Co-Chair
Former President & CEO,
Silicon Valley
Leadership Group



Lizz Vilardo, M.D.
Focus Area Co-Chair
President & CEO,
Foundations Sutter
Health Bay Area



Brian Brennan
Focus Area Lead
SVP,
Silicon Valley
Leadership Group



Matthew Quevedo
Focus Area Lead
Director of
Transportation, Housing
and Community
Engagement, Silicon
Valley Leadership Group

FOCUS AREA 2

How do we make the recovery inclusive for our community's most vulnerable members?



Nicole Taylor
Focus Area Co-Chair
President & CEO,
Silicon Valley
Community Foundation



Teresa Alvarado
Focus Area Co-Chair
Chief of Local Impact,
SPUR



Gina Dalma
Focus Area Lead
EVP,
Silicon Valley
Community Foundation

FOCUS AREA 3

How do we enable businesses to survive and thrive?



Dilawar Syed
Focus Area Co-Chair
CEO,
Lumiata



Tom Werner
Focus Area Co-Chair
CEO & Chairman
SunPower



Ru Weerakoon
Focus Area Lead
Fmr. Sr. Policy Advisor
for Land Use & Ec Dev,
City of San José

FOCUS AREA 4

How do we innovate to build the foundation of a better normal?



Lisa Su
Focus Area Co-Chair
President and CEO,
AMD



David Wehner
Focus Area Co-Chair
CFO, Facebook



Zia Yusuf
Focus Area Co-Chair
Managing Director
& Senior Partner,
Boston Consulting Group



Karli Stander
Focus Area Lead
Innovations Lead,
Stanford Impact Labs

Mayor's Office Staff

Kelly Kline, Shelley Opsal, Apoorva Pasricha

Co-chair Deputies

Michelle Wright Conn (Cisco), Ruth Cotter (AMD), Gina Dalma (Silicon Valley Community Foundation), Heather Szerlag (NorCal Carpenters)

Silicon Valley Leadership Group

Jason Baker, Ceci Conley, Sara Garcia, Dan Kostenbauder, Christoph LaBelle Peter Leroe-Munoz, Kristen Petersen, Matthew Quevedo, Emily Sparling Aakash Vashee, Kat Wortham

Boston Consulting Group

Danny Acosta, Nicole Bennett, Usama Gill, Carl Lonnberg, Kate Norton, Neeru Ravi, Zia Yusuf

Our Approach

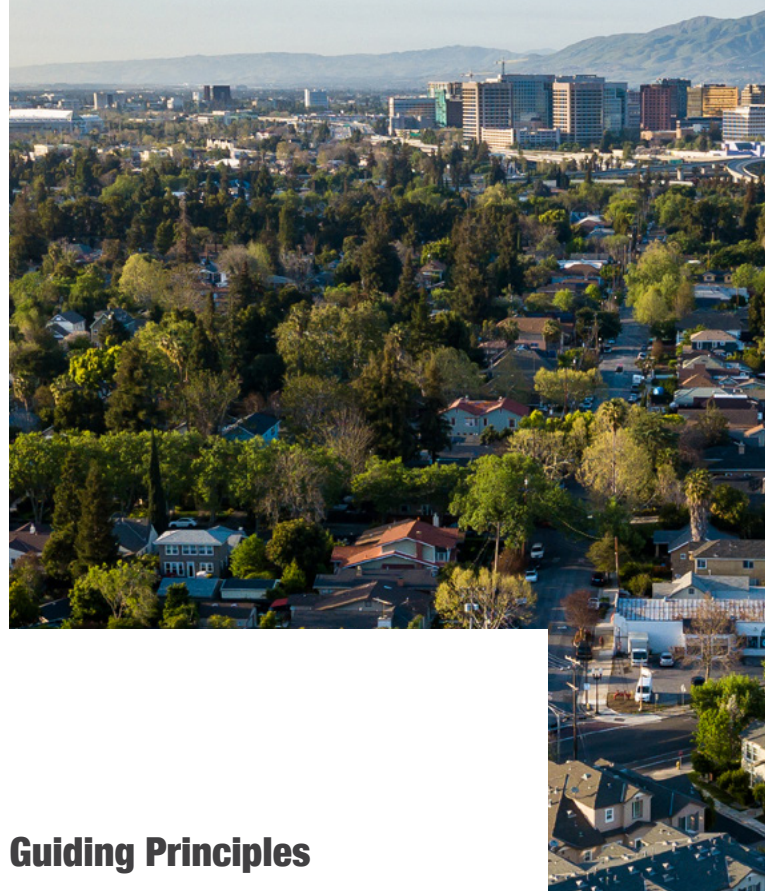
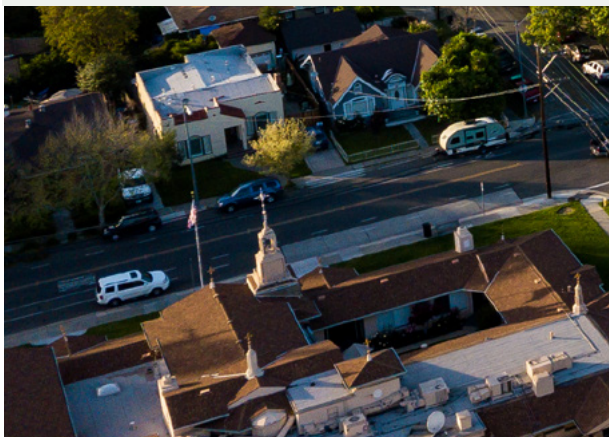
We developed our recommendations to reflect the best ideas of a wide array of stakeholders, including the members of our roundtable, community members, and subject matter experts. It was important for us to ensure that our recommendations reflected lived experiences as told by people in our communities—particularly people of color and undocumented workers. These are the people who have been structurally excluded from Silicon Valley’s wealth and opportunity, and who have faced the most severe impacts from COVID-19. We are thankful to the following four groups for their indispensable contributions to this report. They are mentioned by name in this report’s Acknowledgments:

The voices, needs, and contributions of **140 community members** who participated in 16 focus groups

Ideas and suggestions from interviews with over **45 experts** who have spent their careers studying exactly those issues we wish to solve here in Silicon Valley

Feedback from over 160 employers in the office space technology, solar installation, and construction industries, which was input into the development of county reopening policies and protocols

The cross-sector expertise of **Silicon Valley Recovery Roundtable members** who held over 15 meetings to explore our four primary Focus Areas, and convened as a whole three times over the course of 100 days to discuss vision and solutions



Guiding Principles

While developing the recommendations in this report, we adhered to the following principles:

- 1 **Gather input** from multiple stakeholders across industries, sectors, and communities

- 2 Take an **equity lens** to center and support vulnerable communities

- 3 **Identify** immediate-, short-, medium- and long-term actions

- 4 Balance bold **vision** with specific, tactical, and practical actions

- 5 Harness Silicon Valley’s **innovative spirit** to address challenges

Considering the Costs

It is important to state that we are not proposing that municipalities and other stakeholders take on all of our recommendations; rather, our aim has been to curate a “marketplace of ideas” that we believe will significantly benefit our communities. We also acknowledge that implementing the recommendations in this report will require significant investments both by the public and private sector, at a time when budget and operational pressures and declining revenues are at unprecedented levels.

It will be up to local, regional, and state governments, alongside relevant non-governmental organizations in the private and social sectors, to share responsibility for selecting and implementing those recommendations they feel will have the most impact and are most feasible for them. It will be incumbent upon each of the cities and their private sector and non-profit partners to take the next step of jointly advocating and funding the most strategic of the proposed recommendations that would uniquely support the recovery of their cities and the region as a whole. This will involve seeking future federal and state funding, including from the Economic Development Administration (EDA), various relief funds targeting job preservation, job creation, workforce retraining, and Main Street revitalization. Such funding will leverage the Coronavirus Relief Fund established by the CARES Act, which has already served to provide significant support to Silicon Valley communities.

While selecting among interventions based on shifting priorities, needs, and revenues is a demanding task, we should all recognize that inaction also carries significant costs. When jobs are lost, businesses shut down, and people leave our region; there are real costs for local jurisdictions associated with feeding, housing, and meeting the other basic needs of the newly unemployed.

Municipalities that have sensibly and responsibly planned and prepared to address the recovery needs of their communities will be in the best position to harness future funding opportunities. To the extent that Silicon Valley creates the necessary infrastructure, pilots ideas, and builds meaningful public-private partnerships, we will be in a more competitive position to seek and obtain such funds.

We owe it to our communities not to limit ourselves when formulating solutions to the big challenges we face. That is particularly true in this moment, which requires us to wield Silicon Valley’s unparalleled culture of resilience in service of a better future for everyone in our region.



EXCERPT FROM:

ECONOMIC RECOVERY TASK FORCE REPORT



THE CITY AND COUNTY OF SAN FRANCISCO

ONESF
Building Our Future

Stay 6 feet apart

請與他人保持6呎距離

Manténgase a un mínimo de seis (6) pies de los demás

Magbigay ng 6 na talampakang distansya mula sa iba't ibang

SF.gov/coronavirus



Introduction

Mayor London N. Breed and Board of Supervisors President Norman Yee created the COVID-19 Economic Recovery Task Force (Task Force) to respond to the urgent needs of San Francisco’s workers, businesses, organizations, and vulnerable populations arising from the COVID-19 pandemic. The Task Force was comprised primarily of members of the public, engaged with the charge to guide the City’s COVID-19 recovery efforts to sustain and revive local businesses and employment, mitigate the economic hardships affecting the most vulnerable San Franciscans, and help build a resilient and equitable future.

The Task Force was co-chaired by San Francisco Assessor Carmen Chu; San Francisco Treasurer José Cisneros; Rodney Fong, President and CEO of the San Francisco Chamber of Commerce; and Rudy Gonzalez, Executive Director of the San Francisco Labor Council, AFL-CIO. Task Force members represented a diversity of perspectives and sectors, including academia and research, arts, entertainment and nightlife, finance, government, health care, hospitality, housing, labor unions, manufacturing, nonprofit, personal services, philanthropy, real estate, retail, small and large businesses, and technology. Staff from the City Administrator’s Office managed the administrative effort, supported by staff from the Controller’s Office, the Human Rights Commission, the Planning Department, the Office of Economic and Workforce Development, the Assessor-Recorder’s Office, and many others.

This report summarizes the work of the Task Force and its 41 detailed policy recommendations. These recommendations and Task Force members’ on-the-ground insights provide a critical public perspective on what is important to businesses, labor, and nonprofit partners to stabilize the local economy, plan for economic recovery, and to advance an equitable economic recovery. It also highlights the City’s work most directly influenced by the Task Force during its engagement: the Shared Spaces Program and Safe Reopening Roadmap.

Every day, leaders are learning more about the progression of COVID-19 and effective strategies to mitigate its spread and impact. As that knowledge evolves, so too will there be a need for City leaders to adapt to economic strategies that help to support and retain employment and businesses.

The Task Force recognizes its work is one component of the City’s effort to ensure San Francisco’s long-term economic success. To meet San Francisco’s urgent needs, parallel efforts to address reopening, homelessness, transportation and mobility, education and child care, sustainability, and long-term economic and workforce development are also underway and ongoing. Together these efforts will inform the vision, planning, and implementation needed for recovery and growth beyond this crisis to build a future San Francisco that is resilient, equitable, and thriving.

” If we can open, that would be one step. If we can break even on expenses, that would be the next step. If we can do as well as before, that would be awesome. If we can make changes to the business models so this is not such a peril at a three-month closure, that would be the best thing to come out of this.” *Public survey respondent*

” Many of us are living behind closed doors to be safe, so we are out of sight and out of mind.” *Disability community focus group participant*

Economic Context

Economic Impact

In early 2020, the COVID-19 pandemic rapidly changed the outlook of San Francisco and the world. San Francisco took early and decisive action, issuing an order for residents to shelter-in-place on March 16, 2020. This action likely saved thousands of lives, protected the local healthcare system, and enabled the City to build a population level emergency response, testing, and contact tracing infrastructure.

At the same time, continued limitations to operating businesses, and the ongoing recession they created, continue to have a profound impact on our local economy. Local employment data from April 2020 reported a loss of roughly 175,000 jobs in the San Francisco metropolitan division as compared to March 2020. Though 62,000 jobs had returned by August as a result of phased business reopening, nearly two-thirds of the jobs lost since April have not yet recovered.

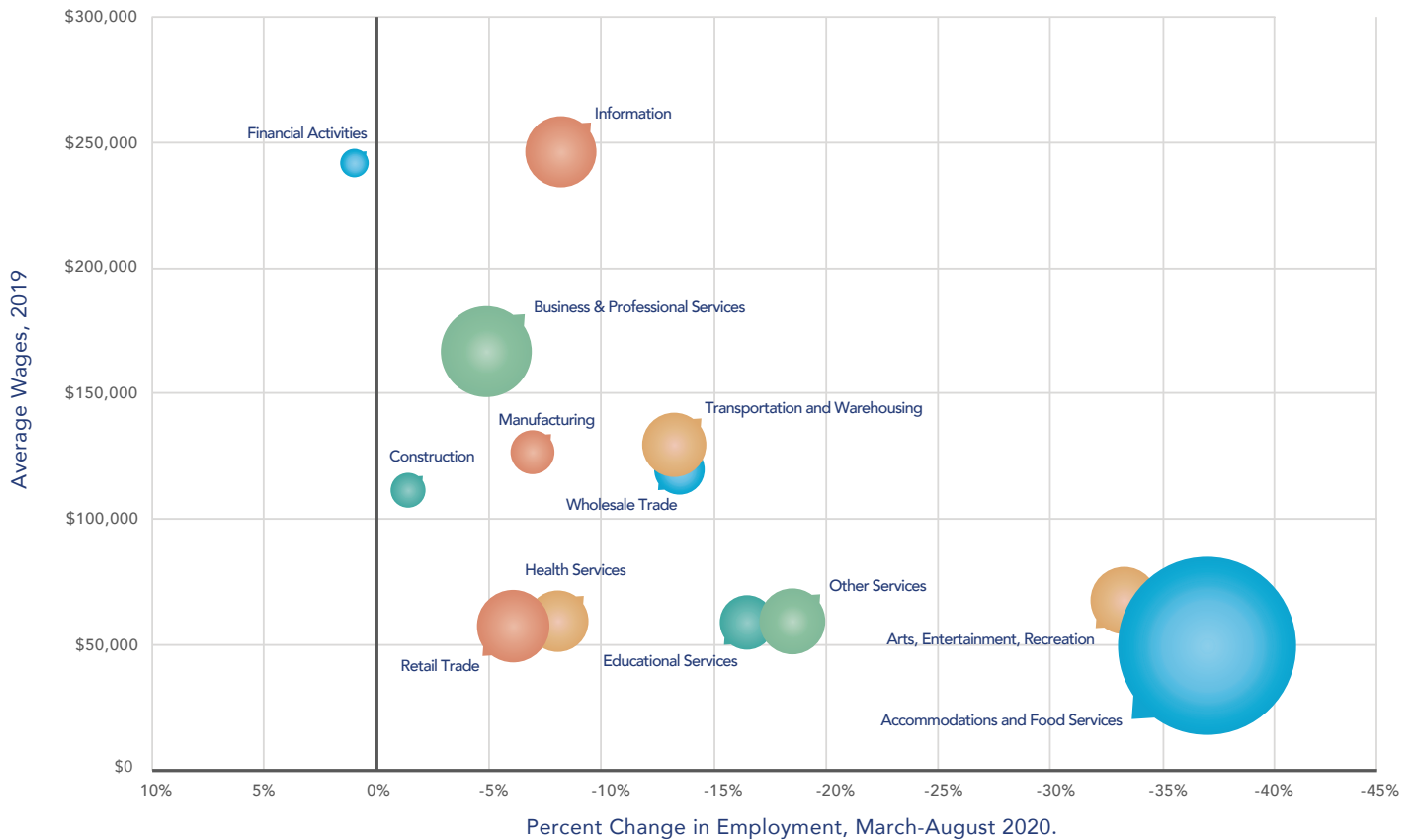
” COVID-19 made it harder to outreach to our community. Many folks are not getting information.”
CBO focus group participant

A survey from the SF Chamber of Commerce reported that only 46% of storefront businesses in San Francisco open at the start of the pandemic were still operating in August. While some of these businesses may only be temporarily closed, Yelp data from the San Francisco-Oakland-Hayward metro area found that 2,065 out of 5,048, (41%) businesses that closed between March and July have now indicated that they are permanently closed. These are businesses that are not expected to reopen and jobs that are permanently lost. Businesses that rely on commuters and tourists have been especially hard hit. Local unemployment claims have now topped 193,000 since the start of the pandemic.

Employment and health data also show that COVID-19 has had a disproportionate impact on low-income communities and communities of color. Job losses have been especially concentrated in lower-wage industries, including food service and hospitality. For many employed in these sectors, there are fewer opportunities to work remotely, and workers face the difficult decision of risking exposure or staying employed. Other sectors such as arts, entertainment, and recreation have also suffered significant losses in employment, especially as compared to higher-wage industries like financial sector and business and professional services (see table below).

” One thing that people lost was access to the internet. They’re prioritizing food on the table... not internet and cell phones.”
Focus group participant

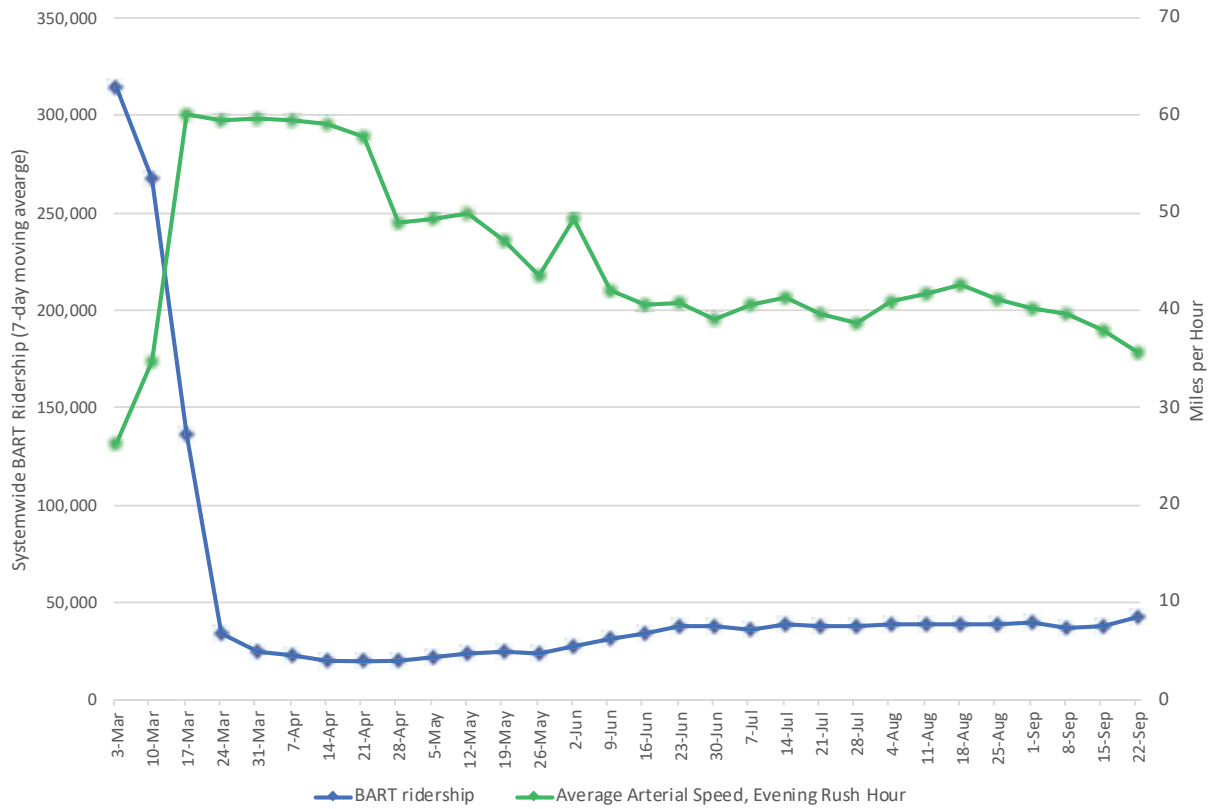
**Average Wages by Percentage Change in Employment, February-August 2020:
San Francisco Industry Sectors**



Source: Bureau of Labor Statistics, September 2020

San Francisco’s economy is centered around a bustling downtown that brings together a strong pool of talent for employers, as well as citywide tourist attractions that bring in visitors from around the world. Yet with the health crisis requiring individuals to shelter-in-place and engage in remote work where possible, these aspects of the City’s economy have significantly declined. Downtown San Francisco has seen a marked decrease in commuters, as reflected by a steep decline in transit ridership since the beginning of March. As of late September, BART ridership was down over 88% as compared to the same time last year. On the other hand, average speed on the freeway during evening rush hour is only 3% higher than in early March. Those workers that are returning to work are much more likely to drive, but downtown San Francisco is not built for everyone commuting by car. A full economic recovery will require a return of confidence in public transit.

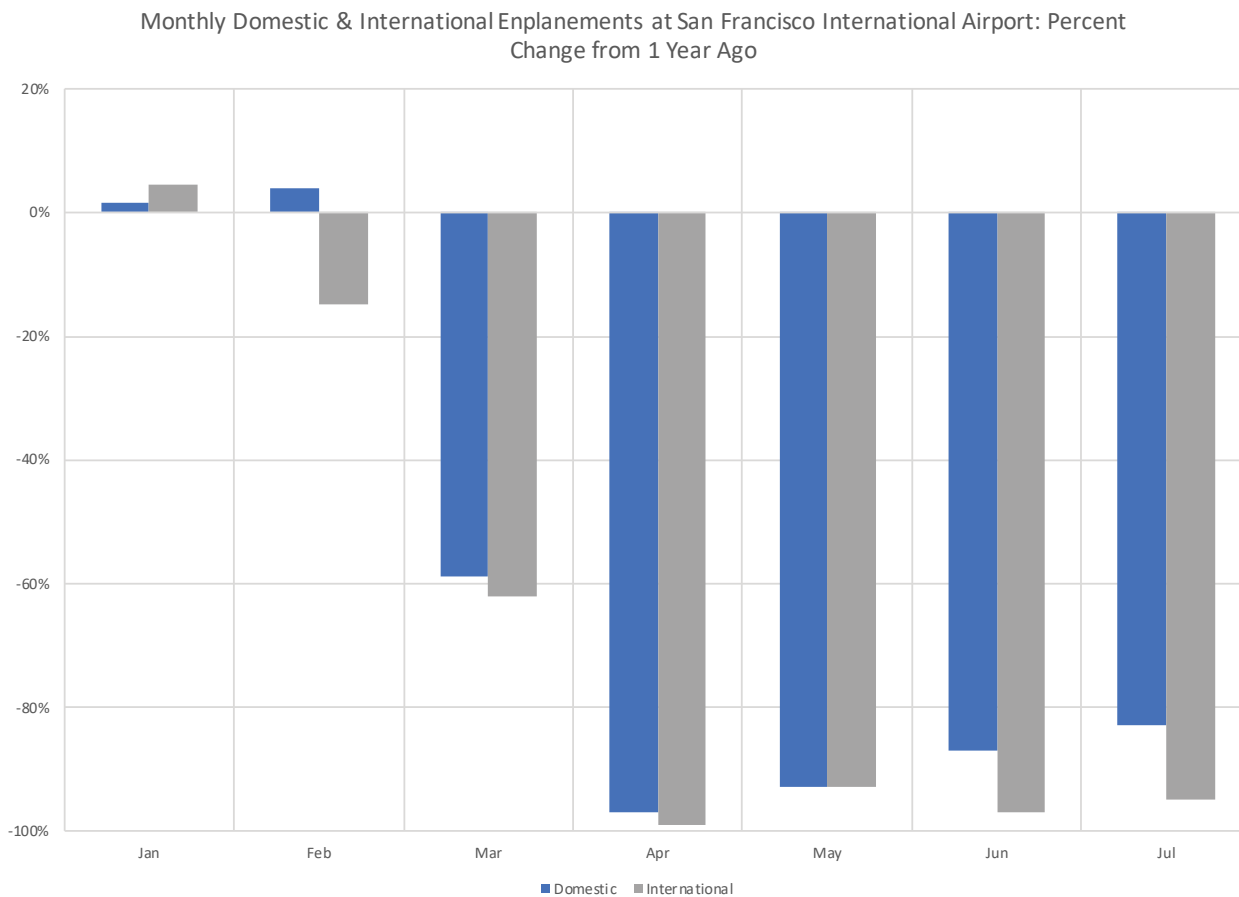
San Francisco Freeway Speeds, and BART Ridership:
Week of March 3 to Week of September 22, 2020



There are additional warning signs for downtown, not related to confidence about riding transit. Commercial brokers have reported a sharp spike in office subleasing and vacancy. The city’s office vacancy rate reached 14.1% in the third quarter of 2020, according to Cushman and Wakefield, up from 5.4% the previous year. While office workers are required to work at home during the pandemic, this vacancy rate represents businesses not renewing their office leases, suggesting they intend to reduce their employment level in San Francisco over the longer term.

It makes a major difference to the city’s economic recovery if remote workers retain their Bay Area homes, or move to another area. Several major local companies have allowed, or in some cases incentivized, workers to move to a lower cost location, which could threaten the city’s long-term economic competitiveness. At the moment, the clearest evidence of this risk is found in the housing market, which is a real-time indicator of people’s interest in moving into and out of San Francisco. Several companies that track residential rentals across the country report that declines in residential asking rents in San Francisco, along with New York City, are the steepest in the country. For example, ApartmentList has reported an 18% drop in asking rents in San Francisco between March and September, by far the biggest drop of any city it monitors. This decline in asking rent for vacant apartments, which has been accelerating despite the jobs recovery, is a sign of more renters wanting to move out of San Francisco than to move in.

For the hospitality industry, San Francisco's other major economic driver, the news is equally concerning. According to San Francisco Travel, nearly half of the hotel rooms in the city are now temporarily closed, and occupancy in September was down 86% from September 2019. As of August, enplanements at San Francisco International Airport are still down 85% compared to last year.



A further sign that San Francisco's economy is suffering broadly, and worse than in other cities in California, is sales tax receipts. General Fund sales tax, which represents 1% of the value of all taxable sales in the city, declined by 43% in April-June 2020, compared to the same period in 2019. While major declines were seen across the state of California, San Francisco's drop was much steeper than those in other cities, like Los Angeles and San Diego, that are also reliant on tourism. Sales at restaurants and bars were down 65%, as was sales at General Consumer Goods stores. Even taxable sales at Food & Drug stores was down 8% year-over-year, indicating that the city's population, and not merely visitor count, may be in decline. Virtually every other city in California saw major gains in online sales tax in the second quarter of 2020, as people switched from in-person to online sales. However, San Francisco's online sales were virtually flat, with only a 1% growth between the second quarter of 2019 and 2020.

Low-income communities, the elderly, disabled community, and the unhoused and vulnerably housed communities continue to suffer disproportionate strain. Gaps in access to technology threaten a widening divide especially as more services, including essential public services, are pivoting in the interim to remote or online services. The economic crisis and health crisis are occurring simultaneously with other seminal cultural and natural events: the surging demand for racial justice and the catastrophic wildfires in all directions. In tandem with these trends, San Francisco faces an urgent call to deliver an equitable and resilient economic recovery for all.

Immediate Relief

In addition to managing the public health and safety challenges of COVID-19, the City recognized the urgency in addressing the acute economic stresses brought on by the pandemic through immediate action. Since March, the City has deployed targeted investments to stimulate the local economy and support existing businesses, workers, and our most vulnerable, and the current budget marshals further resources. In addition to public funding, the Give2SF fund for COVID-19 priorities was established to direct resources to those struggling as a result of the pandemic, with a focus on food security, access to housing, and support for workers and small businesses. Many of these initiatives align with Task Force priorities, as shown in the highlights of recent, current, and budgeted efforts below.

- **Protecting workers and businesses**

- \$10 million for the Workers and Families First Paid Sick Leave Program
- \$2 million for the Right to Recover Program
- Delivered one million surgical masks, 600,000 face shields, and 150,000 bottles of hand sanitizer for distribution to businesses and workers in vulnerable communities
- Business tax, registration, and license fee deferrals through March 2021
- \$9 million through the San Francisco Hardship Emergency Loan Program
- \$2.5 million in resiliency grants for approximately 300 small businesses
- African-American Small Business Revolving Loan Fund
- \$5 million to support small business added in Technical Adjustments to the current budget
- \$200,000 with OEWD for business capacity building, technical support, and grant writing support
- \$1.7 million for targeted workforce supports and development initiatives
- \$12.8 million to Grants for the Arts, supporting 227 grantees with an equity lens
- \$2.5 million for the Arts & Artists Relief initiative, and an additional \$315,000 in arts grants for neighborhood reactivations
- Moratorium on commercial evictions for small and medium-sized businesses, now extended at the State level through March 2021
- Ongoing funding for OEWD workforce development efforts, including Workforce Link, CityBuild, TechSF, and Healthcare Academy
- [One-stop City website](#) for businesses and workers
- Community Investment Fund - Contractor Accelerated Payment Program
- Emergency child care youth centers opened for essential workers and low-income families

- **Protecting our vulnerable**

- \$247 million for COVID-19 response, including PPE, expanded medical capacity, community outreach, contact tracing, and \$56 million for testing in the current year
- \$16 million in COVID-19 response specifically for expanded Pit Stops and hygiene stations throughout the city
- Additional \$1.6 million for COVID-19 supports in SROs, the Western Addition, the Tenderloin, and other community hubs
- \$46.7 million in new expenditures for food programs, and an addition \$1.1 million for underserved communities, the Tenderloin, and seniors
- \$66.5 million for the first phase of Mental Health SF (if business tax reform passes)
- \$4 million for implementation of a crisis response team
- \$120 million redirected funds for reparative investment in Black/African American communities
- \$5.5 million for the Opportunities for All subsidized employment program for youth and young adults
- Establishment of DCYF Community Learning Hubs
- \$15 million for SFUSD
- \$15.1 million for eviction defense grants
- \$51.8 million for affordable housing site acquisition
- \$37.6 million for rental subsidies and emergency rental assistance
- \$4.5 million in additional housing subsidies, shelter, and vouchers for people living with HIV, displaced tenants, transitional-aged youth, LGBTQ shelter, and families including those in SROs
- \$750,000 Right to Counsel expansion
- Moratorium on tenant evictions

- **Economic stimulus**

- Deployed investment in public infrastructure, including Capital Planning Committee authorization of \$157 million in Certificates of Participation, \$127 million in 2016 Public Health & Safety bonds, \$103 million in 2016 Preservation and Seismic Safety loan program bonds, and \$260 million in 2019 Affordable Housing bonds.
- \$1.5 million to deliver fiber to affordable housing units, and \$275,000 additionally for digital equity access and connectivity in Chinatown
- Proposed relaxation of local zoning controls in neighborhood commercial corridors to encourage activation of vacant storefronts
- Launched Shared Spaces Program to create flexibility and expand business capacity to operate - so far close to 1,600 outdoor spaces have been approved (see Appendix B)
- Waiver of outdoor business permit fees until 2022
- Deferral of business registration fees and unified license fees until March 2021
- Just Add Music (JAM) permit created to enable live outdoor music and entertainment in existing Shared Spaces locations

Focus on Safe Reopening

Economic recovery requires the safe reopening of business activity. State restrictions guide, but local health orders prescribe the specific business and other activities that can resume in San Francisco following strict initial shelter-in-place orders. In addition, local health directives detail the legal requirements or conditions of opening. These public health decisions are driven by the County health department.

Understanding the dynamic nature of an unprecedented global pandemic, Task Force members and the public have underscored the need for clear information and guidance. Clear direction is essential for economic recovery because it provides businesses with an ability to plan, prepare, and make financial decisions based on the best information available.

To facilitate this goal, the Task Force partnered with the County health department in two critical ways. First, the Task Force developed a feedback process with the health department to ensure the operational realities of running businesses were considered before local directives or mandates were issued. Beginning in late May, working through the San Francisco Office of Economic and Workforce Development, Task Force members and other impacted stakeholders had the opportunity to weigh in on health directives that were operationally infeasible or were able to spotlight elements that were unclear or which needed further guidance. This process enabled the health department to consider alternatives that equally advanced its public health goals while fostering more compliance through clear, operationally feasible instruction.

Second, Task Force members and stakeholders consistently advocated for more direction on the path forward for reopening. The Task Force offered alternative mitigations that allowed additional business activities to be considered, including the launch of the Shared Spaces Program which expanded the capacity for businesses to use sidewalk, parking, street or surface lot spaces outdoors. At the end of May, the County health department released an initial roadmap for reopening and continues to evaluate that timeline and roadmap as local health conditions change (see Appendix A).



Task Force Process

The Task Force met between April and October 2020. Task Force members brought deep understanding of issues in the San Francisco community, high energy, and an equity focus to the process. See Appendix C for additional detail on the policy development process

The timeline below summarizes the focus and work of the Task Force.

April-May	Task Force kick-off (4/24/20) and initial survey
	Co-Chairs and staff met in small groups of Task Force members (approximately 10 per session) to hear challenges and aspirations
	Public survey and engagement focus groups began to bring underrepresented perspectives forward
June-July	Focus on Safe Reopening to respond in a timely manner to expressed needs in the initial survey and small groups
	Policy work groups (Jobs and Businesses, Vulnerable Populations, Economic Development, and Arts/Culture/Hospitality/Entertainment) of approximately 20 Task Force members with diverse perspectives articulated problem statements and most urgent priorities for the Task Force
August-October	Staff began drafting policy memos for priority recommendations
	Continued community engagement and sharing back with the Task Force
	Staff synthesized Task Force recommendations into integrated priority areas, shared community engagement learnings that included input from community subject matter experts, and drafted the Task Force Report.
	Task Force members and City stakeholders shared feedback on Report Draft
	<u>Final Report published for final meeting (10/8/20)</u>

To complement the diverse opinions of members, the Task Force sought out the perspectives of vulnerable and underrepresented populations through the Community Engagement and Listening (CEL) team. The CEL team's efforts amplified the voices of community members disproportionately impacted by COVID-19, bringing additional research and voices to the work of the Task Force.

Over a four-month period, over 1,000 public surveys and emails from San Franciscans and other stakeholders were received and used to inform the recommendations development process. The CEL team and partner City departments also initiated targeted stakeholder outreach to populations underrepresented in the public survey, including tenants from single residency occupancy buildings, restaurants in Chinatown (an area especially hit hard when COVID-19 initially emerged), the arts and entertainment community, immigrant communities, the disability community, and the Black/African American, Latino/a/x and Filipino/a/x communities. Over 40 hours of interviews and conversations, with nearly 100 community members, through formal focus groups and presentations at neighborhood-based meetings. In addition, there were public hearings and presentations at the Small Business Commission, Immigrant Rights Commission, the Commission on the Environment, and the Commission on the Status of Women.

Several common areas of concern emerged from these engagements:

- The community-based organizations that are crucial for small businesses, residents, and government alike are in economic danger and need support for recovery to be successful.
- Culturally responsive, timely, accessible, and concise information and guidance are needed for small business owners and residents, particularly those with language and technology barriers
- Limited digital literacy and old tools widen the digital divide for many vulnerable populations, including seniors, people with disabilities, parents and students, non-English monolingual speakers, and small business owners.
- Bureaucracy is even more burdensome at a time of great need. Program requirements are hard to navigate. Cutting red tape would allow San Franciscans to get the urgent support they need.
- Housing, specifically eviction prevention and housing the unhoused, continues to be a top priority for San Franciscans, including small business owners.

A focus of community engagement was to look at specific populations that were being disproportionately impacted by the pandemic. In addition to the themes noted above, the community engagement sessions provided the following highlighted guidance regarding implementation of Task Force recommendations:

- Engage early, continuously, and often with beneficiaries and vulnerable communities to design policies and programs that meet present challenges.
- Well-intended, rapidly deployed programs can create barriers that did not exist before COVID-19, particularly for the disability community. Consider unintended consequences.
- Culturally competent, in-language communications and solutions are essential.

Many additional ideas and sentiments on San Francisco's equitable economic recovery were relayed to the CEL team. See Appendix D for further details on the CEL process and input gathered.

WE WILL
BE BACK
SOON
BE SAFE,
BE KIND.



Policy Recommendations

The Task Force set out to identify practical, timely interventions to sustain businesses and protect vulnerable populations. Simultaneously, the Task Force sought to identify bold, creative solutions to address longstanding societal challenges and ultimately achieve greater racial and social equity.

Informed by their own experiences and input from community engagement efforts, the Task Force prioritized strategies that address the need to protect small and medium businesses from collapse and support them with accurate, timely information; the need to focus on health, safety, wealth building, and opportunity creation for vulnerable populations; the need to promote housing and make it easier to adapt our spaces to changing circumstances; and the need to invest in the sectors that make San Francisco a desirable place to live and visit.

The ideas from the Task Force's four policy group sessions are organized into the following eight integrated categories:

- 1. Local Economic Stimulus:** explore policies and investments that encourage economic development and activity in San Francisco, such as funding public infrastructure projects, streamlining permitting processes, advocacy for state and federal resources, and more
- 2. Job Connections:** facilitate and improve connections to jobs and explore programs that hire local workers
- 3. Promote Safe Reopening:** provide clear and accessible information to businesses and workers on reopening requirements and provide tools and strategies to keep workers, customers, and residents safe
- 4. Preserve Operations and Lessen Regulatory Burdens:** create flexibility for businesses to operate and consider reducing or eliminating regulatory burdens
- 5. Pursue Economic Justice:** narrow the wealth gap and bridge the digital divide for low-income residents and communities of color
- 6. Invest in Housing:** incentivize the construction of affordable housing, an immediate and long-term need
- 7. Meet the Basic Needs of the Vulnerable:** ensure San Franciscans have access to food, shelter, mental health, and other services
- 8. Imagine and Build Stronger Neighborhoods:** activate and draw upon San Francisco's unique neighborhood and cultural assets

The Task Force recommendations to promote an equitable economic recovery range from short-term and concrete to longer-term and aspirational. Each recommendation includes one or more City departments that would lead implementation if sufficient resources are identified. The text in this section summarizes each of the recommendations with an issue statement and brief description of the recommendation. Full text of the recommendations and equity considerations for each can be found in Appendix E.