



FISCAL YEAR 2020

BUDGET
IN
BRIEF



CITY OF
**PALO
ALTO**

PALO ALTO AT A GLANCE

INCORPORATION:

April 23, 1894

GOVERNMENT:

Palo Alto is a charter city operating under the Council-Manager form of government

POPULATION:

Approx. 67,000

AREA:

25.85 square miles

CREDIT RATING:

AAA, highest possible credit rating

PRINCIPAL EMPLOYERS:

- Stanford Healthcare
- Lucile Packard Children's Hospital
- Stanford University
- Veteran's Affairs Palo Alto Healthcare System
- VMware, Inc.
- SAP Labs Inc.
- Space Systems/Loral
- Hewlett-Packard Company
- Palo Alto Medical Foundation
- Varian Medical Systems
- Palo Alto Unified School District
- Tesla
- Flipboard
- Palantir
- Houzz

LIBRARIES:

Library Facilities: 5

Items Checked Out: 1.5 million

Books: 254,678

eBooks and eMusic: 128,246

Audio Visual Material: 48,830

PARKS, RECREATION, & COMMUNITY CENTERS:

Parks, Preserves, and Open Space: 4,385 acres

Parks/Preserves: 36

Playgrounds: 30

Community and Youth Centers: 5

Gymnasiums and Fitness Rooms: 6

Walking/Biking Trails: 41.2 miles

INFRASTRUCTURE AND UTILITIES:

Streets: 471 miles

Water Mains: 236 miles

Water Delivered to Customers: 9.9 million gallons per day

Wastewater Mains: 217 miles

Wastewater Treated: 2.3 billion gallons

Gas Mains: 211 miles

Overhead Electrical Lines: 117 miles

Underground Electrical Lines: 190 miles

Fiber Optic Backbone: 48 miles

PUBLIC SAFETY:

Number of Police Calls for Service: 52,966

Number of Fire/Ambulance Calls for Service: 8,983

Police Vehicles: 25

Police Motorcycles: 4

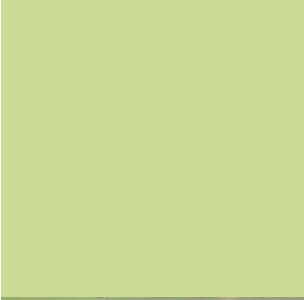
Canine Units: 1

Fire Stations: 7

Fire Engines: 9

Fire Trucks: 2

Ambulances: 6



Dear Palo Altans,

I am pleased to present this summary of our City's Fiscal Year (FY) 2020 Budget, adopted by the City Council on June 17, 2019. This \$723.8 million balanced budget will be in effect from July 1, 2019 through June 30, 2020 and includes funding for all major City services such as public safety, libraries, parks and recreation, utilities, infrastructure improvements, and internal support functions. The FY 2020 budget development was guided by a number of factors including, but not limited to, the City Council's 2019 Top Four Priorities (Climate/Sustainability and Climate Action Plan, Grade Separations, Transportation and Traffic, and Fiscal Sustainability), legal mandates, and the City's goal of long-range financial sustainability.

Highlights of this year's budget include:

- Responsible preparation for future financial obligations, especially future pension obligations
- Strategic investments in critical areas, such as the Office of Transportation, to address community needs
- Leveraging creative problem-solving and strategic teamwork with community partners for service delivery
- Improving and maintaining the City's infrastructure (including ten Infrastructure Plan projects scheduled to be completed within the 2020-2024 Capital Improvement Program)
- Continuing to provide safe, reliable, and efficient utilities to the community at competitive rates

This Budget in Brief is intended to provide an overview of the City's approach to balancing the budget; outline the major sources of funding to pay for City services and infrastructure; and summarize the FY 2020 operating and capital budgets.

For more details, I invite you to review the full FY 2020 operating and capital budget documents, available on the City of Palo Alto website at www.cityofpaloalto.org/budget. For comments regarding the budget or this document, please send an email to budget@cityofpaloalto.org.

Respectfully,



Ed Shikada



CITY COUNCIL PRIORITIES

Though the City has many important goals, the following areas were determined to be the top four priorities for the City Council to address in 2019; examples of how we are addressing these priorities are shown below and additional information about the 2019 City Council Priorities can be found on the City's site at: www.cityofpaloalto.org/councilpriorities

CLIMATE/SUSTAINABILITY AND CLIMATE ACTION PLAN

- Evaluating recycled water supply options through the collaborative Recycled Water Strategic Plan
- Taking important steps towards Zero Waste goals such as implementing:
 - Deconstruction policy to increase salvage and reuse
 - Disposable foodware items ordinance to reduce litter
- Replacing the two sludge-burning incinerators at the Regional Water Quality Control Plant (RWQCP) with the newly constructed sludge dewatering and truck loadout facility to reduce greenhouse gas emissions and improve air quality

GRADE SEPARATIONS

- Selecting a preferred alternative from the seven remaining alternatives related to the Churchill Avenue, East Meadow Drive, and Charleston Road crossings through expanded engagement
- Achieving important grade separation milestones through:
 - Working with regional and local partners (e.g., Valley Transportation Authority, Caltrain) to further develop funding and financing options, prioritize projects, and to understand regional projects which impact Palo Alto (e.g., Caltrain electrification, Caltrain Business Plan)
 - Coordinating with external stakeholders
 - Completing the technical analysis which will contribute to community engagement and City Council decision-making related to grade separations

TRANSPORTATION AND TRAFFIC

- Establishing an Office of Transportation to address the critical transportation needs of the community
- Adding the Downtown Automated Parking Guidance System as a Capital Improvement Project to the list of top priority Infrastructure Plan projects
- Developing programs and projects that seek to reduce single occupancy vehicle trips
- Beginning implementation of the Transportation Workplan

FISCAL SUSTAINABILITY

- Proactively addressing pension liabilities by:
 - Implementing Council direction to use a more conservative discount rate in pension financial planning than CalPERS
 - Contributing an additional \$6.2 million to the City's pension trust fund in FY 2020 with overall contributions from FY 2018 - FY 2020 totaling more than \$22.0 million
- Securing labor contracts through FY 2020 and investing \$750,000 in workforce initiatives towards increased workforce stabilization
- Supporting service delivery evolution through public/private partnerships – animal care services with Pets in Need, aquatics program partnership with Team Sheeper, and cross staffing fire apparatus

COMMUNITY ENGAGEMENT

ANNUAL BUDGET PROCESS

FALL:

- To prepare for the next year's budget, the City calculates the cost for delivering the same services currently provided to the community with updated contractually obligated cost changes.
- The City publishes the 10-year General Fund Long Range Financial Forecast, which projects the revenues and expenditures based on available information and is discussed with the Finance Committee and the City Council during public meetings.

WINTER:

- Departments submit budget change requests to reduce or augment budgets for existing services including targeted outcomes and performance measures associated with these requests.
- Internal budget discussions are held with the City Manager to discuss department budget requests and to prepare the City Manager's annual budget.

SPRING:

- The City Manager releases and presents the proposed operating and 5-year capital budgets to the City Council.
- The Finance Committee conducts a series of public hearings and recommends the proposed budgets with or without amendments to the City Council.
- The public provides input to the budget as part of the Finance Committee hearings and City Council deliberations.

SUMMER:

- Final adoption by the City Council occurs at a public hearing in June.
- The City publishes the Adopted Budget documents and Municipal Fee Schedule.

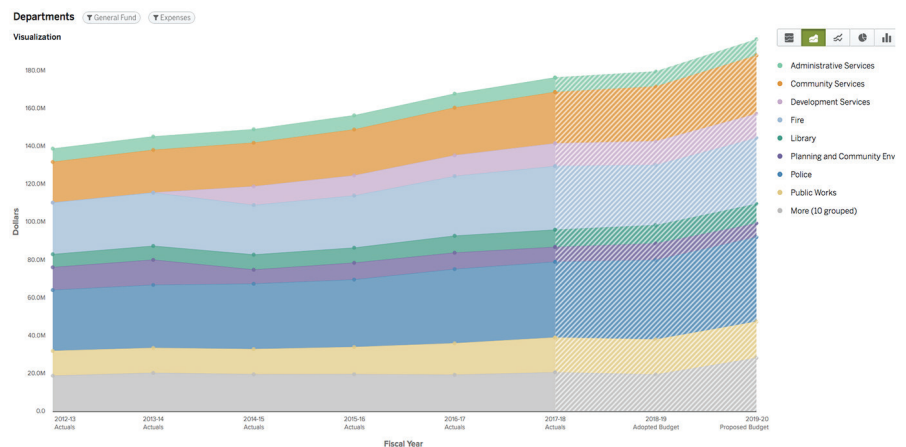


OPEN BUDGET

In order to facilitate understanding and transparency of the budget document, the City provides budget information through OpenGov, an online tool that provides users with different views of the City's budget data by fund, department, revenues, and expenditures. The tool can be accessed by visiting www.paloalto.opengov.com.

Governmental budgets are composed of funds, departments, and accounts. Using filters you can choose the combination you want to explore. The City has also saved a few common views available for selection for ease of reference.

By clicking on one of these icons, you can choose whether you want to display graphs showing changes over the years, a pie chart for a single year, or download portions into Excel.



CITYWIDE REVENUES

Net Sales – The City of Palo Alto is unique in that it offers a full suite of utilities (including Electric, Gas, Water, and Wastewater) as well as refuse and stormwater management. The provision of these services is done on a cost-recovery rate payer basis, and the revenues generated by these activities are referred to as “Net Sales”. This is the largest source of funds citywide, accounting for 46.4% of total sources. More information on the City’s utilities can be found in the Enterprise Funds Budget section of this document.

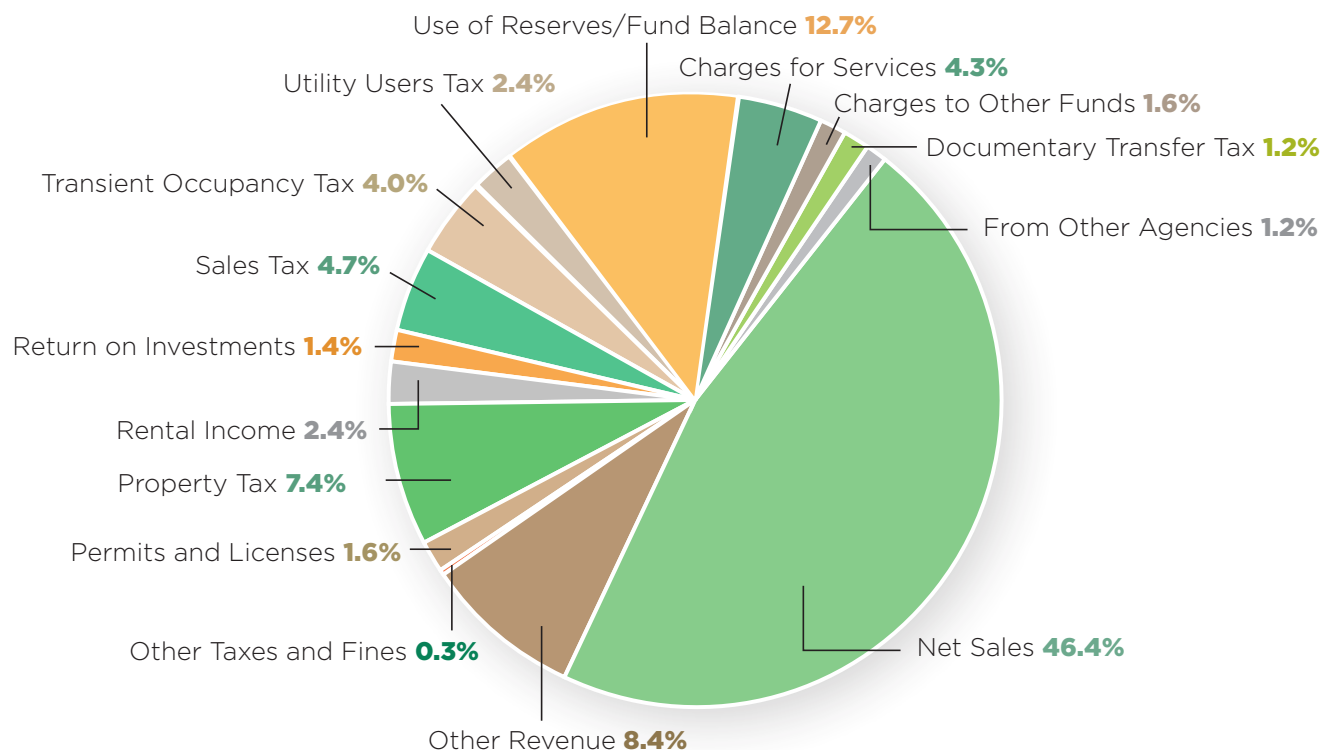
Tax Revenues – Tax revenues make up approximately 19% of total citywide sources (60% of General Fund revenues) and are mainly in the General Fund. Tax revenues include Property Taxes, Transient Occupancy Tax, Sales Tax, Documentary Transfer Tax, and the Utility Users Tax. More information on

these tax revenues can be found in the General Fund section of this document.

Other Revenue – Other sources of funding in the FY 2020 budget include charges for services, including the provision of recreation classes and programs, plan check fees, permits and licenses, and funding from other agencies. Funding the City receives from Stanford for the provision of Fire Services and Public Safety Communications (totaling \$7.9 million) is included under Charges for Services.

Use of Reserves/Fund Balance – Use of reserves or fund balance of 12.7% of total sources reflects the planned usage of accumulated funds within Council-approved levels. Typically, the result of funds carried forward from a prior year or for rate stabilization purposes in Enterprise or Capital Improvement Funds as seen in the following Citywide Expenses section.

Citywide Revenues by Category



TOTAL: \$723.8 Million

CITYWIDE EXPENSES

Enterprise Funds - These funds are the largest source of expenses for the City and support the purchase and delivery of electricity, gas, and water to the community and collection and treatment of refuse and wastewater. They also support the operation and maintenance of the City's airport and the fiber optic network. These services are typically funded by the Net Sales and Use of Reserves revenue categories. More information can be found in the Enterprise Funds Budget section of this document.

General Fund - The General Fund comprises approximately 27.2% of the total citywide expense budget and includes funding for general City services:

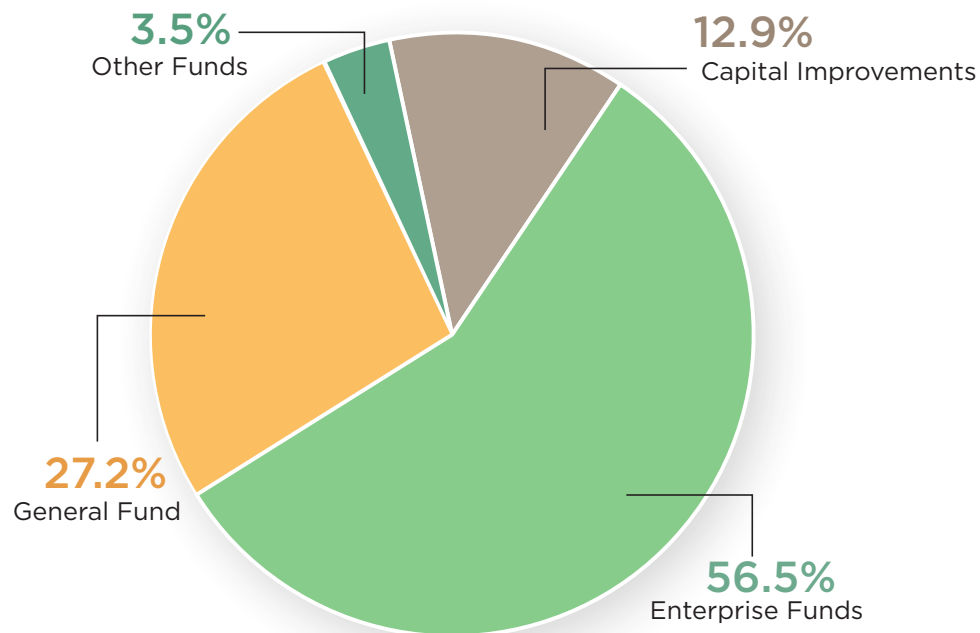
- Public Safety
- Community and Library
- Citywide Internal Support and Administration
- Planning, Transportation, and Infrastructure

More detailed information on the expenses in these areas can be found in the General Fund Expenses section of this document.

Capital Improvements - In FY 2020, Capital Improvement Funds will be used to rehabilitate our roads and sidewalks, enhance and replace aging utility infrastructure, and continue work on the 2014 Council-approved Infrastructure Plan. More information can be found in the Capital Budget section of this document.

Other Funds - Other funds include Internal Service Funds, such as information technology and vehicle replacement and maintenance, Debt Service Funds, and Special Revenue Funds such as development impact fee funds, parking funds and housing funds. More information on these funds can be found in the FY 2020 Adopted Operating Budget Book.

Citywide Expenses by Fund Type



TOTAL: \$723.8 Million

GENERAL FUND REVENUES

WHERE DO YOUR TAX DOLLARS AND FEE PAYMENTS GO? The City's General Fund revenue portfolio is quite diversified. About 58% of all annual revenues are from taxes such as Property Tax, Sales Tax, and Transient Occupancy Tax. The remaining revenue sources include fees and charges from residents and businesses, charges to other funds for services provided, and rental income.



GENERAL FUND EXPENSES

The General Fund pays for various City services such as police, fire, libraries, parks and recreation, and internal support functions such as administrative, finance, human resources, and legal services.

The \$1.3 million difference in General Fund revenues and expenses is contributing to the General Fund Budget Stabilization Reserve (BSR) to maintain the 18.5% target level set by the City Council.

PLANNING, TRANSPORTATION, & INFRASTRUCTURE = \$33.7

	EXPENSE
Building, Plan Check, & Permit Issuance	12.8
Planning and Transportation	9.8
Streets, Sidewalks, and Trees	8.4
Public Works and Engineering	2.7



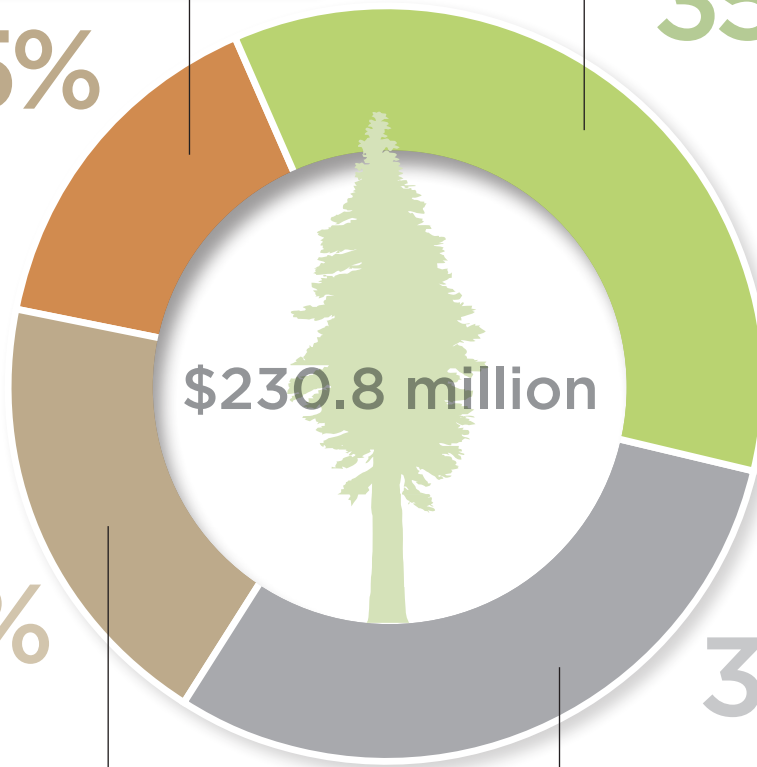
15%

PUBLIC SAFETY = \$80.4

	EXPENSE
Police	43.8
Fire and Emergency Services	36.6



35%



18%

32%



COMMUNITY & LIBRARY SERVICES = \$42.2

	EXPENSE
Five Library Branches	10.3
Parks, Fields, Open Space, & CSD services	11.4
Recreation programs	6.6
Arts & Science programs	6.9
Municipal Golf Course	3.3
Support for Non-Profits	1.6
Animal Services	1.8
Project Safety Net	0.3



CITYWIDE INTERNAL SUPPORT & ADMINISTRATION = \$74.4

	EXPENSE
Facility Repair and Maintenance	8.0
Council Appointed Officials and City Council	11.0
Finance	8.5
Human Resources	3.9
Non-Departmental*	43.0

*Includes expenses such as transfers to Capital funds, contingency accounts for various appointees, Cubberley Community Center, and streetlights.

All numbers indicated above are in \$ millions.

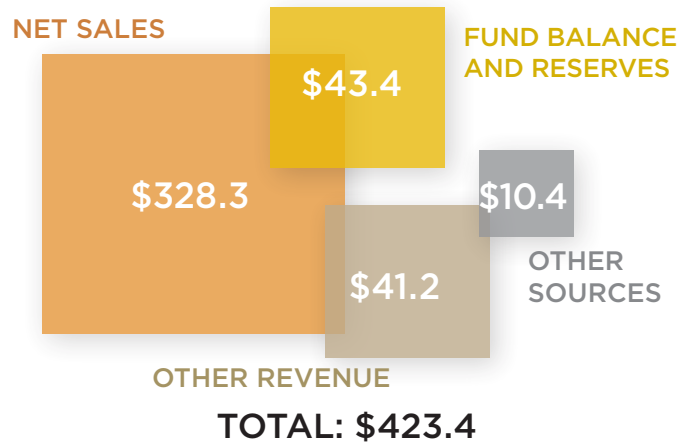
ENTERPRISE FUNDS BUDGET

The City of Palo Alto delivers electricity, gas, and water to its residents and customers; collects and treats wastewater; collects and properly disposes garbage and recyclable materials; and maintains the City's stormwater system. Revenues and expenses associated with these services are discussed in this section.

The City also provides commercial dark fiber optic services and operates and maintains the Palo Alto Airport. More information about the revenues and expenses for those activities can be found in the FY 2020 Adopted Operating Budget Book.

The FY 2020 Adopted Budget anticipates \$423.4 million in commodity, infrastructure, and operations costs to deliver rate payer and regional services. These costs are funded by the sources detailed below.

Enterprise Funds Revenue by Category



REVENUES

Net Sales of \$328.3 million account for the sale of commodities and services to ratepayers. This includes residential (34.1%) and commercial (54.0%) ratepayers, wastewater treatment partner agencies (5.8%), and the City's cost as a ratepayer (6.1%) for these services. Rate adjustments for electric, gas, stormwater, wastewater collection, and water charges are included in the FY 2020 Adopted Budget. The median monthly residential utility bill is expected to increase by 5.0% from \$312.15 to \$327.80.

Fund Balance and Reserves are used as a tool to address timing issues in the flow of revenues and expenses in Enterprise Funds reflecting usage of reserves for rate stabilization, previously accumulated balances carried forward from one fiscal year to another due to the timing

of infrastructure investment. FY 2020's use of previously accumulated reserves is \$43.4 million, including realignments of Capital Projects across the five-year Capital Improvement Program.

Other Revenue totals \$41.2 million with the single largest component of this revenue composed of contributions from partner agencies for Capital Projects at the Wastewater Treatment Plant (\$27.5 million). This category also includes connection fees for new customers (\$4.3 million).

Other Sources total \$10.4 million and include interest earnings (\$5.4 million) and transfers from other City funds (\$3.2 million).

EXPENSES

The majority of the expenses are related to purchasing commodities such as electricity, gas, and water from third party providers, maintaining the capital infrastructure to distribute the commodities, and administering operation of the utilities.

Enterprise Funds Expenses



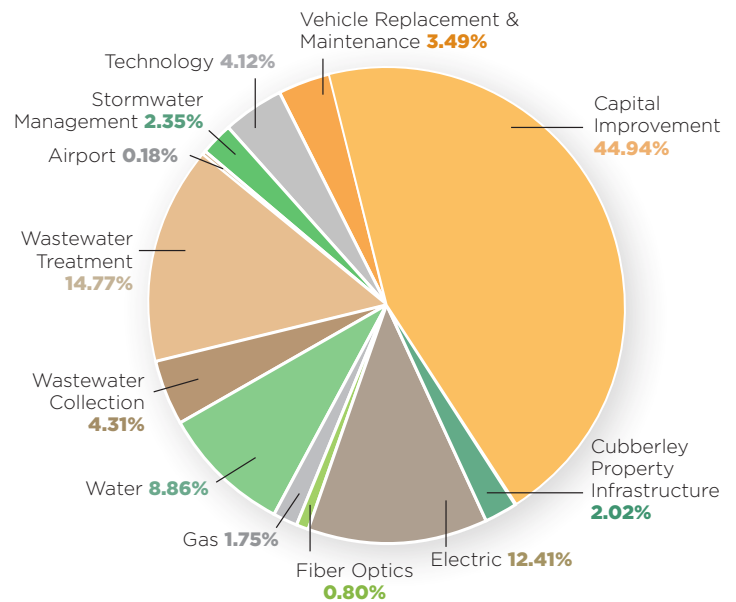
All numbers indicated above are in \$ millions.

CAPITAL BUDGET

The capital budget accounts for funding programmed to build, repair, and upgrade the City's infrastructure such as roads, buildings, electric transmission lines, gas and sewer pipes, and the City's fleet of vehicles. The City Council adopted a \$191.5 million budget for FY 2020, the first year of the \$750.8 million five-year Capital Improvement Program (CIP), though the remaining four years are used for forecasting and planning purposes.

- Enterprise Funds are associated with a broad range of municipal services and account for \$86.9 million of the FY 2020 capital budget.
- Internal Service Funds account for \$14.6 million of the FY 2020 capital budget and fund replacement and maintenance of the City's vehicles and technology.
- The Cubberley Property Infrastructure Fund was established in 2015 to repair, renovate, and improve facilities at the Cubberley Community Center.
- The Capital Improvement Fund is supported by the General Fund as well as grants and reimbursements from other agencies and accounts for \$80.6 million of the FY 2020 capital budget. This fund is used to repair the City's roads, refurbish and upgrade parks and open space, and build and maintain a majority of City facilities that do not directly benefit the Enterprise Funds or support the Internal Service Funds.
 - The Infrastructure Plan (IP) is a subset of ten high priority projects in the Capital Improvement Fund approved by the City Council in 2014. The IP

Capital Budget by Fund



TOTAL: \$191.5 Million

consists of a new public safety building, two parking garages, a bicycle and pedestrian transportation plan, rehabilitation of two fire stations, Charleston/ Arastradero corridor improvements, completion of Byxbee Park, a Highway 101 pedestrian/bicycle overpass bridge, and Downtown Automated Parking Guidance Systems.

Infrastructure Plan Project Timeline

PROJECTS	2017			2018			2019			2020			2021			2022		
	J	F	M	J	F	M	J	F	M	J	F	M	J	F	M	J	F	M
COUNCIL INFRASTRUCTURE PLAN																		
FIRE STATION 3 REPLACEMENT																		
CHARLESTON / ARASTRADERO CORRIDOR																		
CALIFORNIA AVENUE PARKING STRUCTURE																		
HIGHWAY 101 PEDESTRIAN / BICYCLE OVERPASS																		
DOWNTOWN AUTOMATED PARKING GUIDANCE SYSTEMS																		
BYXBEE PARK COMPLETION																		
FIRE STATION 4 REPLACEMENT																		
PUBLIC SAFETY BUILDING																		
BICYCLE AND PEDESTRIAN PLAN (PROJECT PAUSED)																		
DOWNTOWN PARKING GARAGE (PROJECT PAUSED)																		

CITY COUNCIL

Eric Filseth, Mayor

Adrian Fine, Vice Mayor

Alison Cormack, Council Member

Tom DuBois, Council Member

Liz Kniss, Council Member

Lydia Kou, Council Member

Greg Tanaka, Council Member

Ed Shikada, City Manager



CITY OF
**PALO
ALTO**

City Hall

250 Hamilton Avenue,
Palo Alto, CA 94301

General City Information

(650) 329-2100

Visit our website at:

www.CityofPaloAlto.org

Contact the City Council

City.Council@CityofPaloAlto.org

Contact the City Manager

citymgr@CityofPaloAlto.org

Americans With Disabilities Act Statement

In compliance with Americans with Disabilities Act (ADA) of 1990, this document may be provided in other accessible formats.

For Information Contact:

ADA Coordinator, City of Palo Alto
250 Hamilton Avenue, Palo Alto, CA 94301
(650) 329-2496