



CITY OF
**PALO
ALTO**

BUDGET IN BRIEF

FISCAL YEAR 2023

COMMUNITY
HEALTH AND
SAFETY

CLIMATE
CHANGE:
PROTECTION &
ADAPTATION



ECONOMIC
RECOVERY &
TRANSITION



HOUSING
FOR SOCIAL
AND ECONOMIC
BALANCE



PALO ALTO AT A GLANCE

PRINCIPAL EMPLOYERS:

- Stanford Healthcare
- Hewlett-Packard Company
- Stanford University
- Veteran's Affairs Palo Alto Healthcare System
- Stanford Children's Health/Lucile Packard Children's Hospital
- VM ware, Inc.
- SAP Labs Inc.
- Varian Medical Systems
- Palo Alto Medical Foundation
- Tesla Inc.

PUBLIC SAFETY:

Number of Police Calls for Service: 38,661
Number of Fire/Ambulance Calls for Service: 7,209
Police Vehicles: 29
Police Motorcycles: 3
Canine Units: 2
Fire Stations: 7
Fire Engines: 9
Fire Trucks: 1
Ambulances: 6

PARKS, RECREATION, & COMMUNITY CENTERS:

Parks, Preserves, and Open Space: 4,374 acres
Parks/Preserves: 32
Dog Parks: 4
Playgrounds: 30
Community and Museums: 5
Gymnasiums and Fitness Rooms: 6
Walking/Biking Trails: 41 miles

INCORPORATION:

April 23, 1894

GOVERNMENT:

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

POPULATION:

Approx. 67,973

AREA:

25.85 square miles

CREDIT RATING:

AAA, highest possible credit rating

INFRASTRUCTURE AND UTILITIES:

Streets: 471 miles
Water Mains: 235 miles
Water Delivered to Customers: 9.8 million gallons per day
Wastewater Mains: 216 miles
Wastewater Treated: 5.5 million gallons per day
Gas Mains: 217 miles
Overhead Electrical Lines: 116 miles
Underground Electrical Lines: 273 miles
Fiber Optic Backbone: 48 miles

LIBRARIES:

Library Branches: 5
Items Checked Out: 842,786
Books: 245,078
eBooks and eMusic: 234,945
Audio Visual Materials: 42,468
Reference Questions: 42,514

DEAR PALO ALTANS

I am pleased to present this summary of our City's Fiscal Year (FY) 2023 Budget, adopted by the City Council on June 20, 2022. This \$965.9 million balanced budget will be in effect from July 1, 2022 through June 30, 2023 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 2023 budget reflects a transitional budget as Council contemplates major changes for funding of programs and services such as affordable housing and grade separating train crossings. It bridges a period of significant reductions as a result of the COVID-19 pandemic to a new phase of rebuilding, recovery, reinvestment, and transition into an endemic state.

While recognizing the devastating impacts of the pandemic both economically and from a sense of community, the development of the budget was guided by a number of factors including, but not limited to, addressing the City Council's 2022 Top Four Priorities (1. economic recovery and transition, 2. climate change – protection and adaptation, 3. housing for social and economic balance, and 4. community health and safety), Council adopted budget principles, legal mandates, and the City's goal of long-range fiscal sustainability.

Highlights of this year's budget include:

- Addition of 62 full-time positions (20 positions were previously authorized by the Council during FY 2022), approximately 23 of these positions are only funded for two years pending ongoing funding sources
- At the time of printing the City Council approved two ballot measures for voter consideration during the November 2022 election: 1. Affirming the practice of transferring proceeds from the natural gas utility and 2. establishing a new business tax
- Investments such as train crossings, affordable housing and enhanced services as part of recovery efforts
- Addressing the City's commitment to a sustainable future by increasing resources across various City funds for the Sustainability and Climate Action Plan (S/CAP)
- Efforts to provide community members an opportunity to engage and provide feedback on priority services
- Responsible preparation for future financial obligations, especially long-term pension liabilities
- 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 2023 operating and capital budgets.

For additional detail, I invite you to review the full FY 2023 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 Calendar Year 2022; examples of how we are addressing these priorities are shown below and additional information about the 2022 City Council Priorities can be found on the City's website at: www.cityofpaloalto.org/City-Hall/City-Council

ECONOMIC RECOVERY AND TRANSITION

- Charleston/Arastradero Corridor Project Phase 3 begins which will result in enhanced safety for students biking and walking to school, smoother traffic flow and streetscape beautification.
- Grand opening of the Highway 101 Pedestrian/Bicycle Overpass project which will connect the community to amenities such as the Baylands Golf Links, Baylands Nature preserve, Byxbee Park, and the San Francisco Bay Trail.
- Continued construction of the Public Safety Building's first two (of four) concrete pours completed for the ground level.

CLIMATE CHANGE - PROTECTION AND ADAPTATION

- Continued development of the 2020 Sustainability and Climate Action Plan Update to reduce greenhouse emissions, encourage carbon neutral electricity and other community-wide sustainability goals.
- Updated proposed Tree Ordinance to protect more native California tree species, promote drought resistant and tolerant species, and protect most other tree species over a certain size.

HOUSING FOR SOCIAL AND ECONOMIC BALANCE

- Consideration of a Project Homekey third-story design located at 1237 San Antonio Road. This project is an effort to sustain and expand housing for persons experiencing or at risk of homelessness.
- Approval of construction of 48 townhomes with associated private streets, utilities, landscaping, and amenities at 2950 West Bayshore.

COMMUNITY HEALTH AND SAFETY

- Launch of the Fire Department's new ambulance subscription program to enhance services with a low-cost alternative to paying for emergency ambulance rides within the City.
- Increased Police Department visibility at Palo Alto schools by coordinating closely with the Palo Alto School District on safety planning, emergency response, and crisis communication.
- Presentation of "The Art of Disability Culture" by the Palo Alto Art Center to celebrate how disability culture can strengthen our community through practices of interdependence, accessibility, and inclusion.
- Hosting of Project Safety Net events to help promote youth suicide prevention and mental wellness.

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 capital budget preparation process begins with department staff and appointed committees meeting to review potential modification to the five-year capital plan.



WINTER:

- The City publishes the 10-year General Fund Long Range Financial Forecast (LRFF), which projects the revenues and expenditures based on available information and is discussed with the Finance Committee and the City Council during public meetings.
- 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 proposals and to prepare the City Manager's annual budget.

SPRING:

- The City Manager releases and presents the proposed operating and capital budgets along with the five-year capital improvement plan (CIP) and recommended adjustments to the Municipal Fee Schedule 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:

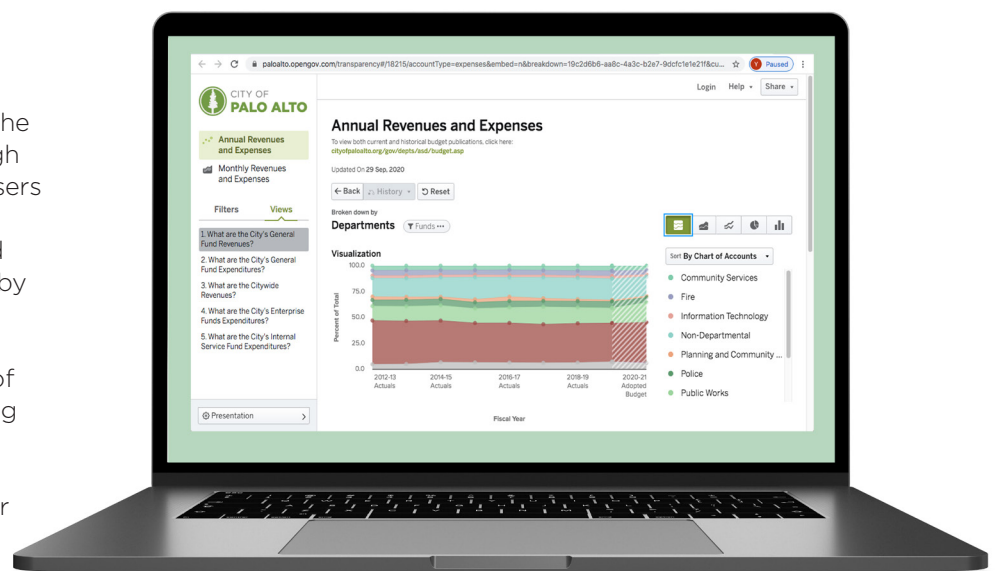
- Final adoption by the City Council occurs at a public hearing in June. The City publishes the Adopted Budget documents and Municipal Fee Schedule.

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

Major revenue elements of the citywide sources are described below.

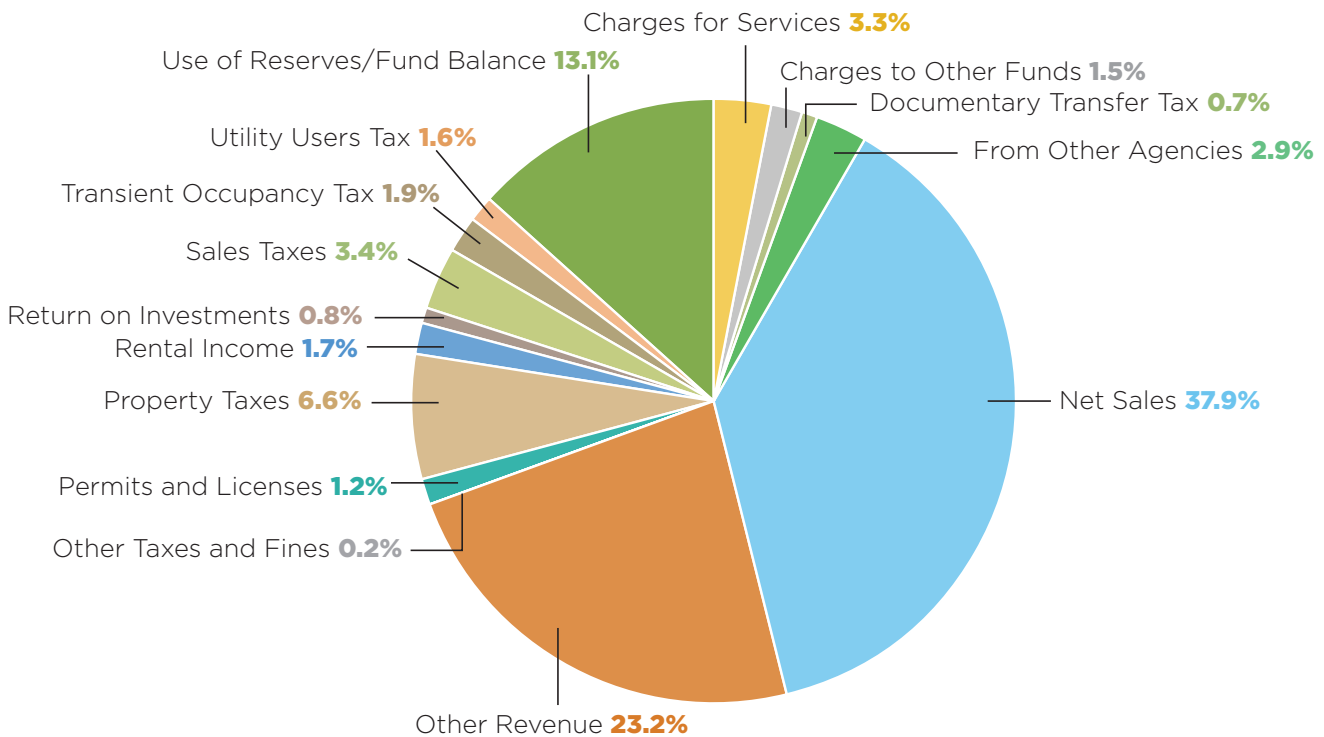
Net Sales – The City of Palo Alto offers a full suite of utilities (including electric, gas, water, and wastewater) as well as refuse and stormwater management. The provision of these services is done on a cost-recovery rate payer basis, and the revenues generated by these activities are referred to as “Net Sales.” This is the largest source of funds citywide, accounting for 38% of total sources. More information on the City’s utilities can be found in the Enterprise Funds Budget Section of this document.

Tax Revenue – Tax revenue makes up approximately 14% of total citywide sources (56% of General Fund revenue) and are mainly in the General Fund. Tax Revenue include property taxes, transient occupancy tax, sales tax, documentary transfer tax, and utility users tax. More information on these tax revenue sources can be found in the General Fund section of this document.

Other Revenue – Other sources of funding in the FY 2023 budget include charges for services such as for 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 \$8.1 million) is included under Charges for Services.

Use of Reserves/Fund Balance – Use of reserves (or fund balance) is approximately 13% 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: \$965.9 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 collect and treat refuse and wastewater. They also support the operation and maintenance of the City’s airport and 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 Fund section of this document.

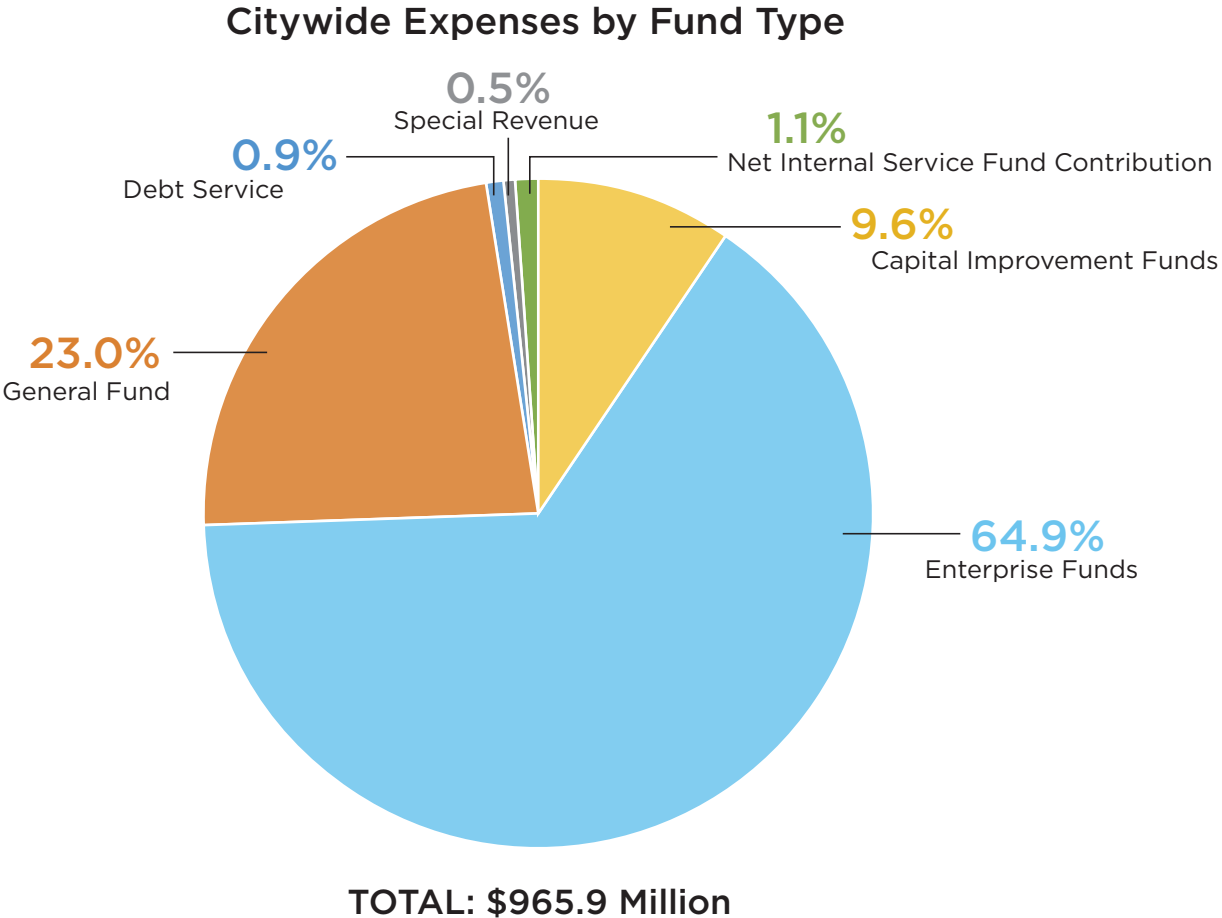
General Fund – The General Fund comprises approximately 26% of the total Citywide expense budget and includes funding for general City services:

- Public Safety
- Community Services 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.

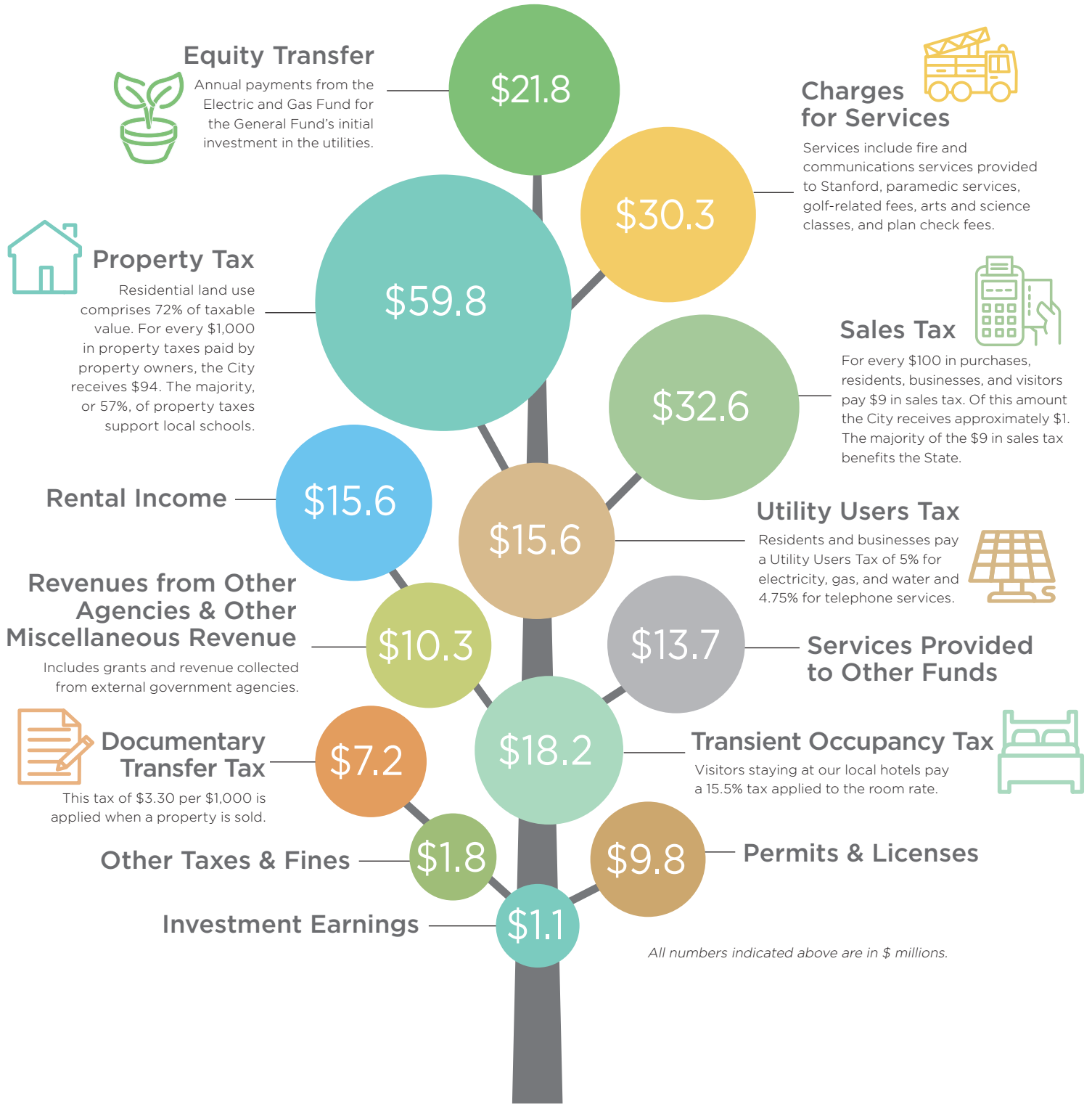
Capital Improvements – In FY 2023, Capital Improvement Funds will be used to rehabilitate our roads and sidewalks, enhance and replace aging utility infrastructure, and continue work on the 2014 Council-approved Infrastructure Plan. More information can be found in the Capital Budget section of this 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 2023 Operating Budget document.



GENERAL FUND REVENUES

Where do your tax dollars and fee payments go? The City's General Fund revenue portfolio is quite diversified. About 56% 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.



All numbers indicated above are in \$ millions.

TOTAL: \$237.8 Million

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 FY 2023 Adopted Budget is balanced; however, the General Fund Budget Stabilization Reserve is 18.4% of General Fund expenses, which is just below the 18.5% target level set by the City Council.



PUBLIC SAFETY = \$89.7

	EXPENSE
Police	\$47.4
Fire and Emergency Service	\$42.3



INFRASTRUCTURE AND ENVIRONMENT = \$43.0

	EXPENSE
Streets, Sidewalks, and Trees	\$11.3
Public Works and Engineering	\$2.9
Facility Repair and Maintenance	\$8.1
Capital investments	\$20.4
Sustainability	\$0.3



PLANNING AND TRANSPORTATION = \$24.3

	EXPENSE
Building, Plan Check, & Permit Issuance	\$14.3
Planning and Transportation	\$10.0



NEIGHBORHOOD, COMMUNITY AND LIBRARY SERVICES = \$43.1

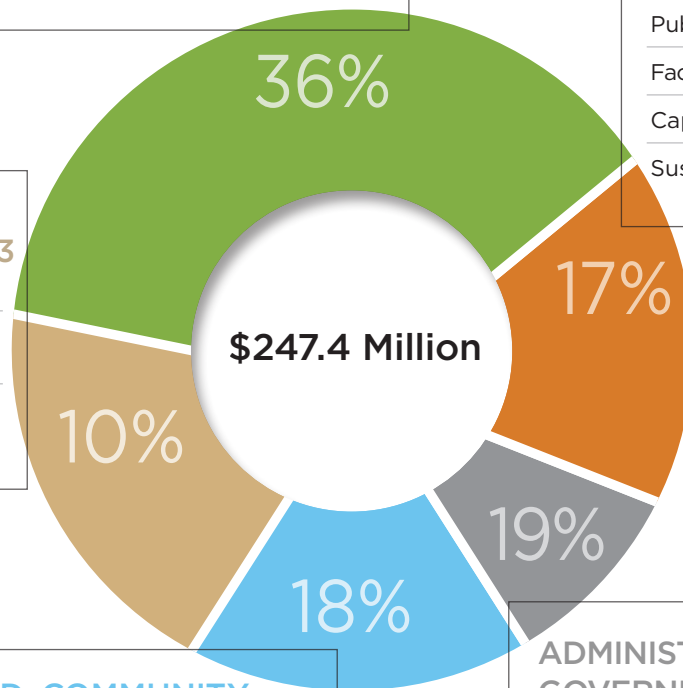
	EXPENSE
Five Library Branches	\$10.2
Parks, Fields, Open Space, & CSD services	\$14.0
Recreation programs	\$6.2
Arts & Science programs	\$7.7
Municipal Golf Course	\$3.4
Support for Non-Profits	\$0.6
Animal Services	\$1.5
Project Safety Net	\$0.1



ADMINISTRATIVE AND GOVERNMENT = \$47.3

	EXPENSE
Council Appointed Officials and City Council	\$11.7
Finance	\$9.7
Human Resources	\$4.8
Non-Departmental*	\$21.1

*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.

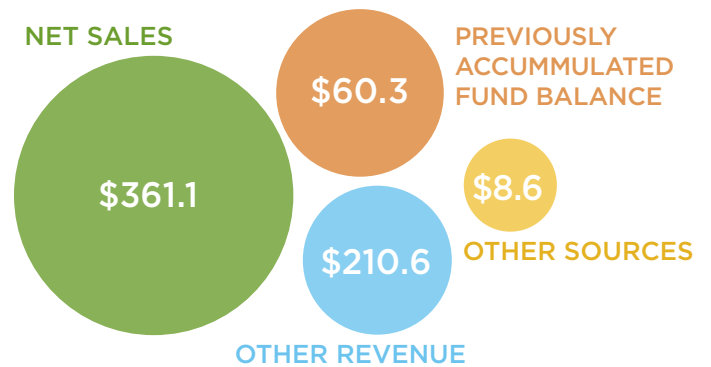
The City also provides commercial dark fiber optic services and operates and maintains the Palo Alto Airport. The revenues and expenses for those activities are not discussed in this section, but more information can be found in the FY 2023 Adopted Operating Budget Book.

Revenues

Net Sales of \$361.1 million account for the sale of commodities and services to ratepayers. This includes residential (34.0%) and commercial (54.0%) ratepayers, wastewater treatment partner agencies (6.0%), and the City's cost as a ratepayer (6.0%) for these services. Rate adjustments for electric, gas, stormwater, wastewater collection, and water charges are included in the FY 2023 Adopted Budget. The median monthly residential utility bill is expected to increase by 4.86% from \$332.75 to \$348.91.

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

Enterprise Funds Revenue by Category



TOTAL: \$640.7 Million

due to the timing of infrastructure investment. FY 2023's use of previously accumulated reserves is \$60.3 million, including realignments of Capital Projects across the five-year Capital Improvement Program.

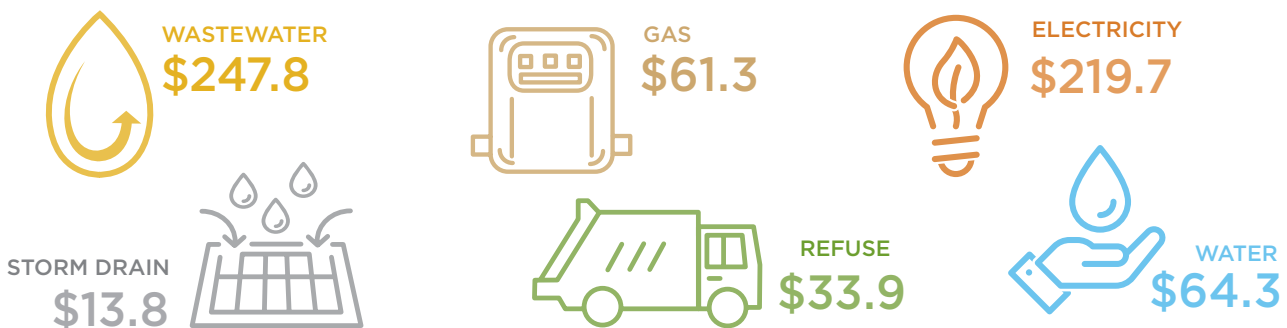
Other Revenue totals \$210.6 million with the single largest component of this revenue composed of contributions from partner agencies for Capital Projects at the Wastewater Treatment Plant (\$197.8 million). This category also includes connection fees for new customers (\$3.0 million).

Other Sources total \$8.6 million and include interest earnings (\$3.7 million) and transfers from other City funds (\$2.6 million).

Expenses

The majority of 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 by Service



TOTAL: \$640.7 Million

All numbers indicated above are in \$ millions.

CAPITAL BUDGET

The capital budget accounts for funding 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 \$379.5 million budget for FY 2023, the first year of the \$821.9 million five-year Capital Improvement Program (CIP). 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 \$249.1 million of the FY 2023 capital budget.

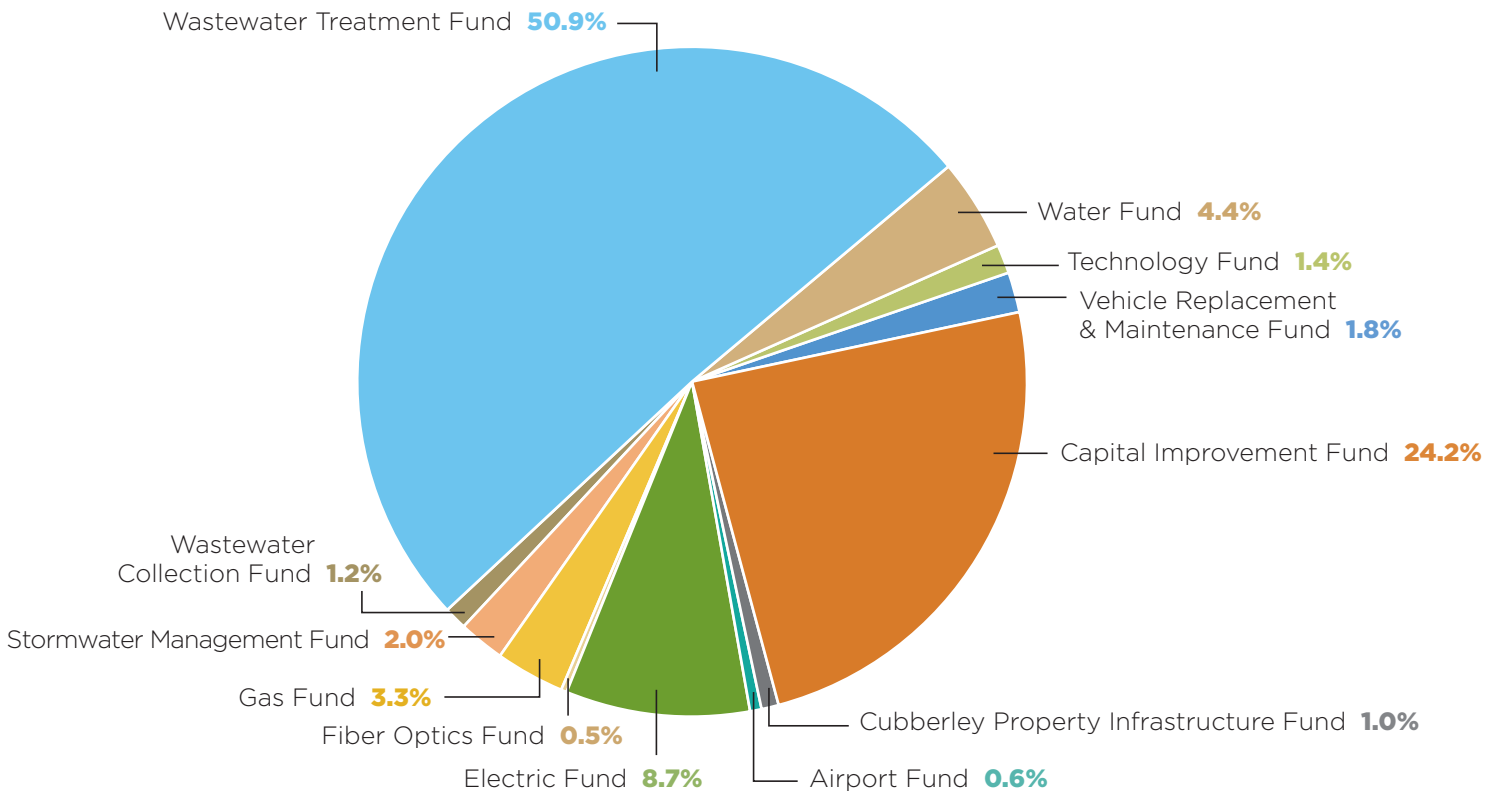
Internal Service Funds account for \$34.9 million of the FY 2023 capital budget and fund replacement and maintenance of the City’s vehicles and technology.

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 \$91.8 million of the FY 2023 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 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. For descriptions of these projects and their progress, please see the City’s Infrastructure Plan website at www.infrastructure.cityofpaloalto.org.

FY 2023 Capital Budget Expenditures by Fund



TOTAL: \$379.5 Million *All numbers indicated above are in \$ millions.*



CITY OF
**PALO
ALTO**



CITY COUNCIL

Patrick Burt, Mayor

Lydia Kou, Vice Mayor

Alison Cormack, Council Member

Tom DuBois, Council Member

Eric Filseth, Council Member

Greer Stone, Council Member

Greg Tanaka, Council Member

Edward Shikada, City Manager

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

CITY OF PALO ALTO
250 HAMILTON AVENUE,
PALO ALTO, CA 94301
650.329.2100

