

**REVISED FY 2020-
2021 PROPOSED
OPERATING AND
CAPITAL BUDGETS**

May 26, 2020

www.cityofpaloalto.org/budget

OVERVIEW

- Unprecedented time in our history
- City Council has taken a thoughtful approach to the tough budget discussions:
 - **March 26:** Approved budget workplan: recognizing the challenges ahead, directed staff to return with a baseline budget, revised budget deliberations to be with the full Council
 - **May 4:** Adopted revenue assumptions reflecting the current public health emergency, resulting in FY 2020-2021 \$39 million General Fund deficit
 - **May 11-13:** Spent over 24 hours deliberating budget strategies and service impacts
 - ➔ • **Today:** Present a refined budget strategy for Council approval to prepare budget ordinance, appropriations, & resolutions
 - **June 22:** Council adoption of final FY 2020-21 budgets, rates, and municipal fees
- Service impacts remain significant; however, essential City services will be maintained and can be restored when economic conditions improve

CONTINUED UNCERTAINTIES BUILT INTO BUDGET



CITY OF
PALO ALTO

- Tax revenue receipts remain unknown
- Transition costs to implement service level reductions
- Shelter in Place orders by Santa Clara County/State continue to have lasting impacts
- Social distancing and other safety modifications are reflected in recommended budget strategy
 - Delay reopening smaller libraries due to social distancing concerns
 - Delay reopening Children's Theatre due to County restrictions, ticket revenue impacts
 - Summer camp approach evolving
- Investments necessary for COVID-19 recovery support

COUNCIL DIRECTION FROM MAY 11-13

Recommendations reflect Council direction, input and recommended adjustments, including:

- **Budget Adjustments**
 - \$3M in expense savings due to compensation reductions for Management and Unrepresented Professional employees
 - Implementation of cost-recovery, where possible
 - Additional costs for expected responses to the COVID-19 emergency
 - Reserve funds for outstanding liabilities
- **Partial Service Restorations**
 - Restoration of hours at College Terrace Library, through other service impacts to library system hours
 - Cost recovery and restoration of teen services, Arts Center, Children's Theater
 - Staffing to align building inspections with the business community needs

SHORT TERM PARKING LOT STATUS



Motions by the City Council that are included in the Balancing Strategy

- Eliminate Council Contingency (\$95,000), Innovations & Special Events Contingency (\$50,000)
- Reduce the GF transfer to CIP from \$7.6 M to \$6.0 M & reserve these funds in the General Fund for 115 Pension Trust contribution
- Opening of the new Junior Museum & Zoo with a new entrance fee (est. March opening)
- Restore the Long-Range Planning & Housing Program (2.0 positions in planning)
- Identify an additional \$1.0 M in general CIP expense reductions (one-time)
 - Use these funds to restore \$600,000 in Police and \$400,000 in Community Services
- Revisit Building Inspection and Fire Inspection budget adjustments
- Through additional cost recovery and/or partial funding restore: teen services (\$400k), Art Center (\$400k), College Terrace Library (\$168k), and Baylands Interpretive Center (\$22k), and Children's Theater (includes restoration or rebalancing of library hrs)

RECOMMENDED BALANCING STRATEGY



General Fund recommendation: \$196.8 million in revenues and \$195.9 million in expenses, leaving a surplus of \$839,000.

- Reflecting a nearly 20% reduction from the FY 2021 Proposed Budget (released on April 20) and 15 % reduction compared to the FY 2020 Adopted Operating Budget.
 - Reductions to the City’s staffing: 74.3 full-time and 26.2 FTE of part-time
- Recommendations continue to:
 - Proactively pay for long term liabilities
 - Continue capital investments in our most critical infrastructure
 - Provide resources for Palo Alto to successfully support adaptation from ‘shelter in place’ to recovery
 - Anticipate what services can be delivered in light of the current pandemic and assumes impacts as a result of social distancing requirements

RECOMMENDED OPERATING BALANCING STRATEGY

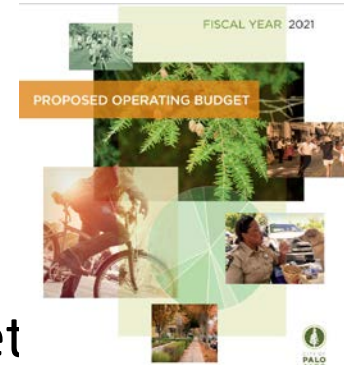


Restores several community facing services and programs:

- **Recreation:** Focus on maintaining outdoor recreation and open space preserves providing the highest value to the community for the duration of the COVID-19 pandemic
- **Teen Programming:** Increase cost recovery in new participation and membership fees and donations. Services proposed to continue are: Teen Advisory Board, Palo Alto Youth Council, Recreation Counselor in Training (CIT) Program, MakeX, Art Center Teen Leadership Group, Teen Arts Council, Think Fund, and re-opening The Drop teen center
- **Police:** Sworn police officers will focus on patrol and other collateral duties, through restoration of civilian staffing (6.0 positions)
- **Library Services:** All five libraries will remain open on reduced schedules
- **Building Inspections:** Building staffing added to assist business needs during recovery period

HOW TO INTERPRET THE BUDGET DETAILS

- Baseline Operating and Capital Budgets submitted on April 20, provide where the City would have been based on a normal budget year, in comparison to last year
- Staff Report #11376 outlines incremental amendments to these budget based on the Council direction from 5/4 and feedback on 5/11-5/13
- Baseline budgets continue to help guide our work
 - Outlines the “big picture” on services
 - Provides details on programs, staffing and service models
 - Details capital investments



City of Palo Alto
City Council Staff Report

(ID # 11376)

Report Type: Action Items

Meeting Date: 5/26/2020

Council Priority: Fiscal Sustainability

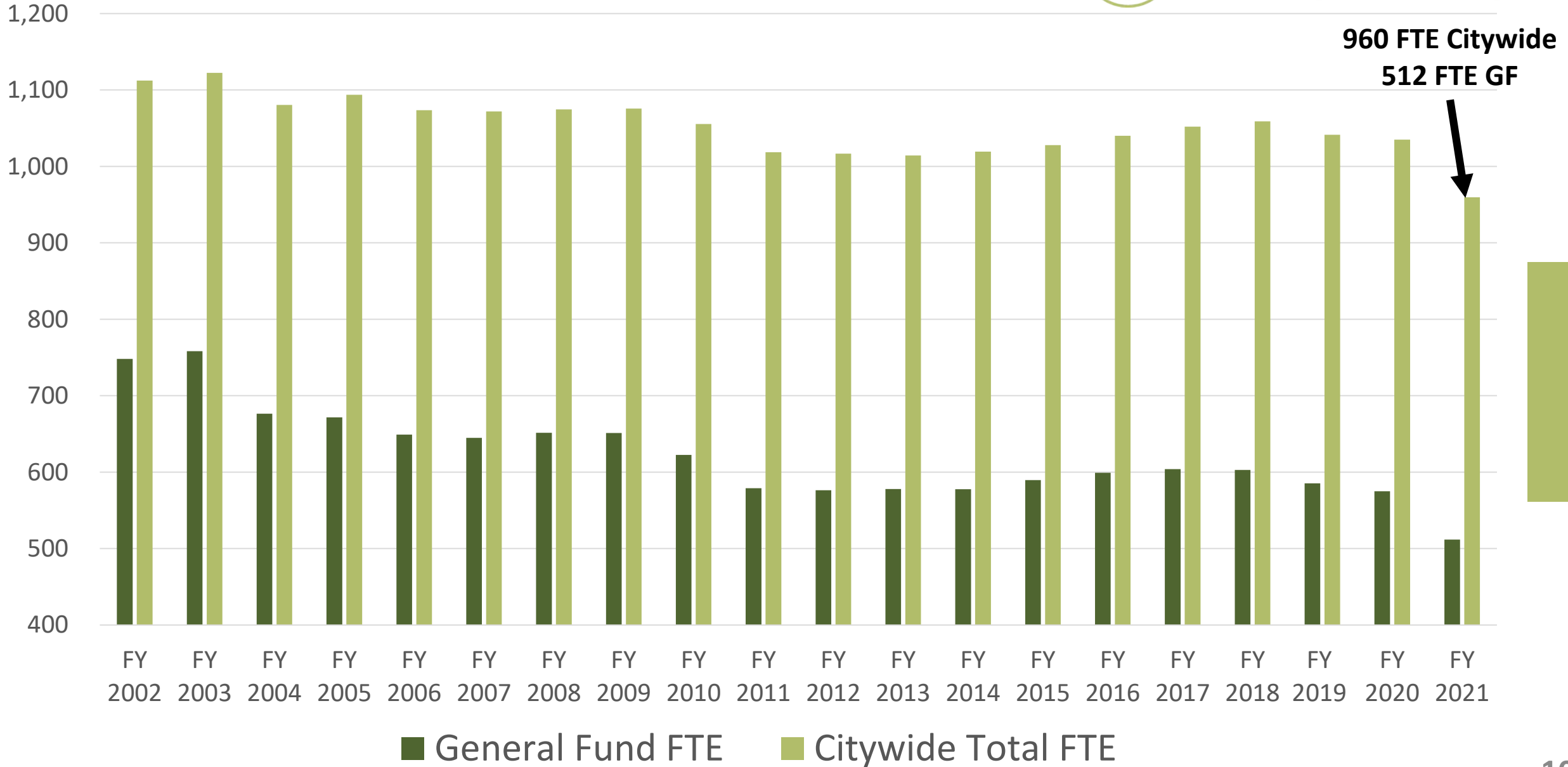
Summary Title: FY 2021 Proposed Operating and Capital Budget Wrap-Up & Municipal Code Change

REVISED FY 2021 BUDGETS – CMR #11376

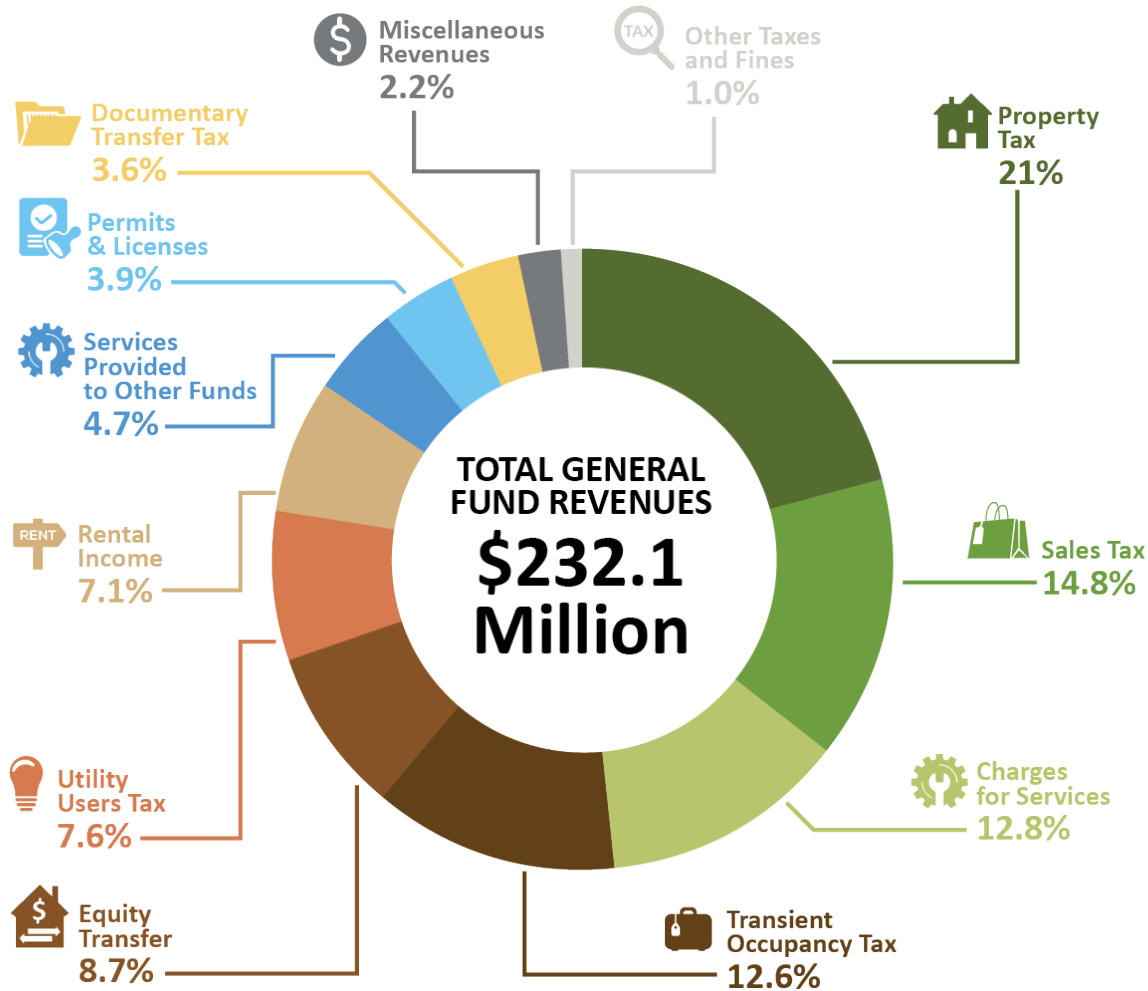


	General Fund				All Funds (w/ Internal Service Funds)			
	Revenues	Expenses	FT FTEs	PT FTEs	Revenues	Expenses	FT FTEs	PT FTEs
Citywide Proposed FY 2021 Budget, Released April 20, 2020	\$241,509	\$238,801	573.68	81.31	\$755,846	\$818,869	1,033.85	106.32
Adjustments to Proposed Budget as released								
<i>Revenue Adjustments</i>								
City Council Requested Major Tax Revenue								
Realignment Scenario C (CC May 4, 2020)	(38,793)				(38,793)	-	-	-
Other Economically Sensitive Departmental Revenue	(5,000)				(5,000)	-	-	-
	\$197,716	\$238,801	573.68	81.31	\$712,053	\$818,869	1,033.85	106.32
<i>Adjustments by Service Area</i>								
Neighborhood, Community & Library Services	(297)	(4,896)	(16.10)	(21.02)	(297)	(4,896)	(16.10)	(21.02)
Public Safety	1,482	(7,257)	(32.27)	(2.28)	1,482	(7,271)	(32.40)	(2.28)
Planning & Transportation	(2,127)	(3,267)	(7.30)	(1.44)	(1,833)	(2,973)	(7.30)	(1.44)
Infrastructure & Environment	-	(2,795)	(0.20)	-	(26,120)	(19,239)	(8.05)	(0.48)
Internal Services/Strategic Support	-	(2,875)	(5.90)	(0.96)	(2,736)	(5,472)	(10.40)	(0.96)
Citywide Balancing Solutions	-	(21,776)	-	-	(63,997)	(25,189)	-	-
SUBTOTAL CHANGES FROM FY 2021 PROPOSED BUDGET	(44,735)	(42,866)	(61.77)	(25.70)	(93,501)	(65,040)	(74.25)	(26.18)
	-18.5%	-18.0%	-10.8%	-31.6%	-12.4%	-7.9%	-7.2%	-24.6%
Citywide Revenue and Expenses (as of May 26th CC Discussion)	\$196,774	\$195,935	511.91	55.61	\$618,552	\$753,829	959.60	80.14
Net Surplus/(Deficit)		\$839						

HISTORICAL FULL-TIME STAFFING COMPARISON



GENERAL FUND SOURCES



	FY 2020 Adopted	FY 2021 Revised
Property Tax	\$ 48.6 M	\$ 52.0 M
Sales Tax	34.4 M	20.5 M
Transient Occupancy Tax	29.3 M	14.9 M
Utility User Tax	17.6 M	15.1 M
Documentary Transfer Tax	8.4 M	4.7 M
Charges for Services & Licenses & Permits	38.8 M	34.1 M
All Other Revenues	55.0 M	55.5 M
Total General Fund Revenue	\$232.1 M	\$196.8 M

CITYWIDE EXPENSE ADJUSTMENTS (\$21.8M) SAVINGS & REDUCTIONS



- **NEW!** Management and Professional Unrepresented Group Compensation (reduction of \$3.5 M GF, \$5.5M all funds)
- Transfer to the Capital Fund (reduction of \$18.4 M to \$14.2 M; \$10 M from the base transfer and \$8.5 M from a reduction in TOT)
- Cubberley Lease (net reduction of \$2.5 M)
- Other Post Employment Benefits (OPEB) Long-Term Liabilities @ 6.25 discount rate funding contribution (reduction of \$0.6 M)GF, \$1.7 M all funds)
- Internal Service Fund Reserve Balances (reduction of \$0.5 M GF, \$0.8M all funds)

CITYWIDE EXPENSE ADJUSTMENTS RESTORATIONS & INVESTMENTS

- Investments in COVID-19 recovery efforts:

NEW!

- Contact Tracing (+\$450,000)
- Business and Communications Support (+\$150,000)
- Workplace Restoration (+\$350,000)
- Maintain 4-year replacement cycle for laptops
- Maintain staffing levels in Clerk's Office necessary for virtual meetings

- Litigation Reserve (+\$1.0 M)

NEW!

OPERATING BUDGET

COMMUNITY & LIBRARY SERVICES



Reduction of \$4.9 million; 16.1 full time FTE, 21.02 part-time FTE

- Reduction in operating hours by one day / week at 3 community centers
- Reduce Children's Theatre productions: maintaining two core productions and several smaller productions, and maintaining smaller classes and camps
- Reduction in teens services impacted by social distancing requirements including closure of "The Drop" through Dec 2020, and establishing a monthly fee for certain programs
- Elimination of program and grant subsidies such as SCC Unhoused Programs, Know Your Neighbors, and a 50% reduction in Youth Connectedness Initiative (YCS)
- New fees, increased fees and donations: arts center programs, middle school and adult athletics, & Junior Museum and Zoo membership/entrant fees (estimated to open March 2021)

OPERATING BUDGET

COMMUNITY & LIBRARY SERVICES (CONT'D.)



- Reduce open space preserve reduced ranger coverage; Lucy Evans Baylands interpretive center remains open 50% of the time
- Reduce parks maintenance contract costs by 25%
- Reduce operating hours and/or days at all library branches:
 - Neighborhood branches open 3 days/week (Children's, Downtown, and College Terrace)
 - Full-service branches open 6 days per week (Rinconada and Mitchell) with Rinconada closing at 6pm instead of 9pm

REVISED OPERATING BUDGET

PUBLIC SAFETY



**Reduction of \$7.3 million and \$1.5 million in new revenue;
35.0 full time FTE* (21 sworn), 2.28 part-time FTE**

- Reduce fire prevention staffing reduction (shown in Planning & Development Svcs)
- Implement new medical emergency response fee and ambulance subscription program
- Reduce incident response resources and move towards a brownout flexible staffing model that will temporarily reduce units when firefighters are on leave
- Maintain a 12 hour medic unit staffed on overtime (previously recommended for elimination in FY 2020)
- Reduction in fire management and training resources

* FTE includes additional staffing reductions due to elimination of Fire prevention bureau, however reductions will appear in Planning & Development Services section

REVISED OPERATING BUDGET

PUBLIC SAFETY



- Restructure and reduce communications and dispatch staffing
- Reduce patrol operations staffing and eliminate specialized units such as traffic unit and reduce investigations
- Reduction in hiring of new staff and training of existing staff
- Reduction in technical services & special events

\$600,000 restoration:

- 6.0 full-time positions were restored in the information management, animal services, and investigations divisions
- Regular lobby hours, the processing of requests for data or reports will resume, animal control services will comply with contractual obligations to other jurisdictions. Property and evidence services will be maintained by civilian staffing.

REVISED OPERATING BUDGET

PLANNING & TRANSPORTATION



**Reduction of \$3.3 million and \$2.1 million in program revenue;
5.0 full time FTE, 1.44 part-time FTE**

- Eliminate both the Crosstown and Embarcadero shuttle
- Reduce the administration of the Residential Preferential Parking Program (RPP)
- Substantial reduction in contract and consultant services for planning and building eliminating service such as new day inspections

Building & Fire Inspections (short-term parking lot)

- Recommend additional capacity by adding 2.0 building inspector specialists (1.0 on a one-year limited term) partially offset by the elimination of 1.0 Planning Manager and development fee reserves. This will reduce the impact to customer service and development progress.

REVISED OPERATING BUDGET INFRASTRUCTURE & ENVIRONMENT



Reduction of \$2.8 million; 0.20 full time FTE

- Reduce tree trimming program (still addressing 7-year cycle)
- Reduce streets and sidewalks program and capital investment (still addressing trip/fall areas)
- Defer vehicle replacement and maintenance
- Maintain 0% or close to 0% utility rate increases for the next year
- San Francisquito Creek Joint Powers Authority (SFJPA) Membership cost increase

ENTERPRISE FUNDS – RATE CHANGES



Current Balancing Strategy Rate Change (as of 5/26/20)

Electric	0%
Gas	2%
Water	0%
Wastewater	0%
Fiber	2.5%
Refuse	0%
Storm Drain	2.5%
Total	0.5%

Total monthly bill is estimated to increase \$1.47 per month, or 0.5% to \$320.71 per month.

REVISED OPERATING BUDGET









INTERNAL SERVICES/APPOINTEES



Reduction of \$2.9 million; 5.9 full time FTE, 0.96 part-time FTE

- Reduced staffing in purchasing, accounting, and revenue collections & two-year pause on annual performance report
- Reduced staffing in Human Resources Department
- Reduced staffing and non-salary expenses in Information Technology Department
- Reduced non-salary expenses in Clerk's Office, non-salary & staffing in Attorney's Office
- Reduced staffing expenses in City Manager's Office

REVISED OPERATING BUDGET – SERVICES WILL CONTINUE

-  Police & Fire will respond to all priority emergency calls ensuring health and safety
-  Utility services including water, electric, gas, and sewer services will continue including necessary maintenance for safety
-  Parks, open spaces, recreation areas and trails will be open and maintained
-  Five (5) libraries will remain open welcoming patrons with reduced hours
-  Ensure health and safety measures are addressed on our neighborhood streets & roads, sidewalk and trees
-  Keep three community centers open with classes and other programming continuing
-  Continue to support the Development Center and requests for planning, building permits
-  Manage traffic signals maintenance and timing and continue youth education through safe routes to school

RECOMMENDED CIP BALANCING STRATEGY



Budget Strategy reflects a 56% reduction in General Fund support for the Capital Improvement Fund or \$18.4 million reduction in FY 2021

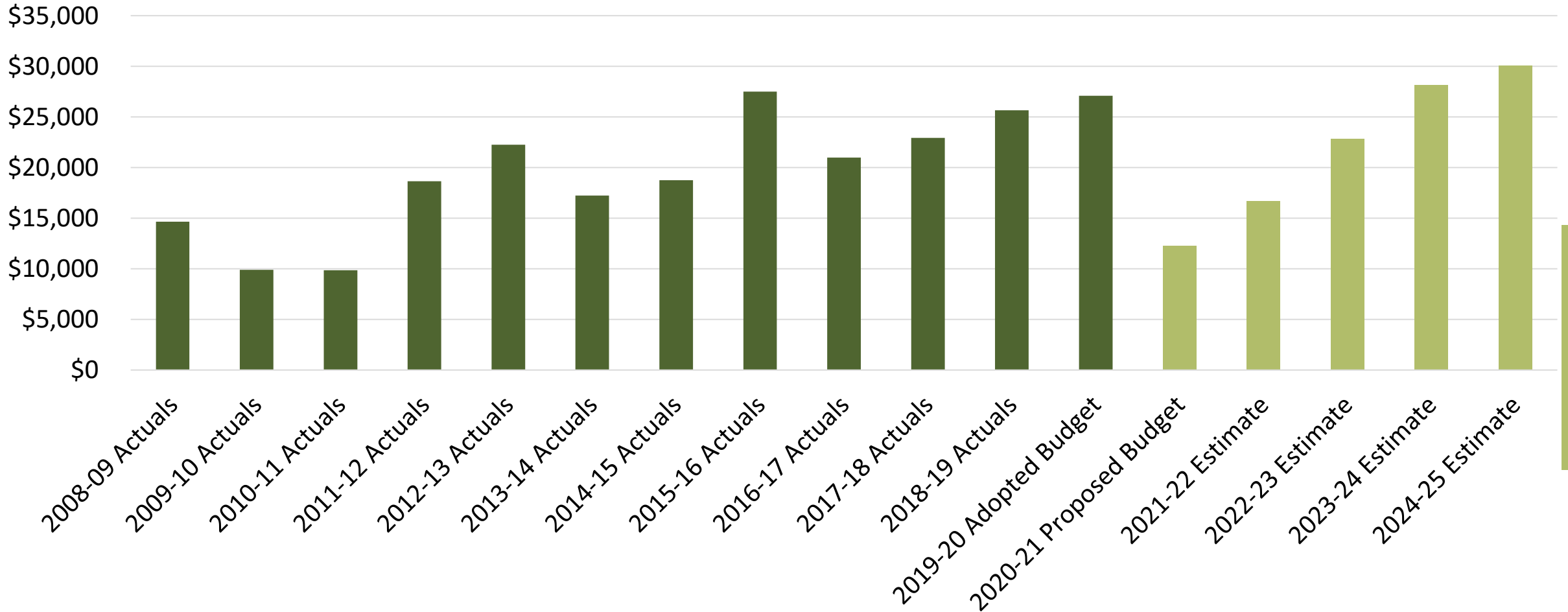
- Provides a minimal while responsible investment in the City’s essential infrastructure, while reinforcing the following strategies:
 - Reduce carryover funding to “keep up” spending on essential infrastructure rather than fall behind and require new funding sources or levels to “catch up” in upcoming years;
 - Position shovel-ready projects to take advantage of the favorable construction market
 - Minimize near-term funding of discretionary projects
 - Ensure a steady flow of projects that minimizes peaks and valleys in project delivery staffing, increasing efficiency and productivity

RECOMMENDED CIP REDUCTIONS \$2.6 M



Project	Fiscal Year	Funding Adjustment
Downtown Parking Garage (PE-15007) expense reduction Cancellation of current design contract	FY 2020	(\$1.0 M)
Sidewalk Repairs (PO-89003) expense reduction Current year estimated savings to reduce reappropriation to FY 2021	FY 2021	(\$0.7 M)
Byxbee Park Completion (PE-18006) expense reduction Current year estimated savings to reduce reappropriation to FY 2021	FY 2021	(\$0.3 M)
Off-Road Pathway & Repairs (OS-09001) expense reduction Current year estimated savings to reduce reappropriation to FY 2021	FY 2021	(\$0.2 M)
Americans with Disabilities Act Compliance (PF-93009) expense reduction Current year estimated savings to reduce reappropriation to FY 2021	FY 2021	(\$0.2 M)
Dog Park Installation & Restoration (PG-18001) revenue increase Recognize impact fees to align with project expenses	FY 2021	(\$0.2 M)
Total Adjustments		(\$2.6 M)

GENERAL FUND CONTRIBUTION TO CIP



Note: This excludes the transfer to the Cubberley Infrastructure Fund that began in FY 2015 and is \$1.8M annually.

CIP – INVESTMENT CATEGORIES



"Keep up" through citywide annual recurring projects

- Building Systems Improvements, Facility Interior Finishes, City Facility Parking Lot Maintenance, Athletic Courts Resurfacing, Street Maintenance, Sidewalk Repairs

"Keep up" and "Catch up" at specific facilities and parks

- City Hall Electrical Upgrade, MSC Roof Replacement, Boulware Park Improvements, Magical Bridge Playground Rubber and Synthetic Turf Reduction

"New" buildings or significant improvements to existing infrastructure

- Birch Park Improvements, Animal Shelter Renovation, Downtown Automated Parking Guidance Systems, Rail Grade Separation Planning, Fire Station 4, Public Safety Building

CIP – MAJOR INVESTMENTS

- Public Safety Building construction, Fire Station 4 design, and 101 Bike & Pedestrian Bridge (under construction)
 - Plan Public Safety Building bidding and certificates of participation sales to take advantage of recessionary construction market
- Parks investments such as Boulware Park (including Birch Street) and Byxbee Park
- Train crossings/rail grade separation planning
- Airport Apron Reconstruction prioritized by the FAA grant funding
- 6 of 13 Storm Water Management Fee ballot measure projects planned
- Water Quality Control Plant has \$133.3 M of infrastructure investment projects

RECOMMENDED ACTION



- 1) The City Council review, discuss, and provide final direction to staff in regard to the FY 2021 Proposed Operating & Capital Budgets, FY 2021 Municipal Fee Schedule including the following amendments:
 - a) Direction on use of remaining fund balance in the City’s General Fund of \$839,000 including outstanding items currently in the “short-term parking lot”
 - b) Recommend staff return with amendments by the actions outlined in Attachment A, Exhibit 1 & Exhibit 2
 - c) Recommend staff return with formal adoption of the FY 2021 Municipal Fee Schedule (CMR # 11190)
 - d) Recommend staff return with the formal adoption of the Table of Organization (Pages 339 – 356 in the FY 2021 Proposed Operating Budget) as amended by the above actions
 - e) Recommend staff return with the formal approval of the FY 2021 – FY 2025 Capital Improvement Plan as revised through Attachment A, Exhibit 2

RECOMMENDED ACTION 1) a)

a) Direction on use of remaining fund balance in the City's General Fund of \$839,000 including the resolution of outstanding items currently in the "short-term parking lot;"

Short Term Parking Lot Items for Council Consideration and Direction

- Strategy to manage attrition in Police & Fire (cost estimated at least \$500,000)
- Revisit funding for the Transportation Management Association (\$750,000, Downtown Parking Fund)
- Revisit funding for City Council minutes transcription (\$35,000)
- Revisit funding for cost of printing City Council materials (\$35,000)
- Revisit funding for YCS Youth Connectedness Initiative (\$25,000, staff already has included funding of \$25,000 in this revised balancing strategy)

RECOMMENDED ACTION

The City Council adopt the Ordinance (Attachment C) Amending Section 2.04.360 of the Palo Alto Municipal Code to Allow Council Members a Salary Waiver Option.

A regular majority vote is required to approve this ordinance which becomes effective 30 days after the second reading and final adoption.



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JOIN THE BUDGET CONVERSATION



How would you prioritize the City's six service areas? The more dots you assign to a service area, the higher a priority it is for you.

		Response Percent	Response Count
Public Safety		25.7%	688
Infrastructure and Environment		16.8%	451
Planning and Transportation		15.6%	418
Economic Sustainability and Business Support		12.2%	327
Neighborhood, Community and Library Services		22.4%	600
Administration and Government		5.7%	154

COUNCIL INPUT AND NEXT STEPS



- At places memorandum on Council discussion and approach on the budget hearings
- Council confirmation of hearing process

OTHER FUNDS



Federal & State Revenue Funds

- Community Development Block Grant Funding of approx. \$1.1M (\$547,000 for COVID response, including rent relief, food assistance, and testing & equipment)

Parking Funds:

- Residential Preferential Parking (RPP) Permit Program revisions (est. \$200,000 GF savings)
- Continues \$750,000 for the Transportation Management Association (TMA)

Stanford University Medical Center (Development Agreement)

- Significant investments anticipated in FY2021-2025 Capital Improvement Plan
- Potential reallocation of funds between City Council approved 2014 Infrastructure Plan projects
- Remaining unspent balance ~ \$6 M

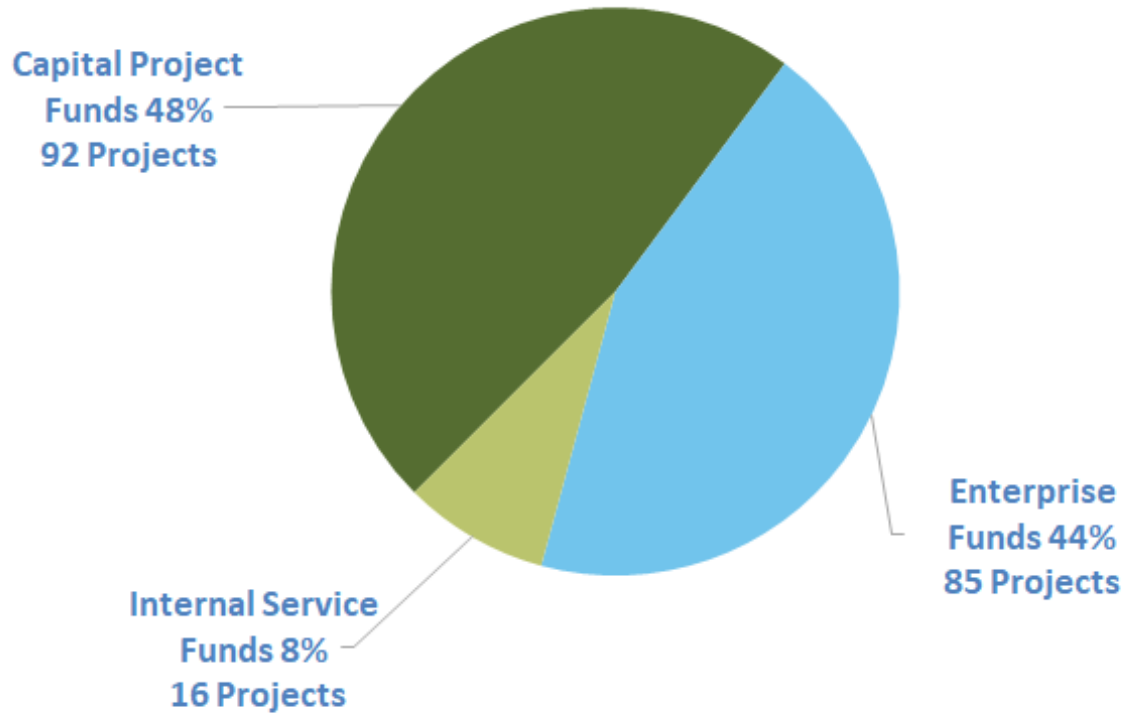
CIP – REAPPROPRIATIONS

Fund	Additional Reappropriation from FY 2020 to FY 2021
Capital Improvement Fund	\$1,118,216
Electric Fund	\$3,407,815
Fiber Fund	\$775,000
Gas Fund	(\$250,001)
Stormwater Management Fund	\$5,000
Technology Fund	(\$35,463)
Wastewater Collection Fund	\$1,057,424
Wastewater Treatment Fund	\$13,366,025
Water Fund	\$4,244,357
Total All Funds	\$23,688,373

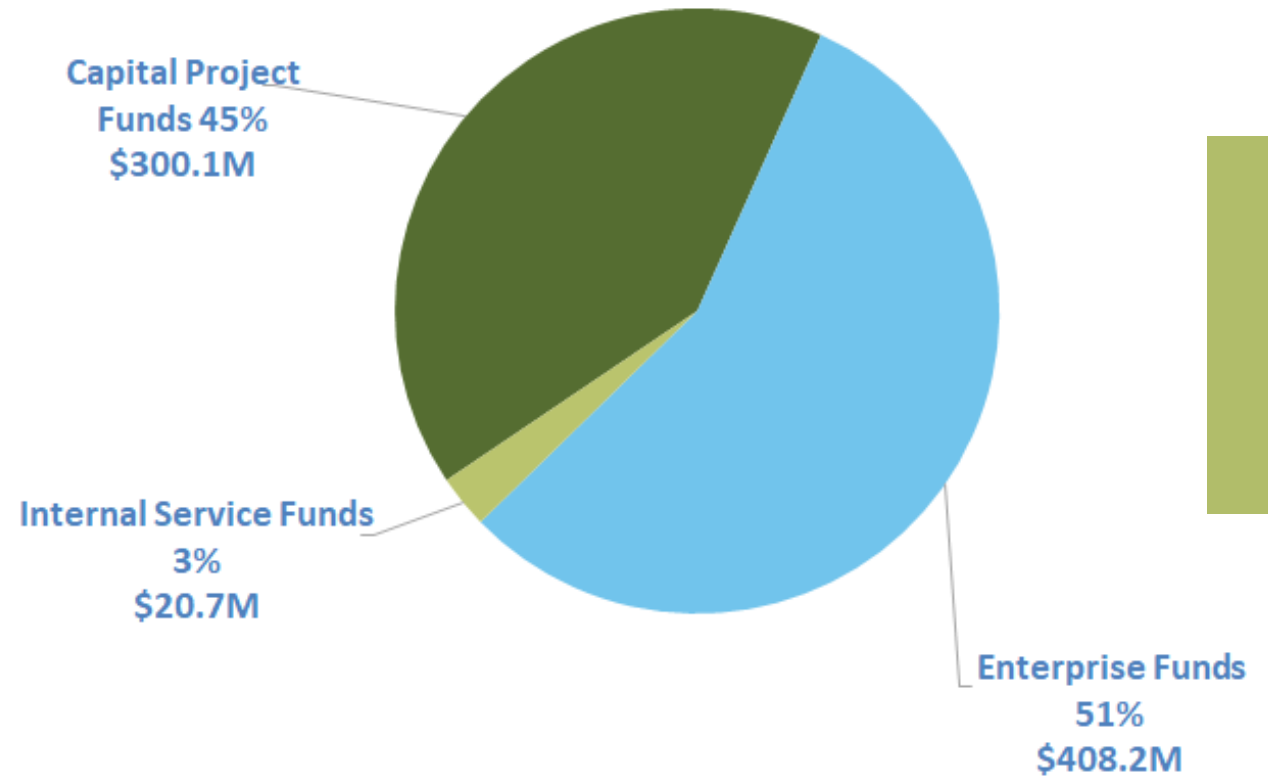
CAPITAL IMPROVEMENT PROGRAM (CIP) - OVERVIEW



2021-2025 CIP PLANNED PROJECTS BY FUND TYPE (193 PROJECTS)



2021-2025 CIP PLANNED FUNDING BY FUND TYPE (\$729.0 MILLION)



Data as of 5/26/20 Questica Budget Software