



CITY OF
**PALO
ALTO**

**CITY OF PALO ALTO
CITY COUNCIL
Special Meeting
Monday, May 22, 2023
Council Chambers & Hybrid
5:30 PM**

Agenda Item

- AA1. **FY 2024 Proposed Operating and Capital Budget - Finance Committee Update and Council Budget Discussion *Presentation***



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City Council Staff Report

From: City Manager

Report Type: STUDY SESSION

Lead Department: Administrative Services

Meeting Date: May 22, 2023

Report #:2305-1453

TITLE

FY 2024 Proposed Operating and Capital Budget - Finance Committee Update and Council Budget Discussion

RECOMMENDATION

This memorandum will be used to facilitate two discussions:

- 1) Update by the Finance Committee to the City Council in a study session (May 22, 2023)
- 2) Finance Committee budget wrap-up work.

The recommendations below reflect these two bodies of work.

May 22nd City Council Study Session

- 1) Staff recommends that the City Council:
 - Review the current proposed budget adjustments to the Fiscal Year 2024 Proposed Operating and Capital Budgets and Municipal Fee Schedule in alignment with the work completed by the Finance Committee on May 5, and 9, 2023;
 - Review the areas of focus for the City Council as identified by the Finance Committee and staff; and
 - Provide feedback to the Finance Committee on any areas of focus or additional deliberations to review as part of the Budget Wrap-up Meeting scheduled for May 30, 2023.

May 30th Finance Committee Budget Wrap-up

- 1) Staff recommends the Finance Committee:
 - a. Review and discuss:
 - i. Additional information provided as requested by the Council, Committee, or staff
 - ii. Summary of current budget adjustments to the Fiscal Year 2024 Proposed Operating and Capital Budgets and Municipal Fee Schedule in alignment with the work completed by the Committee May 5, and 9, 2023 and the full Council May 22, 2023; and

- b. Recommend to the City Council:
 - i. Adoption of the FY 2024 Proposed Operating and Capital Budgets and Municipal Fee Schedule (Staff report 2304-1386¹), amended by the actions outlined in this report in 'Tables1: Summary of Tentative Revisions to the FY 2024 Proposed Budget,' with greater detail in 'Table 2: Full List of Tentative Recommendations by Finance Committee,' and as further amended in the wrap-up discussion; and
 - ii. Approve the FY 2024-2028 Capital Improvement Plan, amended by the actions outlined in this report and as further amended in the wrap-up discussion.

EXECUTIVE SUMMARY

This memorandum follows the Finance Committee review of the FY 2024 Proposed Operating and Capital Budgets and Municipal Fee Schedule, and includes additional information and recommended changes for further review with the City Council. The proposed budget uses a two-year balancing strategy that leverages one-time surplus funding to bridge shortfalls in FY 2024 and FY 2025 while continuing to invest in priority services, infrastructure, and saving for long-term liabilities. In addition, the proposed budget recommends a measured approach to using one-time surplus, setting aside a higher BSR reserve, and limiting ongoing costs to mitigate the potential for greater future deficits.

Overall, the Finance Committee spent 14 hours reviewing the budget materials and supplemental memoranda discussing the FY 2024 Proposed Operating Budget, Capital Budget, and Municipal Fee Schedule. After reviewing the \$975 million proposed budgets, the committee tentatively recommended recognizing additional funding of \$9.0 million in the General Fund offset by the addition of \$7.8 million in expenses. This tentative recommendation reflects a 2-year budget strategy with \$1.2 million in excess funds in FY 2024 and a small deficit of \$300,000 in FY 2025. Adjusting for these tentatively recommended changes, the Finance Committee preliminary recommendations increase the projected FY 2026 shortfall from \$6.2 to \$8.8 million.

In light of the additional ongoing expenditures preliminarily recommended by the Finance Committee, staff believes it important to reiterate the basis for constraining additional expenses. It was unusual for staff to recommend a budget with discretionary spending while also projecting a deficit in outer years; however, this recommendation took into consideration a number of known variables that could cushion economic volatility in the years ahead. Furthermore, the nearly \$8 million in new activities (versus the \$2.25 million anticipated by staff) will impact organizational capacity to accomplish already established priorities.

Staff therefore recommends the Finance Committee and City Council to further prioritize their recommended focus areas. Options to support further prioritization are presented in this report. It should also be noted that a benefit of conservative budgeting for the past several years has been furthering the City's commitment to addressing long-term infrastructure and pension liabilities.

¹ <https://www.cityofpaloalto.org/files/assets/public/administrative-services/city-budgets/fy-2024-city-budget/proposed/municipal-fee-schedule-amendments-fy24.pdf>

BACKGROUND AND ANALYSIS

During budget deliberations on May 5 and 9, the Finance Committee completed a detailed review of the FY 2024 Operating Budget, Capital Budget, and Municipal Fee Schedule. Public comment was incorporated at each service area to provide opportunities for community input in the decision-making process. The Finance Committee reviewed individual budget sections by Department for tentative approval of the budget, potential amendments, and requests for additional information to aid in their review. This report provides the status of the Finance Committee's review for further discussion and feedback from the full City Council focusing on the recommended amendments to the Proposed Budgets transmitted at the May 1, 2023 City Council Meeting. The Finance Committee will reconvene on May 30 (Budget Wrap-up) to finalize recommended amendments to the Proposed Operating and Capital Budgets and Municipal Fee Schedule. These amendments will be included at the June 19 City Council meeting for budget adoption.

As a reminder, the FY 2024 Proposed Budget pivots from the COVID-19 pandemic recovery period and into a steadier state or "new normal". The proposed budget uses a two-year balancing strategy that leverages one-time surplus funding to bridge shortfalls in FY 2024 and FY 2025 while continuing to invest in priority services, infrastructure, and savings for long-term liabilities. Going into FY 2024, the City continues to rebound from pandemic-related losses; however, staff remains cautious of mixed economic indicators that suggest potential economic risk. Staff sought to provide a budget that proposes a measured approach to using one-time surplus, setting aside a higher BSR reserve, and limiting ongoing costs to mitigate the potential for exacerbating future deficits.

In order to balance the Council's significant list of objectives for 2023, staff set aside \$2.25 million for the City Council to prioritize and allocate as part of this budget process. This is a deviation from prior years where the proposed budget was balanced within \$250,000 to \$700,000 leaving little room for net new expenditures and requiring greater prioritization by the Council during the budget process.

To support this significant level of funding for Council allocation, staff provided a list of options to aid in allocation of these funds. A complete list, referred to as "Tier 2" proposals, was transmitted in the FY 2024 Proposed Operating Budget Transmittal Letter Attachment C. An additional layout of this list was provided at the request of the Committee at places² and is attached to this report for ease of reference (Attachment A) indicating the status of proposals as 'Tentatively Recommended' or placed in the 'Parking Lot' for further consideration. Staff anticipated expenses totaling \$2.25 million.

The nearly \$8 million of additional expenses tentatively recommended will require additional support resources, both administrative and programmatic. It also increases exposure to economic volatility. It was unusual for a staff to recommend a budget that reflects a deficit in the outer years – in this case -a \$6.2 million deficit in FY 2026. However, this recommendation took into consideration the opportunities and challenges that may materialize ahead and managed these risks accordingly. Some variables considered include:

²<https://www.cityofpaloalto.org/files/assets/public/administrative-services/city-budgets/fy-24-proposed/2023-council-priorities-objectives.pdf>

- Higher reserve levels and/or surplus funds at year end can provide cushion should economic trends reverse or serve as a bridge to stabilize volatility should deficits materialize.
- Expected contract negotiations may negatively impact the forecasted deficit in FY 2026 with higher than forecasted costs.
- Council could choose to change the natural gas equity transfer (measure L) in future years to help cure future deficits.

As outlined in the tentative recommendations made by the Finance Committee, staff agree with the Committee that the variables outlined in their recommended adjustment to sources of funds are based in fact. However, fully allocating these funds for programs and services increases the City's volatility risk exposure to an uncomfortable level. This works counter to a key principle of this FY 2024 Proposed Budget, to continue to stabilize the organization enabling focus on critical priorities, versus change management driven by volatility.

1) SUMMARY OF RECOMMENDED ADJUSTMENTS TO THE FY 2024 PROPOSED BUDGET

Below is a comprehensive summary of recommended balancing actions either at the recommendation of the Finance Committee or additional adjustments at the behest of staff.

As noted above, staff reiterates the basis for limited additional expenses through the proposed balancing strategy of \$2.25 million in additional Council priority funding, recognizing limited organizational capacity, budget constraints, and continued unknowns that exist. Additional options to consider include:

- The Council could revisit priorities not funded as part of the FY 2024 Mid-Year Budget review and the FY 2025 budget process.
- Should the Council be interested in discussing options to funding Council priorities at something greater than \$2.25 million but less than \$8 million, staff will be prepared to support this discussion.

Scaling back would not result in these important objectives from being delivered. As noted, Council can revisit these focus areas as part of the FY 2024 Mid-Year Budget review and the FY 2025 budget process.

This table is followed by more detailed information for:

- a) Finance Committee Tentatively Recommended Adjustments and Revised Balancing Strategy, and
- b) Additional Staff Recommended Adjustments.

Table 1: Summary of Tentative Revisions to the FY 2024 Proposed Budget

<i>\$'s in thousands</i>		FY 2024 General Fund
		Proposed Revenue & Reserves: \$274,944
Revenue Adjustments		
<i>Finance Committee Tentative Adjustments to Proposed Budget</i>		
Measure K Housing and Homeless Services	750	
FY 2023 projected additional surplus funds	4,000	
Gas Equity Transfer increase to 18% (from 15.5%) - Begin FY 2025, approx \$1M additional revenue annually		
FY23 & FY24 Homekey Operations Savings (to be reallocated to CIP project gap)	2,000	
<i>Finance Committee Tentative Adjustments Subtotal</i>	<i>\$6,750</i>	
 <i>Staff Additional Recommended Adjustments to Proposed Budget</i>		
None		Revised Revenue
Total Revenue Adjustments	\$6,750	\$281,694
		Proposed Expense: \$274,944
Expense Adjustments		
<i>Finance Committee Tentative Adjustments to Proposed Budget</i>		
<i>Investments from Tier 2 Organized by Council Priority</i>		
- Economic Recovery and Transition	395	
- Climate Change & Natural Environment: Protection & Adaptation	1,460	
- Housing for Social & Economic Balance (incl. CIP gap for Homekey project)	2,750	
- Community Health & Safety	1,427	
- Other Enhancements	1,740	
Eliminate "Council Priorities Reserve"	(2,250)	
<i>Finance Committee Tentative Adjustments Subtotal</i>	<i>\$5,522</i>	
 <i>Staff Additional Recommended Adjustments to Proposed Budget</i>		
<i>Investments from Tier 2 Administrative Support Needs</i>		
- Legal Support (staff and/or equivalent outside counsel)	360	
- Procurement Support (staff)	200	
- Recruitment Support (staff and hourly)	277	
<i>Technical Adjustment</i>		
Staffing realignment for S/CAP (delete 2.0 Sr. Engineer and Prin. Resource Planner, add 1.0 Assist. Director)	-	
<i>Staff Recommended Adjustments Subtotal</i>	<i>\$837</i>	
Total Expense Adjustments	\$6,359	Revised Expense \$281,303

a) Finance Committee Tentatively Recommended Adjustments

The summary tables below reflect the tentatively recommended adjustments and items in the Parking Lot for further consideration. Tier 2 proposals are identified with “T2” at the beginning of the title. More information and further descriptions for the recommended changes and parking lot items are outlined in this memorandum for reference.

Adjusting for tentatively recommended changes, the FY 2026 shortfall is expected to increase from \$6.2 million to \$8.8 million. This adjusted deficit does not contemplate items in the Parking Lot, or any further investments through budget amendments approved by the City Council, or the FY 2025 Proposed Budget. For example, the Council has approved over \$600,000 of budget amendments in FY 2023 in the General Fund (excluding Mid-Year Budget actions). Further, it does not contemplate costs for significant projects that are on the horizon but don’t have confirmed timelines or costs. A complete list of these “known/unknown” projects is available in the FY 2024 – FY 2033 Long Range Financial Forecast (LRFF) (CMR 2301-0753³, Attachment A), and includes items such as the Parks Master Plan, Racial Equity Work, Cubberley Community Center Concept Plan, and new labor agreements beginning in FY 2026.

For demonstrative purposes, if the adjusted deficit of \$8.8 million were resolved on a one-time basis in FY 2026 using the BSR, this would result in a BSR level of 16.9%, below the 18.5% target by \$6.4 million. Using one-time reserves to fund ongoing expenses could put the City in a more unsustainable financial situation.

Table 2: Full List of Tentative Recommendations by Finance Committee

Dept	GENERAL FUND – Tentatively Recommended Adjustments to the FY 2024 Proposed Budget	FY 2024	FY 2025	Ongoing
NON	Beginning Balance – City Council Priorities Reserve (2 years) & LRFF (Ongoing)	\$2,250,000	\$2,250,000	\$(6,200,000)
NON	Measure K Housing and Homeless Services*	750,000	800,000	800,000
NON	FY23 Surplus Major Tax Revenues	2,500,000	-	-
NON	FY23 Vacancy Savings (\$1-2M)	1,500,000	-	-
NON	Gas Equity Transfer from 15.5% to 18.0% in FY25	-	1,000,000	1,000,000
NON	FY23 & FY24 HomeKey Operations Savings**	2,000,000	-	-
	Subtotal Sources (Revenue)	\$9,000,000	\$4,050,000	\$1,800,000
Economic Recovery & Transition (ERT)				
CMO	T2: Economic Development Assistant	(145,000)	(145,000)	(145,000)
CMO	T2: Car Free Streets	(250,000)	(250,000)	(250,000)
	<i>Subtotal ERT</i>	<i>(395,000)</i>	<i>(395,000)</i>	<i>(395,000)</i>

³ <https://cityofpaloalto.primegov.com/Portal/Meeting?meetingTemplateId=1067>

Climate Change & The Natural Environment (CC&NE)				
PWD UTL	T2: Sustainability & Climate Action Plan (S/CAP) Studies (inc. Electric Vehicle and Reliability/Resiliency Strategic Plans)	(600,000)	-	-
PWD UTL	T2: Sea Level Rise and Adaptation Plan	(200,000)	(200,000)	(200,000)
PDS	T2: Bird Safe Glass/Wildlife Protection	(75,000)	-	-
OOT	T2: Transportation Modes and Staffing	(185,000)	(196,000)	(196,000)
PWD	T2: Full Electric Vehicle Fleet Replacement (50%) <i>(modified from original Tier 2 proposal)</i>	(400,000)	(400,000)	(400,000)
	<i>Subtotal CC&NE</i>	<i>(1,460,000)</i>	<i>(796,000)</i>	<i>(796,000)</i>
Housing for Social & Economic Balance (HS&EB)				
PDS	T2: Regulate Short-term Rentals* (new program to seek fee recovery ongoing)	(100,000)	(100,000)	(100,000)
PDS	T2: San Antonio Coordinated Area Plan (CAP)* (each CAP \$2M, CalPoly concept draft in FY24) <i>(Modified from original Tier 2 proposal)</i>	(50,000)	(700,000)	(700,000)
CMO	T2: LifeMoves Construction Homekey Facilities (PE- 24005)**	(2,500,000)	-	-
CMO	T2: Unhoused Residence Services*	(100,000)	-	-
	<i>Subtotal HS&EB</i>	<i>(2,750,000)</i>	<i>(800,000)</i>	<i>(800,000)</i>
Community Health & Safety (CH&S)				
CSD	T2: Youth Mental Health Programs	(200,000)	-	-
PDS	T2: Seismic Upgrade (additional funding)	(75,000)	-	-
PWD	T2: Airport Noise Reduction	(100,000)	-	-
LIB	T2: Library Hours <i>(Modified from original Tier 2 proposal)</i>	(145,000)	(145,000)	(145,000)
CSD	T2: Eucalyptus Tree Removal	(400,000)	-	-
CSD	T2: Therapeutics Recreation Program	(90,000)	(95,000)	(95,000)
POL	T2: Public Safety Dispatcher Staffing	(267,000)	(285,000)	(285,000)
	<i>Subtotal CH&S</i>	<i>(1,277,000)</i>	<i>(525,000)</i>	<i>(525,000)</i>
Enhance Services and Non-Tier 2				
CSD	T2: Art Center Visitor Staffing	(113,000)	(113,000)	(113,000)
FIR	T2: Fire Utility Task Vehicle	(67,000)	(10,000)	(10,000)
PDS	T2: Zoning Code Update (3 years at \$1.5M)	(500,000)	(500,000)	(500,000)
PDS	T2: Permitting and Inspections Operations	(115,000)	(115,000)	(115,000)
CSD	HSRAP (reflects HRC max requested funding, ongoing costs contingent on potential referral)	(150,000)	(150,000)	(150,000)
CSD PWD	Cubberley Facility Maintenance and Upkeep	(900,000)	(900,000)	(900,000)
NON	Neighbors Abroad	(20,000)	(20,000)	(20,000)
OOT	Palo Alto Transportation Management Authority (PATMA) Citywide Expansion	(25,000)	(25,000)	(25,000)
	<i>Subtotal Enhanced Services & Non-Tier 2</i>	<i>(1,890,000)</i>	<i>(1,833,000)</i>	<i>(1,833,000)</i>

	Subtotal Uses (Expense)	\$(7,772,000)	\$(4,349,000)	\$(4,349,000)
	Potential Fund Remaining (Deficit)/Surplus	\$1,228,000	\$(299,000)	\$(8,749,000)

** Measure K revenues for Housing and Homeless Services are expected at \$750,000 (FY24), \$1.5M (FY25), and \$3.0M ongoing. These funds have been recognized to the extent that eligible expenses are recommended: San Antonio Coordinated Area Plan (CAP), short-term rentals, unhoused resident services, and partial funding for LifeMoves construction (PE-24005)*

*** Project Homekey operations savings in FY23 and FY24 are expected to fund related LifeMoves construction costs*

Through their discussions, the Finance Committee also put several items in the “Parking Lot” that were not tentatively approved as adjustments to the FY 2024 Proposed Budget – this is discussed in greater detail in section 2 of this report “Finance Committee Parking Lot Items for Further Consideration”.

Additional details on the actions in Table 2 above.

Tentatively Recommended Adjustments: Revenues

During budget deliberations, the Finance Committee recommended several adjustments to increase revenue estimates, including recognizing unallocated Measure K (Business Tax) funds, projected surplus in FY 2023 due to excess tax revenues and vacancy savings, and unspent funding for operations in FY 2023 and FY 2024 for Project HomeKey. Additionally, the Finance Committee recommended an increase in the calculation for the Gas Equity Transfer from 15% to 18% beginning in FY 2025. Overall, these adjustments increased the starting balance from the \$2.25 million assumed for the City Council Priority Reserve to \$9.0 million in FY 2024.

Measure K (Business Tax) for Housing and Homeless Services

The Finance Committee recommended that staff recognize \$750,000 for Measure K funds that remain unallocated in FY 2024 for housing and homeless services. This revenue source is recommended to offset related expenditures tentatively recommended for San Antonio Coordinated Area Plan (CAP), short-term rental regulation, unhoused residence services, and partial funding for the LifeMoves construction project. The FY 2024 Proposed Budget assumes estimates for the new business tax (Measure K) approved by voters in the November 2022 ballot to fund public safety, affordable housing and homeless services, and transportation and grade separation. The proposed tax is expected to be phased in over the next several years at approximately 30% for each focus area, reaching approximately \$9.6 million in annual receipts over 35 years.

FY 2024 is the first year in which this tax will be collected and assumes receipts of \$750,000 in the Operating Budget for public safety services, and \$750,000 in the Capital Improvement Fund for transportation and grade separation projects: Meadow Drive/Charleston Road (PL-24000) and Churchill Avenue (PL-24001). An additional \$750,000 is expected for affordable housing and homeless services that remains unallocated in the proposed budget. Overall, Measure K revenues for housing and homeless services are expected to be phased-in at \$750,000 in FY 2024, \$1.5M in FY 2025, and \$3.0M ongoing. These revenues have been recognized to the extent that the Finance Committee tentatively recommended a qualifying expense.

FY 2023 Projected Surplus: Excess Tax Revenues and Vacancy Savings

At the Budget Overview Study Session on May 1, the City Council requested that staff provide updated financial projections. Staff provided this follow-up in the staff presentation for Item #1 and the At-Places memo on May 5. Staff estimates that major tax receipts may exceed budget estimates up to \$9.0 million in FY 2023. Almost 75% of the estimated surplus (\$6.5 million) is already included in the FY 2024 Proposed Balancing Strategy; this lower level of funding aligns with a moderately conservative approach to consider economic uncertainties that may impact tax receipts in the near-term. The difference of \$2.5 million is recommended by the Finance Committee to be recognized as additional revenue, adjusting revenue assumptions to recognize the full \$9.0 million in potential surplus.

As of May 2023, the vacancy rate for the General Fund is 11.6%. Vacancy savings from Public Safety positions are typically exhausted by uses such as backfill, hire ahead programs, and overtime. Adjusting for Public Safety, the General Fund has a vacancy rate of 8.3% and budgeted vacancy savings of approximately 3%. Consistent with recent years, staff projects \$1-2 million in savings above budget estimates. This amount is lower than the General Fund vacancy rate of 8.3% (excluding Public Safety) as compared to budgetary estimates of approximately 3% due to departmental uses of vacancy savings for other staffing strategies, such as filling staffing gaps by contracting for professional services, hiring ahead for technical positions to allow overlap and smooth transitions, piloting new technologies to increase efficiency in the absence of staff, and supporting a summer internship program. The use of these potential savings may impact staffing strategies in progress or expected throughout the remainder of the fiscal year. Additionally, use of these funds may reduce expense savings that would otherwise be used in accordance with the Budget Stabilization Reserve (BSR) policy to fund Capital Improvement projects and the City's long-term pension obligations. Of the \$1 to 2 million in savings projected, the Finance Committee recommends recognizing \$1.5 million.

Historically, the use of one-time funds has been used to support capital improvement projects and prefund long-term pension liabilities. Recognizing these funds will preempt this policy and limit the contributions to these long-term investments.

- Since establishment of the Pension Trust in 2017, a total of \$21.6 million (\$16.4 million in the General Fund) has been made to using one-time funds, bringing expected contributions from \$45.9 million to \$67.5 million through FY 2024. Additional information on historical contributions to the Pension Trust is available in the May 9 At-places memo.
- Over the past ten years, beginning in FY 2012, the General Fund has contributed year-end surplus savings above the 18.5% BSR level of \$46.4 million to support the Capital Improvement Fund. This funding has been vital in ensuring the City is able to complete priority capital projects such as the 2014 Council Infrastructure Plan projects as well as addressing maintenance and upkeep needs to City facilities and infrastructure.

Gas Equity Transfer (FY 2025 and beyond)

In accordance with Measure L, the Equity Transfer from the Gas Utility Fund can be up to 18% of annual gross gas retail revenue; however, the City Council has the discretion to set the transfer at a lower percent of revenue. For FY 2024 a rate of 15.5% is recommended which generates a transfer of \$7.7 million from the Gas Utility Fund to the General Fund, representing an increase of \$0.5 million, or 6.9%, over prior year levels. Beginning in FY 2025, the Finance Committee tentatively recommended increasing this rate to 18%, which will increase the transfer by at least \$1.0 million annually. The Equity

Transfer from the Gas Utility Fund will be reassessed as part of the development of the FY 2025 budget process.

FY 2023 and FY 2024 Unspent Operations Funding – Project Homekey

As part of the FY 2023 Adopted Budget, the City Council committed \$1.0 million per year over seven years (through FY 2029) to partner with LifeMoves in developing a modular interim housing shelter to serve over 200 individuals annually with on-site support services. Once the shelter is complete, this funding is expected to offset a portion of annual operating expenses; however, since no expenses will occur in FY 2023 the Finance Committee recommended that staff proactively recognize the \$1.0 million in unspent funds in FY 2023 and transfer them to the Homekey Facilities capital project (PE-24005) in FY 2024. PE-24005 will be used to fund the City's portion of the capital costs to build the shelter, which is estimated at \$4.5 million. As part of the FY 2024 Capital Budget, PE-24005 only had \$2.0 million. In order to fully fund the project at \$4.5 million, \$1.0 million of operations saving from FY 2023, \$1.0 million of operating savings from FY 2024, and \$0.5 million from Measure K Revenue is recommended to be transferred to PE-24005 to relocate the GreenWaste facility and build the interim housing shelter. To maintain the City's commitment of \$1.0 million for shelter operations over seven years, staff will update the next Long Range Financial Forecast to fund the total \$7.0 million with \$1.0 million annually in FY 2025 through FY 2031.

Tentatively Recommended Adjustments: Tier 2 Proposals

During budget deliberations, the Finance Committee tentatively recommended the addition of over twenty Tier 2 proposals, adding \$6.7 million (\$3.3 million ongoing) to advance City Council priority objectives. The Finance Committee recommended most objectives as originally proposed in the FY 2024 Proposed Budget Transmittal Letter; therefore, this section only includes further discussion for modified proposals. A complete list is included in **Attachment A**, indicating the status of proposals as 'Tentatively Recommended' or placed in the 'Parking Lot' for further consideration.

Full Restoration of Library Hours & Services (Library Hours Only)

The Finance Committee provided direction to modify the Tier 2 proposal for "Full Restoration of Library Hours & Services" to tentatively recommend \$145,000 to extend hours and place the remaining \$261,000 for programming in the Parking Lot. This change will fund an additional 1.0 FTE Senior Librarian position to increase open hours at the Children's Library branch by offering an additional sixth open day per week on Mondays. This represents an increase from five open days per week at the Children's, Downtown, and College Terrace Libraries, and seven open days per week at the Mitchell Park and Rinconada Libraries. Annual open hours are expected to increase from 12,688 to 13,104 and bring open hours closer to the pre-pandemic level of 13,520.

San Antonio Coordinated Area Plan (CAP)

The Finance Committee provided direction to modify the Tier 2 proposal "Construct preliminary schedule for starting new coordinated area plans for San Antonio Road, California Ave, Downtown, and El Camino Real" to begin with the San Antonio Road CAP. The committee also modified the funding strategy to begin in FY 2024 with \$50,000 and directed staff to explore a potential collaboration opportunity with California Polytechnic State University students to draft a working concept of a San Antonio coordinated area plan. This initial funding will support related travel, research, consultant

and/or part-time staff for these efforts. The working concept is a starting point for the larger CAP process, which is still estimated at \$700,000 over three to four years, although the ultimate cost of each plan will depend on size and complexity.

Full Electric Vehicle Fleet Replacement (50%)

The Finance Committee provided direction to modify the Tier 2 proposal for “Full Electric Vehicle Replacement” to tentatively recommend 50% implementation and place the remaining 50% in the Parking Lot for further consideration. Funding of \$1.3 million (\$0.4 million from the General Fund) will allow staff to replace nearly all the vehicles and equipment with electric vehicles in the Scheduled Vehicle and Equipment Replacement - FY 2024 capital project (VR-24000). Four police pursuit-rated vehicles will be replaced with hybrid vehicles rather than electric vehicles, and some vehicles will be deferred to future years to be replaced as funding for fleet electrification is phased in and electric vehicles become more widely available. Transfers from the General Fund and applicable Enterprise Funds to the Vehicle Maintenance and Replacement Fund will fund these additional costs to maintain fiscal health in the 5-year CIP. This will be an ongoing investment, with additional funding phased in, at the discretion of the City Council and availability of electric vehicles for fleet replacement needs.

Art Center Visitor or Installation Staffing

During budget deliberations, the Finance Committee considered funding one of two Tier 2 proposals for the Art Center: “Art Center Program Visitor Services Staffing” or “Palo Alto Art Center Exhibit Art Installation Crew”. At the May 9 meeting, the Finance Committee reviewed an alternative proposal from the Community Services Department that would partially fund both the Art Program Visitor Services Staffing and Art Center Program Installation Crew Tier 2 proposals, which was brought forward in an At Places Memo. The Committee decided to not move forward with the alternative proposal in their tentative recommendation but gave the department direction to select either initial proposal based on the greater departmental need, to Council as a part FY 2024 budget process.

In response, the Community Services Department has modified its alternative proposal for further consideration to add one Program Assistant I (0.75 FTE for the Art Center Visitor Staffing, a benefitted position) and add three staff specialists (0.27 FTE for the Art Center Installation Crew) to reduce the total cost and restore funding to both service areas. This modification reduces the alternative proposal cost to approximately \$124,000 annually from \$171,000. In addition, the increased hours of operation for the Art Center are anticipated to generate \$10,000 in additional revenue annually. Although this partial restoration for the Art Center Installation Staffing is not expected to provide support for the Public Art Program, it will enhance the quality of services for the Art Programming while efficiently managing City resources.

Other Tentatively Recommended Adjustments

During Budget deliberations, the Finance Committee tentatively recommended \$1.1 million in FY 2024 and ongoing for several adjustments not related to Tier 2 proposals. These adjustments are discussed below.

Human Services Resource Allocation Process (HSRAP) (reflects Human Relations Commission (HRC) maximum requested funding)

The Finance Committee tentatively recommended allocating an additional \$150,000 in funding to HSRAP in addition to an increase of \$50,000 which was already a part of the FY 2024 Proposed Budget. This will increase the total HSRAP allocation by \$200,000 for a total of \$851,035 in FY 2024 and augment HSRAP funding for FY 2025 by \$200,000. The HRC has outlined spending plans (up to \$200,000) if additional funds for HSRAP are appropriated during FY 2024 budget process. The contingency plan was approved on April 27, 2023, by the HRC⁴.

Neighbors Abroad

A recommendation was made through public comment to add \$20,000 in FY 2024 and ongoing as a reimbursable stipend for the Neighbors Abroad non-profit to support Palo Alto's nine sister city relationships. The non-profit supports economic development through bringing delegates from the sister cities to Palo Alto, manages student exchanges, encourages diversity, equity, and inclusion (DEI) by supporting businesses in Palo Alto aligned with sister cities, and facilitates sustainability through projects like carbon offset in Oaxaca and rainwater capture in Yaxe. The Finance Committee tentatively recommended adding \$20,000 annually to reimburse the non-profit for costs to host and entertain visiting delegations.

Palo Alto Transportation Management Authority (PATMA) Geographic Expansion

The Finance Committee requested information regarding the ability of the PATMA to provide services outside the downtown area. The FY 2024 Proposed Budget funds \$200,000 in the University Avenue Parking Fund for the PATMA to reduce the number of single occupancy commuters in the downtown area by providing program administration services including but not limited to outreach, transit pass distribution, and transit pass monitoring. The University Avenue Parking Funds are limited by policy to services in the downtown business district. In order to expand the PATMA services citywide in FY 2024 and ongoing, the Finance Committee tentatively agreed with the staff recommendation to maintain the total amount of the contract with PATMA; however, \$25,000 of the contract would be funded from the General Fund to cover the administrative costs for work beyond downtown.

Cubberley Facility Maintenance and Upkeep

The Finance Committee requested information about operating and maintenance costs that are funded in the Cubberley Property Infrastructure Fund. The FY 2024 Proposed Budget funds approximately \$0.9 million for operating and maintenance related salaries and benefits and contractual services to support the 35-acre site with 180,000 square feet of building space comprised of 19 wings of classroom spaces, two gymnasiums, a pavilion, and a theater. Pursuant to Section 8 of the 7/1/2020 Cubberley lease agreement, the City's maintenance obligations for both the Palo Alto Unified School District (PAUSD) owned and City owned portions of Cubberley include all interior and exterior work and common areas of the property. The lease requires PAUSD to reimburse their pro rata share (53.12%) of these costs to the City. Below is an abbreviated table of FY 2024 Budget allocations related to Cubberley:

⁴ <https://cityofpaloalto.primegov.com/Portal/viewer?id=1398&type=2>

Table 3: Summary of FY 2024 Proposed Budget for Cubberley

FY 2024 Proposed Budget \$ in thousands	General Fund	Cubberley Infrastructure Fund - Ops	Cubberley Infrastructure Fund – Capital	Total
Revenue				
Transfer from General Fund			\$1,864	\$1,864
PAUSD Reimbursement			\$1,553	\$1,553
Rental Income (short and long-term tenants)	\$2,795			\$2,795
Revenue Total	\$2,795	\$0	\$3,417	\$6,212
Expense				
Salaries & Benefits	\$980	\$707	\$47	\$1,733
Contract Services	\$24	\$118	\$4,039	\$4,181
Other Expense	\$38	\$39		\$76
Utilities (& allocated charges)	\$788			\$788
Cubberley Lease	\$3,489			\$3,489
Landscaping		\$59		\$59
Transfer to Cubberley Infrastructure Fund	\$1,864			\$1,864
Total Expense	\$7,182	\$922	\$4,086	\$12,190
				<i>Expense net transfer to Cubberley Infrastructure Fund \$10,326</i>

As part of the FY 2018 Adopted Operating Budget, the City Council approved shifting 1.50 FTE Facilities Technician positions and associated contract and supply costs (\$0.4 million) from the General Fund to the Cubberley Property Infrastructure Fund to consolidate facilities operations and maintenance activities in the Cubberley Fund. A portion of the savings from this shift (\$44,000) was used to increase funding for HSRAP. These positions perform a wide range of facilities services tasks including maintenance and standard repair of plumbing, electrical, and heating and ventilation systems and equipment. In addition to maintaining these systems, these positions coordinate maintenance tasks including routine drywall installation and repair, window replacement, and painting interior and exterior finishes, as needed. Lastly, these positions manage contractors for various services such as fire alarm and sprinkler inspections, testing, and repair, elevator maintenance, parking lot sweeping, and a variety of on call needs for non-routine repairs.

The remainder of the operating and maintenance costs (\$0.3 million) were shifted from the General Fund to the Cubberley Maintenance Fund in FY 2019 as part of CMR 9925⁵. This implemented direction from the City Council to find \$4.0 million in General Fund savings to fund a \$4.0 million transfer to the Pension 115 Trust Fund in FY 2019. These positions perform a variety of daily tasks like custodial work such as sweeping, vacuuming, and polishing floors, furniture, and woodwork and cleaning restrooms, washing windows, and replenishing supplies throughout the facility. In addition, these positions assure the facilities are secured daily by turning off lights and locking doors and windows, set up rooms for

⁵<https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2018/9925.pdf>

meetings, and maintain a log of observed facility deficiencies to prepare service call requests. This funding is also used to cover the costs of landscaping services at Cubberley. The landscaping contract for the City is managed by the Community Services Department and the costs are allocated citywide as part of the cost allocation plan.

Since FY 2019, the overall operating and maintenance costs at Cubberley have increased from \$0.7 million annually to \$0.9 million in FY24, an average of 5% per year, mainly due to the increase of Salary and Benefit costs. The Finance Committee tentatively recommended shifting the \$0.9 million for operating and maintenance related costs from the Cubberley Property Infrastructure Fund to the General Fund in FY 2024 and ongoing. This action is intended to preserve funding in the Cubberley Property Infrastructure Fund for capital related expenses at the Cubberley property.

b) Additional Staff Recommended Adjustments

In addition to the tentative adjustments outlined by the Finance Committee, staff recommends adjustments for several items requiring technical corrections to align the budget with anticipated activity levels and changes that occurred following the release of the FY 2024 budget:

Administrative and Program Support for Finance Committee Recommended Adjustments

At the May 5 and 9 meetings, the Finance Committee tentatively approved significant additions of expenses and staffing. These represent new programs, complex projects, and ambitious service enhancements. This work will require administrative support to implement and execute. Staff recommends the following adjustments to assist in the administration of services to the community as recommended for addition by the Finance Committee. It is also likely that additional program staffing may be needed to support the increased number of active projects in limited areas such as planning.

Table 4: Support Staffing to Align with Tentative Recommendations

Department	Position/Service Adjustment	General Fund Cost
Administrative Services	Purchasing support (1.00 FTE Contract Administrator)	\$200,000
City Attorney's Office	Legal support (1.25 FTE Assistant City Attorney or equivalent outside counsel resources)	\$360,000
Human Resources	Recruitment support Tier 2 & Organization Need (1.00 Senior Human Resources Administrator and two 0.48 FTE Management Specialists)	\$277,000
TOTAL		\$837,000

The above list represents a minimum of staff's recommended restorations of administrative and internal support functions that includes a variety of work to ensure that operations remain in compliance with state and federal regulations; the City's Charter and Municipal Code; health and safety guidelines and directives; and, through recruitment, that staffing levels are maintained for all of these requirements to be met. Administrative support is critical in ensuring the ability to deliver frontline services across the organization.

- *Administrative Services:* The procurement team is instrumental to the beginning of most of these investments, supporting the public solicitation process for professional services and capital investment. Therefore, an additional resource of 1.00 FTE Contract Administrator will allow for capacity to address the Finance Committee's tentatively recommended actions. Staff already have a recruitment underway for this position classification, which would be used to fill this position more quickly, and aid in the ability to support the procurement needs related to the Tier 2 items.
- *City Attorney's Office:* Depending on project timelines, the proposed Tier 2 items will require an additional 1.0 to 1.25 FTE attorney or the equivalent in outside counsel resources. The Zoning Code update and San Antonio Coordinated Area Plan/Concept Plan will require significant legal support. Short Term Rental Regulations and Airport Noise will also require added resources. Tier 2 items will progress in the same timeframe as implementation of the Housing Element, which will require very significant legal support for the next 18-24 months.
- *Human Resources:* Human Resources recommends the continuation of two 0.48 FTE Management Specialists, currently funded by full-time recruitment position vacancies. These Management Specialists will support the recruitment efforts for the Finance Committee's tentatively recommended actions; however, once the full-time recruitment positions are filled, the Management Specialist positions will no longer be needed. Staff also acknowledges that the Committee and Council have identified a desire to increase the pace at which vacancies can be filled and a 1.00 FTE Senior Human Resources Administrator is recommended to aid this. Each recruiter can support on average 30 recruitments, and this additional staff could provide capacity to support more recruitments simultaneously.

OTHER FUNDS

Various Utility Funds

Sustainability & Climate Action Plan Staffing Realignment

Staff recommends a realignment of staffing to oversee the S/CAP staffing resources to better support this Council priority and the upcoming three-year workplan. Recently, the Council approved the addition of two staff positions, 1.0 Senior Engineer and 1.0 Principal Resource Planner in the Public Works and Utility Departments. Staff recommends the elimination of these positions offset by the addition of 1.0 Assistant Director in the Public Works Department. This will consolidate and unify resources between these departments. There is no impact to the General Fund as this staffing is funded by various utility funds and is expected to result in some savings overall. If approved, staff would adjust the Table or Organization authorized staffing levels to align with this action.

Various Other Funds

Several of the tentatively recommended items in the General Fund have impacts to other funds.

This table outlines the adjustments needed in other funds to balance the transactions across all funds citywide that are currently tentatively recommended by the Finance Committee. Pending further adjustments, staff will make these technical adjustments to align with the direction of the Council and Committee as part of the documents for Budget adoption in June. Examples of these types of clean-up transactions will include but are not limited to:

- Transferring General Fund operating savings of \$2.0 million to the Capital Improvement fund to reallocate for the Homekey Facilities capital project (PE-24005)
- Increasing funding in the Vehicle and Maintenance Fund to fund the additional cost of electric vehicle replacement (\$1.3 million) and allocating \$0.9 million to funds other than the General Fund that use the vehicles

Capital and Enterprise Funds

Reappropriations and Technical Adjustments to Capital Projects

Staff is currently working on the second round of capital reappropriations to recommend shifting unspent funds in capital projects from FY 2023 to FY 2024. These recommended reappropriations will be included as recommended adjustments to the FY 2024 Capital Budget as part of the Council Adoption staff report on June 19. In addition to the reappropriations, several technical adjustments may be needed to some capital projects based on actions that happen at the end of FY 2023. These technical adjustments, if any will also be included as recommended adjustments to the FY 2024 Capital Budget as part of the Council Adoption staff report on June 19.

Stormwater Management Oversight Committee Review of the FY 2024 Stormwater Management Fund Budget

On April 6, 2023, the Stormwater Management Oversight Committee met to discuss the Fiscal Year 2024 proposed Stormwater Management Fund budget and compared it with the provisions of the Storm Water Management Fee approved by Palo Alto property owners in 2017. The Committee concurred that funding generated by the Storm Water Management Fee will be applied solely to fund the capital improvement projects, green stormwater infrastructure projects, innovative stormwater projects, enhanced maintenance of storm drain system, and storm water quality protection programs specified for implementation in the ballot measure in Fiscal Year 2024. The Committee submitted a letter (**Attachment B**) for the Finance Committee and City Council's review.

Planning and Transportation Commission Review of the New Projects in the 2024-2028 Capital Improvement Plan

On May 10, 2023, the Planning and Transportation Commission (PTC) reviewed the 22 new projects in the 2024-2028 Capital Improvement Plan for each of the project's compliance with the City's 2030 Comprehensive Plan. The Commission determined that all 22 projects are in compliance with the Comprehensive Plan and submitted a Letter of Conformance (**Attachment C**) for the Finance Committee and the City Council's review.

2. FINANCE COMMITTEE "PARKING LOT" ITEMS FOR FURTHER CONSIDERATION

During budget hearings, the Finance Committee moved items to the 'Parking Lot' for further consideration. This section outlines those items and provides additional information requested by the Finance Committee and/or provided at staff's behest regarding the items in the parking lot. These items are listed below for additional consideration by the City Council as potential adjustments to the budget.

Table 5: Finance Committee “Parking Lot” Items

Dept	<u>GENERAL FUND</u> : Parking Lot Items for Consideration	FY 2024 (Cost)/Savings	Ongoing (Cost)/Saving
NON	Unspent City Council Contingency	125,000	-
	Subtotal Sources (Revenue)	\$125,000	-
CSD	HSRAP (inc. from HRC max based on GF)	(150,000)	(150,000)
CSD	T2: Volunteer Coordinator for JMZ	(105,000)	(110,000)
LIB	T2: Library Programs	(261,000)	(261,000)
PWD	T2: Cypress Lane Alley Improvements	(400,000)	(20,000)
PWD	T2: Full Electric Vehicle Fleet Replacement (100%)	(400,000)	(400,000)
PWD	T2: Community Engagement Quarterly Newsletter	(100,000)	(100,000)
	Subtotal Sources (Expense)	\$(1,416,000)	\$(1,041,000)
	Potential Funds Remaining (Deficit)/Surplus	\$(1,291,000)	\$(1,041,000)

Unspent City Council Contingency

The FY 2024 Proposed Budget includes a City Council Contingency of \$125,000 for allocation at the City Council’s discretion. At the conclusion of budget hearings on May 5 and 9, this amount remains unspent and available for use.

Full Restoration of Library Hours & Services (Library Programming Only)

The Finance Committee provided direction to modify the Tier 2 proposal for “Full Restoration of Library Hours & Services” to tentatively recommend \$145,000 to extend hours and place the remaining \$261,000 for programming in the Parking Lot. The allocation of \$261,000 will enable the hiring of two additional full-time Librarian positions, significantly expanding the breadth of services tailored to community needs. This investment is designed to enhance collaboration with local organizations and stakeholders, reinforcing the library’s role as a community nexus. In response to urgent mental health needs, the Library Department will forge partnerships with local entities to roll out wellness initiatives for all ages, placing particular emphasis on programs for seniors and teenagers. With Palo Alto’s senior population on the rise, the Department is committed to enhancing its services for this group, providing recreational activities aligned with their interests and ensuring easy access to information about other relevant resources. Moreover, this funding will facilitate increased programming at the College Terrace and Downtown branches, transforming them into vibrant community hubs that cater to families, seniors, and local businesses. The number of annual programs offered will increase by approximately 650, reaching the previous pre-pandemic level of 1,200 annual programs.

JMZ Volunteer Coordinator

This proposal will increase the current Volunteer Coordinator from a 0.48 FTE to a 1.00 FTE. In FY 2023, the JMZ had 15 active volunteers who will have provided approximately 3,900 hours of community service in areas such as zoo operations, maintenance, admission support, and Discovery Program

facilitation. The additional staffing allocation will facilitate a greater number of volunteers, up to 40, which would provide an additional 4100 hours of volunteer time. The additional volunteers would enhance current service areas as well as provide the opportunity to expand current programming and bring back successful programs such as family and teen volunteering for greater community engagement.

Full Electric Vehicle Fleet Replacement (100%)

The Finance Committee provided direction to modify the Tier 2 proposal for “Full Electric Vehicle Replacement” to tentatively recommend 50% implementation and place the remaining 50% in the Parking Lot for further consideration. Funding of \$2.6 million (\$0.8 million from the General Fund) will allow staff to replace all the vehicles and equipment with electric vehicles in the Scheduled Vehicle and Equipment Replacement - FY 2024 capital project (VR-24000). Transfers from the General Fund and applicable Enterprise Funds to the Vehicle Maintenance and Replacement Fund will fund these additional costs to maintain fiscal health in the 5-year CIP. This will be an ongoing investment, with funding increased for full electric fleet replacement, at the discretion of the City Council and availability of electric vehicles.

Human Services Resource Allocation Process (HSRAP) (above Human Relations Commission (HRC) maximum requested funding)

In addition to the Finance Committee’s tentative approval of \$200,000 for additional HSRAP funding, they also placed in the parking lot an additional \$150,000 allocation to HSRAP, effectively bringing total HSRAP funding to \$1,051,035 for FY 2024. Currently, the HRC has only outlined spending plans for an additional allocation of up to \$200,000. If the additional \$150,000 is approved by Council, staff would need to evaluate how the additional funding would be allocated, whether it is through another RFP process or allocating additional funds to current grantees.

Community Engagement Quarterly Mailed Newsletter

The Finance Committee discussed this proposal and asked staff for additional information to aid in their decision. The development of a mailed newsletter acknowledges that not all residents receive information the same way and not everyone is online. The quarterly cadence is recommended to share timely information about City Council priorities, City service changes and City program details. The mailed newsletter is a new initiative this year, seeking to further the City Council’s community engagement efforts, help inform the community on City Council priorities, and offers a mix of event details, helpful phone numbers to report issues and concerns, and connect the community together. The newsletter is organized by City Council priority, reinforcing these important initiatives and focus. The anticipated cost of each newsletter is estimated at \$25,000, due to printing and mailing costs. Staff continues to explore ways to reduce these costs including insertion into the Enjoy catalog, and other cost sharing ideas. As noted at the Finance Committee meeting, including the newsletter in the utility bills does not reach all households, is limited in space availability and does not allow for timely updates due to the cadence of utility bill timing. Staff leverages the newsletter work, by also sharing an online version. For reference, the inaugural mailed newsletter in digital format can be accessed online at <https://www.cityofpaloalto.org/Departments/City-Manager/Latest-News/Palo-Alto-Residential-Newsletter-FallWinter-2022>

3. ADDITIONAL INFORMATION AT THE REQUEST OF THE FINANCE COMMITTEE (POTENTIAL REFERRALS)

During budget deliberations, the Finance Committee requested a more in-depth review of summary information or topics not currently included in the FY 2024 Proposed Budget. This section outlines those items and provides additional information.

Fire Paramedic Internship Fee Reimbursement

As part of the Municipal Fee Schedule review, the Finance Committee requested additional information relating to the Fire Paramedic Internship fee. The Palo Alto Fire Department provides internship opportunities for paramedics as they are required to complete a field internship before obtaining their license by the State. Fees for this internship range between \$1,000 - \$2,500 in the area. The Fire Department is able to host up to six paramedic students for their internships each year, but typically host less than that amount due to staffing limitations. The City's paramedic staff must agree to act as the Field Preceptor evaluating student performance. If staff and resources are spread thin, due to vacancies or reductions in budget, the Department elects not to accept interns.

The Firefighter Paramedic serving as the preceptor is paid a \$600 stipend, which is covered by the fee. Typically, fees are paid by the school and are incorporated into tuition for the student, although sometimes the student pays directly. As revenue is sporadic and minimal, the Department does not budget incoming revenue for this program. When fees are collected, they offset the unbudgeted expense of the stipend. The fee rate currently is low cost recovery when accounting for the staff time required to serve as the preceptor.

Staff has noted the items below for the Finance Committee consideration to recommend to the City Council as potential referrals to staff.

Coordinated Area Plan (CAP) Process Review

On May 5, 2023, the Finance Committee referred examination of the coordinated area plan process to the newly established housing ad hoc committee. This direction was provided in an attempt to streamline the CAP process, given recent state mandates requiring significant housing creation in the near future. Staff will bring forward review of the CAP process for the housing ad hoc committee's consideration that may ultimately improve this process.

Fee Subsidy for S/CAP

During the Finance Committee budget hearing on May 9, the Committee referred staff to provide additional detail on a potential electrification subsidy to discount or waive electrification permitting fees through the General Fund. As part of this discussion, the City Manager recommended that staff include information as part of the S/CAP update staff report which is anticipated in June 2023, so no additional referral to staff is needed at this time.

Establish HSRAP Allocation at 1% of the General Fund

During the Finance Committee budget hearing on May 5, the Committee requested to provide additional detail regarding historical funding levels for general human services (entitlements) and HSRAP. The At-Places Memo on May 9, 2023, provided that information and as a reference point

and total GF budgeted expenses in FY 2001 and FY 2023. This information was requested as a part of a broader discussion regarding whether funding for Human Services and HSRAP should be pegged to a benchmark such as the percentage of General Fund budgeted expenditures. The City currently increases funding to Human Services and HSRAP by a CPI adjustment annually; however, no formal policy is in place tying funding levels to a percentage of General Fund expenditures, but this topic has been discussed on numerous occasions. The additional \$150,000 in HSRAP funding proposed in the parking lot, represents an attempt to move funding levels for Human Services and HSRAP closer to 1% of General Fund expenditures through a graduated process over the course of several fiscal years.

Staff is recommending deferring putting a formal funding policy for Human Services and HSRAP due to an FY 2024 budget proposal to conduct a Human Needs Assessment Study. The study will comprehensively examine current community needs and trends, the current scope and breadth of services, as well as an evaluation HSRAP process itself. Once the study is completed, staff will be able to better assess community needs and the resources required to effectively address gaps in human services.

FISCAL/RESOURCE IMPACT

This report is a study session for the City Council to review the Finance Committee's analysis and tentatively recommended changes to the FY 2024 Proposed Budget. No financial impacts will occur as a result of this report; however, recommendations from this study session will inform the Finance Committee's final recommendations for adjustments to the FY 2024 Proposed Budget to the City Council for adoption on June 19, 2023.

STAKEHOLDER ENGAGEMENT

On May 16, 2023, the City conducted a virtual Budget Informational Session with community members to share information about the FY 2024 budget process and receive input from the community for the City Council to consider regarding priorities and service needs.

ENVIRONMENTAL REVIEW

This activity is not a project under California Environmental Quality Act (CEQA) as defined in CEQA Guidelines, section 15378, because it has no potential for resulting in either a direct or reasonably foreseeable indirect physical change in the environment.

ATTACHMENTS

- Attachment A: Council 2023 Priority Outcomes, Revised for Tier 2 Proposals & Recommended Status
- Attachment B: Stormwater Management Oversight Review of the FY 2024 Capital Budget
- Attachment C: Planning and Transportation Commission Review of the New Projects in the 2024-2028 Capital Improvement Plan
- Attachment D: Reference: Finance Committee FY 2024 Proposed Budget Review (actions & references)

APPROVED BY:

Kiely Nose, Assistant City Manager

Lead Staff:

Paul Harper, Budget Manager & Jessie Deschamps, Budget Manager

2023 City Council Priorities and Objectives

Council Priority Crossover				Estimated Completion				Resources Needed	Attachment C: Tier 2		Tentative Recommendation	Parking Lot Item
ER & T	CC& NE	HS& EB	CH& S	Q1	Q2	Q3	Q4		FY24 Net Cost	Ongoing Net Cost		
#/Dept. Objective												
ECONOMIC RECOVERY AND TRANSITION (ER&T)									\$ 395,000	\$ 395,000		
Support Economic Recovery and Business Transition												
x	x	x		a				x	\$	\$ 145,000	\$ 145,000	x
(CMO)												
x	x	x		b			x					
Implement or upgrade electronic plan review software without interruption to the permitting process (ERT 9)												
x		x		c				x				
Implement recommendations in Building and Permit Review Report conducted by the City Auditor												
x	x	x	x	d				x	\$	N/A	N/A	
Begin stakeholder engagement and implementation of new business tax (Measure K)												
Focus on Commercial Corridors, Downtown and California Ave												
x				e				x	\$	N/A	N/A	
Begin implementation of next phase of parklet regulations to the community (resources added via staff report)												
x				f				x				
Evaluate opportunities for New Parking Facilities in the University Ave Downtown and direct next steps (ERT 10)												
x				g				x				
Align Business Improvement District (BID) priorities and investments to the Comprehensive Economic Development Strategy(ERT1)												
x		x		h				x	\$	\$ 250,000	\$ 250,000	x
(CMO)												
x				i				x				
Approve concept plan for University Ave streetscape and provide direction on capital project funding (ERT 5)												
x		x		j				x				
Extend temporary closure for car free streets (ERT 6 & 7)												
x				k					2024			
Provide direction on citywide retail zoning code changes including retail preservation and neighborhood commercial district specific regulations and CUP thresholds (ERT 4, 12, 13)												
CLIMATE CHANGE & THE NATURAL ENVIRONMENT (CC&NE)									\$ 1,930,000	\$ 1,217,000		
Climate Change Protection												
x				l				x				
Implement Advanced Metering Infrastructure (AMI) through purchase of meters/equipment for installation(CCPA7)												
x		x		m				x				
Approve consultant to update Bike and Pedestrian Transportation Plan												
x				n				x				
Approve municipal code amendments for advancing S/Cap goals (specifically facilitate photovoltaic, energy storage system, electric vehicle charging station, and heat pump (water/furnace) installations) (CCPA1)												
x				o				x				
Approve S/CAP Update and 3-year workplan (CCPA4)												
x				p					x			
Begin first phase construction for grid modernization and consultant resources to plan for gas transition												
x				q					x			
Install first 1,000 heat pump water heaters through the advanced pilot program and approve expanded full-scale program												
x				r					x			
Approve advanced pilot program for whole residential home electrification by the end of 2023 (targeted areas)												
x				s					x			
Approve commercial rooftop HVAC electrification advanced pilot program												
x		x		t				x	\$	\$ 200,000	\$ -	x
(PWD/UTL)												
x		x		u				x	\$	\$ 200,000	\$ -	x
(PWD/UTL)												
x				v				x	\$	\$ 200,000	\$ -	x
Review preliminary draft S/CAP study discussing workplan resource needs and project funding opportunities												
(PWD/UTL)												
x		x		2				x				
Engage youth in implementation of climate change initiatives, objectives, and goals												
x				7				x	\$	\$ 50,000	\$ -	
(PWD)												
Climate Change Adaptation: Flood Protection												
x		x		w					x			
Advance the San Francisquito Creek Flood Protection capital project (Reach 2) by the end of 2023, through Council's JPA representation and any Council approvals involved.												
x		x		x				x	\$	N/A	N/A	
Secure funding and approve construction for the Newell Bridge replacement project; advocacy with State legislators educating on project funding needs (CHS10) (Funded in FY 2024 Proposed CIP)												
x		x		5				x	\$	\$ 200,000	\$ 200,000	x
(PWD/UTL)												
Natural Environment												

2023 City Council Priorities and Objectives

Council Priority Crossover				#/Dept.	Objective	Estimated Completion				Resources Needed	Attachment C: Tier 2		Tentative Recommendation	Parking Lot Item
ER & T	CCR, NE	HS&EB	CH&S			Q1	Q2	Q3	Q4		FY24 Net Cost	Ongoing Net Cost		
x				y	Approve operations and maintenance agreements with Valley Water purified water facility at LAMP Area B (CCPA3)				x					
x				z	Adopt appropriate changes to the revised Tree Protection Ordinance				x					
x	x			4	Initiate zoning changes consistent with the Comprehensive Plan regarding creek corridor setbacks <i>(Staff to request in FY 24 Mid-Year)</i>				x	\$	N/A	N/A		
x				6	Initiate evaluation of strategies to protect natural habitats such as bird safe glass, wildlife protection from light pollution, etc				x	\$	\$ 75,000		x	
				N/A (OOT)	S/CAP Sustainable Transportation Modes Staffing					\$	185,000	\$ 196,000	x	
				N/A (OOT)	Transition to full Electric Vehicle Replacement in FY 2024: <i>a total of \$2.6 million (\$0.8 M in the General Fund) from \$3.4 M to \$6.0 M</i>					\$	800,000	\$ 800,000	x (50%)	x (100%)
				N/A (UTL)	Customer Service Staffing					\$	20,000	\$ 21,000		
HOUSING FOR SOCIAL & ECONOMIC BALANCE (HS&EB)											\$ 3,010,000	\$ 800,000		
Advance Renter Protection Policies														
x				aa	Approve access to rental units by establishing security deposit limits				x					
x	x			bb	Provide protections to renters by considering expansion of the just cause eviction ordinance (HSEB16)				x					
x	x			cc	Implement a rental registry to inform future renter protection policies (HSEB15)									
Advance Housing Plans														
x	x	x		dd (PDS)	Expand housing opportunities through the initiation of a Downtown Housing Plan: approval of project funding and a consultant contract (HSEB10)				x	\$	550,000	\$ -		
	x			ee	Advance local and state housing interests through a HCD-compliant Housing Element (HSEB5)				x					
	x			ff	Advance vision for North Ventura Coordinated Area by adopting a coordinated area plan (HSEB4)				x					
	x			gg (PDS)	Create new affordable housing opportunities through funding such as a housing land trust, in particular, CalCHA					TBD	\$ 60,000	\$ -		
	x			hh (PDS)	Explore opportunities to regulate short term-rentals with Council committee					TBD	\$ 100,000	\$ 100,000	x	
x	x			8 (PDS)	Construct preliminary schedule for starting new coordinated area plans for San Antonio Road, California Ave, Downtown, and El Camino Real <i>(funding reflects the start of funding needed for ONE plan)</i>				x	\$	700,000	\$ 700,000	x (\$50K in FY24)	
Implement Housing Production Policies														
	x			ii	Codify permanent standards related to the City local SB9 implementation ordinance (HSEB 14)				x					
	x			jj	Approve adjusted Accessory Dwelling Unit (ADU) regulations to facilitate production and meet HCD requirements (HSEB9)				x					
	x			kk	Respond to various Grand Jury recommendations related to Housing (HSEB 6, 17, 24)				x					
	x			ll	Refine implementation of City's SB9 objective development and urban lot split standards (HSEB 14)				x					
	x			mm	Adopt an ordinance amending the development standards for Stanford-owned housing opportunity sites				x					
	x			nn	Rezone carryover housing opportunity sites for by-right dev. when developed w/ 20% lower income affordable housing units				x					
	x			oo	Adopt an ordinance to implement revised development standards for certain properties located in the GM/ROLM to allow for densities up to 90 units/acre				x					
	x			9	Evaluate RHNA housing allocation and encourage housing production that reflects the needs of the community <i>(no funding request)</i>				x	\$	N/A	N/A		
	x			10	Establish an ad hoc committee on housing to review housing policies <i>(no funding request)</i>				x	\$	N/A	N/A		
Support Unhoused Service Initiatives														
	x	x		pp (CMO)	Begin construction in partnership with LifeMoves for Palo Alto Homekey project to provide transitional housing and services for unhoused residents (HSEB13)				x	\$	1,500,000	\$ -	x (\$2.5M)	
	x	x		qq (CMO)	Develop a citywide strategy to connect unhoused residents to housing and services				x	\$	100,000	\$ -	x	

2023 City Council Priorities and Objectives

Council Priority Crossover				Estimated Completion				Resources Needed	Attachment C: Tier 2		Tentative Recommendation	Parking Lot Item
ER & T	CCR & NE	HS & EB	CH&S	Q1	Q2	Q3	Q4		FY24 Net Cost	Ongoing Net Cost		
#/Dept. Objective												
COMMUNITY HEALTH & SAFETY (CH&S)									\$ 1,638,500	\$ 890,000		
Mental & Physical Health and Belonging												
x		rr	Complete reopening libraries to budgeted level (remains below pre-pandemic levels) (CHS5)				x					
x		ss	Approval of multi-year agreement for provisions of animal shelter services (CHS1) <i>(incl. in w/ CSD FY24 proposed dept bgt and CIP)</i>			x		\$	N/A	N/A		
x		tt	Expand and enhance community special events with focus on inclusion (linked to activities in ERT) <i>(aligned w/ CSD event staffing request)</i>				x	\$	N/A	N/A		
	x	uu	Approve agreement with PAUSD on long term use of the Cubberley property (CHS2)				x					
	x	vv	Evaluate Recreation Wellness Center Feasibility (CHS14) <i>(staffing added during FY 23 Mid-Year Budget)</i>				x	\$	N/A	N/A		
	x	11 (CSD)	Evaluate increasing HSRAP funding during the FY 2024 budget process			x		\$-\$\$\$	\$ 50,000	\$ 50,000	x (\$150K, HRC max)	x (\$150K, 1% GF)
	x	12	Facilitate a location for La Comida in North Palo Alto <i>(no funding request at this time)</i>				x	\$-\$\$	N/A	N/A		
	x	13 (CSD)	Increase support and funding for youth mental health			x		\$-\$\$\$	\$ 200,000	\$ -	x	
Invest in Reliable Safety Infrastructure and Systems												
	x	ww	Support visible police presence by ensuring stable staffing (recruiting and retention) through hiring ahead program (CHS6) <i>(no funding requested at this time)</i>				x	\$	N/A	N/A		
	x	xx	Support a diverse community through extension of the Psychiatric Emergency Response Team (PERT) program services to the community through affirmation of continued City financial support <i>(funding in FY 24 Proposed Police Budget)</i>				x	\$	N/A	N/A		
	x	yy	Update without interruption 911 dispatch system (CAD provider) once selected through procurement process (CHS4)				x					
	x	zz	Begin construction of the Gas Main Replacement Project 24B									
x	x	aaa	Approve updated Local Hazard Mitigation Plan and Community Wildfire Protection Plan (CHS15)				x					
x	x	bbb	Implement Foothills Fire Management Plan (CHS3)				x					
	x	ccc	Advance final construction phase of Public Safety Building and begin preparations for move-in (CHS9)				x					
	x	ddd	Approve next steps for the rebuild of Fire Station No. 4 project (specifically design and entitlements) (CHS17)				x					
	x	eee	Approve resources and consultant to study and develop seismic and resiliency ordinance (CHS20)				x	\$	\$ 75,000	\$ -	x	
Reduction of Noise and Air Quality Pollution												
x	x	fff	Update gas-powered leaf blower ordinance and enforcement plan (CHS16)				x					
	x	ggg	Implement a strategy for the provision and promotion of unleaded fuel at Palo Alto Airport (CHS12)									
	x	hhh	Approval of quiet zone implementation (rail/train crossings)				x					
x	x	iii (PWD)	Continue engagement with San Francisco Airport on SFO's Ground Based Augmentation System (GBAS) project and other potential opportunities to decrease SFO noise impacts on Palo Alto (CHS11)					TBD	\$ 100,000	\$ -	x	
		N/A (LIB)	Full Restoration of Library Hours & Services						\$ 406,000	\$ 406,000	x (hours)	x (services)
		N/A (CSD)	Eucalyptus Tree Removal						\$ 400,000		x	
		N/A (CSD)	Therapeutics Staffing						\$ 90,000	\$ 95,000	x	
		N/A (POL)	Increase Public Safety Dispatcher Staffing						\$ 317,500	\$ 339,000	x	

2023 City Council Priorities and Objectives

Council Priority Crossover				Estimated Completion				Resources Needed	Attachment C: Tier 2		Tentative Recommendation	Parking Lot Item		
ER & T	CCR & NE	HS & EB	CH & S	#/Dept.	Objective	Q1	Q2		Q3	Q4			FY24 Net Cost	Ongoing Net Cost
					ENHANCE SERVICES						\$ 1,694,500	\$ 1,182,000		
				N/A (CMO)	Community Engagement Quarterly Newsletter						\$ 100,000	\$ 100,000		x
				N/A (CSD)	Junior Museum & Zoo (JMZ) Volunteer Coordinator Augmentation						\$ 105,000	\$ 110,000		x
				N/A (CSD)	Palo Alto Art Center Exhibit Installation Crew						\$ 117,000	\$ 118,000		
				N/A (CSD)	Art Center Program Visitor Services Staffing						\$ 112,500	\$ 118,000	x	
				N/A (FIR)	Fire Services Dispatch Software Data Dashboard						\$ 41,000	\$ 41,000		
				N/A (FIR)	Fire Utility Task Vehicle (off-road capabilities)						\$ 67,000	\$ 10,000	x	
				N/A (FIR)	Water Recycling Equipment						\$ 97,000	\$ 10,000		
				N/A (ITD)	Technology Innovation						\$ 40,000	\$ 40,000		
				N/A (PDS)	Zoning Code Update						\$ 500,000	\$ 500,000	x	
				N/A (PDS)	Permitting and Inspections Operations Restructure						\$ 115,000	\$ 115,000	x	
				N/A(PWD)	Cypress Lane Alley Improvement						\$ 400,000	\$ 20,000		x
					TOTAL						\$ 8,668,000	\$ 4,484,000		



Storm Water Management Oversight Committee

MEMORANDUM

Date: April 6, 2023

To: Honorable Finance Committee of the Palo Alto City Council

From: Members of the Storm Water Management Oversight Committee

Subject: Review of the Proposed Fiscal Year 2024 Stormwater Management Fund Budget

As directed by the City Council, the Committee met to discuss the Fiscal Year 2024 proposed Stormwater Management Fund budget on Thursday, April 6, 2023. Prior to the meeting, Public Works staff provided informational materials about the approved 2017 ballot measure and the proposed budget for the Committee's review. During the meeting, staff presented information and answered questions from the Committee members.

We have reviewed the proposed budget for Fiscal Year 2024 and compared it with the provisions of the Storm Water Management Fee approved by Palo Alto property owners in 2017. We find that the attached spreadsheet describing the proposed budget for Fiscal Year 2024 fairly describes the relationship between the budget and the ballot measure. Staff and the Committee concur that funding generated by the Storm Water Management Fee will be applied solely to fund the capital improvement projects, green stormwater infrastructure projects, innovative stormwater projects, enhanced maintenance of storm drain system, and storm water quality protection programs specified for implementation in the ballot measure in Fiscal Year 2024. Because funds available for green stormwater infrastructure and innovative projects are not being utilized fully, the Committee supports efforts by staff to continue to identify and promote new projects that meet the goals associated with the ballot measure, such as the proposed Green Stormwater Infrastructure capital improvement project.

Attachment: Fiscal Year 2024 Proposed Budget

STORMWATER MANAGEMENT PROGRAM**Fiscal Year 2024 Proposed Budget**

(Amounts in 1000s, as of February 2023)

	Adopted Budget Year 1 2018	Adopted Budget Year 2 2019	Adopted Budget Year 3 2020	Adopted Budget Year 4 2021	Adopted Budget Year 5 2022	Adopted Budget Year 6 2023	Projection* Year 6 2023	Proposed Budget* Year 7 2024
Revenue Collected								
Fee Revenue	6,927	7,128	7,449	7,635	7,838	8,167	7,101	8,168
Interest Earnings	130	130	226	153	153	110	145	153
Development Fees, Violation Fines, Other (Includes Grant Funding)**	121	120	121	121	697	1,913	1	697
Total Revenue	7,178	7,378	7,796	7,909	8,688	10,190	7,247	9,018
Base Components	4,262	4,244	6,368	6,500	7,669	9,903	3,926	5,020
Base Program (Incl. Flood Control, Engineering and Administrative Support, Water Quality, Emergency Response)	2,776	2,645	4,861	4,877	6,125	8,071	2,397	3,209
Storm Drainage Maintenance	1,486	1,599	1,507	1,623	1,544	1,832	1,530	1,811
Project & Infrastructure	2,010	4,248	2,455	3,941	6,267	7,933	3,531	4,769
Capital Improvements Program**	-	2,200	412	1,871	4,433	5,860	760	2,273
Recurring System Repair (SD-06101)**	400	412	424	437	225	464	1,486	887
Debt Service for Past Capital Projects	947	949	949	949	949	949	949	949
Capital Program Engineering Support	158	182	165	179	155	155	155	155
Green Stormwater Infrastructure (GSI)	380	380	380	380	380	380	143	380
GSI - CIP Design/Construction	330	330	340	250	150	150	-	102
GSI - Consulting Services	50	50	40	130	85	85	143	278
GSI - Other unassigned tasks	-	-	-	-	145	145	-	-
Innovative Project	125	125	125	125	125	125	38	125
Innovative Project - GSI Consulting Services & Outreach	-	100	100	100	100	100	31	100
Innovative Project - Rebates	125	25	25	25	25	25	7	25
Total Expenses	6,272	8,492	8,823	10,441	13,936	17,836	7,457	9,789
Net Impact	906	(1,114)	(1,027)	(2,532)	(5,248)	(7,646)	(211)	(771)

*FY 2023 Projections and FY 2024 Proposed are subject to change as the current fiscal year and budget development process is still in progress.

**FY 2024 Proposed includes estimated remaining funding and grant revenue anticipated to be reappropriated from FY 2022.

May 10, 2023

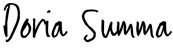
Honorable City Council
C/O City of Palo Alto
250 Hamilton Avenue
Palo Alto, CA 94301

RE: Review of 2024-2028 Proposed Capital Improvement Plan (CIP)

The Planning and Transportation Commission (PTC) reviewed the 2024-2028 proposed Capital Improvement Plan on Wednesday, May 10, 2023. The PTC determined that the 22 new Capital Improvement Projects included in the 2024-2028 Capital Budget are consistent with the adopted Comprehensive Plan and recommended forwarding this finding to the City Council and Finance Committee.

Commissioner Bart Hechtman made the motion and it was seconded by Commissioner Bryna Chang. The motion was approved by a vote of 7-0.

Respectfully submitted

DocuSigned by:

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Doria Summa, Chair
Planning and Transportation Commission



Summary of Finance Committee Review of FY 2024 Proposed Budget (Actions & References)

Action Minutes to the Finance Committee Hearings can be found on the City's webpage here: <https://www.cityofpaloalto.org/Departments/City-Clerk/City-Council-Standing-Committees/Finance-Committee>. In addition, throughout the Finance Committee Budget Hearings, various memoranda were distributed "At Places" in order to respond to inquiries made by the Committee or provide additional pertinent information at staff's behest. In addition, summary presentations were given at each hearing providing high level overviews of each item. Specific meetings and reference links to materials are outlined below.

May 1, 2023 City Council Meeting

Action Minutes:

- <https://cityofpaloalto.primegov.com/Public/CompiledDocument?meetingTemplateId=1456&compileOutputType=1>

Presentations:

- FY 2024 Proposed Budget Overview
<https://cityofpaloalto.primegov.com/meeting/attachment/1499.pdf?name=Item%204%20Presentation>
- Video: <https://youtube.com/watch?v=vRDEmwM2FVE?feature=share>

May 5, 2023 Finance Committee

Action Minutes:

- Action minutes are still pending

Presentations:

- FY 2024 Proposed Operating and Capital Budgets:
<https://cityofpaloalto.primegov.com/Public/CompiledDocument?meetingTemplateId=12590&compileOutputType=1>

Video: <https://youtube.com/watch?v=iIBi27tPZQk?feature=share>

May 9, 2023 Finance Committee

Action Minutes:

- Action minutes are still pending

Presentations:

- FY 2024 Proposed Operating and Capital Budgets Continuation:
<https://cityofpaloalto.primegov.com/Public/CompiledDocument?meetingTemplateId=12597&compileOutputType=1>

Video: <https://youtube.com/watch?v=D9U17HXJgkU?feature=share>

List of Supplemental Information provided during Budget Deliberations

During the Finance Committee hearings and the City Council update, staff provided additional information to Committee members to assist in the review of the Fiscal Year 2023 Proposed Budget. Below is a list of links to those memoranda:

**Summary of Finance Committee Review of FY 2024 Proposed Budget
(Actions & References)**

- May 5 [At Places Memorandum: Capital Reappropriations, staffing & vacancies, contract spend, organization chart](#)
- May 9 [At Places Memorandum: Additional Information Requested by Finance Committee](#)

Additional Information Memos from May 5 (provided *at staff's behest*)

In previous years, the City Council has made a variety of requests to provide context and/or additional data points of reference to aid in budget deliberations. Staff compiled and transmitted the following items at the May 5, 2023 budget meeting:

- Capital Fund reappropriations list
- Vacancy report, as of May 2023
- City's list of lease information
- Service provider spend report
- Department organization charts
- Responses to City Council questions from May 1 Study Session
 - Hiring status of positions added during FY 2023
 - Potential cost savings due to delayed hiring in FY 2024
 - Citywide General Expense Reconciliation (FY23 Adopted to FY24 Proposed)
 - Status of various capital projects (verbal update during Capital Fund Projects Overview)

COUNCIL MEETING

5/22/2023

Received Before Meeting

AA1



CITY OF

PALO ALTO

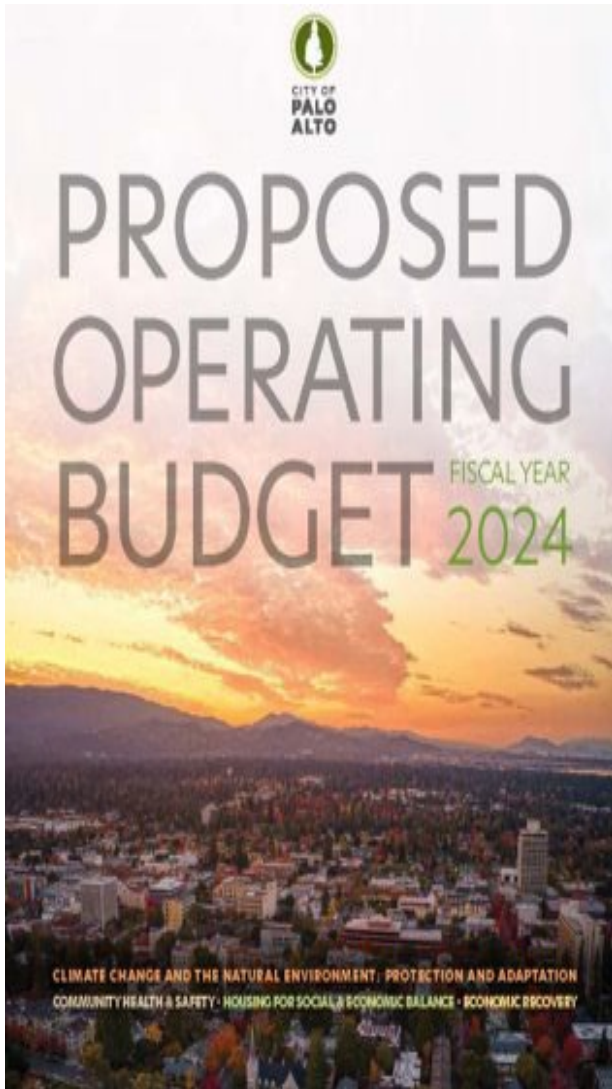
FY 2024 PROPOSED OPERATING & CAPITAL BUDGETS

Finance Committee
Review with City Council
Item #AA1

May 22, 2023

www.cityofpaloalto.org/budget

PURPOSE OF TONIGHT'S STUDY SESSION



Tonight's study session facilitates a Finance Committee check-in with the City Council to review:

- Next steps in the budget process
- New information provided to aid in review
- Status of Finance Committee hearings
- Revised budget balancing
 - Staff recommendations
- Potential referrals for staff

GOAL: City Council discuss FY 2024 proposed budget and provide Finance Committee colleagues guidance for final Finance Committee recommended FY 2024 budget

BUDGET CONVERSATIONS & SCHEDULE

City Council: FY 2024 Proposed Budget Overview:
Discuss guidance for Finance Committee colleagues

Community Budget Listening Session

Finance Committee Budget Wrap-up:
Based on the input from the May budget meetings, recommend final adjustments to proposed budgets for Council adoption

May 1

MAY 5 & 9

MAY 16

TONIGHT

MAY 30

JUNE 19

Finance Committee Budget Workshops:
Review the proposed budgets and recommend amendments

Study Session City Council:
Finance Committee check-in with the City Council

City Council Budget Adoption:
Adopt Capital & Operating budgets (as amended by the Finance Committee)

NEW INFORMATION PROVIDED May 5 & 9

At Places Memorandum Summary

- General information transmitted (capital reappropriations; staffing, recruitment, and vacancies; organization charts)
- Consolidated list of Tier 2 Proposals by Council Priority
- Information Requested by the Finance Committee:
 - Pension Trust Contribution History
 - HSRAP Funding History
 - Library Circulation and Visitor Information
 - PATMA Citywide Expansion
 - Canine Unit Funding
 - Cubberley Operations and Maintenance Funding History

FINANCE COMMITTEE TENTATIVE ADJUSTMENTS



Finance Committee Adjustments to Budget	FY 2024 GF Sources	FY 2025 GF Sources	Ongoing Sources
Beginning Balance	\$2.25 M	\$2.25 M	\$-
Measure K Housing and Homeless Services*	750,000	800,000	800,000
FY23 Surplus Major Tax Revenues	2.5 M	-	-
FY23 Vacancy Savings (\$1-2M)	1.5 M	-	-
Gas Equity Transfer at 18% in FY25 (measure L)	-	1.0 M	1.0 M
FY23 & FY24 HomeKey Operations Savings	2.0 M	-	-
Subtotal Sources	\$9.0 M	\$4.0 M	\$1.8 M

* Measure K Total expected receipts of \$1.5M (FY25) and \$3.0M ongoing, allocated to extent eligible expenses are recommended.

Finance Committee Adjustments to Budget	FY 2024 GF Expenses	FY 2025 & Ongoing	Dept
HSRAP (reflects HRC requested \$'s +\$200k/yr)	(150,000)	(150,000)	
T2: Art Center Visitor Staffing	(113,000)	(113,000)	
T2: Eucalyptus Tree Removal	(400,000)	-	CSD
T2: Youth Mental Health Programs	(200,000)	-	
T2: Therapeutics Recreation Program	(90,000)	(95,000)	
T2: Library Hours	(145,000)	(145,000)	LIB
Neighbors Abroad	(20,000)	(20,000)	NON
T2: Permitting and Inspections Operations	(115,000)	(115,000)	
T2: Zoning Code Update (3 yrs \$1.5M)	(500,000)	(500,000)	
T2: Bird Safe Glass/Wildlife Protection	(75,000)	-	PDS
T2: San Antonio CAP (each plan \$2M)	(50,000)	(700,000)	
T2: Regulate Short Term Rentals	(100,000)	(100,000)	
T2: Seismic Upgrade (additional funding)	(75,000)	-	
PATMA Citywide Expansion	(25,000)	(25,000)	OOT
T2: Transportation Modes Staffing	(185,000)	(196,000)	OOT
T2: Fire Utility Task Vehicle	(67,000)	(10,000)	FIR
T2: Public Safety Dispatcher Staffing	(267,000)	(285,000)	POL
T2: Airport Noise Reduction	(100,000)	-	PWD
Cubberley Facility Maintenance & Upkeep	(900,000)	(900,000)	PWD/CSD
T2: Sea Level Rise and Adaptation Plan	(200,000)	(200,000)	PWD/UTL
T2: S/CAP Studies	(600,000)	-	PWD/UTL
T2: LifeMoves Construction (PE-24005)	(2,500,000)	-	CIP
T2: Electric Vehicle Fleet Replacement (50%)	(400,000)	(400,000)	CIP
T2: Economic Dev Staffing	(145,000)	(145,000)	CMO
T2: Car Free Streets	(250,000)	(250,000)	CMO
T2: Unhoused Residence Services	(100,000)	-	CMO
Subtotal Use (Expense)	\$(7,772,000)	\$(4,349,000)	5

Staff recommends additional support resources of \$837,000 to administer these investments

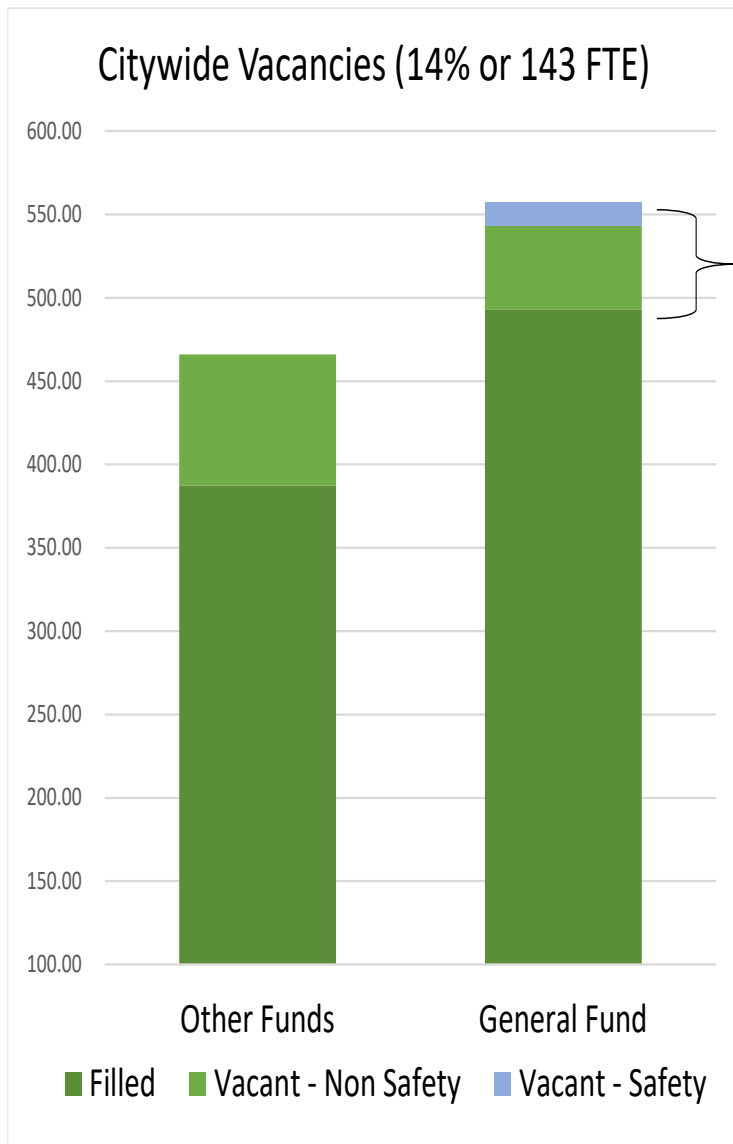
TENTATIVE ADJUSTMENTS: FY 2023 MAJOR TAX REVENUE



Revenue & Other Sources	2020 Actuals	2021 Actuals	2022 Actuals	2023 Adopted	2023 Midyear	2023 Est.	Change
Sales Taxes	30,563	29,127	32,705	32,580	34,080	36,148	2,068
Property Taxes	51,089	56,572	59,353	59,770	60,270	61,418	1,148
Transient Occupancy Tax	18,553	5,179	16,946	18,199	22,199	27,274	5,075
General Purpose	11,568	2,796	8,828	8,472	12,472	14,652	2,180
Infrastructure	6,985	2,383	8,118	9,727	9,727	12,622	2,895
Documentary Transfer Tax	6,903	10,627	11,990	7,217	7,217	4,915	(2,302)
Utility Users Tax	16,140	14,642	15,599	15,579	15,579	18,537	2,958
Other Taxes and Fines	1,172	683	893	1,784	1,784	1,784	-
Subtotal: Taxes	\$124,420	\$116,830	\$137,486	\$135,129	\$141,129	\$150,076	\$8,947

- Unallocated surplus revenues typically transferred to Pension 115 Trust and capital improvement fund as one-time contributions.
- Proposed Budget balancing strategy assumes nearly 75% of the expected surplus or tax revenue of approximately \$147 M
 - Finance Committee recommends allocation of the full estimated \$150 M

TENTATIVE ADJUSTMENTS: FY 2023 VACANCY SAVINGS



General Fund:
8.3% vacancy rate
(excluding public safety)
3% assumed in budget
\$1-2 million savings
projected

Typical uses of vacancy savings:

- Alternative staffing strategies
 - professional services
 - hire ahead
 - technology efficiencies
 - summer internship program
 - backfill/overtime
- New labor terms (out of cycle)
- One-time contributions (inc. other net savings)
 - \$21.6M (\$16.4M General Fund) to Pension Trust since 2017
\$67.5M total contributions
 - \$46.4M to the Capital Improvement Fund over 10 years

- The Proposed Budget balancing strategy assumes that projected savings will be used for alternative staffing strategies and/or one-time contributions
- Tentative recommendations recognize \$1.5M

FY 2024 PROPOSED BUDGET INVESTMENTS

- Continued reopening of library branches
- Resources for animal services, theatre, Art Center, special events, and grants
- Fire and life safety inspection
- PERT clinicians and traffic enforcement
- Historic resources, code enforcement, and Building and Fire prevention plan review
- Represented custodial services
- Tree trimming services, parklet program
- Water quality control plant to support capital investments through engineering staffing
- Supporting Dark Fiber expansion and Fiber to the Premises.

General Fund:

The Proposed Budget adds \$6.6M services with 16 full-time staff including support for Council 2023 Priority outcomes.

Finance Committee recommendations add \$5.6M and ~8 full-time staff (inc. 20+ Tier 2 proposals)

Adds \$12M year-over-year



FY 2024 REVISED GENERAL FUND BALANCING



	(\$ in millions)	FY 2024	FY 2025	FY 2026
<i>Spending</i> <i>(use of \$) /</i> <i>source of \$</i>	FY 2024 Budget (Deficit) / Surplus	(\$2.6)	(\$5.0)	(\$3.9)
	Council Priorities Reserve/Tier 2	(\$2.3)	(\$2.3)	(\$2.3)
	NEW Tentative Recommendations	\$1.2	(\$0.3)	(\$0.3)
	NEW Administrative Support	(\$0.8)	(\$0.8)	(\$0.8)
	BSR at 20% FY25	\$0	(\$2.8)	-
	Forecasted (Deficit)/Surplus	(\$4.5)	(\$11.3)	(\$7.3)
<i>Use of Reserves</i>	Use of Uncertainty Reserve& DSD Reserve (FY 24 only)	\$4.9	\$10.1	-
	Proposed (Deficit/Surplus)	\$0.4	(\$1.2)	(\$7.3) <i>revised</i>
<i>Ending Reserve</i> <i>Balances</i>	<i>Uncertainty Reserve & DSD Reserve (\$2.1M)</i>	\$12.2	\$2.1	\$2.1
	BUDGET STABILIZATION RESERVE (\$)	\$52.9	\$55.7	\$48.4*
	*BUDGET STABILIZATION RESERVE (%)	19.5%	19.8%	16.6%

Revised balancing does not contemplate: Parking Lot, future labor negotiations & budget amendments, FY25 Proposed Budget needs, or projects that do not have confirmed timelines or costs ("known unknowns")

*FY26 assumes use of BSR to cover full deficit for demonstration purposes

FINANCE COMMITTEE “PARKING LOT”

Parking Lot Items	Amount source/(cost)	Ongoing	Dept
Unspent Council Contingency	125,000	-	NON
<hr/>			
<i>Subtotal Sources (Revenue)</i>	<i>\$125,000</i>	<i>\$-</i>	
<hr/>			
HSRAP (inc. from HRC max based on GF %)	(150,000)	(150,000)	CSD
T2: Volunteer Coordinator for JMZ	(105,000)	(110,000)	CSD
T2: Library Programs	(261,000)	(261,000)	LIB
T2: Cypress Lane Alley Improvement	(400,000)	(20,000)	PWD
T2: Full Electric Vehicle Fleet Replacement (100%)	(400,000)	(400,000)	PWD
T2: Community Engagement Qtrly Newsletter	(100,000)	(100,000)	CMO
<i>Subtotal Uses (Expense)</i>	<i>\$(1,416,000)</i>	<i>\$(1,041,000)</i>	

FINANCE COMMITTEE POTENTIAL REFERRALS

1) Coordinated Area Plans (CAP) Process Review

- Examine the CAP process with the housing ad hoc committee for potential improvement and streamlining
- Staff intends to bring forward this review, so no referral is needed

2) Fee Subsidy for S/CAP

- Provide additional detail on potential electrification subsidy to discount or waive electrification permitting fees
- Staff intends to include this information as part of the S/CAP update staff report anticipated in June 2023, so no referral is needed

3) Establish HSRAP Allocation at 1% of the General Fund

- Consider if HSRAP funding should be pegged to a benchmark, such as the percentage of General Fund budgeted expenditures

INFORMATION FOR COUNCIL DISCUSSION

- Tentative Adjustments recommended by the Finance Committee
 - Increase funding sources of \$9.0M in FY24, \$4.0M in FY25, and \$1.8M ongoing;
 - Add \$7.8M expenses in FY24 and \$4.3M ongoing
- Finance Committee
 - “Parking Lot” items for any additional Tentative Adjustments;
 - Referral items from the Finance Committee to Staff; and
- Staff Recommendations
 - Reduce additions to the Council Priority Reserve of \$2.25M
 - Add administrative support in alignment with budget revisions

Council Discussion: review the above and discuss the budget including staff’s recommendations. Provide Finance Committee guidance for final recommended FY 2024 budget.