

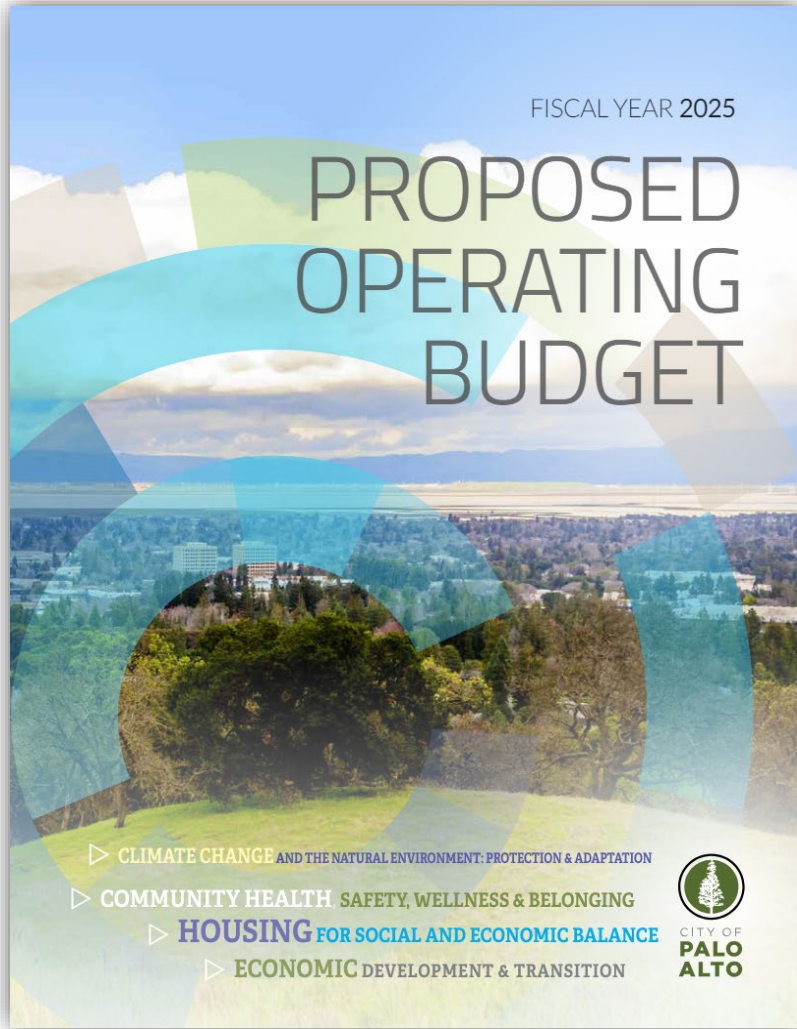


**FY 2025 PROPOSED  
OPERATING & CAPITAL  
BUDGETS & MUNICIPAL  
FEE SCHEDULE WRAP-UP**

**Finance Committee  
Item #1**

**May 21, 2024**

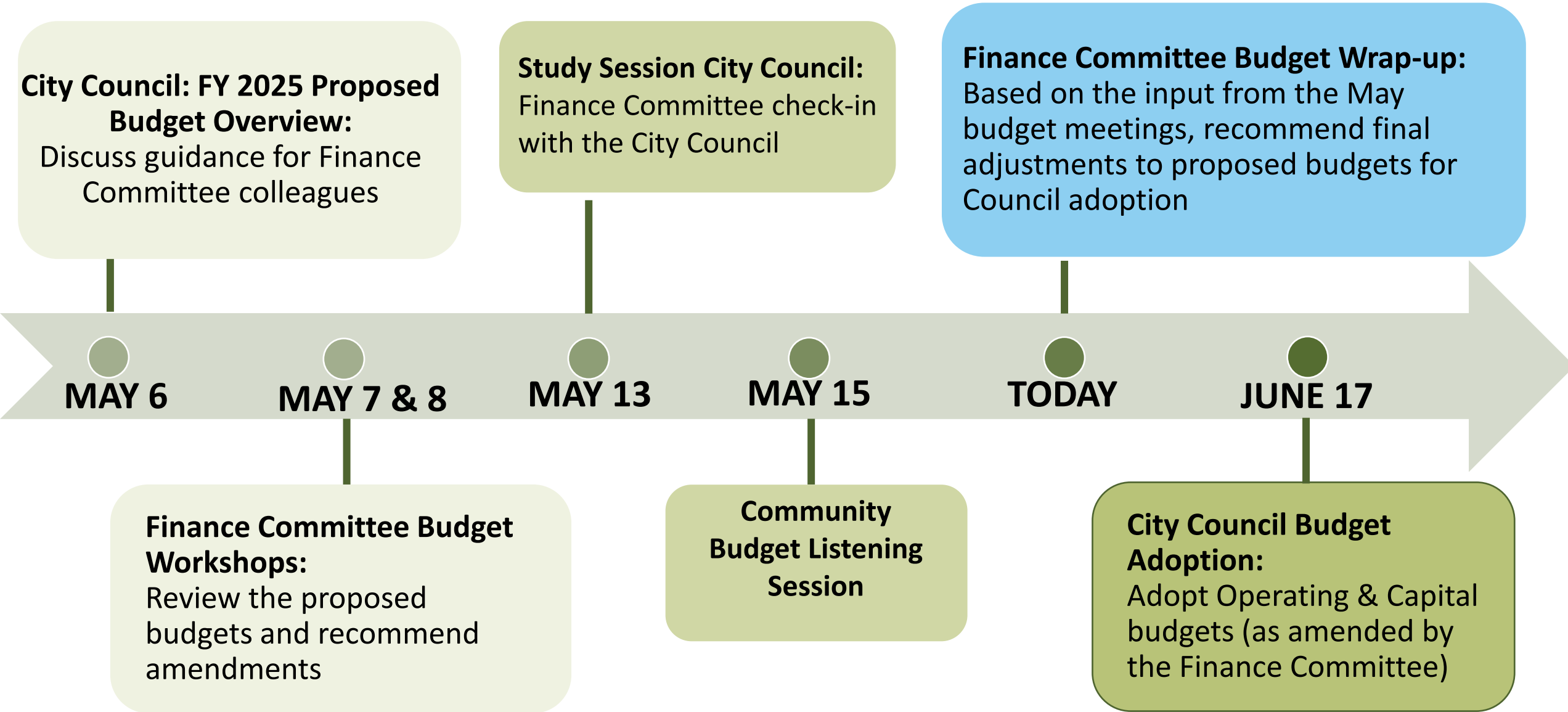
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- Finalize Review of the FY 2025 Budget Process
- Budget wrap-up memo provides
  - Summary of Committee deliberations
  - Additional Information for Multi-Year Strategy
  - Revised Parking Lot of Potential Adjustments
  - Staff Work Plan Items
  - Staff Technical Adjustments

**GOAL:** Recommend to City Council balanced FY 2025 Operating & Capital Budgets and a FY 2025 Municipal Fee Schedule for Adoption on June 17, 2024

# BUDGET CONVERSATIONS & CALENDAR





# UPDATES SINCE MAY 8 BUDGET HEARING

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- Received Council feedback (May 13) and additional Staff analysis & information
- Revised Parking Lot
  - Categories for Review
  - Updated Analysis and Cost Estimates
  - Other Post Employment Benefits (OPEB) Funding
- Staff Recommended Technical Adjustments
- Parking Lot items are valued investments & great services, but resources are limited
- Budget balancing strategies primarily focus on fulfilling the City vision, Council priorities, City policies and core services, balancing non-core services and programs within limited financial resources.

# CATEGORIES

Items in the Parking Lot are organized into the following categories for further consideration:

CATEGORIES	DESCRIPTION
<b>Clarifications</b>	items that need clarification and/or confirmation
<b>Grants</b>	items that relate to grants to other organizations
<b>Not Recommended</b>	items that Staff analyzed and determined negative impact(s)
<b>Policy/Priority/Vision</b>	items that relate to City policy, Council Priorities and/or City Vision
<b>Reconsideration in FY 2026</b>	items deferred due primarily to budget balancing constraints
<b>Staff Workplan</b>	items that Staff will work on during FY 2025, subject to Council

# REVISED PARKING LOT – EXPENSES (Table 1)

Dept	Parking Lot Items	FY25 Amount (cost)/source	Ongoing	Category
NON	Other Post Employment Benefits (OPEB)	(2,400,000)	(2,600,000)	Policy/Priority/ Vision
CIP	California Avenue Interim Improvements	(450,000)	0	Policy/Priority/ Vision
CIP	Car-free Streetscape Design for Ramona Street	(250,000)	0	Policy/Priority/ Vision
CIP	Additional funding for Roth Building Rehabilitation (PF-23001)* (revise terms and conditions of the tenant work letter) Organization request \$1M partially offset with \$0.2M interest earnings	(1,000,000)  200,000	0	Grants
NON	Establish a Citywide Special Events & Programming (\$230k total program) * [Requested UNAFF \$45k, 3rd Thursdays \$40k, Neighbors Abroad \$30k, Magical Bridge \$150k, cultural events] *	(200,000)	(200,000)	Grants
NON	Ability Path Matching Gift *	(250,000)	0	Grants
OOT	Palo Alto Transportation Mgmt. Assoc. (PATMA) increase to \$400,000 *	(200,000)	(200,000)	Grants
CSD	Environmental Volunteers Foothills Nature Preserve Program *	(11,000)	0	Grants

\* = ask from outside agency, FY25 contribution TBD

# REVISED PARKING LOT – EXPENSES (Table 1) (CONT'D.)

Dept	Parking Lot Items	FY25 Amount (cost)/source	Ongoing	Category
CSD	Administrative Support for new Citywide Special Events & Programming (1.0 FTE)	0	(125,000)	Grants
CSD	JMZ additional staffing, new ticketing system and promotion	(613,000)	(780,000)	Clarification
FIR	Upstaff Fire Engine 62 with 3 Sworn Staff instead of Overtime	(60,000)	(80,000)	Clarification
PWD	Public Services Streets 311 Requests to support catch-up & keep-up	(100,000)	(100,000)	Clarification
UTL	Sustainability Program Customer Service Support (1.0 position Electric Fund)	0	0	Clarification
OOT	Review an alternative service approach for PA Link with reduced net costs (proposed budget funds \$900,000 in FY25)	400,000	400,000	Clarification
CIP	Study of artificial turf replacement with grass at up to 4 fields (recommend use of current CIP to fund a study)	0	0	Clarification
<b>Subtotal Expense (&amp;/or use of funding)</b>		<b>(\$4.9 M)</b>	<b>(\$3.7M)</b>	

# REVISED PARKING LOT – REVENUE (TABLE 2)

Dept	Parking Lot Items	FY25 Amount (cost)/source	Ongoing	Category
NON	Increase Gas Transfer to General Fund in FY25 to 14.5% (from 11.9%) & in FY26 to 18% (previously scheduled in FY27) ~Estimated FY 2025 Gas Utility Rate change from 9% to 12.5%	2,000,000	900,000	Clarification
NON	Use BSR to balance FY 2025 - Reduce from 18.8% to 18.5%	1,000,000	0	Policy/Priority/ Vision
NON	Use Uncertainty Reserve to balance FY 2025	1,400,000		Policy/Priority/ Vision
NON	Increase JMZ ticket prices from \$10 to \$14, during peak periods	350,000	350,000	Clarification
NON	Account for Los Altos & Los Altos Hills contribution for animal control services (Report #2403-2827)	198,000	198,000	Clarification
<b>Subtotal Revenue (&amp;/or source of funding)</b>		<b>\$4.9M</b>	<b>\$1.5M</b>	
<b>Potential Funds Remaining surplus / (deficit)</b>		<b>\$0</b>	<b>(\$2.2 M)</b>	



# CATEGORIES – Not on Tables 1 & 2

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- **Not Recommended:**
  - Reduce Capital Funding to Re-appropriate to Other Uses (\$ TBD)
- **Staff Workplan**
  - Fire Emergency Medical Response Fee Adjustments (Ongoing Revenue TBD)
  - Fire Emergency Medical Response; Supplemental Resources (\$1.0-\$4.0M Ongoing)
  - Review Parks Restroom Prioritization Specifically Pardee Park (Ongoing costs TBD)
  - Active Recruitment Digital Marketing Services (Ongoing costs TBD)
  - Organizational Development & Safety Division (\$0.1M Ongoing; 50% GF/50% ISF)
  - Historical Grants Information
- **Defer for reconsideration in FY 2026**
  - Expansion of Library Teen Services (1.0 FTE) (\$0.1M Ongoing)

# GENERAL FUND BUDGET BALANCING WITH 'PARKING LOT' ITEMS (TABLE 3)

(\$ in millions)	Proposed FY 2025	With Revised Parking Lot	Increase/ (Decrease)	FY 2026 (Revised)
Revenues	303.5	308.4	\$5.1	\$300.2
Use of Reserves	\$7.6	\$8.3	\$1.4	\$3.3
Expenditures	303.5	308.4	\$5.1	\$308.8
<b>Surplus / (Deficit)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$8.6)</b>

Status of General Fund Reserves				
Uncertainty Reserve for FY 2026	\$4.7	\$3.3	(\$1.4)	\$0
Budget Stabilization Reserve \$	\$55.0	\$54.0	(\$1.0)	\$54.0
<i>Budget Stabilization Reserve %</i>	<i>18.8%</i>	<i>18.2%</i>	<i>(0.7%)</i>	<i>17.5%</i>

**BSR at 18.5% target level requires \$1.0M of additional funding in FY25 & \$3.1M in FY26**

# GENERAL FUND BUDGET BALANCING

## PROJECTED MULTI-YEAR FINANCIAL FORECAST (TABLE 4)

**Table 4: Summary of General Fund Projected Multi-Year Financial Forecast and Reserves**

(\$ in millions)	FY 2025 Proposed Budget	FY 2025 Parking Lot (Revised)	FY 2026 Projected	FY 2027 Projected	FY 2028 Projected	FY 2029 Projected	FY 2030 Projected
Original Net Surplus/(Deficit)	0	0	(5.0)	(3.4)	(1.7)	(0.5)	6.6
<i>Use of Uncertainty Reserve</i>	6.9	8.3	4.7	-	-	-	-
<b>Revised Net Surplus/(Deficit)</b>	<b>0</b>	<b>0</b>	<b>(8.6)</b>	<b>(6.5)</b>	<b>(4.8)</b>	<b>(3.6)</b>	<b>3.5</b>
<i>Use of Uncertainty Reserve</i>	6.9	8.3	3.3				
<b>Status of General Fund Reserves</b>							
Uncertainty Reserve at Year-End	4.7	3.3	-	-	-	-	-
Budget Stabilization Reserve \$	55.0	54.0	54.0	54.0	54.0	54.0	54.0
<b>Budget Stabilization Reserve % (18.5% target)</b>	<b>18.8%</b>	<b>18.2%</b>	<b>17.5%</b>	<b>17.0%</b>	<b>16.6%</b>	<b>16.1%</b>	<b>16.0%</b>

Balancing the budget is a multi-year approach that also considers potential unfunded Council priorities.

**POLICY:** Retiree Benefits Funding Policy Assumptions (Adopted February 6, 2023, Report #2212-0513)

- Fund OPEB at 5.75% discount rate, down from “Baseline” 6.25%
- Target: 90% funding by FY 2036
- Bi-annual actuarial report for OPEB Trust status
- 15 Year Amortization period (effective with the 2021 Valuation)
- Actuarial Determined Contribution (“ADC”) and Supplemental/Pre-Funding

## 2021 VALUATION vs. 2023 VALUATION ACTUARIAL REPORT

- **Information Available:** at the time of each valuation
- **Investment Return Volatility:** Target of 6.25%
  - 2020-21 investment gain of 27.5%
  - 2021-22 investment loss of -13.5%
  - 2022-23 investment gain of 6.4%
- **Projected Payroll:** Higher salary growth # of employees;
- **Health Premiums:** Higher healthcare premiums (especially COVID and inflation impacts);
- **Amortization:** Funding policy set a 15-year period, two years later there are 13 years remaining. (This accounts for the change in General Fund budget adjustment from \$3.3M instead of \$2.4M.)

## Fiscal Impact Summary of incorporating the new 2023 Valuation Actuarial Report

- Disregard Policy Level (Not Recommended)
- Fund at 1-year Phase In
- Fund at 2-year Phase-In, consistent with pre-funding pension policy phase-in

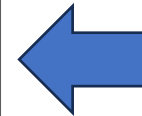
OPEB Alternative Funding Levels (\$M)	FY 2025 General Fund	FY 2025 Other Funds	FY 2025 All Funds Total	FY 2026 All Funds Total
<i>2025 Proposed Budget OPEB Pre-Funding Included</i>	\$8.8	\$5.2	\$14.0	\$14.6
<i>2025 Pre-funding Policy</i>	+\$3.3	+\$1.9	+\$5.2	+\$5.1
<i>2025 Pre-Funding 2- Year Phase In *</i>	+\$1.65	+\$0.95	+\$2.6	+\$5.1

\* Impacts to long term liability OPEB costs and future year annual amortized costs `from a Phase-In approach would need to be recalculated for the 2026-2035 LRFF



# COMMITTEE RECOMMENDATIONS - MOVE ITEMS FROM “YELLOW” TO “GREEN”

Dept	Finance Committee Adjustments to Budget	FY 2025 GF (cost)/savings or rev		Ongoing	Category
	<b>Beginning Balance</b>	\$ -	\$ -		
	<i>Subtotal Sources (Revenue)</i>	\$ -	\$ -		
	<i>Subtotal Use (Expense)</i>	\$ -	\$ -		
	<b>Potential Funds Remaining surplus/(deficit)</b>	\$ -	\$ -		



Dept	Parking Lot Items	Amount (cost)/source	Ongoing	Category
NON	Increase Gas Transfer to General Fund in FY25 to 14.5% (from 11.9%) & in FY26 to 18% (previously scheduled in FY27)	2,000,000	900,000	Clarification
NON	Use BSR to balance FY 2025 - Reduce BSR from 18.8% to 18.5%	1,000,000	-	Policy/Priority / Vision
	<i>Subtotal Sources (Revenue)</i>	\$ 4,948,000	\$ 1,448,000	
NON	Other Post Employment Benefit (OPEB)	(2,400,000)	(2,600,000)	Policy/Priority / Vision
CIP	California Avenue Interim Improvements	(450,000)	-	Policy/Priority / Vision
NON	Ability Path Matching Gift *	(250,000)	-	Grants
NON	Palo Alto Transportation Management Association (PATMA) increase to \$400,000 *	(200,000)	(200,000)	Grants
CSD	Environmental Volunteers Foothills Nature Preserve Program *	(11,000)	(11,000)	Grants
CSD	JMZ additional staffing, new ticketing system and promotion	\$ (613,000)	\$ (780,000)	Clarification
FIR	Upstaff Fire Engine 62 with 3 Sworn Staff instead of Overtime	(60,000)	(80,000)	Clarification
	<i>Subtotal Uses (Expense)</i>	\$ (4,934,000)	\$ (3,696,000)	
	<b>Potential Funds Remaining surplus/(deficit)</b>	\$ 14,000	\$ (2,248,000)	

Date	FY 2025 Council Contingency	
7-May	Beginning Balance	\$ 125,000
	<b>Remaining:</b>	\$ 125,000

Budget Stabilization Reserve FY 2025 est = \$55.0M or @ 18.8% target (as of 5/7/24)  
(\$1.0M above the 18.5% target)

Council range is 15% to 20% of Adopted expenses, currently estimated at \$292.4M

# STAFF RECOMMENDED TECHNICAL ADJUSTMENTS

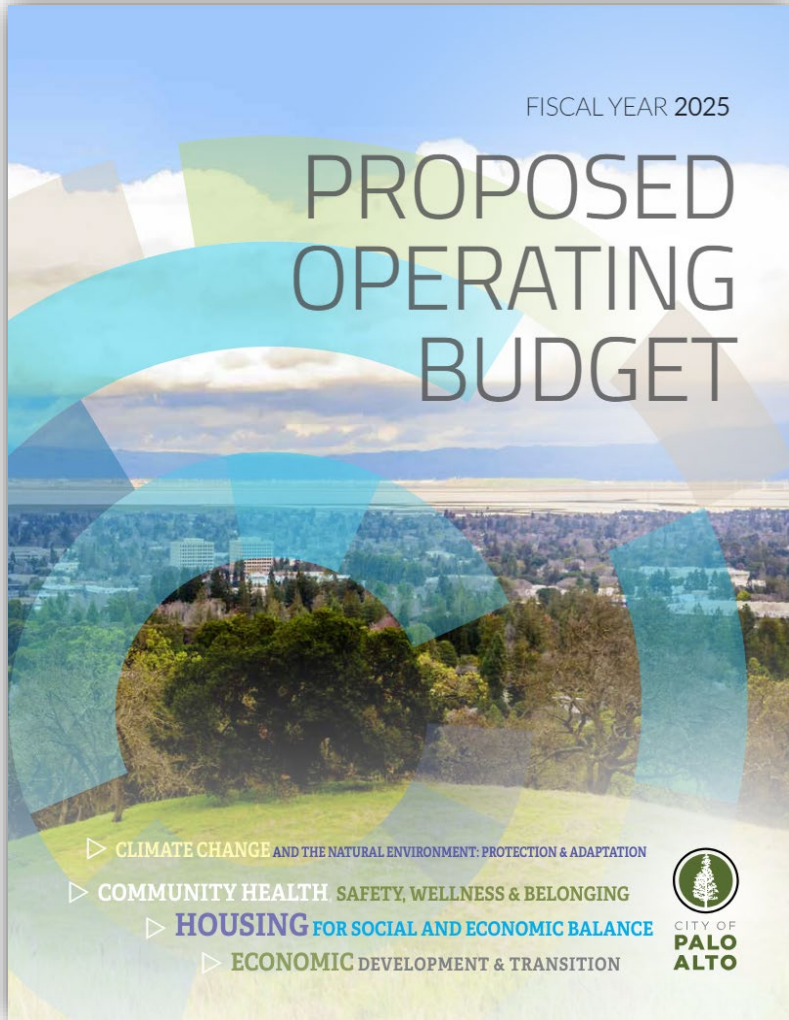
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Align the budget with anticipated activity levels and changes that occurred following the release of the FY 2025 proposed budget documents (see **Attachment B** for more detail)

- New Affordable Housing Fee Wavier
- Utility Rate Updates for Gas (9.0% to 12.5%) and Water (10.0% to 9.5%)
- Undo Water System Operations Staffing Reclassification
- Various Capital Project Adjustments
  - Baylands Boardwalk Piling Repair (PE-24000) +\$0.2M
  - Gas System Customer Connections (GS-80017) -\$0.7M
  - Gas Main Replacement Project #25 (GS-15000) -\$0.7M

# RECOMMENDED ACTION



## DRAFT MOTION:

Recommend to the City Council:

1. Adoption of the FY 2025 Operating and Capital Budgets and Municipal Fee Schedule, amended by:
  - a. the Table of Finance Committee Adjustments to the Budget, including the Staff technical adjustments
2. Approve the FY 2025-2029 Capital Improvement Plan, amended by
  - a. Changes approved in the wrap-up discussion

Budget and meeting details listed at [www.cityofpaloalto.org/budget](http://www.cityofpaloalto.org/budget)