



# FINANCE COMMITTEE SUMMARY MINUTES

Special Meeting  
May 24, 2022

The Finance Committee of the City of Palo Alto met on this date at the Community Meeting Room and via virtual teleconference at 9:00 A.M.

Present: DuBois (Chair), Filseth, Kou

Absent: None

## ORAL COMMUNICATIONS

None

## ACTION ITEMS

1. Discussion on the Fiscal Year (FY) 2023 Budget Wrap-Up and Recommended FY 2023 Budget including the FY 2023 Municipal Fee Schedule for City Council Adoption

Administrative Services Director Kiley Nose disclosed the item was a FY 2023 Budget Wrap-Up of Finance Committee (Committee) discussions on May 10 and May 11 resulting in a recommendation from the Committee to the full City Council for budget adoption.

Budget Manager Jessie Descamps reported the Committee tentatively approved three adjustments. Office of Transportation funding for the parking attendant or Valet Program will be eliminated in FY 2023 in recognition of lower demand for parking permits and extra capacity in garages and lots. City Manager's Office funding for the National Citizen Survey will be added annually rather than biannually. Annual survey costs are approximately \$30,000 dollars. Funding was included in the FY 2023 Budget as this was the year survey completion was expected, and staff will include ongoing funding beginning in FY 2024. The Committee approved the addition of one Program Manager to support business operations and initiatives in the Utilities Department. Overall, the tentatively approved adjustments result in a \$14,000 dollar savings in Other Funds. There are currently three items awaiting further discussion in the Parking Lot. Community Services Department (CSD) funding is included for the Youth Community Services (YCS) Youth Connectedness Initiative (YCI) and United Nations Association Film Festival (UNAFF). Amounts presented reflect prior year costs and not a specific

funding level recommended by staff or the Committee. Included in the Parking Lot is the Planning and Development Services proposal for the Downtown Housing Plan Grant. Total grant revenues and expenditures are \$800,000 dollars, and an additional \$150,000 dollars in consultancy services. Overall actions in the Parking Lot result in a savings of \$90,000 dollars in the General Fund. Staff has included additional actions for consideration, resulting in a General Fund cost savings of \$55,000 dollars and an All Funds cost of \$31.3 million dollars.

Budget Manager Paul Harper continued with the presentation. Proposed Government Finance Officer Association (GFOA) budget award requirement will include the budget forecast for two years beyond the next budget year for all major funds or funds representing 10% or more of the City's operating budget. This includes the General Fund, Electric Fund, and Wastewater Treatment Fund for FY 2023. Statements will be updated for any changes approved through the budget adoption process and included in the final FY 2023 Adopted Budget document. Additional adjustments for consideration include additional staffing, rate adjustment, and realignment of budget estimates to the Utilities Department, as well as reappropriations for CIP (Capital Improvement Plan). Fiscal Sustainability Survey results indicate that maintaining basic services, repairing streets and roads, investing in community assets, enhancing public safety, and funding affordable housing are the highest priorities. A total of 433 responses were received between February 15 and May 17, half of which were mailed. Additional information included were City Auditor recommendations for performance measures, status of next steps for the Bike and Pedestrian Project, and an overview for Sustainability/Climate Action Plan (S/CAP).

Ms. Nose noted that there will be a few items scheduled for Council review between now and the end of June that will potentially impact the adopted budget or budget brought forward for adoption.

Mr. Harper advised that staff recommended the Committee review the current budget adjustments to the FY 2023 Proposed Operating and Capital Budgets and Municipal Fee Schedule in alignment with the work completed by the Committee on May 10 and 11, 2022.

Chair Dubois suggested a policy discussion regarding how non-profit organizations are funded on a continuing basis.

City Manager Shikada noted that in parallel with the budget hearings, staff is working with the City Auditor on a non-profit agreement audit, which will provide insight into how funding agreements are established, and partnership expectations created through grants. It may be appropriate for the Committee and Council to articulate if there is a broader program approach, what will be the basis for taking these immediate grant recommendations and how grant-making decisions will be made in the future.

Council Member Filseth asked why YCI and UNAFF would not be part of the Community Services budget.

Mr. Shikada explained that there is a framework for decisions to be made for how to allocate funds within the program to specific non-profits. If this were included in the budget without a program, questions would arise about what the expectations are, and if it is not a direct entitlement, what performance expectations and decision-making would be expected periodically.

Chair DuBois believed UNAFF should be part of the Art Fund budget. He asked if the special transfer of the Art Fund was driven by salary increases and if the funds were increased to limit the administrative percentage.

Ms. Descamps answered yes, only 20% of the administrative costs can be covered by the art fees. Administrative costs in the fund are for a Program Manager.

Chair DuBois felt the \$140,000 dollars could be used to fund UNAFF. He proposed making it a policy call if Council wants to support the movie festival as a Palo Alto movie festival. The City may wish to consider Project Safety Net.

Ms. Nose advised the Operating Budget has a list of Human Services Resource Allocation Process (HSRAP) contracts. Staff can consider including Project Safety Net. The former auditor recommends that staff utilize the HSRAP process as an example for support and management of non-profit organizations.

Chair DuBois asked how the City determines the total amount it would contribute to HSRAP.

Ms. Nose answered through the budget process.

Director of Community Services Kristen O'Kane remarked that Council allocated additional one-time funding last year that was expended through several non-profit awards. Funding for non-profit organizations is always needed in the community.

Vice Mayor Kou inquired whether the program could participate in the grant process and receive matching funding from the City if it applied under HSRAP.

Chair DuBois asked about a motion that the Committee suggest Council approve funding for YCI as additional HSRAP funds and that going forward it be part of the HSRAP process.

Ms. Nose answered yes. She requested clarification about whether that would be an allocation of the \$50,000 for FY 2023 and any future funding beyond FY 2023 to go through the annual HSRAP process.

Ms. O’Kane answered yes.

Chair DuBois asked how staff felt about UNAFF being funded through the Public Art Fund.

Ms. O’Kane was unsure. Expenditures from the Public Art Fund come from the Public Art Commission, which may not be the appropriate process.

Ms. Nose indicated the action was made by the Committee to memorialize ongoing support that has been provided to the organization previously. Prior support was for light post banners, and this would memorialize that past practice.

Chair DuBois added that there have been conversations about helping to fund the festival.

Mr. Shikada specified it would be the actual cash to the organization, in addition to the existing support.

Ms. Nose indicated that is at the discretion of Council.

Chair DuBois inquired about Council sending a request to the Art Commission.

Ms. Nose remarked the Municipal Code regulates the City’s public art.

Mr. Shikada commented that the Committee and Council’s interest is to provide an operating subsidy to the organization. He suggested proceeding with that direction now, and then explore how best to incorporate the subsidy with a Citywide look at how partnership agreements with the non-profits are constructed going forward.

Chair DuBois requested clarification that the additional funding is separate from the 1% allocated for art.

Ms. Nose explained the Art Center and art programs run through the General Fund, and the Public Art Fund is specifically set aside for funds allocated based on the City’s Public Art Ordinance.

Ms. O’Kane suggested a CSD administration budget rather than merging it with public art.

Council Member Filseth thought that was sensible.

Chair DuBois asked if the banners were already budgeted.

Ms. Nose advised funding has been coming from contingent accounts.

Vice Mayor Kou asked about the amount.

Ms. Nose answered approximately \$10,000 dollars.

Ms. O’Kane explained that the venue is significantly more. Approximately \$40,000 is being provided.

Chair DuBois asked whether the \$40,000 is paid out of contingency.

Ms. O’Kane indicated it was the value of the space.

Mr. Shikada clarified the \$10,000 is actual expense for the banner installation.

**MOTION:** Chair DuBois motioned, seconded by Council Member Filseth to add for Council consideration:

1. *Allocation of \$50,000 to YCS for YCI for FY 2023 and increase and include request for funding as part of the HSRAP allocation Process Contract budget amount by \$50,000 in FY 2024*
2. *Allocation of \$20,000 to UNAFF, and follow up on the Non-Profit audit once complete to establish an ongoing process to provide funding for future Non-Profit funding requests*

**MOTION PASSED:** 3-0

Vice Mayor Kou inquired if approval of the Downtown Housing Grant Program meant that the funds would be set aside just for that purpose.

Planning and Transportation Director Jon Lait advised the RFP closed that allowed staff to determine who might be able to work on the project. Despite not receiving any bids for the Downtown Housing Plan, it has been relaunched and will remain open for five to six weeks so that firms can submit bids. It is anticipated that the project will be activated by the end of the year. RFP results have not yet been disclosed, but Council will have an option to forego the project if the numbers are higher than expected.

Mr. Shikada felt the Committee should proceed with the project.

Chair DuBois asked what happens if a consultant presents a plan that is not desired by the Committee and whether the \$800,000 must be repaid.

Mr. Shikada answered no, it is a pay-as-you-go (PAYG) contract.

Council Member Filseth asked about constraints.

Mr. Lait indicated there are some specific parameters related to the grant, and the proximity to Caltrain is one of the factors.

Vice Mayor Kou requested clarification that the City would not be reimbursed for some of the money if the grant's requirements are not met.

Mr. Lait advised that upon completion of specified tasks, a reimbursement would be submitted. If work exceeds the deadline for which the grant expires, no reimbursement will be possible. Funding would have to be obtained through the General Fund or through another grant.

**MOTION:** Chair DuBois motioned, seconded by Council Member Filseth to move forward with Downtown Housing Plan Grant Recognition and General Fund Support.

**MOTION PASSED:** 2-1, Kou No

Chair DuBois inquired about keeping \$14,000 from the next 1% for art to balance out the budget fund.

Ms. Nose believed per the Public Art Code, only a certain percentage of funds could go towards administrative costs and in doing so that amount would be exceeded.

Chair DuBois requested clarification that the CPI Cost Adjustment is forecast to decrease revenue by \$100,000 dollars.

Utilities Strategic Business Manager Dave Yuan advised that there are two corrections in the fiber adjustment. There was a CPI increase of 4.2%, which was equivalent to approximately \$30,000 across the EDF on customers. The second correction was aligning revenues with the current forecast. This resulted in a net decrease of \$90,000. EDF rate was a promotional rate and only five customers remain on that rate. The CPI increase was intended to get them to the EDF-3 rate, which is the market rate for the rest of the customers.

Chair DuBois asked whether Fire Department overtime for training would be temporary.

Ms. Nose explained that if there is no local facility available for training, the Fire Department may be required to go to a training facility outside the Palo Alto jurisdiction and in turn the City would incur overtime for the travel time.

Fire Chief Geo Blackshire agreed.

Chair DuBois asked what would happen if private owners owned the alley and someone develops a building that blocks the alley.

Mr. Shikada advised there is a utility easement and blocking could be prevented. Any development plan would need to accommodate improvements to maintain that access.

Chair DuBois asked if there was a Pension Trust Reserve policy question for Council about following the Asset Liability Management (ALM) studies.

Ms. Nose explained that it is a policy call on how to determine and what guides the lower discount rate for proactive funding. The current proposal only recommends allocating 50% of what it would take to achieve \$5.3 million dollars.

Chair DuBois felt it would be good to convert the partial payment to an actual percentage.

Ms. Nose agreed. The Committee has options to keep funds in the reserve, and recommend it remain to be revisited by City Council during 2023 for formalization of what the new discount rate would be, recommend liquidating the reserve, or allocate funds to all departments and execute.

Council Member Filseth requested clarification that 2% would be earned if funds remain in the reserve.

Ms. Nose answered yes, that was correct.

Chair DuBois asked if the report comes out every four years.

Ms. Nose indicated the ALM study occurs every four years and the Pension Funding Policy requires staff to return every three years.

Chair DuBois asked whether there was one consulting company.

Ms. Descamps answered multiple. It is a survey of multiple experts on projections for market returns.

Chair DuBois supported including an interest rate not yet determined for this year and placing it in the trust.

Vice Mayor Kou agreed.

Ms. Nose advised that staff would liquidate the reserve and recommend appropriation of funds across the department.

Chair DuBois inquired whether the 90,000 documents consisted of those in the document retention system.

Chief Communications Director Meghan Horrigan Taylor explained that the 90,000 documents are existing documents uploaded to the website, which could include unspecific pages of reports, annual police reports, or other similar PDFs. It is separate from the Document Retention Program.

Chair DuBois indicated the Committee should capture some of the discussion from the May 10 and 11 meetings regarding the recruiting process, number of people and openings per department, and funding for recruiting and staffing.

Vice Mayor Kou suggested highlighting the CIP and large projects in the Utilities Department.

Chair DuBois asked when the Fiscal Sustainability results will be available.

Ms. Nose advised that staff expects an action item on Council's Agenda that will provide results from the round three statistically significant poll on June 13. The draft ordinance for Council review based on Committee and Council actions on the potential tax measures to-date, as well as some final analyses are anticipated soon.

**MOTION:** Council Member Filseth moved, seconded by Vice Mayor Kou to recommend the City Council:

1. Adopt of the FY 2023 Operating and Capital Budgets and Municipal Fee Schedule, amended by:
  - a. Allocation of \$50,000 to YCS for YCI for FY 2023 and increase and include request for funding as part of the HSRAP allocation Process Contract budget amount by \$50,000 in FY 2024
  - b. Allocation of \$20,000 to UNAFF, and follow up on the Non-Profit audit once complete to establish an ongoing process to provide funding for future Non-Profit funding requests
  - c. Move forward with Downtown Housing Plan Grant Recognition and General Fund Support
  - d. Reduce the \$1.3 million Pension Trust Reserve and allocate the \$1.3 million cost across the City's General funds in order to collect the funding to transfer \$1.3 million to the 115 Pension



Trust Fund in FY 2023 and refer discussion and determination of the appropriate rate of proactive funding.

2. Approve the FY 2023-2027 Capital Improvement Plan, amended by
  - a. Actions outlined in this report and approved in the wrap-up discussion.

**MOTION PASSES 3-0**

FUTURE MEETINGS AND AGENDAS

ADJOURNMENT The meeting was adjourned at 2:40 PM