



CITY OF
PALO ALTO

COUNCIL MEETING

6/07/21

14

Received Before Meeting

CITY COUNCIL REVIEW

FY 2022 PROPOSED OPERATING AND CAPITAL BUDGETS & MUNICIPAL FEE SCHEDULE

City Council, Item #14

June 7, 2021

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COUNCIL FINAL REVIEW OVERVIEW

- Provide directions on any remaining adjustments prior to final budget adoption scheduled on June 21st. Actions for consideration are:
 - Review the FY 2022 Proposed Operating and Capital Budgets, Municipal Fee Schedule
 - Review the FY 2022-2025 Capital Improvement Plan
 - Review and accept the alternative balancing strategy in the event the City does not reach agreement concessions with labor groups to which is to utilize the current unallocated \$1.7M in the General Fund
 - Place remaining \$1.7M unallocated funds in BSR should if concessions are achieved
 - Review and provide direction on the Finance Committee's recommended plan for Funding the Roth Building Rehabilitation Project

Staff has not yet achieved agreement with any of the City's labor groups for a zero wage increase for FY 2022, an action that cannot be taken unilaterally.

FINANCE COMMITTEE RECOMMENDATION

- A. *Recommend the City Council adopt the FY 2022 Operating and Capital Budgets, Municipal Fee Schedule, and approve the FY 2022-2026 Capital Improvement Plan as amended by the actions outlined in the staff report section 1 and 3 including Committee and Council tentative adjustments and staff recommended adjustments with the following additional amendments:*
- i. *Recommend to the City Council an alternative balancing strategy to be implemented in the event the City does not achieve agreement on labor concessions by using current unallocated funds of \$1.7 million to offset the additional expense estimated at \$1.6 million in the General Fund, \$2.5 million all funds;*
 - ii. *In the event the unallocated \$1.7 million and/or other funding adjustments remain available, place it in the Budget Stabilization Reserve and retitle the reserve to “Council Recovery Reserve”;*

FINANCE COMMITTEE RECOMMENDATION (CONT'D.)

B. Direct Staff to prepare two scenarios for refurbishing the Roth Building:

- i. Research the feasibility of \$4 million, zero percent interest, 18- month loan from the fiber fund to the museum, with the option to be repaid by the potential federal government community infrastructure grant; and*
- ii. Utilize \$2 million in SUMC funding from the community and infrastructure funds and utilize \$350,000 in impact fees for parks for the restroom and research the possibility of reallocating parks impact fees to the Rinconada PE-08001 in lieu of community center fees, else use \$1.65 million in Community Center Fees and defund the Rinconada Park Program.*

Passed 2-1 (Burt no)

A) CURRENT STATUS OF RECOMMENDED ADJUSTMENTS

	One-Time \$ (savings)/cost	Ongoing \$ (savings)/cost
General Fund City Council & Finance Committee Recommendations, includes:		
• 60-40 split of ARPA and use of ARPA Reserve		
• Use of Budget Stabilization Reserve BSR (\$2.5M); BSR expected to be at approximately 17% of FY 2022 expenses	(\$1.6M)*	\$3.2M
• Reduce Council Contingency from \$125,000 to \$100,000		
• Various restorations as outlined in the staff report		

See CMR 12350, pp. 4-7

Current estimate as of 6.7.2021, staff continue to refine final actions to ensure accuracy. This was previously \$1.7 million as referenced in the staff report and Finance Committee motion.

A) CURRENT STATUS OF RECOMMENDED ADJUSTMENTS (CONT'D.)

Fund	Other Fund Adjustments
Capital Improvement Fund & Stanford University Medical Center (SUMC)	Add Phase 4 Charleston/Arastradero Corridor Project in CIP plan +\$3 million (offset by \$1.2 million SUMC funding; \$1.5 million from the Bike and Pedestrian Plan capital project (PL-04010); and \$300,000 from various street maintenance projects)
Gas Operating Fund	Adjust Commodity Purchases in Gas (decrease \$1.6 million)
University Avenue Parking Permit Fund	Reduce the funding allocated to the Transportation Management Association (TMA) to \$150,000
Community Development Block Grant (CDBG) Fund	Increase CDBG annual allocation by \$7,795 to \$536,756 and allocate to Rebuilding Together Peninsula Safe at Home project (FY 2021-22 CDBG annual action plan) (CMR 12014)
State Gas Tax Fund & Capital Improvement Fund	Revise FY 2022 Gas Tax estimate down by \$132,000 and reduce the Streets Maintenance Capital Project (PE-86070) by \$132,000
Various Utilities Funds	Reclassification of 5.00 positions from a Field Service Inspector to a WGW Utilities Field Service Inspector in Utilities (arbitration decision in January 2021) (CMR 12156)
To Be Determined	Fund the ROTH Building Phase 1 rehabilitation (aka “warm shell”) of 300 Homer Ave. estimated at \$4.0 to 4.5 million

B) FUNDING SCENARIOS FOR REFURBISHING THE ROTH BUILDING

	Legal Boundaries	Other Considerations	Potential \$
<p>Loan from Fiber Optics Fund (zero percent interest, 18-months) to be repaid if PAM is awarded the federal community project grant</p>	<p>Not regulated by Prop. 218 or Prop. 26; City is not obligated to expend revenues generated from charges to fiber customers only on provision of fiber services.</p>	<p>Federal funding is not guaranteed; a decision regarding which projects will be awarded the grant will not occur until October 2021 (at the soonest).</p>	<p>\$4.0M</p>
<p>Utilize SUMC Funding from the Community Health and Safety and Infrastructure and Affordable Housing Funds</p>	<p>The Development Agreement outlines different requirements for each expense category. The only category that is eligible within the SUMC Fund to fund Roth is the Infrastructure and Affordable Housing Funds category.</p>	<p>Reallocate planned use of SUMC expenses to alternative expense categories or non-SUMC funding sources or cancel projects is necessary and requires additional research. May also open discussions with Stanford to adjust current terms.</p>	<p>\$1.8M</p>
<p>Reallocate Park Impact Fees to the Rinconada Park Improvements Project in lieu of Community Center Fees, else use \$1.65M in Community Center Fees and/or defund Rinconada</p>	<p>Staff is researching the eligibility of using Community Center Impact Fees for Roth, as the project was not specifically listed as part of the most recent nexus study in 2021.</p>	<p>Allocation of remaining balance of approx. \$2M Parkland Dedication Fees would potentially free up Community Center Impact Fees funding for allocation to Roth.</p>	<p>\$2.0M</p>

REFURBISHING THE ROTH BUILDING FUNDING OPTIONS



Funding Source	Est. Funding Contribution
Total Funding Need	\$10.5M
Available Financial Support	
Funds already set aside in City/PAM funds or awarded grants	\$6.0M
Pledges	
Funds are not received verbal/ written donor support	\$0.2M - \$0.5M
Total Committed Funding Sources	
Potential Additional Funding Sources	
SUMC Infrastructure and Affordable Housing*	~\$1.0M - \$1.8M
Impact Fees – Community Center*	\$1.0M - \$2.0M
Impact Fees – Parks (Restroom)	\$0.3M
Loan OR grant from Fiber Optics Fund	up to \$4.0M

This table does not include reference to the current request for federal funding support of up to \$4.5 million for rehabilitation costs, submitted as a Community Project Funding request from Representative Eshoo.

**Requires further staff research and work to reallocate and/or reprioritize projects. Reallocation of SUMC Funds would require negotiations with Stanford or reallocating current planned projects such as Fire Station #4.*

THIRD QUARTER FINANCIAL STATUS HIGHLIGHTS (6/14 CONSENT)

- Overall and Citywide, departments and funds are trending as expected at mid-year
- Preliminary estimate in early May 2021 identifying an approx. \$2M to \$3.5M General Fund surplus
 - Optimistic that the General Fund will end with a larger surplus by year-end
- Received first ARPA distribution, totaling \$6.85M
 - Recommended to be reserved in the Non-Departmental in alignment with the assumptions recommended in the FY 2022 Budget

SPECIFIC ACTIONS FOR COUNCIL CONSIDERATION

- 1) Review the current budget adjustments to the Fiscal Year 2022 Proposed Operating and Capital Budgets and Municipal Fee Schedule in alignment with the work completed by the Committee and Council during the month of May 2021 and provide direction on any final adjustments in preparation for City Council Adoption;
- 2) Review and accept final FY 2022-2025 Capital Improvement Plan as amended by the actions outlined in this report (as recommended by the Finance Committee and Council);
- 3) Review and accept the alternative balancing strategy in the event the City does not reach agreement with labor groups on concessions in the General Fund, that the City Council utilize current unallocated funds of \$1.7 million in the General Fund to offset the additional expense or be placed in the Budget Stabilization Reserve if remain unallocated; and
- 4) Review the Finance Committee recommended plan for funding of the Roth building rehabilitation project and the 'additional information' section provided as requested by the Committee.

DRAFT POTENTIAL MOTION FOR COUNCIL CONSIDERATION

- 1) Direct staff to return on June 21, 2021 for adoption of the Fiscal Year 2022 Proposed Operating and Capital Budgets and Municipal Fee Schedule, as amended and recommended by the Finance Committee on May 25, 2021 (including alternative balancing strategy), with the following additional adjustments:
 - a) INSERT ADDITIONAL CHANGES HERE ;
- 2) Review and accept final FY 2022-2025 Capital Improvement Plan as amended by the actions outlined in this report (as recommended by the Finance Committee and Council); and
- 3) Review the Finance Committee recommended plan for funding of the ROTH building rehabilitation project and provide direction on the funding path for staff to pursue.