

Finance MEETING

5/04/2021

Received Before Meeting

3

FY 2021-2022 PROPOSED OPERATING AND CAPITAL BUDGETS

Finance Committee Item #3

May 4, 2021









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OVERVIEW

- Proposed budget balancing strategy that addresses the community's immediate service needs, while positioning to restore services and adapt as recovery takes shape
- Council directed staff to use LRFF Scenario B assumptions which outlines a conservative recovery from the current pandemic over a three to five-year period
- Following an extremely difficult year, balancing strategies to address the City's continued fiscal challenges, are neither recommended nor sustainable
- Advance public discussions on how to most effectively resource services that have the greatest impact on the community

MODIFIED CORE SERVICES WILL CONTINUE

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

MULTIYEAR IMPACTS OF THE PANDEMIC

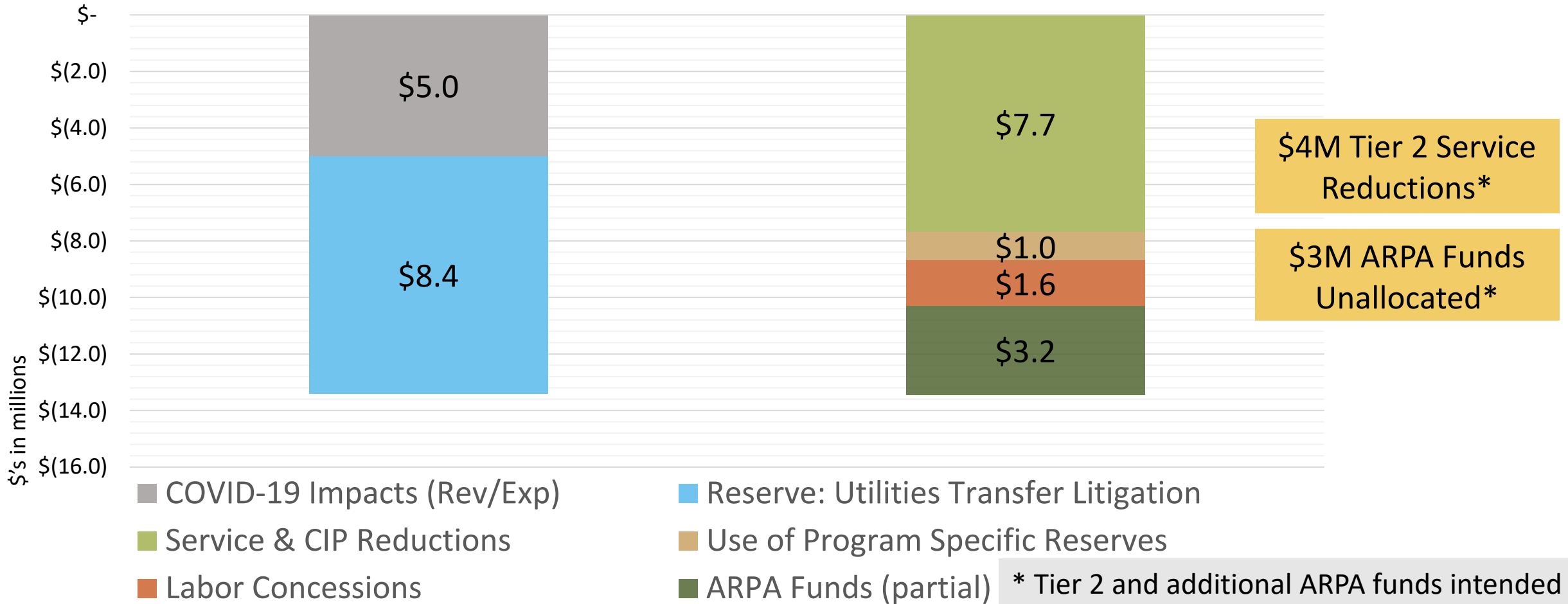
- The past year has been filled with uncertainty and challenges
 - City of Palo Alto took swift, decisive, and difficult action to balance an approximately \$40 million decline in FY 2021 revenues (particularly sales and hotel taxes)
 - Significant efforts have been underway and accomplished as the organization and community adapt to rapid changes
- This Proposed Budget begins the next phase of a conversation on how best to deliver services through the allocation of constrained resources
 - Balancing actions reflect extraordinary service and CIP reductions in this current reality of reduced resources
 - Need to ensure the City ends fiscally solvent for FY 2022

PROPOSED BUDGET BALANCING STRATEGY



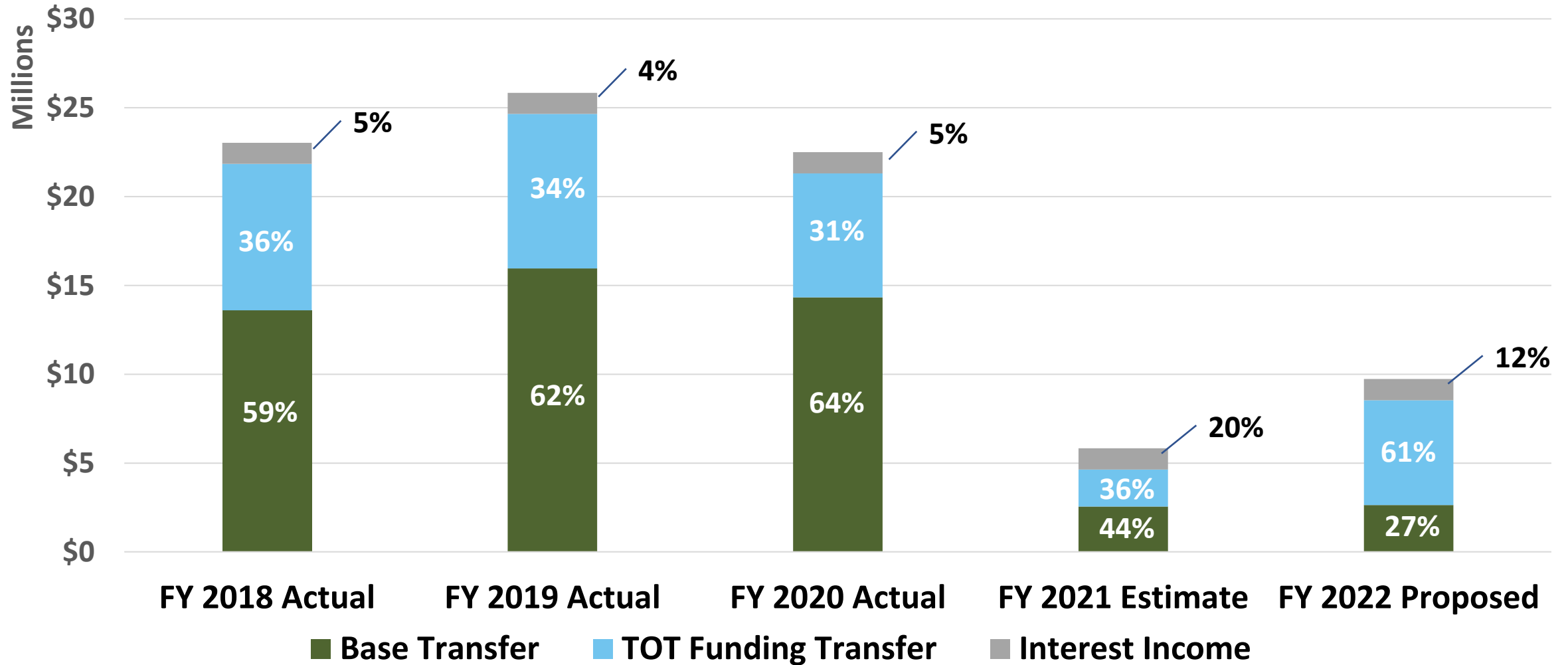
FY 2022 Budget Gap

FY 2022 Budget Balancing Strategy



* Tier 2 and additional ARPA funds intended for Council / Finance Committee to use to restore reductions in proposed balancing strategy and/or available to address economic and labor uncertainties.

CIP – GENERAL FUND INVESTMENT IN CAPITAL IMPROVEMENT FUND



BUDGET TAKEAWAYS

- As noted, the Proposed Budget and Proposed Capital Budget, are neither recommended nor sustainable long-term
- The proposed budgets recognize a tough fiscal time in the City's history.
- These budgets, while not what we all are hoping for, achieve many things:
 - Funds essential services like fire and police services, parks and library services
 - Addresses Council direction funding pension liabilities
 - Sets aside funds to address litigation and addresses a budget restructuring as a result of lack of Utility Transfer in future years
 - Positions the well City to restore services as the economy improves
 - Invests in essential capital improvements

COMPONENTS OF THIS PRESENTATION

- FY 2022 Proposed Budget
 - Citywide Funds
- Operating Budget
 - General Funds
 - Internal Service Funds
 - Enterprise Funds
 - Other Funds
- Capital Budget
- Finance Committee Review & Next Steps



FY 2022 PROPOSED BUDGET

Citywide Overview

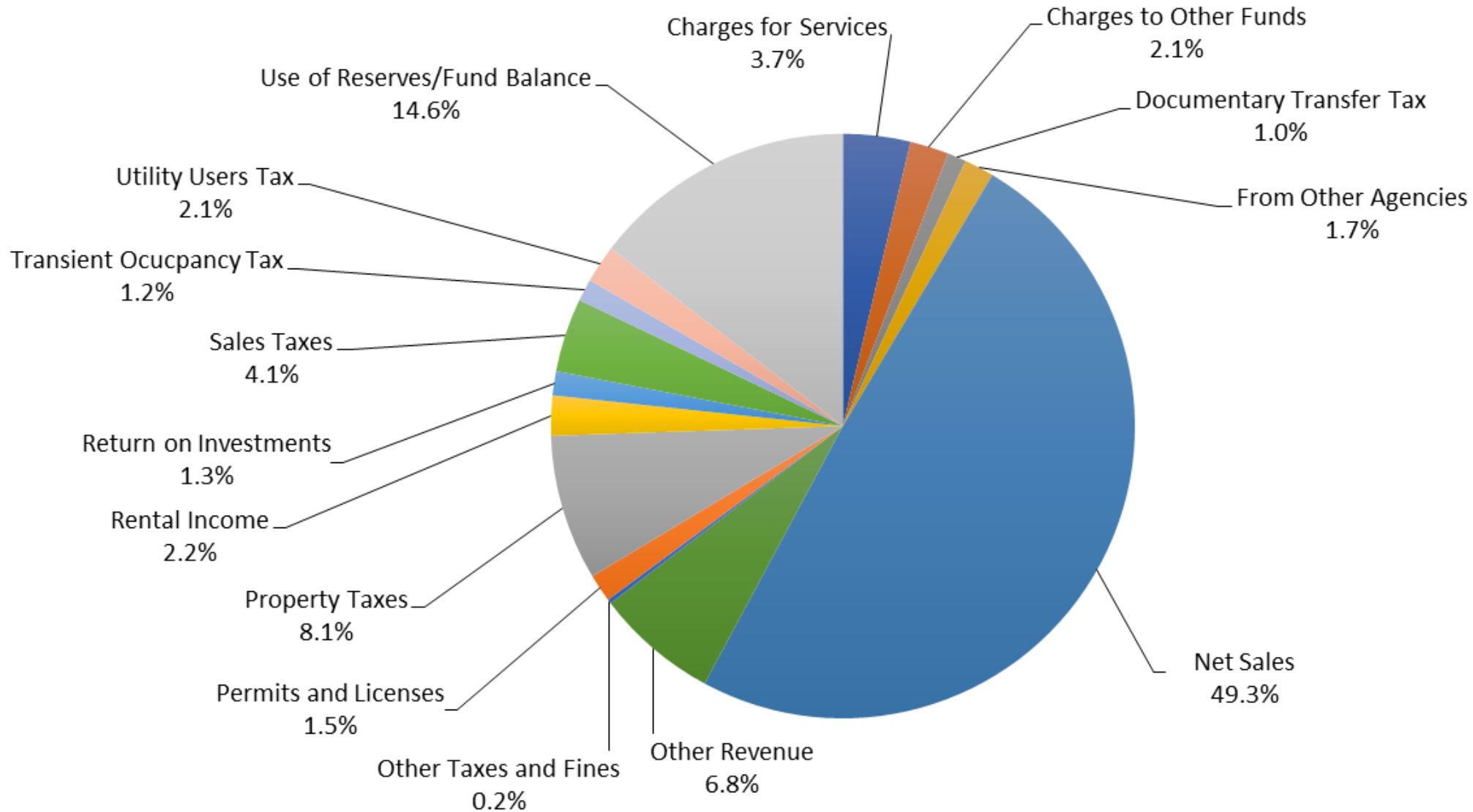
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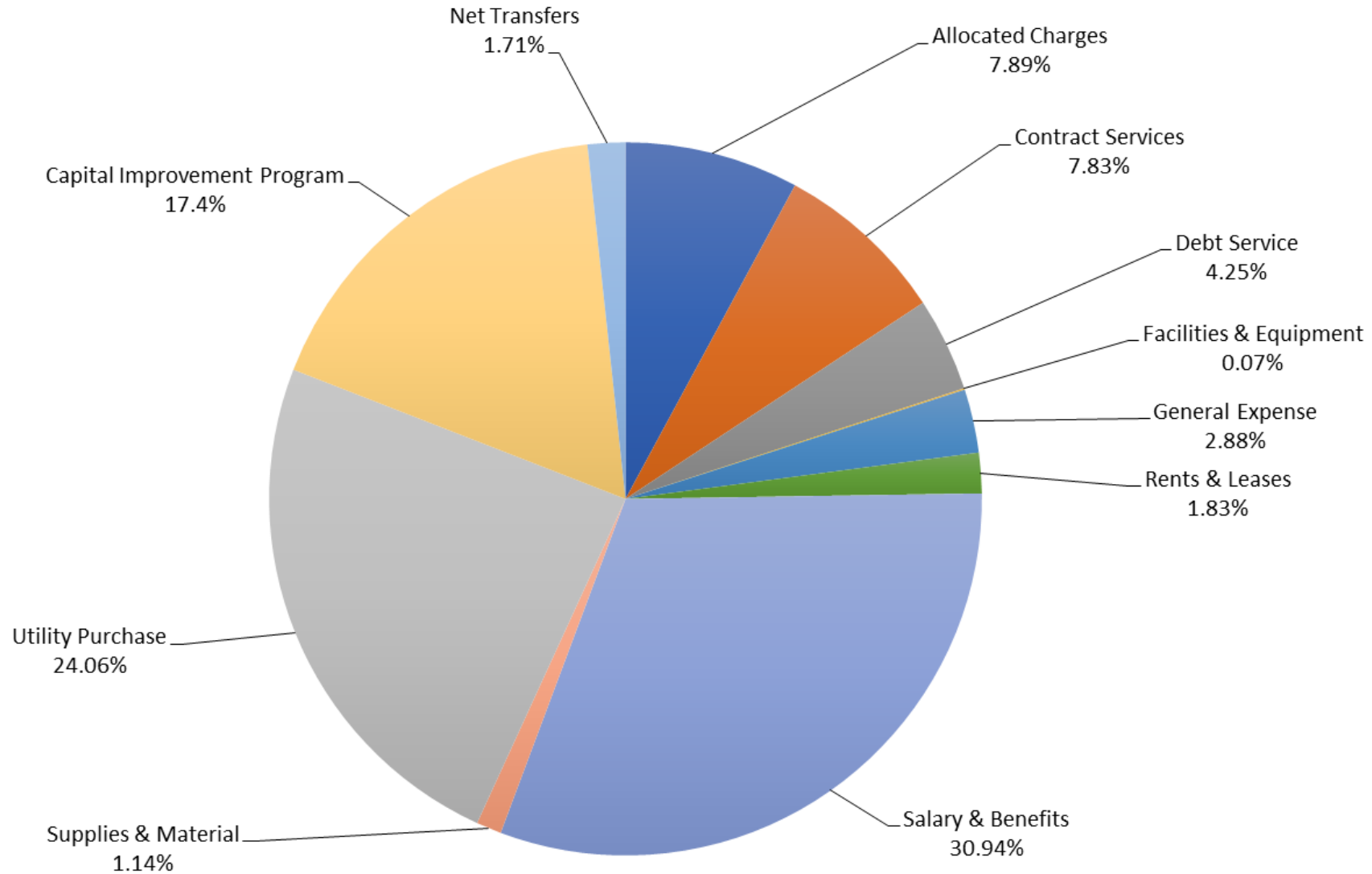
CITYWIDE STRATEGIES

- Transfer to the Capital Fund a 67.7% reduction from pre-pandemic levels (\$9.7 million Proposed Budget, a \$3.1 million additional reduction)
- Potential labor concessions for the City's represented groups which totals \$2.5 million Citywide and \$1.6 million in the General Fund.
- Additional City's Pension & Other Post-Employment Benefits (OPEB) contributions assuming a 6.2 percent discount rate
- Continuing a hiring freeze and freezing all nonessential travel, eliminating current vacancies, and service reductions such as reduced walk-in office hours.

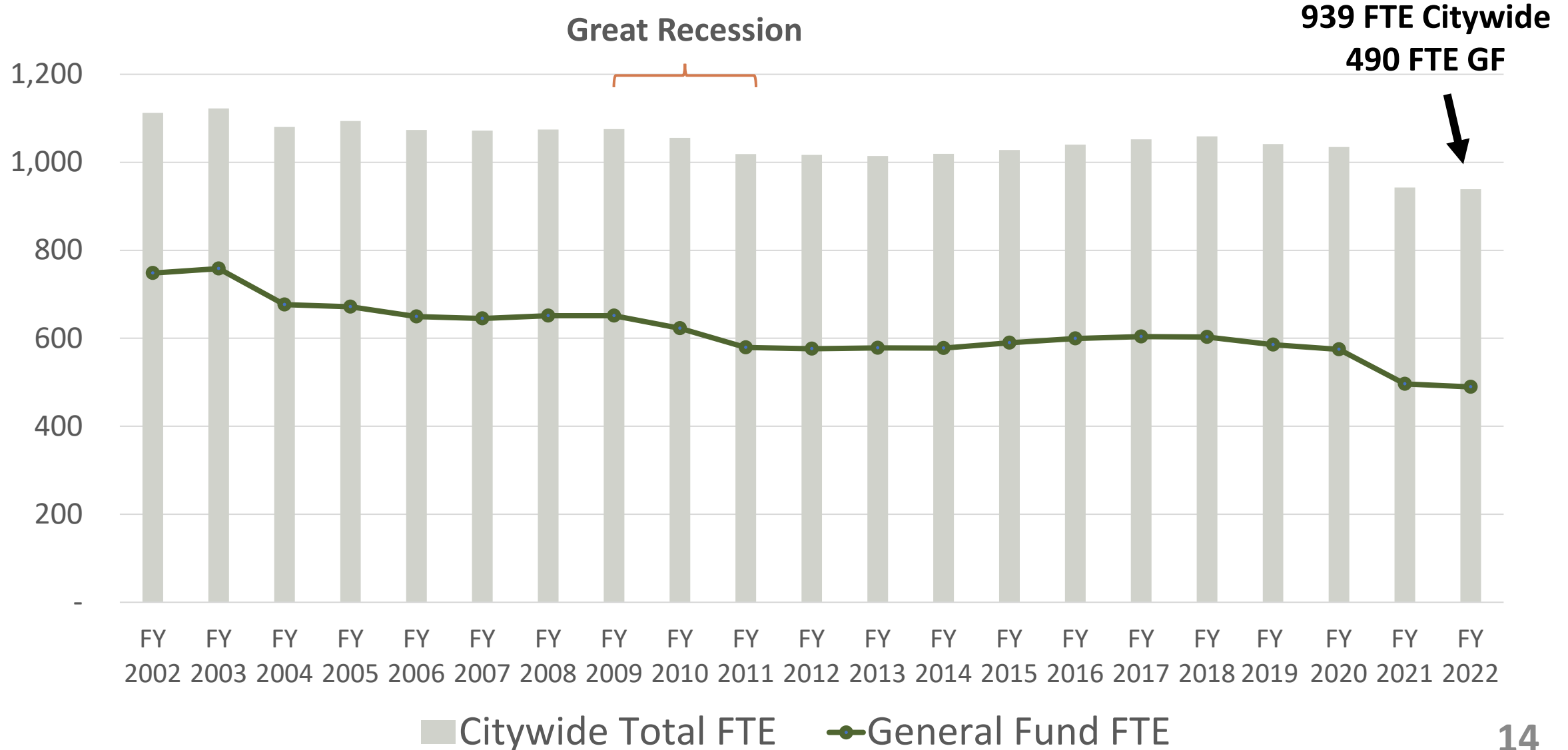
CITYWIDE SOURCES: \$589.4 MILLION



CITYWIDE EXPENSES: \$690.1 MILLION



HISTORICAL FULL-TIME STAFFING COMPARISON



CITYWIDE FULL-TIME POSITIONS



	General Fund	Enterprise Funds	Other Funds	Total
FY 2021 Adopted Budget	574.43	358.74	101.68	1,034.85
FY 2021 Approved Adjustments	-	-	-	-
FY 2021 Revised Budget	574.43	358.74	101.68	1,034.85
FY 2022 Position Freeze Elimination**	(63.52)	(5.00)	(7.98)	(76.50)
FY 2022 Add/Eliminate	(19.60)	4.90	(4.80)	(19.50)
FY 2022 Reallocations	(1.66)	0.10	1.66	-
Total FY 2022 Changes	(84.87)	-	(11.12)	(96.00)
FY 2022 Proposed Budget	489.65	358.74	90.46	938.85

* Other Funds include the Capital Improvement, Internal Service, and Special Revenue Funds

** Reflects positions that were frozen and defunded in FY 2021 and eliminated in FY 2022

SALARY AND BENEFIT CHANGES

(compared to the FY 2021 Adopted Budget)



Expense Category	GENERAL FUND			ALL FUNDS		
	FY 2022 Proposed	\$ Change	% Change	FY 2022 Proposed	\$ Change	% Change
Salary	65,294	(2,126)	(3.2)%	116,618	(688)	(0.6)%
Pension	34,227	2,201	6.9%	52,878	3,777	7.7%
Healthcare	11,262	673	6.4%	20,169	1,547	8.3%
Retiree Health	8,806	142	1.6%	13,291	214	1.6%
Workers' Comp	4,523	1,127	33.2%	6,415	1,599	33.2%
Other Benefits	2,561	116	4.7%	4,178	220	5.5%
Total	\$126,674	\$2,132	1.7%	\$213,549	\$6,668	3.2%



FY 2022 PROPOSED OPERATING BUDGET

General Fund, Internal Service Funds,
and Other Funds

FY 2022 LONG RANGE FINANCIAL FORECAST

	Adopted					
	2021	2022	2023	2024	2025	2026
Total Revenue	\$196,474	\$196,532	\$205,162	\$216,193	\$223,168	\$229,605
		1.8%	4.4%	5.4%	3.2%	2.9%
Total Expenditures	\$196,949	\$203,322	\$217,846	\$229,681	\$238,974	\$247,163
		5.6%	7.1%	5.4%	4.0%	3.4%
Net One-Time Surplus/(Gap)	(\$475)	(\$6,790)	(\$12,684)	(\$13,488)	(\$15,806)	(\$17,558)
Cumulative Net Operating Margin (One-Time)						

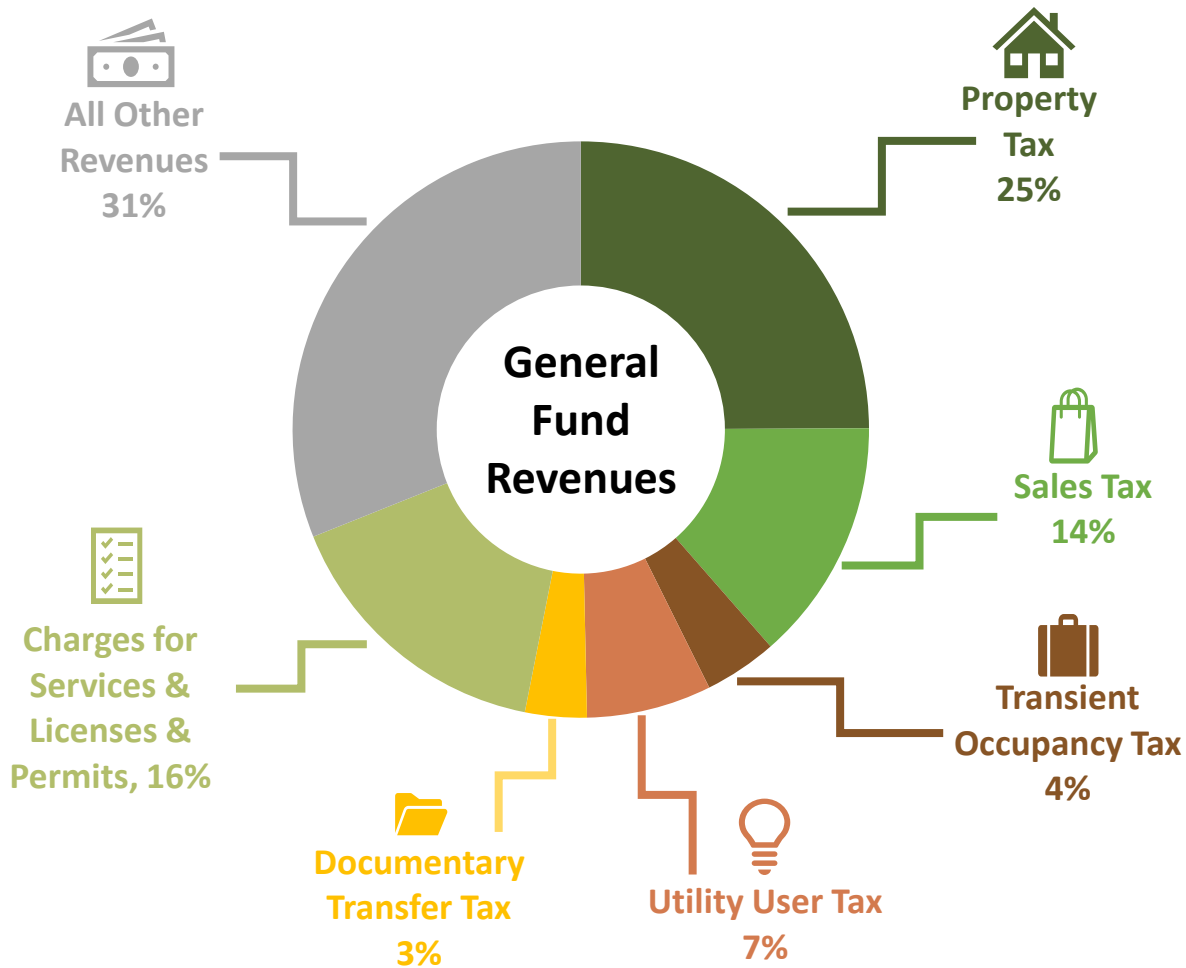
Net Operating Margin		(\$6,790)	(\$5,894)	(\$804)	(\$2,318)	(\$1,752)
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Cumulative Net Operating Margin

Assumes that the annual shortfalls are solved with ongoing solutions and annual surpluses are spent for ongoing expenditures.

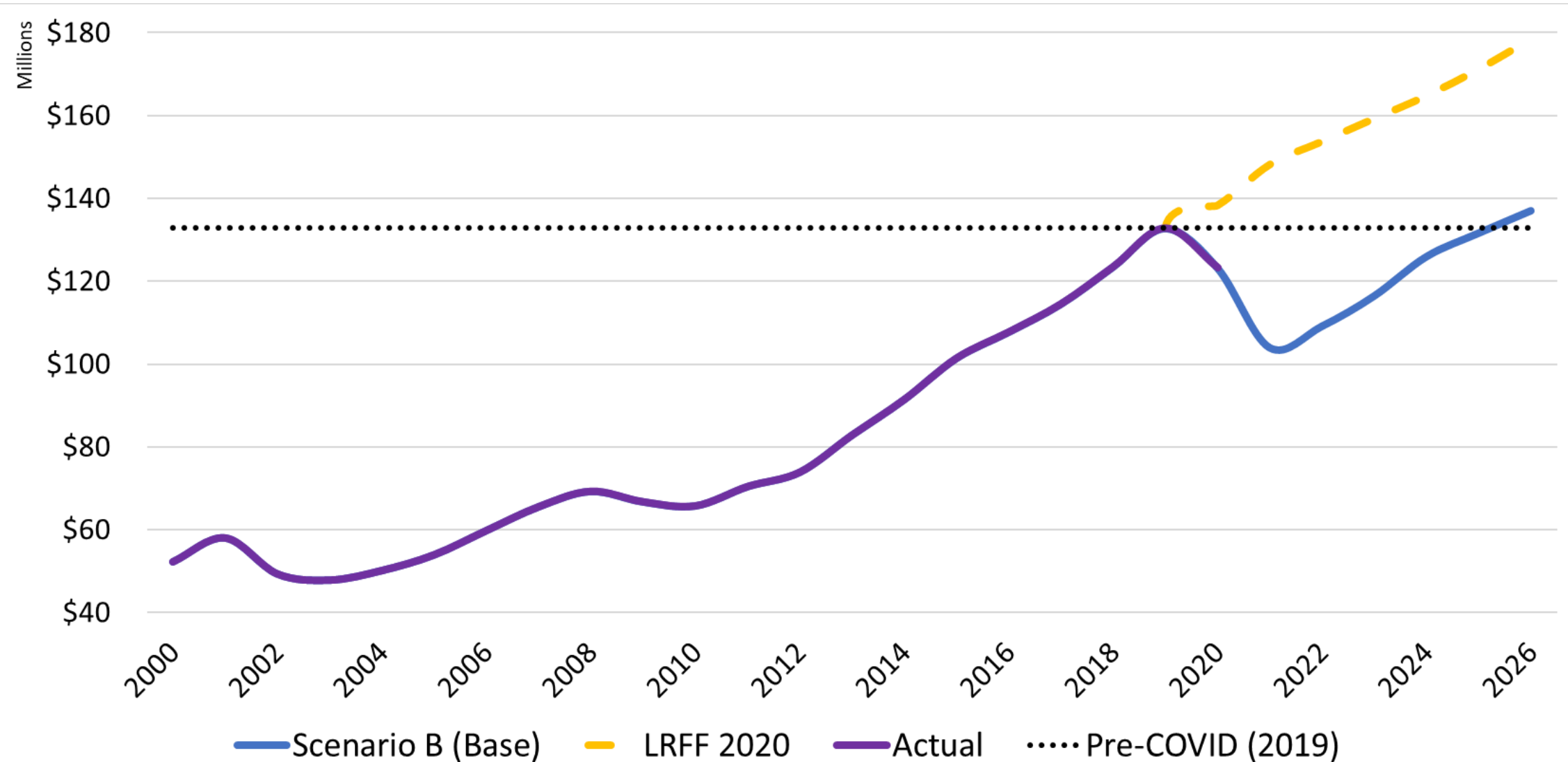
* Does not adjust for pending litigation disputes.

GENERAL FUND SOURCES

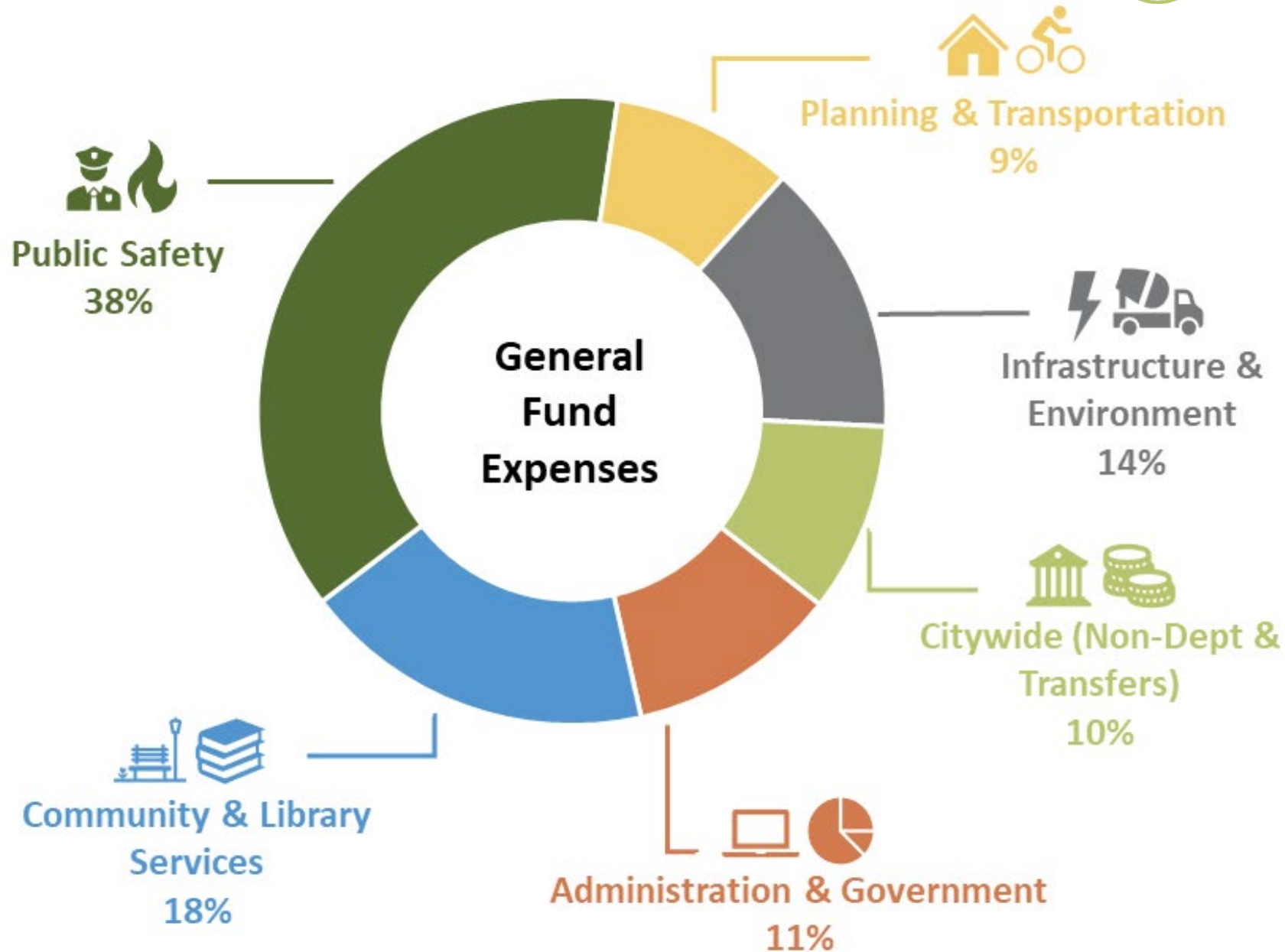


	FY19 Actual	FY20 Actual	FY21 Est.	FY22 Prop.
Property Tax	\$47.3	\$51.1	\$53.17	\$51.2
Sales Tax	36.5	30.6	25.03	28.2
Transient Occupancy Tax	25.6	18.6	4.8	8.4
Utility User Tax	16.4	16.1	14.1	14.4
Documentary Transfer Tax	6.9	6.9	6.9	7.1
Charges for Services & Licenses & Permits	35.8	31.6	29.5	32.5
All Other Revenues	57.3	54.8	55.4	63.8
Total General Fund Revenue	\$225.8	\$209.7	\$188.9	\$205.6

GENERAL FUND MAJOR TAX REVENUES



OUR CITY AT WORK / GENERAL FUND USES



GENERAL FUND BUDGET HIGHLIGHTS

Key assumptions expected in the FY 2022 Proposed Budget:

- General Fund Tax revenues in alignment with Scenario B as directed by the City Council; balances an approximate \$13 million gap once pending utilities transfer litigation is reserved
- Budget strategy uses both American Rescue Plan Act (ARPA) funds and labor concessions
 - Recognition of 1 year of ARPA funding \$6.25 million
 - Balanced assuming 0% general wage increases; if not achieved, likely solutions include: Tier 2 reductions, ARPA funds, use of additional reserve
- Budget Stabilization remains within the target range of 15% to 20%, estimated at approximately 17% (-\$2.3 million); below the goal of 18.5%

ARPA \$'s & TIER 2 ADDITIONAL REDUCTIONS

- The balancing strategy uses one-time Federal funding (\$6.25 million, 50% of the \$12.5 million expected) to mitigate additional service reductions
 - \$3.2 million set aside for use to restore reductions in the proposed balancing strategy and/or available to address other uncertainties
- "Tier 2" service reductions outlined are not in the proposed budget balancing strategy. Available as alternative proposals in the event that the City faces:
 - Additional / more severe economic uncertainties,
 - Not reach agreement with labor
 - Council choose to not use the ARPA funds to balance the budget
 - Alternatives to the current proposed service reductions
 - Restore Budget Stabilization Reserve to target level of 18.5% (currently at 17.4%)

OPERATING BUDGET SERVICE AREA IMPACTS

Neighborhood Community & Library Services

- Reduce operating hours and programming at Art Center, Cubberley Artist Studio Program (CASP), and Baylands Interpretive Center
- Reduce staff support for Cubberley and Children's Theatre operations and productions
- Decrease marketing funding for Enjoy! Catalogue and Junior Museum and Zoo (JMZ)
- Increase fees to increase cost recovery levels & recognize revenue to offset existing teen services
- Restoration of a Foothills Supervising Ranger
- Close Downtown, Children's, and College Terrace Library branches and other changes:
 - Up to 75% of the Children's Library collection will be moved to nearby Rinconada Library
 - Customers can pick up holds at Rinconada and Mitchell Park Libraries, or at Holds Machines planned to be installed at Downtown and College Terrace Libraries

Public Safety

- Further reduce patrol staffing, elimination of specialized units and reduce investigations
- Brownout flexible staffing model at Fire Station No. 2 where the station is staffed without mandatory backfill & adaptation to fire alarm responses
- Reduce Crossing Guard services 50% maintaining services only at high traffic intersections that are part of common routes to schools
- System maintenance for the railroad crossing intrusion detection system

Planning & Transportation

- Delays in development review due to a reduction of current planning resulting in longer timelines and delays in permit issuance
- Reduced bicycle program and increased response time to transportation related 311 notifications due to reduction of traffic data services
- Implementing license plate recognition for efficiencies in parking enforcement and initiating a paid parking program to increase revenues

OPERATING BUDGET SERVICE AREA IMPACTS

Infrastructure & Environment

- Reduced facilities maintenance and traffic control maintenance and repairs.
- Maintain minimal rate increases for the next year

Internal Services/Appointees

- Reductions in these areas result in continuing increasing timeframes for assistance and review in areas such as recruitments, procurements, and risk management.
- Technology solutions will be constrained to only essential contracts and systems and to support equipment needs

GENERAL FUND TIER 2 POTENTIAL REDUCTIONS

- Some examples of more severe reductions outlined in Tier 2:
 - full closure of facilities and/or elimination of programs (e.g. neighborhood libraries, fire station, and Children's Theatre)
 - Additional public safety personnel
 - long-range planning staff
 - in-house sidewalk repair/maintenance
 - park and open space maintenance
 - reductions to human services contracts and grants, and
 - further reductions of citywide administrative support, human resources, and more

INTERNAL SERVICE FUND ALLOCATED CHARGES

Expense Category	GENERAL FUND			ALL FUNDS		
	FY 2021 Adopted	FY 2022 Proposed	% Change	FY 2021 Adopted	FY 2022 Proposed	% Change
General Benefits	42,925	46,174	7.6%	68,268	73,964	8.3%
General Liability	1,583	2,178	37.6%	2,710	3,729	37.6%
Print & Mail	1,105	989	(10.5)%	1,633	1,550	(5.1)%
Retiree Healthcare	8,664	8,806	1.6%	13,077	13,290	1.6%
Technology	5,750	6,015	4.6%	12,322	13,647	10.8%
Vehicle	4,191	4,249	1.4%	7,285	7,407	1.7%
Workers' Compensation	3,395	4,523	33.2%	4,816	6,415	33.2%
Total	67,613	72,934	7.9%	110,111	120,002	9.0%

OTHER FUNDS

Additional actions included in the Proposed Budget address non-General Fund activities including but not limited to:

- Parking Funds
- Community Development Block Grant Funds
- Stanford University Medical Fund (SUMC)
- Enterprise Funds, proposed rate changes to the right

	FY 2021 Adopted	Current Balancing Strategy Rate Change (as of 4/6/21)
Electric	0%	0%
Gas	2%	3%
Water	0%	0%
Wastewater	0%	3%
Fiber	2.5%	2%
Refuse	0%	0%
Storm Drain	2.5%	2%
Total	2.4%	0.1%

Total monthly bill is estimated to increase \$4.50 per month, or 1.4% to \$326.41 per month.

Federal & State Revenue Funds

- \$740,000 in Community Development Block Grant Funding

Parking Funds:

- \$350,000 for the Transportation Management Association (TMA)
- Set employee permit prices and corresponding revenues at FY 2020 levels
- Reallocate expenses for public toilet facilities and automated parking guidance system

Stanford University Medical Center (Development Agreement)

- \$12.9M investments anticipated in FY 2022-2026 Capital Improvement Plan
- \$5.5M remaining unspent balance, Finance Committee scheduled to Review May 4, 2021



FY 2022 CAPITAL BUDGET

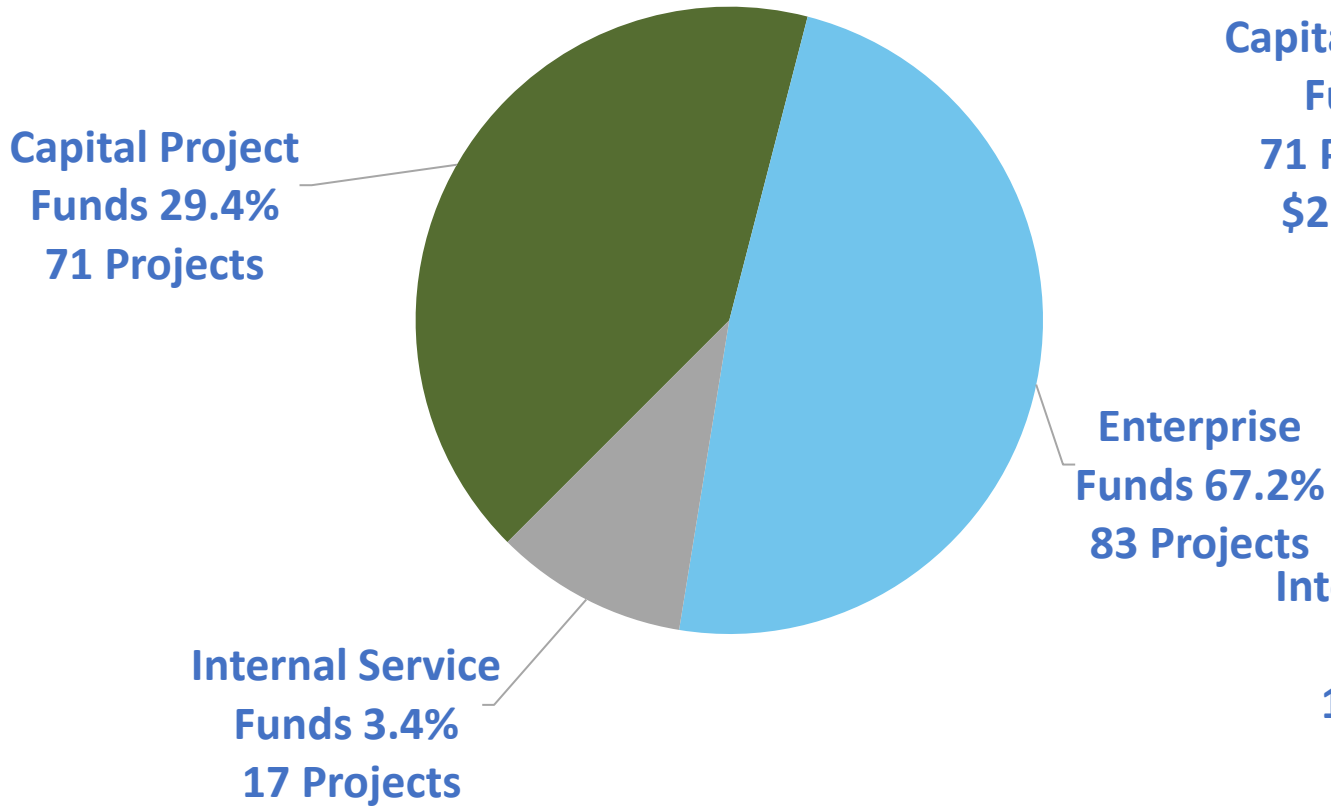
FY 2022-2026 CAPITAL IMPROVEMENT PROGRAM (CIP) PLAN

May 4, 2021

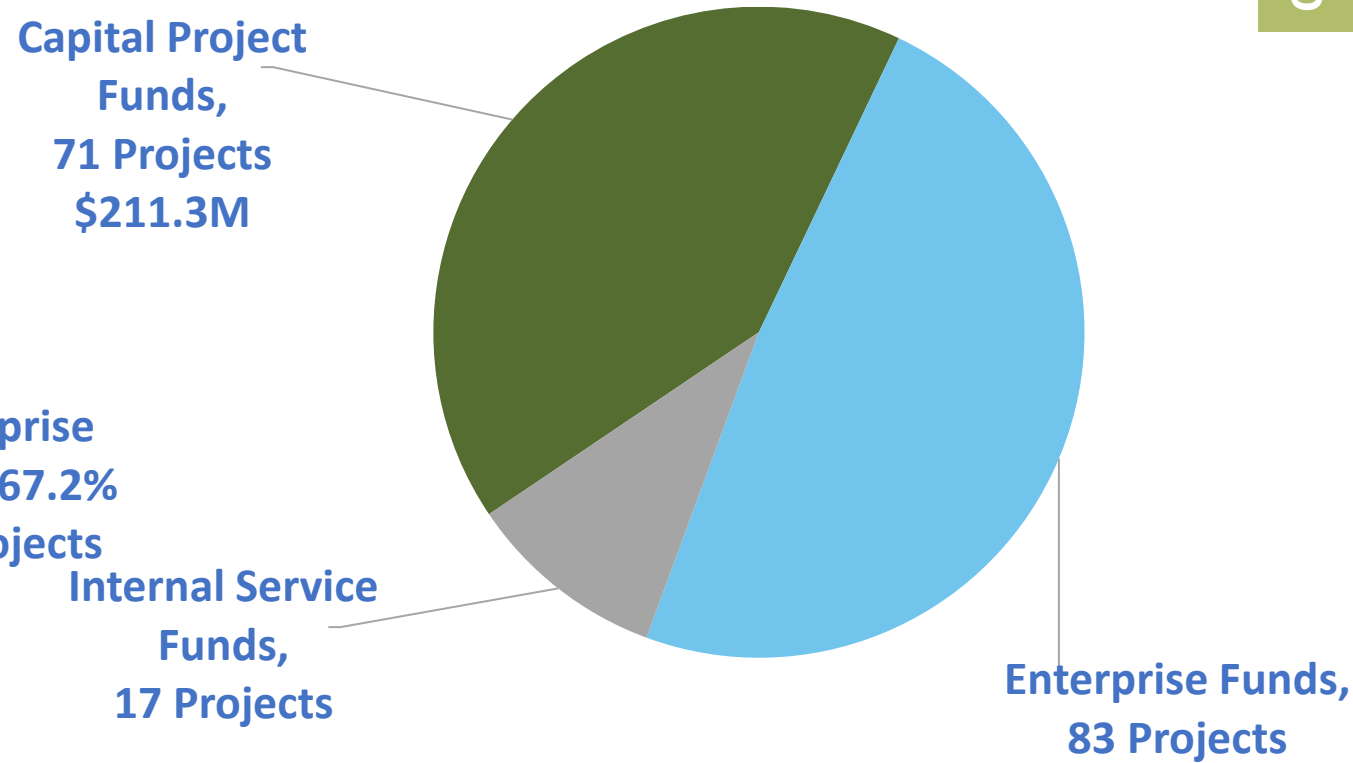
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CAPITAL IMPROVEMENT PROGRAM (CIP) – OVERVIEW 5-YR PLAN

2022-2026 CIP PLANNED PROJECTS BY FUND TYPE (171 PROJECTS)

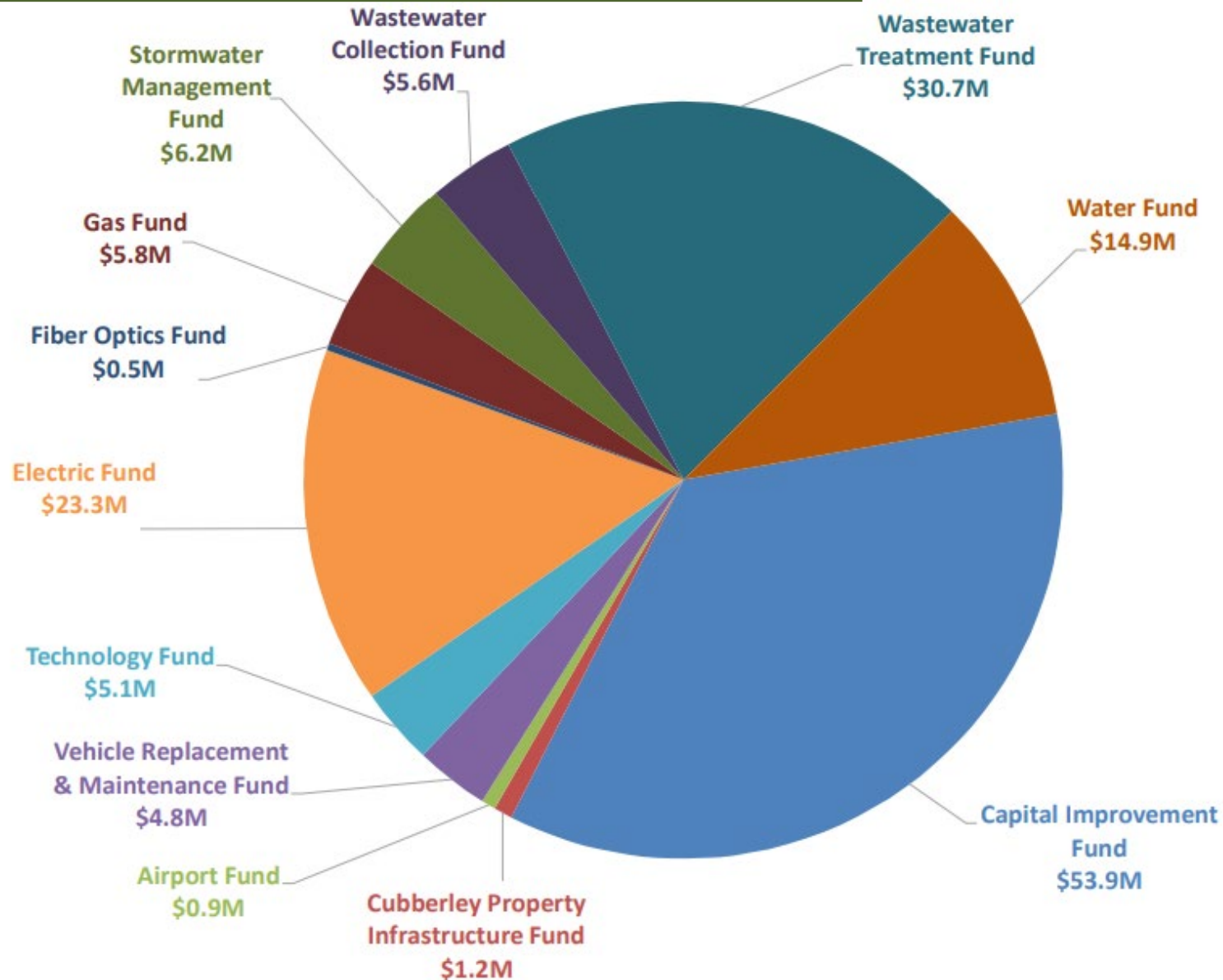


2022-2026 CIP PLANNED FUNDING BY FUND TYPE (\$726.8 MILLION)

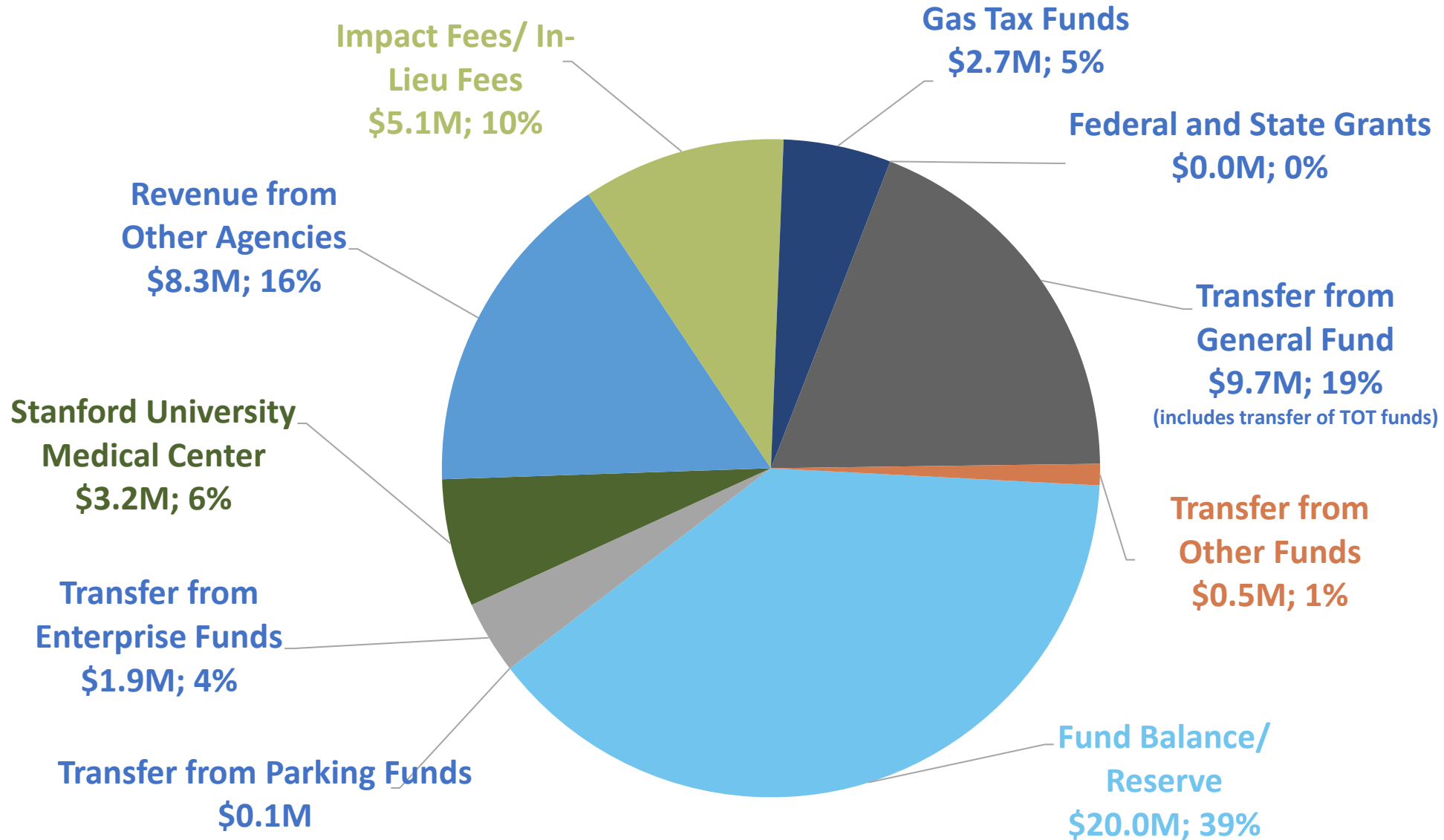


- \$772M CIP plan in FY 2021-2025 decreased to \$727 M in CIP plan FY 2022-2026
- FY 2021 Capital Budget of \$300 M decreased to \$153 M in FY 2022

2022 CAPITAL BUDGET EXPENSES BY FUND: \$152.9 MILLION



2022 CAPITAL IMPRVT FUND REVENUES BY SOURCE: \$51.5 MILLION



CIP – MAJOR INVESTMENTS

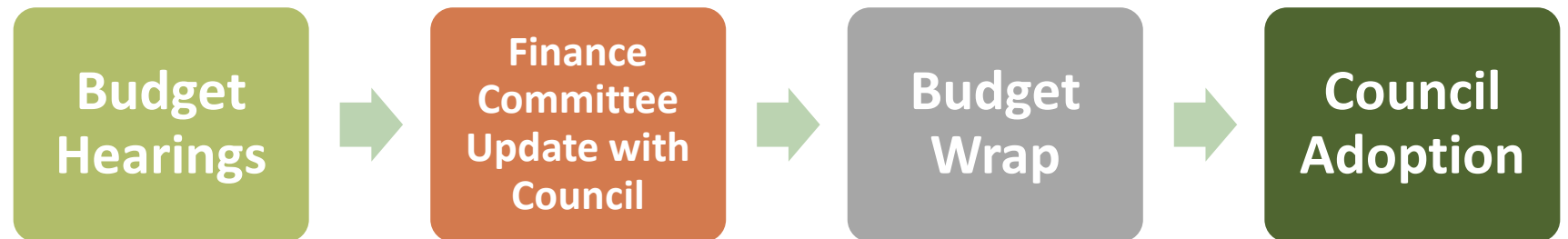
- Public Safety Building, Fire Station 4, and Charleston/Arastradero Corridor Phase 3a
- Train crossings/rail grade separation planning
- Catch-up and keep-up work reduced but maintained at minimum needs for health and safety measures only
- Enterprise Funds maintained status quo capital investment plans to keep rate increases at a minimum
- Water Quality Control Plant has \$257.4 M of infrastructure investment projects and is expecting a continued ramp to the long-range planning upgrade for the facility



MEETING SCHEDULE & GUIDELINES

BUDGET HEARING GUIDELINES

- Meeting proceedings organized by agenda item:
 - Combined presentation from departments by service area
 - Highlight budgetary information and areas of emphasis moving forward
 - Finance Committee discussion with a 5 min timer for Councilmember comments and questions
- Recommended Motions:
 - “Tentative Approval of *[insert item]*”: **majority vote**
 - Recommend to be placed in the “parking lot”: **majority vote**
 - Request additional information/staff follow up: **majority vote**



“PARKING LOT”

- Used as a running list of items that the committee will consider restoring, using funds available.
- Status of this will be reviewed at the end of the day May 12th and inform the basis of the discussions with City Council on May 17th

FY 2022 BUDGET PROCESS

Date	Council Adjustments to Budget	FY 2022 GF	Dept
	<i>Beginning Balance - ARPA Reserve</i>	\$ 3,192,580	
	Remaining:	\$ 3,192,580	

Date	Parking Lot Issues	GF Amount	Dept
	Total:		

Date	FY 2022 Council Contingency	GF	Amount
11-May	Beginning Balance	\$	125,000

JOIN THE BUDGET CONVERSATION



NEXT STEPS

Save the date on the following ways for the community to join the budget conversations:

- **Finance Committee FY 2021-22 Budget Preview:** May 4, At 2:00 P.M.
- **Online Survey to be Released:** May 5
- **Budget Town Hall:** FY 2021-22 Budget Discussion May 6, 6:00 P.M. –*Register online via the link below.*
- **Finance Committee Budget Hearings:** May 11, 12, 25, All Hearings Begin At 9:00 A.M.
- **Finance Committee Update at Council:** May 17
- **City Council Budget Adoption:** June 21, at 5 P.M.

Join the Conversation
On The City's Budget

Join the conversation and share your budget priorities through a series of community engagement opportunities.

For specific agendas, go to www.cityofpaloalto.org/budget

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