



# FY 2023 PROPOSED OPERATING AND CAPITAL BUDGETS & 2023-2027 CAPITAL IMPROVEMENT PLAN

**MAY 2, 2022**

[www.cityofpaloalto.org/budget](http://www.cityofpaloalto.org/budget)

- Proposed budget balancing strategy that continues to reflect a recovery period and transition to an endemic state, building on reinvestments made by Council in the current fiscal year
- Foundation for budget is Long-Range Financial Forecast (LRFF) approved by Council, reflecting a conservative recovery over 3-5 years and more rapidly investing in services and the workforce, including midyear actions.
- Transitional year while the Council contemplates major changes for funding of program and services such as affordable housing and grade separating train crossings.
  - Fiscal Sustainability: A Community Conversation
  - Community input and surveys help inform Council actions on service priorities and next steps

- Operating budget totals \$934.2 million (\$247.2 million in General Fund) and capital budget totals \$351.8 million in FY 2023 and \$789.0 million over the five-year Capital Improvement Program (CIP)
  - Full time staffing additions of 38.85 FTE result in total staffing of 1,015 FTE; remains below pre-pandemic levels
- Balancing continues ambitious pace of alignment of resources with pace of recovery.
  - Use of one-time funding for limited term priority service investments
  - Provide time for the Council to contemplate significant changes in funding
- Recognizing uncertainties in the year ahead, staff looks forward to working with Finance Committee to refine proposals for full City Council consideration in June

# BUDGET CONVERSATIONS & SCHEDULE

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## May 2<sup>nd</sup>, 10<sup>th</sup>, & 11<sup>th</sup>

- **TONIGHT:** City Council to review and discuss the FY 2023 Proposed Budget, providing insight and feedback for Finance Committee colleagues
- Finance Committee will review specific adjustments in the proposed budgets and recommend amendments

## May 24<sup>th</sup>

- Finance Committee will be presented a final, revised balancing strategy, based on the input from the May budget meetings & recommend final adjustments

## June 20<sup>th</sup>

- City Council budget adoption as amended by the Finance Committee in May

# SUMMARY OF ACTIONS TO DATE

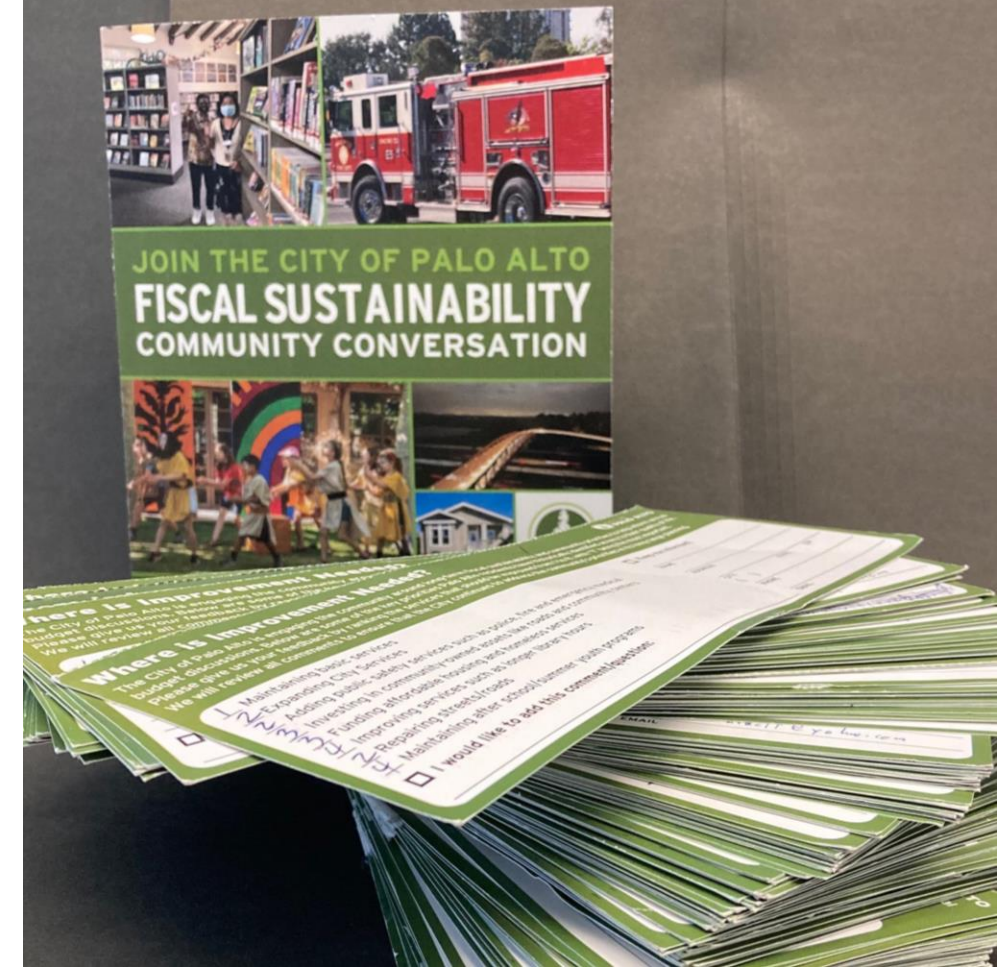
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- *September 21, 2021, Finance Committee:* Accept CalPERS Pension Annual Valuation as of June 30, 2020
- *October 25, 2021, City Council:* Preliminary Q1 Fiscal Year (FY) 2022 Financial Status and Amendments in Various Funds and the Table of Organization to add 4.00 FTE Positions
- *November 2, 2021, Finance Committee:* Report on Public Safety Long Term Financial Trends
- *November 30, 2021, Finance Committee:* Recommendation to the City Council to Approve the Fiscal Year (FY) 2021 Annual Comprehensive Financial Report (ACFR) & FY 2021 Budget Amend. in Various Funds
- *December 7, 2021, Finance Committee:* Review and Recommend that the City Council Accept the FY 2023 – FY 2032 Long Range Financial Forecast (LRFF) and FY 2023 Budget Development Guidelines
- *December 7, 2021, Finance Committee:* First Quarter Financial Report FY 2022
- *January 10, 2022, City Council:* Review and Accept the FY 2023 – FY 2032 Long Range Financial Forecast (LRFF) and FY 2023 Budget Development Guidelines
- *January 24, 2022, City Council:* Approval of the FY 2021 Annual Comprehensive Financial Report (ACFR); and Amendment of the FY 2021 Budget in Various Funds
- *February 3, 2022, Finance Committee:* Review Preliminary Utility Rate Forecasts
- *February 7, 2022, City Council:* Approval of the FY 2022 Mid-Year Budget Review and Amendments in Various Funds and the Table of Organization
- *February 18, 2022, Finance Committee:* Recommend Approval of Utility Rates for FY 2023 & financial plans

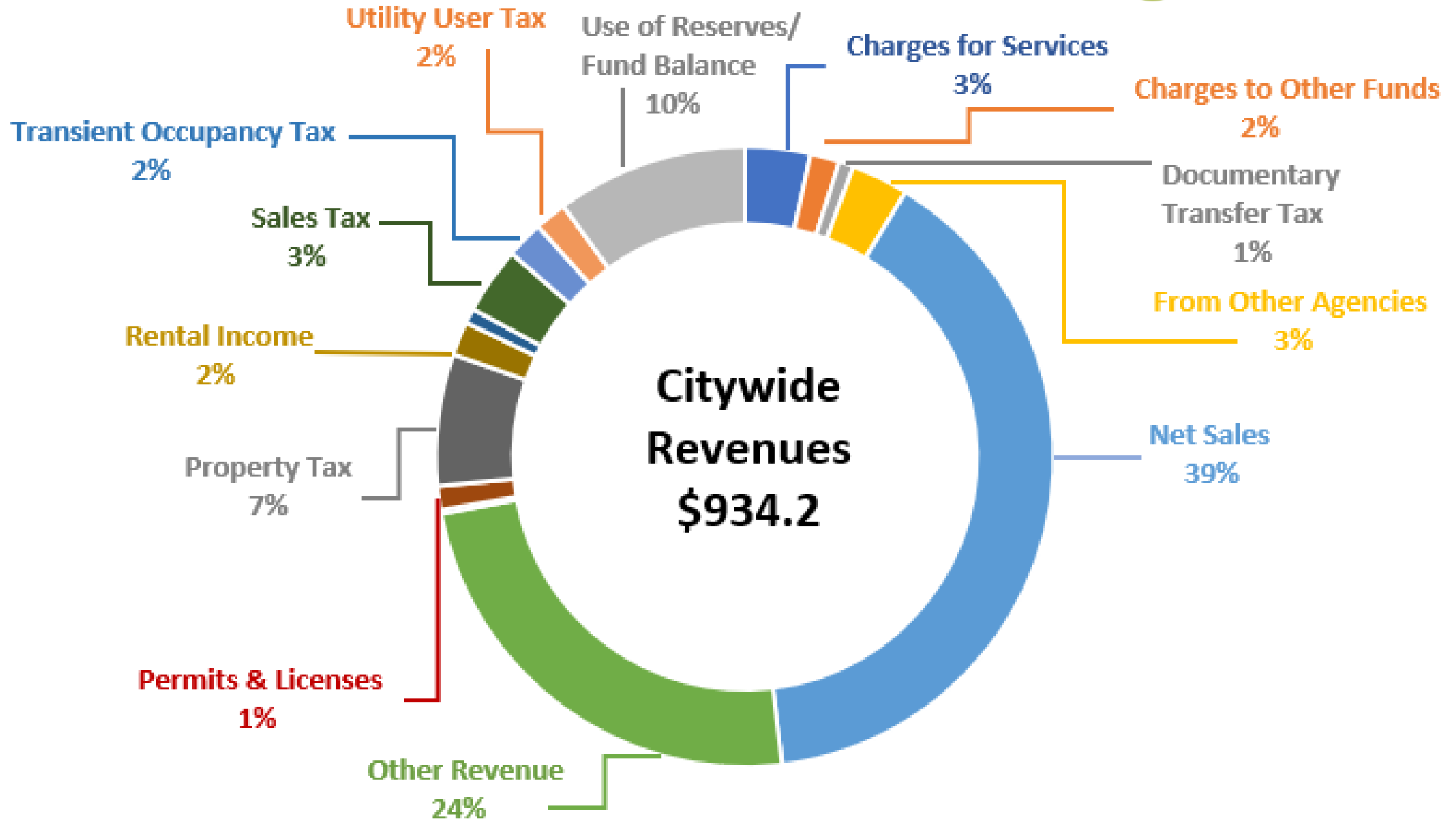


# FISCAL SUSTAINABILITY COMMUNITY CONVERSATION: Ballot Measures Under Consideration

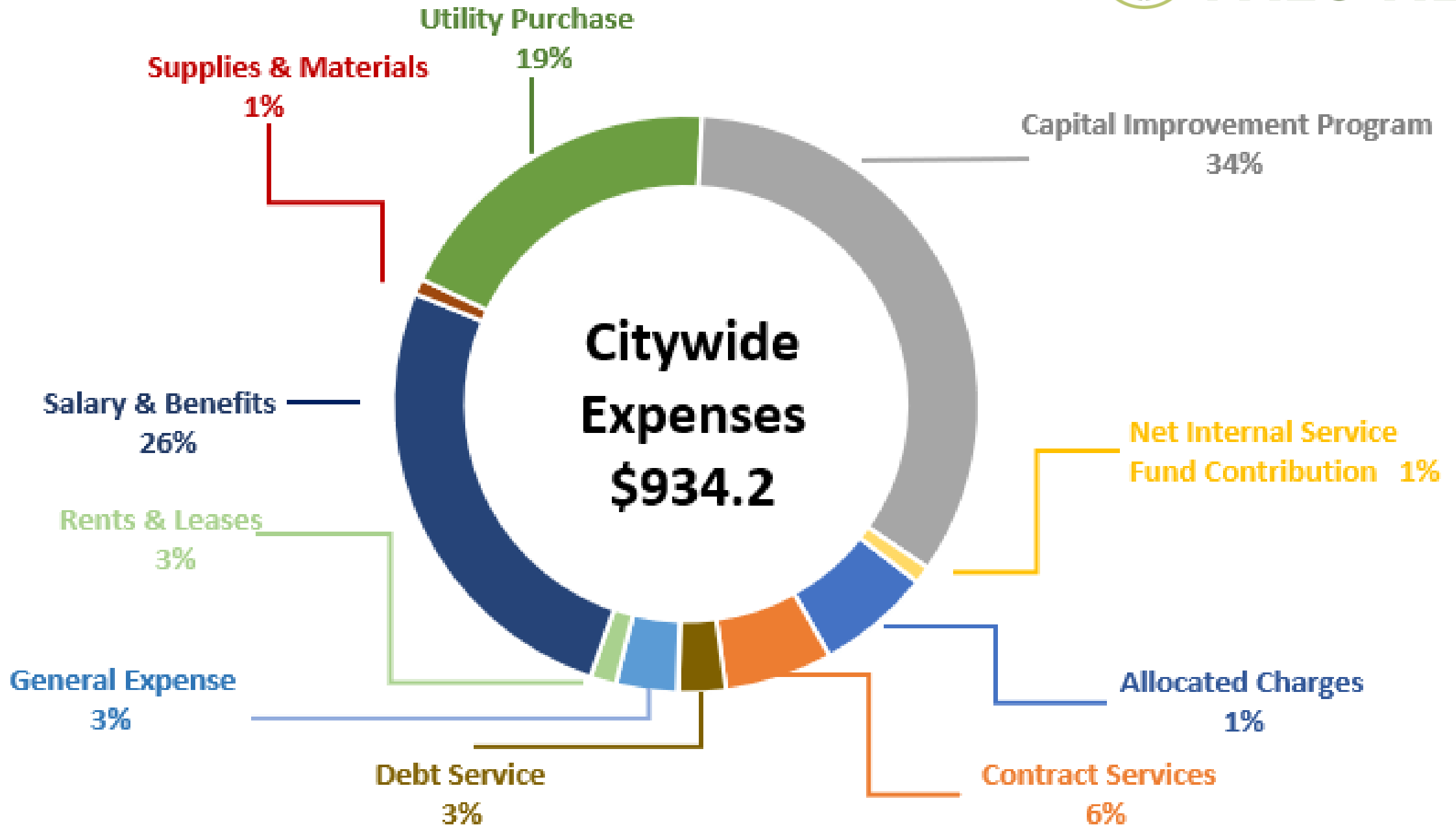
- Council direction to continue to evaluate two measures:
  - Affirmation of current natural Gas Utility Transfer
  - Establishment of a new Business Tax
- Council is considering these measures for placement before the voters for the voter's decision as part of the **November 2022 election**
- New revenues can restore services to pre-pandemic levels, support investments in the community's future, expand priority services, and build on Palo Alto's services as community needs evolve



# ALL FUNDS SOURCES



# ALL FUNDS USES

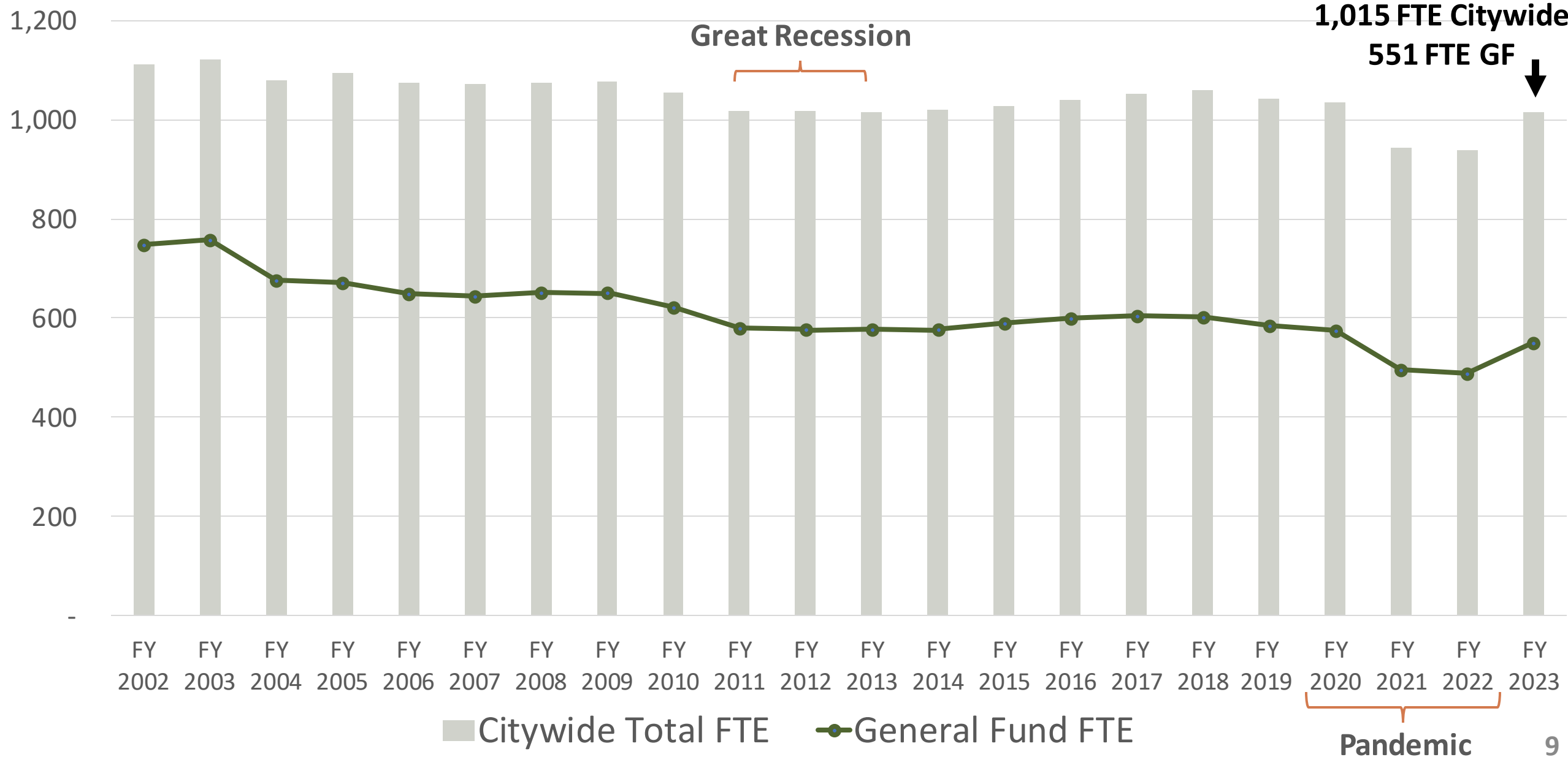




# HISTORICAL FULL-TIME STAFFING COMPARISON



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**PALO ALTO**



# **FY 2022 BUDGET ADJUSTMENTS +\$6.6M**

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- **Ongoing additions of \$6.6 million** approved by the City Council in FY 2022
  - \$3.2 million additions in the General Fund
- **Net addition of 20 full time positions** and three part-time positions, 12.66 in the General Fund
  - Housing initiatives (1.00 FTE)
  - Economic development initiatives (1.00 FTE)
  - Development Center & Code Enforcement staffing (2.00 FTE)
  - Police Communications management and executive support (2.00 FTE)
  - Staffing for Adequate Fire & Emergency Response (SAFER) Grant (5.00 FTE)
  - Human Resources full restoration to pre-pandemic staffing levels (1.96 FTE)
  - Sustainability & Climate Action (5.25 FTE)
  - Reclassifications to align with existing and anticipated workload and expertise expectations

# COUNCIL APPROVED FY 2023 GENERAL FUND LONG RANGE FINANCIAL FORECAST



## BASE CASE

	Actual 2021	Adopted 2022	Projected 2022	2023	2024	2025	2026	2027	
Total Revenue	\$200,925	\$206,452	\$218,167	\$230,393	\$239,692	\$252,271	\$259,853	\$268,149	
			5.7%	5.6%	4.0%	5.2%	3.0%	3.2%	
Total Expenditures	\$185,634	\$209,210	\$207,468	\$227,995	\$240,741	\$251,691	\$256,437	\$260,691	
			-0.8%	9.9%	5.6%	4.5%	1.9%	1.7%	
Net One-Time Surplus/(Gap)	\$15,291	(\$2,758)	\$10,699	\$2,398	(\$1,049)	\$581	\$3,416	\$7,458	
Cumulative Net Operating Margin (One-Time)									
Net Operating Margin				\$0	\$2,398	(\$3,446)	\$1,629	\$2,836	\$4,041

## Cumulative Net Operating Margin

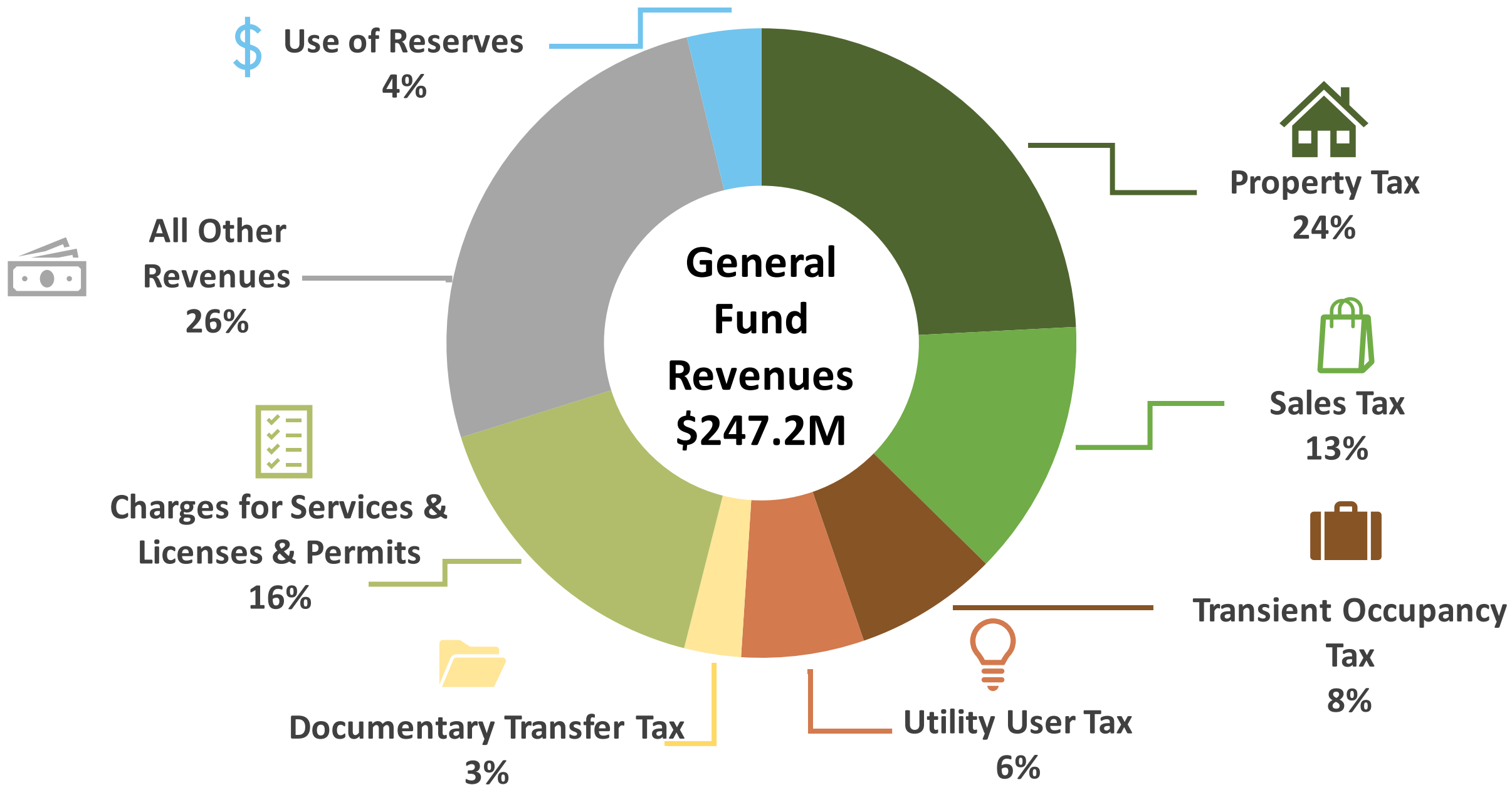
*Assumes that the annual shortfalls are solved with ongoing solutions and annual surpluses are spent for ongoing expenditures.*

- Recovery revenue stabilizes in FY 2026
- 3-5 Year recovery forecasted, varies by revenue source
- This scenario does NOT assume restoration of service reductions to pre-pandemic levels

Two alternative scenarios also presented:

- Alt A: Restoration of Services, full restoration of services in FY 2023
- Alt B: Compensation Adjustment, modeled a higher salary increase

# FY 2023 GENERAL FUND REVENUES

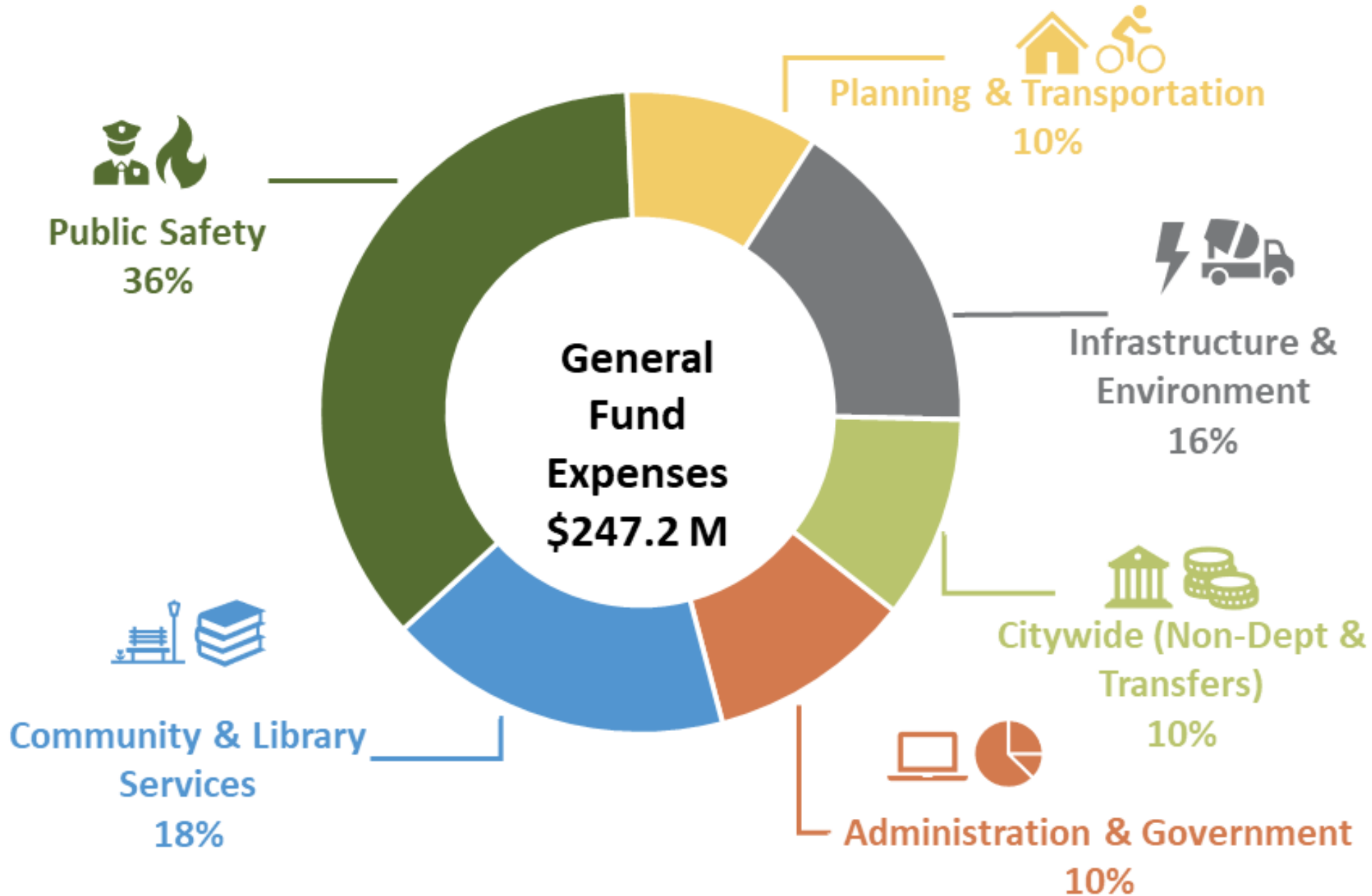


# FY 2023 GENERAL FUND REVENUES



Revenue & Other Sources	Adopted 2022	LRFF Est. 2022	Current Est. 2022	Change	LRFF 2023	Proposed 2023	Change
<b>Sales Taxes</b>	28,184	30,633	31,478	845	32,306	32,580	274
<b>Property Taxes</b>	51,228	56,469	56,838	369	58,220	59,770	1,550
<b>Transient Occupancy Tax</b>	8,428	11,055	13,195	2,140	16,922	18,199	1,277
General Purpose	2,528	5,398	6,324	926	7,684	8,472	788
Infrastructure	5,899	5,657	6,871	1,214	9,238	9,727	489
<b>Documentary Transfer Tax</b>	7,137	8,125	9,627	1,502	7,391	7,217	(174)
<b>Utility Users Tax</b>	14,370	14,667	14,655	(12)	14,898	15,579	681
<b>Other Taxes and Fines</b>	1,434	1,434	1,434	0	1,784	1,784	(0)
<b>Subtotal: Taxes</b>	<b>\$110,780</b>	<b>\$122,383</b>	<b>\$127,227</b>	<b>\$4,844</b>	<b>\$131,522</b>	<b>\$135,129</b>	<b>\$3,607</b>
<b>Chrgs for Services/Permits &amp; Lic.</b>	32,276	32,276	32,276	0	37,903	40,035	2,132
<b>Return on Investments</b>	852	964	1,044	80	985	1,066	81
<b>Rental Income</b>	14,476	14,476	14,476	0	15,487	15,572	85
<b>From Other Agencies</b>	8,521	8,521	8,521	0	6,696	7,526	830
<b>Charges to Other Funds</b>	14,165	14,165	14,165	0	12,946	13,690	744
<b>Other Revenue</b>	2,260	2,260	2,260	0	2,261	2,201	(60)
<b>Operating Transfers-In</b>	23,121	23,121	23,121	0	22,592	22,532	(60)
<b>Total Source of Funds</b>	<b>\$206,452</b>	<b>\$218,167</b>	<b>\$223,091</b>	<b>\$4,924</b>	<b>\$230,393</b>	<b>\$237,751</b>	<b>\$7,358</b>

# FY 2023 GENERAL FUND EXPENSES







## Use of one-time funding

- \$14 million in FY 2022 projected surplus recommended to be used 1) \$8.9 million for service investments & 2) \$5.1M contribution to BSR to reach 18.5% target level
- \$5.5 million remainder of the \$13.7 million ARPA expected for the provision of government services offsetting the reduction in revenue due to the pandemic



## Limited Term 2-Year Transition: Restoration of \$4.0 million in services

- Ongoing revenue needed otherwise services will sunset at the close of FY 2024



## City Council Priorities: Focus on investment in workplan projects

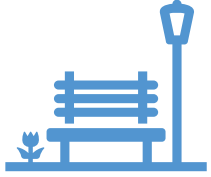


## City's Pension & Other Post-Employment Benefits (OPEB) funding: Proactive contributions continue at 6.2% discount rate

- Begin transition to 5.3% discount rate, consistent with most recent CalPERS ALM and Council Pension Funding Policy



## Neighborhood Community & Library Services



- Reinvest in support for arts programs including public art and art center facilities rentals
- Support continuing investment in the Junior Museum and Zoo staffing and systems
- Reinvest in staff support for Children’s Theatre operations and productions, Twilight Concert Series, and staffing support at community centers
- Support areas with growing interest and participation including open space staffing, camps, and golf course facilities



- Increase Library Hours
  - Small branches: open four days a week
  - Large branches: open six days a week
- Enable support for special programming and events such as New American programs, Summer Reading Program, re:Maker Fair, Palo Alto Reads author programs and the Celebrate Culture series

## Public Safety



- Strategic Recruitment Plan establishing Fire Fighter trainee positions to establish a continuous and proactive recruitment pipeline for expected staff turnover
- Support Services Deputy Chief restoration for oversight of new program such as recruitment as well as centralized support for Fire Prevention division



- Restore staffing for special teams such as Special Problems Detail, Psychiatric Emergency Response Team, and Investigative Unit
  - Allowing for appropriate patrol staffing and support for Council priorities such as support for unhoused and alternative public safety response models
- Restore staffing for dispatch services and the expected return to pre-pandemic call volumes

## Planning & Transportation



- Invest and adapt resources in Fire Prevention program to meet demands for hazmat facility inspections and compliance with state mandates
- Support system updates and enhancements such as G
- Improve operations at the Development Center:
  - Restore resources for operational needs
  - Augment staffing for building inspections



- Downtown Housing Plan Grant and staffing support (as review by the Council April 18, 2022)
- Resources for key initiatives and projects such as NVCAP and Housing Element Financial Feasibility Studies

## Infrastructure & Environment



- Invest in airport operations to support billing, fee studies, and maintaining capacity to sustainably cover operational shirts
- Adjust utility rate increases for the next year inline with inflation and fiscal plans
- Significantly invest in resources to support sustainability and climate action plans, primarily for electrification



## Internal Services/Appointees

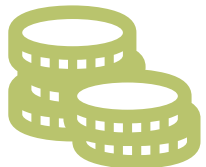


- Invest in restoration to continue to support recovery efforts and reinvestment citywide including support for but not limited to labor negotiations, procurements, warehouse, and systems.
- Support for Council priorities including equity and inclusion staffing support



# OPERATING BUDGET SERVICE AREA IMPACTS

Non-Departmental & Citywide	General Fund Adjustment
American Rescue Plan Act (ARPA) Revenue	\$5.5 million of the \$13.7 million
Reserve for Utility Transfer Litigation	\$5.1 million total reserve of \$17.5 million
FY 2023 Restorations, 2 <sup>nd</sup> Year of Funding	\$3.7 million (funding through FY 2024)
Supplemental Pension Trust: Transition toward lower discount rate of 5.3%	\$1.3 million (6 month contribution)
Reserve for Project HomeKey: Operating support as directed by Council	\$1 million (total of \$7 million)
Reserve for labor and inflation	\$900,000





# TWO-YEAR FUNDED RESTORATIONS

**Position Changes:**  
~23 FTE full-time  
~5 FTE part-time



## Neighborhood Community and Library Services

- Arts Programs: Art Camps, Art Center, Public Art
- Children's Theatre Operations & Productions
- Junior Museum and Zoo staffing
- Large & small branch Library hours
- Open space staffing
- Twilight Concert Series
- Community Center staffing
- Management software & systems



## Public Safety

- Fire Strategic Recruitment Plan
- Special Problems Detail
- Psychiatric Emergency Response Team
- Investigations Unit Restorations
- Dispatch Service Restorations
- Technical Services Staffing



## Planning and Transportation

- Downtown Housing Plan Grant & Support
- Current Planning Reorganization



## Internal Services/Appointees

- Purchasing staffing & Procurement software
- Neighbors Abroad contract
- Training and Development funding



# OTHER FUNDS

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

- Parking Funds (General Fund Loan)
- Community Development Block Grant Funds
- Enterprise Funds, proposed rate changes to the right

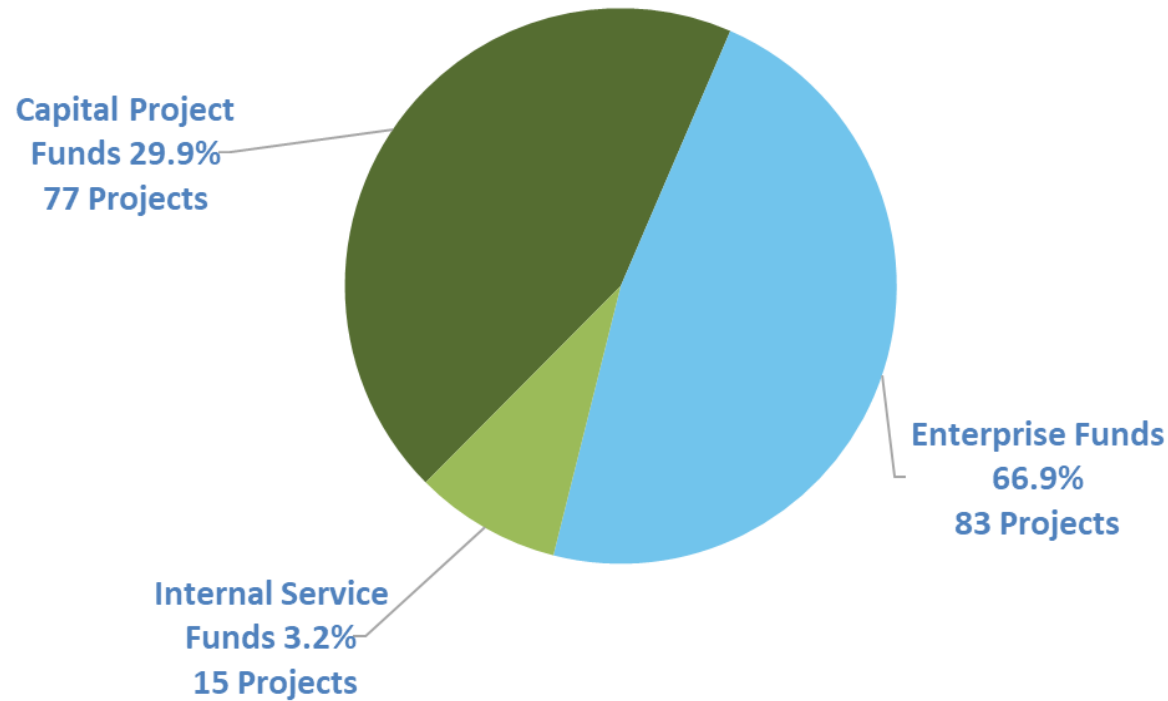
	FY2022 Adopted	FY2023 Proposed
<b>Electric</b>	0%	5.0%
<b>Gas</b>	3.7%	4.0%
<b>Water</b>	0%	4.0%*
<b>Wastewater</b>	4.7%	3.0%
<b>Fiber</b>	2.0%	4.2%
<b>Refuse</b>	0%	0%
<b>Storm Drain</b>	2.0%	4.2%
<b>Total</b>	<b>1.8%</b>	<b>3.5%</b>

Residential monthly bill is estimated to increase \$11.73/month

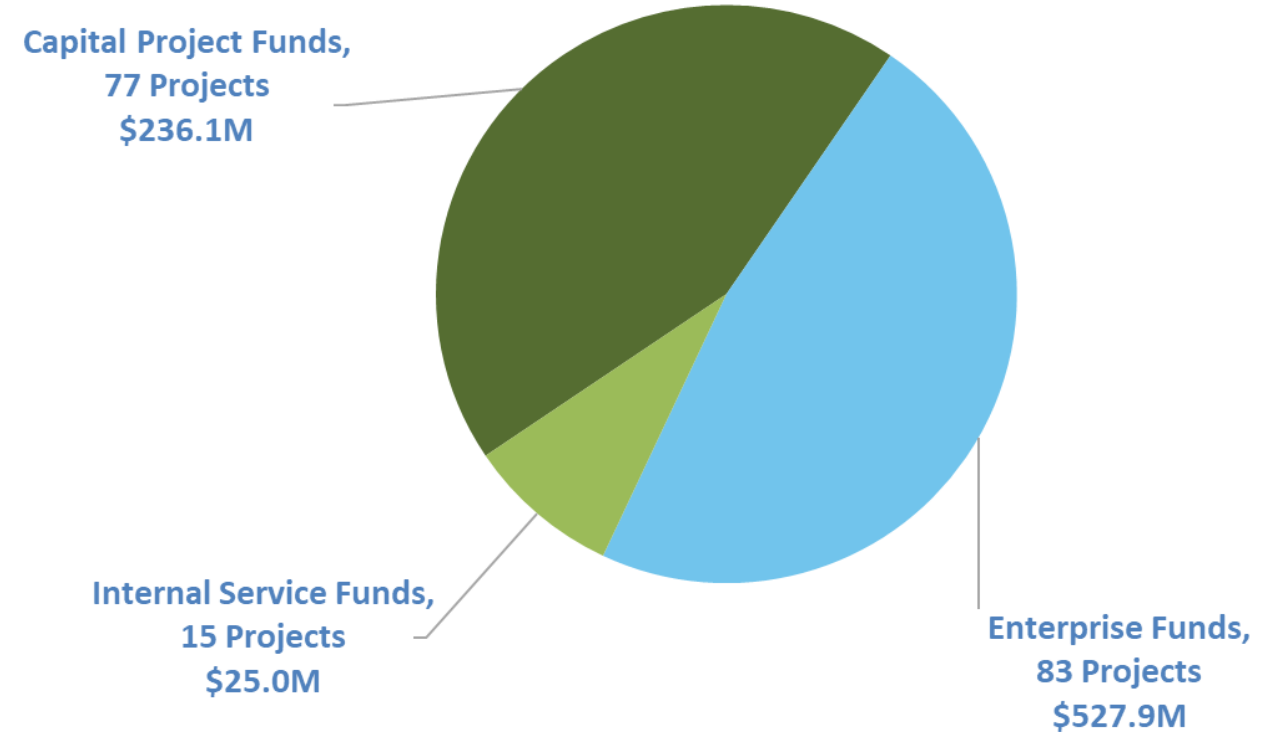
\*Projected SFPUC rate increase may cause Water to be 8.9%

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

**2023-2027 CIP PLANNED PROJECTS BY  
FUND TYPE (175 PROJECTS)**

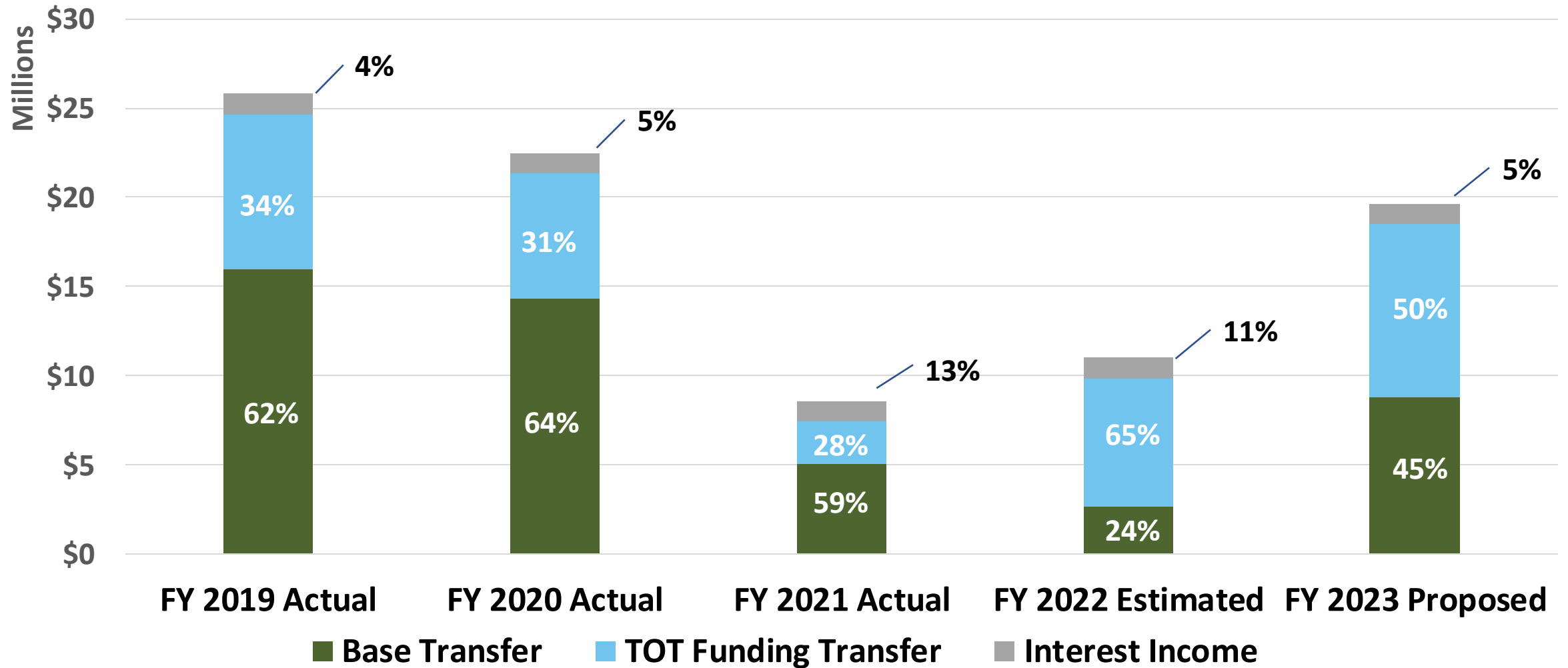


**2023-2027 CIP PLANNED FUNDING  
BY FUND TYPE (\$789.0 MILLION)**

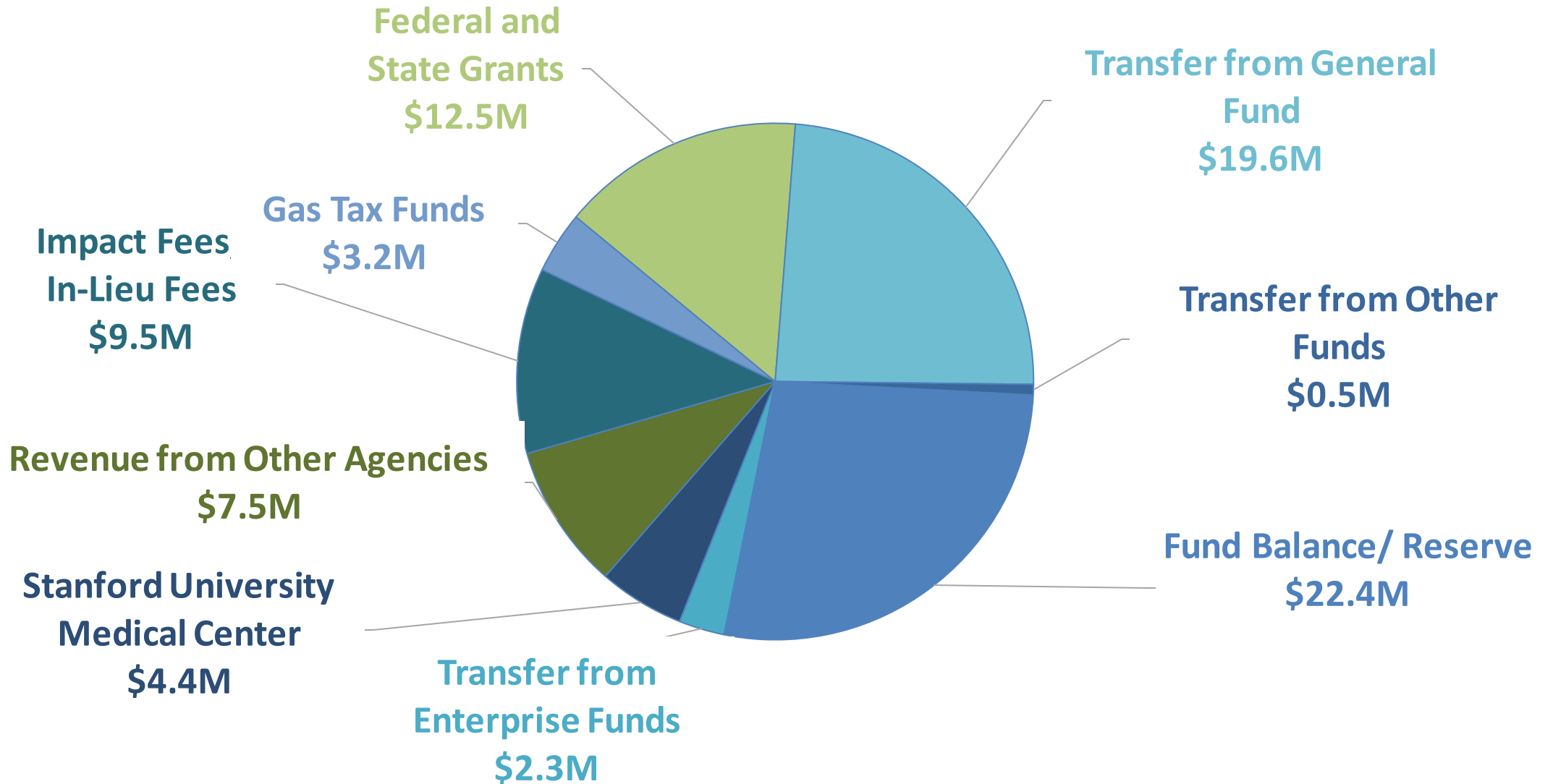


- \$747M CIP plan in FY 2022-2026 increased to \$789M in CIP plan FY 2023-2027
- FY 2022 Capital Budget of \$174M increased to \$352M in FY 2023, primarily due to investment in Regional Water Quality Control Plant long range facility plan.

# CIP – GENERAL FUND INVESTMENT IN CAPITAL IMPROVEMENT FUND



# 2023 CAPITAL IMPRVT FUND REVENUES BY SOURCE: \$82.0 MILLION



# JOIN THE BUDGET CONVERSATION

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

- **City Council FY 2023 Proposed Budget Study Session:** May 2, @ 5 P.M.
- **Finance Committee Budget Hearings:**
  - May 10 @ 9:00am
  - May 11 @ 9:00am
  - May 24 @ 12:00pm
- **City Council Budget Adoption:** June 20, @ 5 P.M.

**Fiscal Sustainability, A Community Conversation:**

Ongoing @

[www.cityofpaloalto.org/fiscalsustainability](http://www.cityofpaloalto.org/fiscalsustainability)



## JOIN THE CITY OF PALO ALTO FISCAL SUSTAINABILITY COMMUNITY CONVERSATION

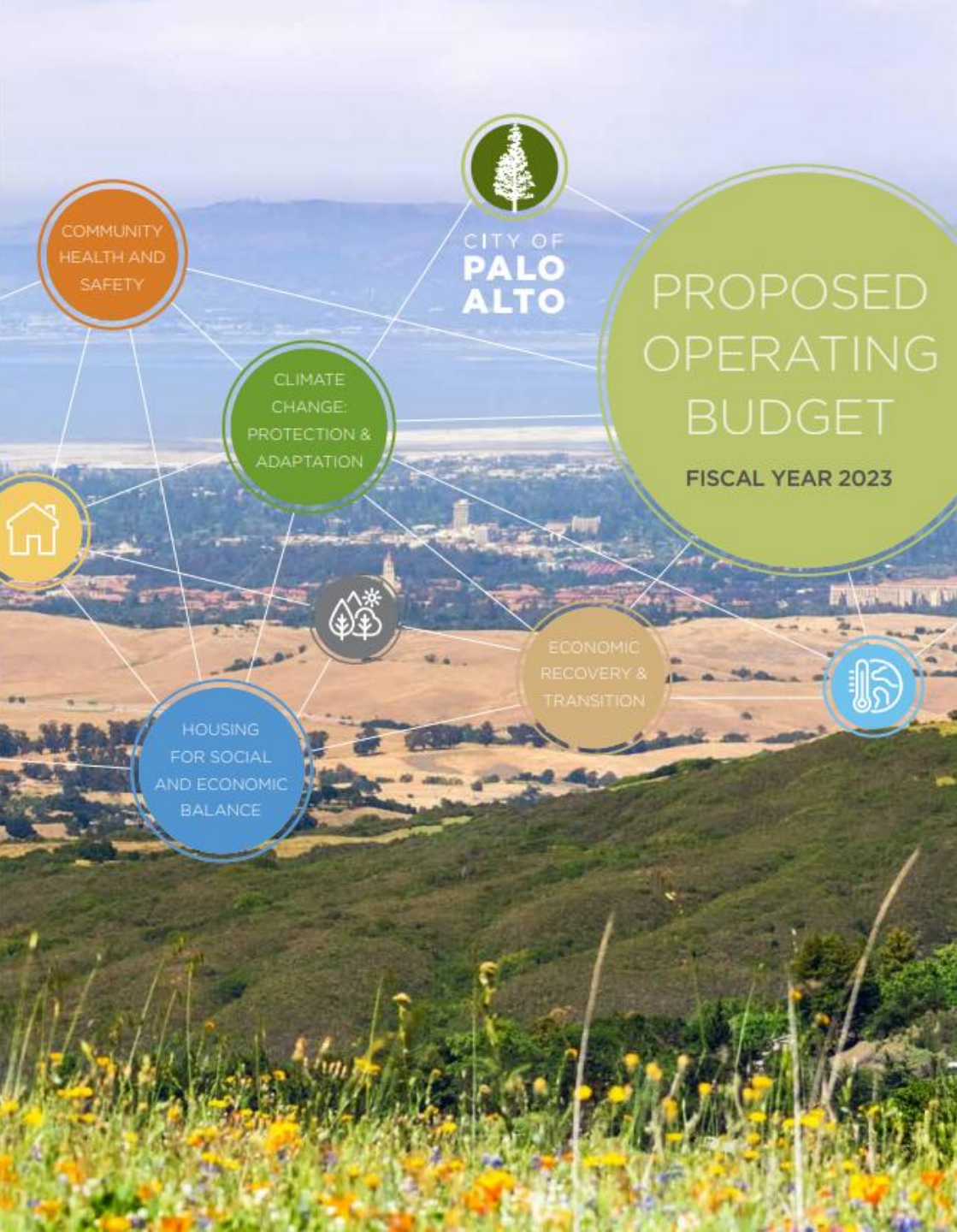
### Reference: FY 2022 Budget Schedule

- *FY 2021-22 Budget Transmittal:* May 4
- *Committee Budget Hearings:* May 11 & 12
- *City Council/Committee Update:* May 17
- *Committee Wrap-up:* May 25
- *City Council Budget Review:* June 7
- *City Council Budget Adoption:* June 21



# COUNCIL DISCUSSION

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- Provide general guidance to Finance Committee colleagues for their upcoming detailed work reviewing the budget documents
- Feedback for consideration regarding budget strategies; such as two-year funding strategy
- Feedback on the review process moving forward between now and budget adoption scheduled June 20, 2022



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