

Special Meeting
May 6, 2014

The City Council of the City of Palo Alto met on this date in the Council Chambers at 7:03 P.M.

Present: Burt, Holman, Klein, Kniss, Price, Scharff, Schmid, Shepherd

Absent: Berman

STUDY SESSION

1. Fiscal Year 2015 Proposed Budget Overview.

James Keene, City Manager, submitted the City of Palo Alto's Fiscal Year (FY) 2015 Proposed Operating Budget in accordance with his responsibilities as City Manager. The Citywide Expenditure Budget of \$470.1 million had increased by \$11.6 million, or 2.5 percent, in comparison to the FY 2014 Adopted Budget of \$458.5 million. The FY 2015 Proposed General Fund Operating Expenditure Budget of \$171.4 million had increased by \$11.7 million, or 7.3 percent, in comparison to the FY 2014 Adopted Budget of \$159.7 million. Citywide the Proposed Budget included 1,036 Full-Time Equivalent (FTE) benefited positions which increased by 17.45 positions. A decade ago the City's total budgeted position count was almost 1,093 FTEs. The Proposed Expenditure Budget was balanced with \$169.4 million in revenues and \$2 million in contributions from the Budget Stabilization Reserve (BSR). These contributions would represent a 1.3 percent reduction from the BSR 18.5 percent target level in order to fund Council-directed initiatives and some major one-time expenses. As part of the Proposed Budget, the BSR would be set at 17.2 percent or \$29.5 million. The \$11.7 million increase in General Fund expenditures was mostly possible due to a significant increase in major tax revenue estimates of \$9.2 million. The significant increases in tax revenues resulted from a more robust economy and job growth, which in turn increased demand for parking, traffic-related responses, infrastructure, and other City services.

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The Proposed Budget included proposals aligned with Council Priorities as well as directed initiatives from the Council. As part of his review of City operations and in developing the Proposed Budget, he recommended additional funding to support certain departmental operation improvements. While the strategies had served the City well during the 2008-2009 economic downturn, it was imperative for the City to remain a competitive employer while reducing the impact of fast-growing benefit costs. Therefore, the Council approved modest salary increases while capping the City's health plan contributions through approval of the 2014 agreement with the Service Employees International Union (SEIU). He recommended investments in additional arts and science classes and camps for residents; Development Services Blueprint operational effectiveness enhancements; training and succession planning for key departments; and increased administrative and operational oversight. The Proposed Budget fully established the Development Services Department as an independent department by transferring positions, salaries and benefit costs, and non-salary expenditures from the Planning and Community Environment, Public Works, and Fire Departments to the Development Services Department. Within the Proposed Budget, major investments in service delivery enhancements related to City Council Priorities and initiatives. To begin addressing demands, the Proposed Budget set aside \$1 million in reserves for enhanced shuttle service; \$150,000 to establish a Transportation Management Authority (TMA); and \$232,000 for transportation planning and Safe Routes to Schools. Staff included \$325,000 in funding to support the Our Palo Alto Initiative. To ensure adequate staffing, Staff proposed unfreezing two positions effective July 1, 2014 for the Library Department; adding funding for three new positions effective January 2015 in the Library Department; and reallocating funding for hourly staffing in the Community Services Department (CSD). In order to provide sufficient funds for transfer of the Airport, the Proposed Budget allocated \$560,000 from the General Fund as a startup loan to the new Airport Fund. The FY 2015 Proposed Budget included \$331,000 for election funding. Based on the revenue stream in the Development Services Department, the consolidation included an allocation of \$708,000 for contractual plan check review and inspection services, information technology contract support, and training. In support of the City Council-approved expanded Public Art Program, the Proposed Budget converted staffing to a full-time Public Art Manager and added slightly more than \$100,000 for that. In the Community Services Department, Staff included \$146,000 for enhanced arts, science, and sports classes to support classes at local elementary schools, summer camps at Foothills Park, and middle school athletic programs.

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Additionally the Proposed Budget included funding to increase the number of summer concerts from six to eight events. In FY 2012 the City began a citywide Cost of Service Study. The initial consultant study identified municipal fee cost recovery levels based on 2012 data for all fees other than development activity related fees. The Budget allocated \$55,000 in contractual funding for a consultant to study and assess Planning and Community Environment fees. Also included in the Proposed Budget was funding for a study related to Fire Services deployment approaches. An initiative in the amount of almost \$1.3 million in the area of technology allocated funds for various citywide technology investments. Contractual funding was allocated to assess the state of the City's current geographic information system and future needs. Staff proposed increased spending for training and succession planning particularly in Fire, Police, Development Services, and Utilities Departments. Staff proposed \$74,000 to establish a legal fellowship program in the City Attorney's Office. In the City Manager's Office, Staff requested an additional \$94,000 for an Assistant City Manager position and to convert a vacant Assistant to the City Manager position to a second Assistant City Manager position. Across the organization, Staff proposed approximately \$1 million in additional administrative staffing support to strengthen administrative operations. The Budget included the addition of a Facility Manager in the Public Works Department. The Proposed Budget did not assume any Enterprise Fund rate changes except for the contractual 2.6 percent Consumer Price Index (CPI) increase for fiber optics customers and to the storm drain fee. In anticipation of rising commodity costs and aging infrastructure, rate increases would be likely in FY 2016 and beyond. The Council approved an infrastructure funding plan with a 2 percent Transient Occupancy Tax (TOT) increase. By early August, the Council would have to place the TOT increase on the ballot. The City was negotiating terms of a Fire Services contract with Stanford University and negotiating with Palo Alto Unified School District (PAUSD) regarding Cubberley. If the City and PAUSD agreed on a long-term lease, additional funds would be needed to fund capital improvements and ongoing maintenance of the site. The Budget set aside funds equivalent to half of the calendar year 2015 Covenant Not to Develop payment in the amount of \$958,000 in a reserve. The City was scheduled to begin the Golf Course Reconfiguration Project in May; however, there were delays in the necessary regulatory permits from the Bay Area Water Quality Board. The Budget as proposed assumed the Golf Course would be closed during the entirety of FY 2015. The City continued to reduce growth of long-term benefits costs. The Proposed Budget attempted to respond to impacts related to economic improvement and to address deficiencies created by the economic downturn. While the Council would need to approve an annual Budget for the coming fiscal year, it should remember long-term goals.

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Walter Rossmann, Director of Office of Management and Budget, reported Staff was moving towards a performance-based budgeting process which would associate performance measures with actions. Budget proposals contained details and some performance results. The base budget was the existing service level from 2014 rolled over at the new costs. In August 2014, Staff proposed issuing a Budget in Brief. The overarching design of the Budget book was associated with the Long Range Financial Forecast. Public art was utilized for divider pages. For large departments such as Utilities and Public Works, the Budget Summary Overview indicated the total dollars for which the department was responsible. Staff reviewed best practices and performance measures to ensure performance measures were explicit and well written. Performance results were grouped by quality, cost, cycle time, and customer satisfaction. Staff included accomplishments in current and prior fiscal years and initiatives looking forward. Healthcare cost adjustments and pension costs adjustments were totaled to provide the dollar amount change. Allocated charges from Internal Service Funds were shown as a line item. Some revenues were recognized as base budget items and contained within the Proposed Budget. Vacancy savings were allocated to each department, and department budgets were adjusted for anticipated vacancy savings. The Proposed Budget also contained brief explanations for increased staffing. In 2016 with implementation of new publication software for the Capital Budget, Staff would redesign the Capital Budget document.

Council Member Klein did not understand the total dollars by fund and asked how that compared with General Fund spending.

Mr. Rossmann reported the amount shown was the overview dollars which were allocated to the Public Works Department.

Mr. Keene added that total dollars was shown for every department. It was not labeled as such.

Council Member Price inquired about relationships between performance measures and the Service Efforts and Accomplishments (SEA) document.

Mr. Rossmann explained that Staff took the language from the SEA report, made sure it was consistent with workload measures, and then updated the actuals with the SEA for two years. Where appropriate, Staff updated the adopted number. Next Staff reviewed department projections for workload in the following fiscal year.

Council Member Price asked if Staff estimated additional revenue based on increased use of Emergency Medical Services (EMS).

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Mr. Rossmann noted the Fire Department added a third ambulance and moved from basic life support to advanced life support. A Budget proposal discussed the impacts of that, including staffing changes and revenue changes.

Council Member Price inquired whether the Budget proposal addressed the issue of people unable to pay for services.

Mr. Rossmann indicated lack of payment was not specifically addressed. The Finance Committee would discuss EMS fees as a starting point.

Council Member Price asked if Council Members should inquire about details of department budgets.

Mr. Keene remarked that Staff was presenting an overview of and orientation to the Proposed Budget.

Mayor Shepherd clarified that the Finance Committee had not reviewed the Proposed Budget and requested Council Members not question details.

Mr. Keene invited non-Finance Committee Members to send questions to Staff during the review process. Questions and comments would be reported to both the Finance Committee and the Council.

Council Member Price asked if the Proposed Budget contained funding for the Infrastructure Management System (IMS).

Mr. Rossmann reported Public Works had completed requirements for IMS and intended to issue a Request for Proposal (RFP) in late spring or early summer 2014. Staff would provide an update to the Finance Committee as part of the General Fund Capital overview section.

Council Member Price inquired about the Cost of Service Study.

Mr. Rossmann advised that Staff was beginning to establish cost recovery levels for municipal fees. When Staff presented the Municipal Fee Schedule, they would present a portion of that analysis. The Proposed Budget added positions specifically to analyze the Cost of Service Study. Staff's goal was to complete review of all fees by 2016.

Council Member Price asked if Staff allocated resources to complete the analysis and implement the findings of the Cost of Service Study.

Mr. Rossmann replied yes. The Cost of Service Study originally considered departments outside of Development Services activities.

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Staff was beginning to analyze the Cost of Service Study for various departments. The additional resources Staff added to the Proposed Budget would continue analysis of the Cost of Service Study as well as other types of work.

Council Member Price asked if that was reflected in the documents.

Mr. Rossmann answered yes.

Council Member Scharff was pleased by transportation funding; resources for Mitchell Park and Rinconada Libraries staffing; and employment of a Public Art Manager. Staff made structural changes that would institutionalize Council Priorities in a positive way. Staffing reconfiguration was important and would make the City run smoother. It was important to recognize that the Fire Services Deployment Study was the end of a long process. He concurred with information technology investments. Capital Project Funds in the Public Works Department Budget appeared to reduce infrastructure funding; however, the Capital Budget did not appear to reduce infrastructure funding.

Mr. Rossmann reported Staff continued the \$2.2 million funding increase set by the Council and increased funding in the Long Range Financial Forecast (LRFF) by the annual CPI increase. As construction costs increased by the CPI amount, funding would increase from the General Fund to the Infrastructure Fund.

Council Member Scharff asked if the City was maintaining its strong capital investment in infrastructure.

Mr. Rossmann indicated the Proposed Budget maintained the annual commitment from the General Fund to the Infrastructure Fund.

Council Member Schmid inquired whether the Table of Organization contained the number of positions being requested or the actual number of employees.

Mr. Rossmann explained that the Table of Organization for actual years reflected the budgeted positions for that fiscal year. In the Proposed Budget, it reflected the positions which were proposed by the City Manager.

Council Member Schmid noted a gap remained between budgeted positions and actual staff and understood the gap could be 5-7 percent of total.

Mr. Rossmann advised that a gap remained if all budgeted positions were not filled.

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Council Member Schmid asked if there was an ongoing gap averaged throughout the year.

Mr. Rossmann responded yes.

Mr. Keene clarified that the expected salary savings due to the gap was expressed within each department.

Council Member Schmid asked if there was a gap between what was stated in the Budget and what was paid on a current basis.

Mr. Rossmann replied yes.

Council Member Klein commented that Staff utilized the Cost of Service Study as a tool to make decisions on fees and to analyze the Budget. He inquired whether Staff requested Council approval of anything in the Cost of Service Study.

Mr. Rossmann answered no.

Council Member Klein indicated the Finance Committee spent a good deal of time understanding the Cost of Service Study. He suggested a Study Session to inform the remainder of the Council.

Mr. Rossmann reported the Finance Committee directed Staff to do that. Staff proposed to return to the Council when a Municipal Fee Schedule was submitted as part of the FY 2015 Proposed Budget process.

Council Member Klein asked when that would occur.

Mr. Rossmann had not scheduled it, because he wanted to complete the Municipal Fee Schedule first. It could occur in June, but most likely in August 2014.

Council Member Klein inquired whether parts of the Cost of Service Study were reflected in the Proposed Budget.

Mr. Rossmann indicated the Proposed Budget requested funding to continue to support the Cost of Service Study.

Lalo Perez, Chief Financial Officer, indicated the Cost of Service Study would have the largest effect on Development Services and the Community Services Department (CSD). Staff requested an additional position in CSD to perform an in-depth analysis of fees for which the Council might consider a policy change regarding the level of cost recovery.

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Staff did not have a recommendation for FY 2015. Staff envisioned discussion with the Council, referral to a Committee, and then community outreach.

Council Member Klein felt not understanding the Cost of Service Study was a disadvantage. He requested reasons for not holding a Study Session for those Council Members not on the Finance Committee.

Mr. Perez advised that Staff could schedule a discussion of a process for review of services and how the City's portfolio would be shaped in the future. The community should also be made aware of that discussion.

Council Member Klein reiterated that the Council needed exposure to the Cost of Service Study.

Mr. Keene concurred.

Council Member Price inquired whether Staff could provide an informational item at a Policy and Services Committee meeting.

Mr. Perez understood the Council as a whole needed to have the discussion. The Council could refer the topic to a Committee at that point.

Mayor Shepherd recalled the Finance Committee discussed methodology only. The methodology was new thinking regarding allocation of expenses to services. It would be appropriate for the full Council to review it.

Vice Mayor Kniss noted the projection on page 31 indicated continued growth. The paragraph below expressed caution that growth was not likely to continue as projected. She was concerned that the public would not interpret the text as cautionary.

Mr. Rossmann was attempting to build business cycles into the model. To achieve that level of detail, Staff would have to include the Long Range Financial Forecast (LRFF). Staff deliberately included the paragraph about the sensitivity analysis. Staff could place a link on the website to the LRFF, so that the public could explore it deeper.

Council Member Burt stated that including a note that projections assumed recessions and fluctuations was important. The Proposed Budget contained some significant staffing changes because of transfer of Development Services and additional positions. He inquired whether the Proposed Budget provided a summary indicating movement of positions among departments.

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Mr. Rossmann reported there was not a summary showing changes by department from one fiscal year to the next. Staff had hoped to do that, but did not have the capacity. Perhaps a chart could be provided during the Finance Committee review.

Council Member Burt requested the chart reflect staffing changes by department and net increases in positions. If there was a significant number of position increases in one year, the Finance Committee would review that closely.

Mr. Rossmann indicated the Budget proposed adding 17 positions.

Council Member Burt reiterated that the Proposed Budget contained details but not a summary showing movement of positions.

Mr. Keene advised that Staff could provide a chart for the Finance Committee.

Council Member Holman wanted to understand reasons for, methods for, and operational functionality of transferring Development Services from Planning and Community Environment.

Mr. Keene wanted to have an integrated one-stop shop. To do that, the Budget had to be explicit about where people worked and how they were assigned. People could still have split assignments between two departments. The next phase was to set up Development Services as a fund independent of the General Fund in order to associate revenues with expenditures. In order to implement the Blueprint, Staff needed to be specific. This was not an uncommon way to deal with the development process.

Council Member Holman would need additional explanation as Mr. Keene's response raised more questions.

Mayor Shepherd thanked Staff for providing the organizational chart on page 3. It was the first time she could recall seeing it include all of Palo Alto.

ADJOURNMENT: The meeting was adjourned at 8:08 P.M.

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ATTEST:

APPROVED:

City Clerk

Mayor

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