

City of Palo Alto

MEMORANDUM

TO: Finance Committee

DATE: May 17, 2016

SUBJECT: Recommended Changes and Additional Information Pertaining to the Fiscal Year 2017 Proposed Budget

This memorandum transmits additional information requested by the Finance Committee and/or provided at staff’s behest in regards to the Fiscal Year 2017 Proposed Budget.

Recommended Changes to the FY 2017 Proposed Budget and/or Finance Committee Motions

Street Trees Contract Increase vs. Cycle Time

(Finance Committee Budget Hearing May 12th; Agenda Item #3b)

At the May 12th Finance Committee meeting, additional details about the tree trimming contract and potential cycle times was requested. Below is a chart detailing the number of trees that would be pruned annually based on a 7 year, 10 year, and 15 year cycle time and the annual and total cost for a three year contract with each of these cycle times. In FY 2017 the unit cost for a tree is \$128 and this would increase to \$140 and \$150 in FY 2018 and FY 2019 respectively based on a population of approximately 43,100 public trees (35,400 street trees and 7,700 park, golf, and open space trees). The current FY 2017 Proposed Operating Budget recommends movement from current service delivery levels of a 7 year cycle to a 15 year cycle. The Finance Committee tentatively approved a motion on May 12th to place a reduction in the cycle time down to 10 years in the “parking lot” for further discussion at the Budget Wrap-up on May 23rd in the amount of \$135,000. *Staff recommends amending the “parking lot” adjustment to \$170,000 to align with the proposals outlined below.*

3 Year Tree Trimming Service Contract

	# of Trees Pruned Annually	FY 2017 Contract Cost	FY 2018 Contract Cost	FY 2019 Contract Cost	Total 3 Year Contract Cost
7 Year Cycle	5,380	\$1,465,785	\$1,567,150	\$1,669,515	\$4,702,450
10 Year Cycle	3,415	\$1,148,885	\$1,228,930	\$1,303,145	\$3,680,960
15 Year Cycle	1,978	\$978,930	\$1,027,750	\$1,087,795	\$3,094,475

Electric Fund Capital Improvement Project: Facility Relocation for Caltrain Modernization Project

(Finance Committee Budget Hearing May 17th, Item #2.a.ii.)

Subsequent to the printing of the FY 2017-2021 Proposed Capital Improvement Plan, a new project was identified by the Utilities Department that is recommended to be added to the five-year plan with \$150,000 recommended to be budgeted in FY 2017. This project is detailed in Attachment – B, and provides funding for the relocation of overhead Utility Electric and Fiber Optic lines to provide adequate clearance from new electric lines being installed by the Peninsula Corridor Joint Powers Board (Caltrain) to convert their diesel powered commuter trains to electric power. *Staff recommends that the Finance Committee make a motion to include this project in the final recommended FY 2017-2021 CIP with corresponding decreases in the Distribution Reserve in the Electric Fund.*

Art in Public Places *(Finance Committee Budget Hearing May 17th, Item #3)*

Subsequent to the printing of the FY 2017-2021 Proposed Capital Improvement Plan, an error in the calculation of the Art in Public Spaces capital project (AC-86017) was identified. Replacement pages are included as Attachment – C, which contains an updated project page. *Funding levels are recommended to be adjusted as outlined in the table below offset by adjustments to the Infrastructure Reserve Balance.*

Recommended Changes to Art in Public Places Project

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
FY 2017-2021 Proposed CIP <i>(April 25, 2016)</i>	\$579,840	\$613,249	\$227,612	\$199,400	\$0
Recommended	\$423,513	\$212,450	\$880,700	\$240,012	\$125,958
Change	<i>(\$156,327)</i>	<i>(\$400,779)</i>	<i>\$653,088</i>	<i>\$40,612</i>	<i>\$125,958</i>

Additional Information Pertaining to the FY 2017 Proposed Budget

Planning Transportation Commission Findings

(Finance Committee Budget Hearing FY 2017 Proposed Capital Improvement Plan)

On May 17th, the Planning Transportation Commission reviewed the FY 2017-2021 Proposed Capital Improvement Plan for compliance with the City’s 1998-2010 Comprehensive Plan. Per Section 19.04.040 of the Palo Alto Municipal Code

The Planning Commission shall submit an annual report to the council regarding the capital improvement program, which shall review each project for its conformity to the master plan; review the programs as a whole in order to suggest any improvement in economy or efficiency which might be effected through the combining of various projects; and suggest any needed improvements which do not appear in the program.

Attached is the letter from the Commission (Attachment – D) outlining their findings in association with the compliance with the Comprehensive Plan. Due to the timing of the PTC meeting schedule and the Finance Committee Budget Hearing schedule, full minutes from this meeting are anticipated to be

transmitted to the full City Council as part of the Adopted of the FY 2017 Budget, agendized for June 13, 2016.

Zero Waste Coordinator to Environmental Specialist Reclassification

(Finance Committee Budget Hearing May 12th; Agenda Item #3b)

In accordance with the SEIU MOA that was ratified by the City Council effective April 16, 2016, the salary difference between a Zero Waste Coordinator and an Environmental Specialist is approximately \$11,000 from top-step to top-step. Factored into this difference and included in all the FY 2017 Proposed Budget assumptions include:

	Effective Upon Ratification April 16, 2016		Effective Date: December 1, 2016		Total
	General Wage Increase	Market Adjustment	General Wage Increase	Market Adjustment	
Zero Waste Coordinator	1.5%	0.9%	3.0%	0.9%	6.30%
Base Wage Adopted FY 2016 Budget = \$83,262	\$85,280		\$88,608		\$5,346
Environmental Specialist	1.5%	1.43%	3.0%	1.43%	7.36%
Base Wage Adopted FY 2016 Budget = \$93,454	\$96,200		\$100,485		\$7,031

With regards to the specific reclassification of a Zero Waste Coordinator to an Environmental Specialist as recommended in the Refuse Fund (FY 2017 Proposed Operating Budget Page 366), the total difference of salaries and benefits is approximately \$8,000. (This reflects the costing for a specific position and incumbent all in terms of changing that position from the FY 2017 costing assumptions for a the Zero Waste Coordinator level to the FY 2017 cost assumptions for an Environmental Specialist). This difference includes:

- The marginal salary cost for a specific higher level position with an incumbent employee over the costs of a lower level position
- Increased variable benefit costs (Pension, Medicare, etc.) for the higher level position based on a higher salary level.

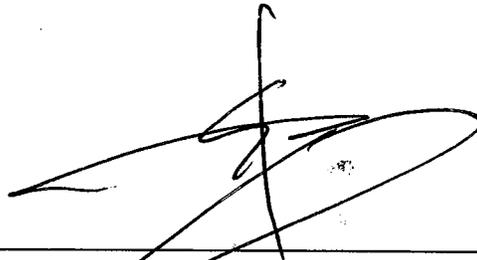
If one were to look at the year-over-year increases from FY 2016 budgeted salaries to FY 2017 budgeted salaries, the difference would be the combination of both the MOA approved increases, and the marginal salary and benefit increases from the lower level job classification to the higher level job classification described above.

In addition, when comparing FY 2016 budgeted salaries to FY 2017 budgeted salaries it should be noted that in FY 2016, funding associated with general wage increases for positions was allocated in a salary reserve, and not budgeted directly in departmental budgets due to ongoing negotiations. In FY 2017, all general salary increases for positions have been budgeted in departmental budgets due to the ratification of the MOAs, which causes the year over year salary and benefits change to be larger than just the approved FY 2017 change.

Unfunded Liability & Salary Growth Assumptions *(Finance Committee Budget Hearings May 2016)*

Throughout the Finance Committee hearings and specifically again as part of the discussion surrounding the reclassification requests during the review of the Public Works' Departmental Budget review, the impacts and assumptions used in the unfunded liability calculation for salary growth have been discussed. Bartel and Associates have provided a quick analysis outlining the percentage growth in salaries assumed and every 1% additional growth implications on the unfunded liability level. Slides 31 and 32 in Attachment – A reflect these calculations. CalPERS makes certain assumptions based on age, years of service on individual pay increases (see slide 31) and assumes a 3% aggregate growth of payroll above the individual increases. The impact figures in slide 32 are for the whole group respectively.

DEPARTMENT HEAD:



LALO PEREZ
Director, Administrative Services/CFO

CITY MANAGER:



JAMES KEENE
City Manager



MISCELLANEOUS AND SAFETY PLANS

BARTEL
ASSOCIATES, LLC

CalPERS Actuarial Issues – 6/30/14 Valuation
Preliminary Results

Presented by **John Bartel, President**
Prepared by Bianca Lin, Assistant Vice President
Matthew Childs, Actuarial Analyst
Bartel Associates, LLC

April 5, 2016

ADDITIONAL 1% PAY INCREASE

■ CalPERS Pay Related Assumptions

● Aggregate Payroll Growth

<input type="checkbox"/>	Inflation	2.75%
<input type="checkbox"/>	Increase Above Inflation	<u>0.25%</u>
<input type="checkbox"/>	Total	3.00%

● Individual Pay Increases

- Inflation, Step Rate, Merit, Promotion, Longevity, etc.
- Varies based on hire age & Agency service
- For example, hired at age 30:

Service	Miscellaneous	Safety
0	11.6%	14.7%
5	6.0%	5.8%
25	3.6%	4.3%

- Earlier hire ages have higher anticipated pay increases and later hire ages have lower anticipated pay increases

ADDITIONAL 1% PAY INCREASE

■ Impact of 1% Pay Increase above CalPERS assumption:

	Actuarial Liability Increase	Contribution Rate Increase
● Miscellaneous	≈\$2,388,000	≈0.3%
● Safety	≈ \$847,000	≈0.3%

- Based on a 20 year amortization without ramp up/down.

ELECTRIC FUND



Fund: Electric Fund - Operating
Category: Undergrounding Projects
Project Location: Various locations along railroad
Managing Department: Utilities
Initial Project Start: Fall 2017
Initial Project Completion: Winter 2018
Revised Project Start:
Revised Project Completion:
Project Number: EL-17007

Facility Relocation for Caltrain Modernization Project

Description

This project allows for the relocation of overhead Utility Electric and Fiber Optic lines to provide adequate clearance from new electric lines being installed by the Peninsula Corridor Joint Powers Board (Caltrain) to convert their diesel powered commuter trains to electric power.

Justification

The Caltrain Modernization Program consists of converting Caltrain from a diesel-hauled to Electric Multiple Unit trains. The installation of the Overhead Catenary System above the rails to power the trains will cause conflicts with the City's overhead electric and communication lines, as well as those owned by others, e.g. AT&T, Comcast, which cross the railroad tracks. Caltrain is looking to have the overhead lines relocated/removed by August 2018 for an anticipated project completion in 2020. In order to meet Caltrain's timeline, Utilities must obtain funding and start the design process in FY 2017. If lines are placed underground, Utilities will look for opportunities to share the costs with AT&T and Comcast as part of the joint construction agreement between the three entities for installation of underground facilities.

Supplemental Information

Though Electric power for the trains will be provide by PG&E from outside of Palo Alto's city limits, the timely relocation/removal of overhead electric lines will facilitate the conversion of the commuter train system from diesel fuel to electricity, reducing greenhouse gas emissions, noise, and pollution in Palo Alto. Caltrain is receiving funding for the project from several different sources. If Caltrain does not obtain full funding to complete the project, construction fund-

ELECTRIC FUND

ing approved by Council for the relocation of facilities will be returned to reserves. Revenue projections are based on shared installation underground facilities with AT&T and Comcast.

Expenditure Schedule

Project Phase	Prior Years	FY 2016 Budget	FY2016 Est.	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	5 Year CIP Total	Beyond 5 Year CIP	Total
	0	0	0	150,000	2,550,000	0	0	0	2,700,000	0	2,700,000
Total	0	0	0	150,000	2,550,000	0	0	0	2,700,000	0	2,700,000

Relationship to Comprehensive Plan**Primary Connection**

Element: Natural Environment

Section: Energy

Goal: N-9

Potential Board/Commission Review:

Utilities Advisory Commission

CAPITAL IMPROVEMENT FUND



Fund: Capital Improvement Fund

Category: Parks and Open Space

Project Location: Various

Managing Department: Community Services

IBRC Reference: Keep-up

Initial Project Start: Recurring

Initial Project Completion: Recurring

Project Number: AC-86017

Brilliance, by Joe O'Connell and Blessing Hancock

Art In Public Spaces

Description

This project provides funding for innovative public art for both interior and exterior public spaces in accordance with the City Council-approved Art in City Capital Improvement Projects ordinance.

Justification

This project places art in public buildings, plazas, gateways, parks and other sites frequented by residents and visitors alike. It is expected that public art will enhance community pride and ownership in the City of Palo Alto. Public Art preserves the long-term viability of the built environment and helps set a standard for aesthetic variety and creativity in the community.

Supplemental Information

The Art in City Capital Improvement Projects ordinance states that the City will budget one percent of its CIP budget for public art, with certain exceptions. A base level of funding in the amount of \$50,000 is included each year.

Significant Changes

Prior to Fiscal Year 2015, the one percent for public art was included in the budget for each applicable project. Beginning in Fiscal Year 2015, this funding is accounted for within this project. This change provides a clearer picture of how much funding is available for public art, allows for the pooling of funds for more impactful projects, and ensures that the funds are preserved for public art.

CAPITAL IMPROVEMENT FUND

Funding Sources Schedule

Funding Source	Prior Years	FY 2016 Budget	FY2016 Est.	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	5 Year CIP Total	Beyond 5 Year CIP	Total
Capital Improvement Fund	N/A	367,994	186,800	423,513	212,270	880,700	240,012	125,958	1,882,454	0	N/A
Total	N/A	367,994	186,800	423,513	212,270	880,700	240,012	125,958	1,882,454	0	N/A

Expenditure Schedule

Project Phase	Prior Years	FY 2016 Budget	FY2016 Est.	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	5 Year CIP Total	Beyond 5 Year CIP	Total
Construction	N/A	359,716	186,800	423,513	212,270	880,700	240,012	125,958	1,882,454	0	N/A
Other	N/A	8,278	0	0	0	0	0	0	0	0	N/A
Total	N/A	367,994	186,800	423,513	212,270	880,700	240,012	125,958	1,882,454	0	N/A

Operating Impact

Annual funding in the amount of \$30,000 for public art maintenance is allocated to the Community Services Department in the General Fund. This level of funding may be reviewed in light of increased funding for public art resulting from the public art ordinance, and adjustments to the maintenance allocation may be brought forward for City Council consideration in future years, if appropriate.

Relationship to Comprehensive Plan**Primary Connection**

Element: Land Use and Community Design

Section: Public Ways

Goal: L-9

Policy: L-72

Potential Board/Commission Review:

Architectural Review Board

Parks and Recreation Commission

Environmental Impact Analysis:

This project is expected to have a possible exemption from CEQA under Section 15301.

May 17, 2016

Honorable City Council
C/o City of Palo Alto
250 Hamilton Avenue
Palo Alto, CA 94301

RE: Review of 2017-2021 Proposed Capital Improvement Program (CIP)

The Planning and Transportation Commission (PTC) reviewed the 2017-2021 Capital Improvement Plan (CIP) at a special hearing on Tuesday, May 17, 2016 and determined that all of the Capital Improvement Projects included in the 2017-2021 Capital Budget are consistent with the adopted 1998-2010 Comprehensive Plan. The Commission determined that the proposed 2017-2021 Capital Improvement Programs (CIP) are consistent with the Comprehensive Plan and forwards the finding to the City Council Finance Committee and the City Council. The Commission approved the motion by a vote of 4-0-3 (Commissioners Tanaka, Alcheck and Downing absent).

Respectfully submitted,



Adriane Fine, Chair
Planning and Transportation Commission