

City of Palo Alto

MEMORANDUM

TO: City Council

DATE: June 13, 2016

SUBJECT: Additional Information Pertaining to the Fiscal Year 2017 Operating and Capital Budgets

This memorandum transmits additional information requested by the Finance Committee at the June 7, 2016 Finance Committee meeting and/or provided at staff's behest in regards to the Fiscal Year 2017 Operating and Capital Budgets.

Recommended Changes to the FY 2017 Adopted Budget CMR #6932

Title Revision

This corrects the title of the Adopted Budget City Manager's Report, redlined below:

PUBLIC HEARING & PROPOSITION 218 HEARING: Adoption of Budget Amendment Ordinance for Fiscal Year 2017, including Adoption of Operating & Capital Budgets and Municipal Fee Schedule; Adoption of the Following Resolutions: Adopting a Dark Fiber Rate Increase of 3.2 Percent and Amending Utility Rate Schedules EDF-1 & EDF-2; Approving the FY 2017 Electric Financial Plan & Amending the Electric Utility Reserves Management Practices; Adopting an Electric Rate Increase of 11 Percent and Amending Utility Rate Schedules E-1, E-2, E-2-G, E-4, E-4-G, E-4 TOU, E-7, E-7-G, E-7 TOU, E-14, & E-16 & Repealing Utility Rate Schedules E-18 & E-18-G; Approving the FY 2017 Gas Utility Financial Plan; Adopting a Gas Rate Increase of 8 Percent and Amending Utility Rate Schedules G-1, G-1-G, G-2, G-2-G, G-3, G-3-G, G-10, & G-10-G; Adopting Refuse Rate Changes Including a 7 Percent Decrease and Up to a 9 Percent Increase & Amending Utility Rate Schedule R-1, & Consolidating Utility Rate Schedules R-2 & R-3 Into a New Utility Rate Schedule Designated R-C; Amending Utility Rate Schedule D-1 to Increase Storm Drain Rates 3.2 Percent per Month per Equivalent Residential Unit for FY 2017; Approving the FY 2017 Wastewater Collection Utility Financial Plan; Adopting a Wastewater Collection Fee Increase of 9 Percent & Amending Utility Rate Schedules S-1, S-6, and S-7; Approving the FY 2017 Water Utility Financial Plan; Adopting a Water Rate Increase of 6 Percent and Amending Utility Rate Schedules W-1, W-2, W-3, W-4, & W-7; Amending Salary Schedules for the Utilities Management Professional Association of Palo Alto (UMPAPA), the Service Employees International Union (SEIU), and the International Association of Fire Fighters (IAFF)

2.0 FTE Position Reduction

At the June 7, 2016 Finance Committee meeting, the City Manager brought forward a recommendation to explore the elimination of two sworn fire positions in order to meet the requested 2.0 FTE position reductions as requested by the Finance Committee during the Budget Wrap-up discussion. At this point, staff recommends taking the average salary and benefit of fire personnel positions and reducing the

equivalent of two fire positions until labor discussions occur and subsequently staff will return to reduce the actual positions from the table of organization. Included in the *Recommended Amendments to the City Manager's FY 2017 Proposed Budget* document attached to this memorandum are additional amendments that are intended to be combined with those outlined in Attachment A, Exhibit 2 in the original, CMR 6932. Included in these additional amendments are actions that execute this recommended elimination by reducing the Fire Department Salaries and Benefits, partially offset by a loss in reimbursement from Stanford University for Fire Services.

General Fund Tax Revenues

Subsequent to the development of the FY 2017 Proposed Operating Budget, staff received more updated information in regards to various tax revenues collections in FY 2016 and consequently FY 2017 estimated receipts. Specifically, the County of Santa Clara provided updated property tax revenue information last week. Actions recommended in *Recommended Amendments to the City Manager's FY 2017 Proposed Budget* document attached to this memorandum are additional amendments that are intended to be combined with those outlined in Attachment A, Exhibit 2 in the original, CMR 6932. Included in these additional adjustments is a net increase of \$2.1 million in General Fund tax revenue estimates. These actions align the FY 2017 General Fund various tax revenue estimates with current projections.

No adjustment to the Transient Occupant Tax estimate is included as they are currently tracking to meet budgeted levels. However, staff is analyzing the distribution between the receipts from new hotels that has been earmarked for infrastructure investments versus receipts that are dedicated to General Fund activities. Once a full year of data is available, adjustments between these two components of TOT receipts will be brought forward to properly align them as necessary.

General Fund Budget Stabilization Reserve

Included in this memorandum is an addendum to the Attachment A, Exhibit 2 in the CMR 6932 for *Recommended Amendments to the City Manager's FY 2017 Proposed Budget* outlining further adjustments recommended by staff. Staff recommends these additional items be combined with those in the CMR 6932 FY 2017 Adopted Budget and once adjusted for all recommended changes, the revised FY 2017 BSR is \$41.5 million or 21.4% of the FY 2017 General Fund recommended expenditure budget. This level is \$1.0 million above the estimated ending balance of \$40.5 million on June 30, 2016 and is above both the target level of \$18.5% by \$5.6 million and the 20% maximum as approved by the City Council.

It should be noted that of this \$41.5 million estimated FY 2017 BSR level, \$4.3 million reflects a one-time increase in the BSR as a direct result of the recommended deferral of three capital improvement projects. Should these three projects continue in FY 2018, a draw from the BSR would be necessary to provide the funding in the General Capital Improvement Fund to ensure sufficient funds are available. If the FY 2017 BSR is adjusted to exclude these one-time funds, a balance of \$37.2 million or 18.8% of the revised General Fund expenditure level would remain. This reflects a draw of approximately \$3.3 million from the estimated June 30, 2016 balance.

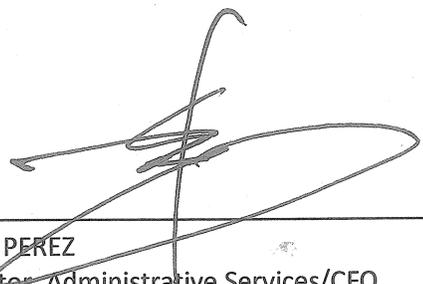
Additional Information Pertaining to the FY 2017 Operating and Capital Budgets

May 23, 2016 Budget Wrap-up Transcript *(Finance Committee Budget Hearings May 2016)*

Included in the City Manager's Report #6932 were transcripts from the following City Council or Finance Committee Hearings: April 25th, May 3rd, 5th, 10th, 12th, and 17th meetings. The transcript from the May 23, 2016 Finance Committee was not yet ready upon distribution of the report, therefore a link is included below:

<https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?BlobID=52796>

DEPARTMENT HEAD:



LALO PEREZ
Director, Administrative Services/CFO

CITY MANAGER:



JAMES KEENE
City Manager

ATTACHMENT A, EXHIBIT 2 Addendum

CITY OF PALO ALTO RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2017 PROPOSED BUDGET

Department		Revenues		Expenses	
		Category	Adjustment	Category	Adjustment
GENERAL FUND					
Non-Departmental Budget	Position Reduction/Elimination (2.0 FTE positions) This action reverses the action recommended in the CMR #6932 FY 2017 Adopted Budget which was a placeholder and replaces it with the actions outlined in this attachment.			Salaries & Benefits	\$ 374,000
Fire Department	Fire Position Eliminations (2.0 FTE positions) This action eliminates funding equivalent to the average cost of 2.0 full time sworn fire positions in FY 2017, partially offset by a loss in reimbursement for Charges from Services per the current contract terms with Stanford University for Fire Services. Although no change to the Table of Organization through this transaction, it is anticipated that once two positions are identified, that a separate actions will be brought forward to identify and eliminate two positions and amend the Table of Organization.	Charges for Services	\$ (151,225)	Salaries & Benefits	\$ (453,676)
Revenues	Property Tax This action increases the estimate for Property Tax collections in FY 2017 from \$37.9 million to \$39.0 million reflecting year over year growth of 6.2% from the current FY 2016 year end estimate of \$36.7 million. The City has quarterly meetings with the County of Santa Clara, as a result of the most recent meeting, the revised estimates for negative roll corrections during FY 2016 was revised down from \$30 million to \$20 million county wide. In addition, the June 1st estimated growth of assessed value for FY 2017 grew to approximately 9% while historically it has averaged 6%. Included in the FY 2016 year end estimate are anticipated receipts of \$1.0 million for a one-time payment as a result of excess ERAF funds. Once the FY 2016 estimate is adjusted to exclude these one-time receipts, the year over year growth of 9% in FY 2017 is consistent with the current County of Santa Clara estimated growth rate.	Property Tax	\$ 1,100,000		
Revenues	Sales Tax This action increases the estimate for Sales Tax receipts in FY 2017 from \$28.7 million to \$29.2 million with is consistent with FY 2016 estimated levels.	Sales Tax	\$ 482,000		

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2017 PROPOSED BUDGET

Department		Revenues		Expenses	
		Category	Adjustment	Category	Adjustment
GENERAL FUND					
Revenues	Utility User Tax This action increases the estimate for Utility User Tax by \$1.2 million from \$11.2 million to \$12.4 million in FY 2017. This revised estimate reflects year over year growth of 2.0% compared to the current FY 2016 year end estimate of \$12.1 million. This increase reflects current FY 2016 tracking, final services rate increases scheduled for the various utilities, and the implementation of the new modernization ordinance of telephone utility taxes which was votes in November 2014.	Utility Users Tax	\$ 1,170,100		
Revenues	Documentary Tax This action decreases the estimate for Documentary Taxes by \$785,000 due to a decrease in sales volume. In FY 2016, sales volume is down 13% with no major sales activities. Therefore, FY 2016 estimates receipts are dropping to historic lows ranging between \$5.0 million to \$6.0 million. This slowing pace is anticipated to continue in FY 2017 with a revised growth rate of only 5.4% from FY 2016 levels.	Documentary Tax	\$ (785,000)		
Revenues	Return on Investments This action increases the estimates for interest earnings by \$135,000 from \$840,000 to \$975,000 reflecting a revised year over year growth of 2.6%. This revised forecast is based on current FY 2016 tracking levels.	Return on Investments	\$ 135,000		
Non-Departmental Budget	Adjustment to Ending Fund Balance/Budget Stabilization Reserve: This action increases the Budget Stabilization Reserve (BSR) to account for actions recommended in this report. This increase in the BSR would bring the FY 2017 estimated level to \$41.5 million. This reflects a increase of \$1.0 million when compared to the estimated june 30, 2016 balance of \$40.5 million. The estimated FY 2017 BSR level of \$41.5 million reflects approximately 21.4% of the FY 2017 General Fund expenditures, exceeding the target level of 18.5% (by \$5.6 million) and the range of a 15% minimum to 20% maximum as approved by the City Council.			Fund Balance	\$ 2,030,551
GENERAL FUND SUBTOTAL			\$ 1,950,875		\$ 1,950,875