Presentations for the

October 19, 2020

City Council Meeting
OVERVIEW

The City has prudently planned for the impacts of COVID-19 on its financials and no change to the current FY 2021 Adopted Budgets are recommended at this time.

- Tonight is the first of several conversations planned on budget and related items
- Actively managing financials given continued significant uncertainties from the ongoing pandemic and related economic challenges
- Adapting operations to best support and serve the community
  - It is taking increased resources to deliver the same quantity of service in modified ways to ensure the safety of the community and employees
- Experts believe Q2 2020 was the bottom of financial impacts, however, State and County officials warn a second wave of impacts may occur
- Work is underway focused on developing a Community and Economic Recovery Strategy
PURPOSE

Discuss Palo Alto’s current fiscal status and provide direction to staff on potential budget actions, including:

1. Report on status of attrition ramps for the Police and Fire Departments

2. Discuss and provide direction on rental relief for City non-profit and for-profit tenants

3. Identify priorities for use of the $744,000 COVID-19 Council Reserve the City Council set aside during the FY 2021 Adopted Budget process and wait on spending until early 2021

4. Accept this report, discuss areas of recovery within and outside of the City’s control, and provide direction on next steps in developing a Palo Alto Community and Economic Recovery Strategy
RISKS & UNCERTAINTIES

• Report is based on preliminary findings and does not reflect a true 1st Quarter financial activity in FY 2021

• A second wave of strict shelter in place orders, shutting down business activity further impacting the local economy

• The length of the recovery period and how fast recovery could take; significantly impacts the City’s most sensitive tax bases

• Return of daytime population - workers, students/faculty/staff at Stanford University, visitors, or the City’s resident population

• Consumer behavior and confidence in both the economic stability and safety
COVID - 19 Response

- CARES Act $855,000
- Estimated $3 million in response expenses (including $0.5M business grants and $0.2M waived fees)

General Fund

- $26.5 M collected, or 13.5% of budget & $46.9 M expended, or 23% of budget
- Budget Stabilization Reserve at $35.9 M, 18.2%. Below 18.5% target level by $575,000.
  - $744,000 COVID-19 Council Reserve the City Council set aside remains
- Public Safety attrition – Fire 3 positions remain at risk by 12/31, Police is complete
- Deferred and/or delinquent lease revenues exceed $500,000 – Cubberley and other facilities; rental relief efforts for city non-profit and for-profit tenants
FINANCIAL SUMMARY – OTHER FUNDS

• Rising workers' compensation costs
• Lower general liability claims costs though an increase in claims cost is expected
• Utility customer bill aging delinquency amounts are increasing significantly
  • the restaurant sector in the worst shape overall (28 out of total 146 restaurants, roughly 19%, have outstanding delinquencies in all utility services)
• Parking Fund expenses are expected to outpace revenues and will likely draw on available fund balances (e.g. a 75% reduction in revenue would result in $1.9M and $0.3M in the University and California Avenue Funds use of reserves respectively)
• Capital bid market has seen mixed impacts; utilities remains a competitive marketplace
• General Capital Improvement Fund will require rebalancing due to revised TOT outlook
## GENERAL FUND REVENUES $197 M

<table>
<thead>
<tr>
<th>Revenue Category</th>
<th>FY21 Adopted Budget</th>
<th>% change from Prior Yr</th>
<th>Trend vs Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Tax</td>
<td>$52.0 M</td>
<td>6.9%</td>
<td></td>
</tr>
<tr>
<td>Sales Tax</td>
<td>20.5 M</td>
<td>-40.3%</td>
<td>↑</td>
</tr>
<tr>
<td>Transient Occupancy Tax</td>
<td>14.9 M</td>
<td>-49.2%</td>
<td>↓</td>
</tr>
<tr>
<td>Utility User Tax</td>
<td>15.1 M</td>
<td>-14.1%</td>
<td></td>
</tr>
<tr>
<td>Documentary Transfer Tax</td>
<td>4.7 M</td>
<td>-43.8%</td>
<td>↑</td>
</tr>
<tr>
<td>Charges for Services &amp; Licenses and Permits</td>
<td>33.8 M</td>
<td>-13.0%</td>
<td>↓</td>
</tr>
<tr>
<td>Other Taxes and Fines &amp; return on Investments</td>
<td>3.0 M</td>
<td>-11.5%</td>
<td>↓</td>
</tr>
<tr>
<td>All Other Revenues (transfers, charges to other funds, other agencies, etc.)</td>
<td>53 M</td>
<td>Various</td>
<td></td>
</tr>
</tbody>
</table>
CITY SERVICES CONTINUE

• Supporting open space preserves, the reopening of parks and playgrounds, and both virtual and in-person arts and recreational programming

• Maintaining the customer call center and library sidewalk services; over 16,000 calls and 11,000 pick-up appointments

• Public safety patrol, fire, EMS, and emergency services continue including strike team deployments to assist in the state's wildfire response

• Planning and development permits saw a reduction the final months of 2020, however, have returned to typical volumes

• Capital investments continue: Highway 101 Bike and Pedestrian Bridge milestones, Cal Avenue Garage completion
COMMUNITY & ECONOMIC RECOVERY

Overview of Ongoing and Upcoming Work:

• Compiling and reviewing macro trends and sector-specific economic disruptions that are likely to have mid- to long-term effects as a result of this pandemic

• Developing financial modeling/scenario planning capabilities to enable analysis of trends and potential recovery strategies

• Work ahead will be to identify and support goals and initiatives that leverage the City's ability to impact or influence recovery
EXAMPLE RECOVERY APPROACHES

Policy Recommendations

The Task Force set out to identify practical, timely interventions to sustain businesses and protect vulnerable populations. Simultaneously, the Task Force sought to identify bold, creative solutions to address longstanding societal challenges and ultimately achieve greater racial and social equity.

Informed by their own experiences and input from community engagement efforts, the Task Force prioritized strategies that address the need to protect small and medium businesses from collapse and support them with accurate, timely information, the need to focus on health, safety, wealth building, and opportunity creation for vulnerable populations; the need to promote housing and make it easier to adapt our spaces to changing circumstances; and the need to invest in the sectors that make San Francisco a desirable place to live and visit.

The ideas from the Task Force’s four policy group sessions are organized into the following eight integrated categories:

1. **Local Economic Stimulus**: explore policies and investments that encourage economic development and activity in San Francisco, such as funding public infrastructure projects, streamlining permitting processes, advocacy for state and federal resources, and more

2. **Job Connections**: facilitate and improve connections to jobs and explore programs that hire local workers

3. **Promote Safe Reopening**: provide clear and accessible information to businesses and workers on reopening requirements and provide tools and strategies to keep workers, customers, and residents safe

4. **Preserve Operations and Lessen Regulatory Burdens**: create flexibility for businesses to operate and consider reducing or eliminating regulatory burdens

5. **Pursue Economic Justice**: narrow the wealth gap and bridge the digital divide for low-income residents and communities of color

6. **Invest in Housing**: incentivize the construction of affordable housing, an immediate and long-term need

7. **Meet the Basic Needs of the Vulnerable**: ensure San Franciscans have access to food, shelter, mental health, and other services

8. **Imagine and Build Stronger Neighborhoods**: activate and draw upon San Francisco’s unique neighborhood and cultural assets
TIMELINE & RECOVERY

Nov 2020
- Various fee studies (impact fees, fire medical services, parking) – Finance Committee (FC)
- Follow-up actions on business recovery from 9/14 – Council
- Nov/Dec discuss elements and focus to support Palo Alto Community and Economic Recovery Strategy – Council

Dec 2020
- FY 2020 Comprehensive Annual Financial Report (CAFR) & Year End Budget adjustments – FC
- FY 2021 1st Quarter Financial Report – FC
- Status-Check-in FY 2021 Adopted Budget City Council Referrals – FC

Jan 2021+
- Review of December Finance Committee reports – Council
- FY 2021 Mid-Year Budget Review (February) – Council
RECOMMENDATION

Staff recommends that the City Council discuss Palo Alto’s current fiscal status and provide direction to staff on potential budget actions, including the following:

1. Report on status of attrition ramps for the Police and Fire Departments that end October 31 and December 31 respectively;
2. Discuss and provide direction on rental relief for City non-profit and for-profit tenants;
3. Identify priorities for use of the $744,000 COVID-19 Council Reserve the City Council set aside during the FY 2021 Adopted Budget process and wait on spending funds allocated until the FY 2021 Mid-Year Budget Review in early 2021; and
4. Accept this report, discuss areas of recovery within and outside of the City’s control, and provide direction on next steps in developing a Palo Alto Community and Economic Recovery Strategy, financial modeling and forecasting to monitor the current fiscal year, and guidelines for preparation of the FY 2022 budget and FY 2022-2031 General Fund Long Range Financial Forecast.