Presentations for the

May 12, 2020

City Council Meeting

COUNCIL MEETING
5/12/2020
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CITY OF PALO ALTO

FY 2021 BUDGET OVERVIEW & NON-DEPARTMENTAL SECTION: Non-Departmental O: 323-326

MAY 12, 2020

www.cityofpaloalto.org/budget

BUDGET HEARING AGENDA MAY 12, 2020

CITY OF PALO ALTO

1:00-1:30pm	1) Fiscal Year 2021 Budget Process Overview and Non-departmental Section
1:30-3:00pm	2) General Fund Capital Budget a) General CIP b) Cubberley CIP
3:00pm - 5:00pm	3) Public Safety Services a) Fire b) Emergency Services c) Police
5:00-5:45pm	**DINNER BREAK**
5:45-7:45pm	4) Community and Library Services Operating Budget a) Community Services b) Approval of the Preliminary Operating Plan and new Municipal Fees for the Junior Museum and Zoo c) Library Services
7:45-9:00pm	5) Internal Service Departments & Council Appointed Officers Budgets a) Administrative Services b) Human Resources c) Information Technology d) City Attorney's Office e) City Auditor's Office f) City Clerk's Office g) City Manager's Office h) City Council
9:00-10:00pm	6) Pension Funding Policy Discussion and Review of Amendment Number 1 to Contract Number C15159278 to Increase Compensation by $97,675 for Additional Actuarial Consultant Services for a new Total Not-To-Exceed Amount of $230,000

FY 2021 BUDGET SUMMARY (NON-DEPARTMENTAL)

Balancing Strategy

Non-Departmental includes things like the payments associated with the month-to-month Cubberley Lease to PAUSD and the Transfer to Infrastructure as well as contingencies for various departments.

Major Proposed Changes (General Fund)

- Revenue Reductions of $43.8 M associated with May 4 City Council direction
- Reduction in Transfer to Capital of $16.5 M to $16.1 M
- Net reduction of $2.5 M associated with Cubberley lease, currently lease $5.4 M (gross)
- Elimination of Operating Subsidy Transfer to RPP ($185,000)
- Elimination of Human Resources Contingency ($50,000)
- Reduction of City Council Contingency from $125,000 to $95,000 ($30,000)

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CITY OF PALO ALTO

FY 2021 PROPOSED BUDGET HEARINGS
GENERAL FUND CAPITAL BUDGET
GENERAL CAPITAL IMPROVEMENT PLAN AND CUBBERLEY CAPITAL IMPROVEMENT PLAN
CAP PG. 53-283, 285-299

May 12, 2020

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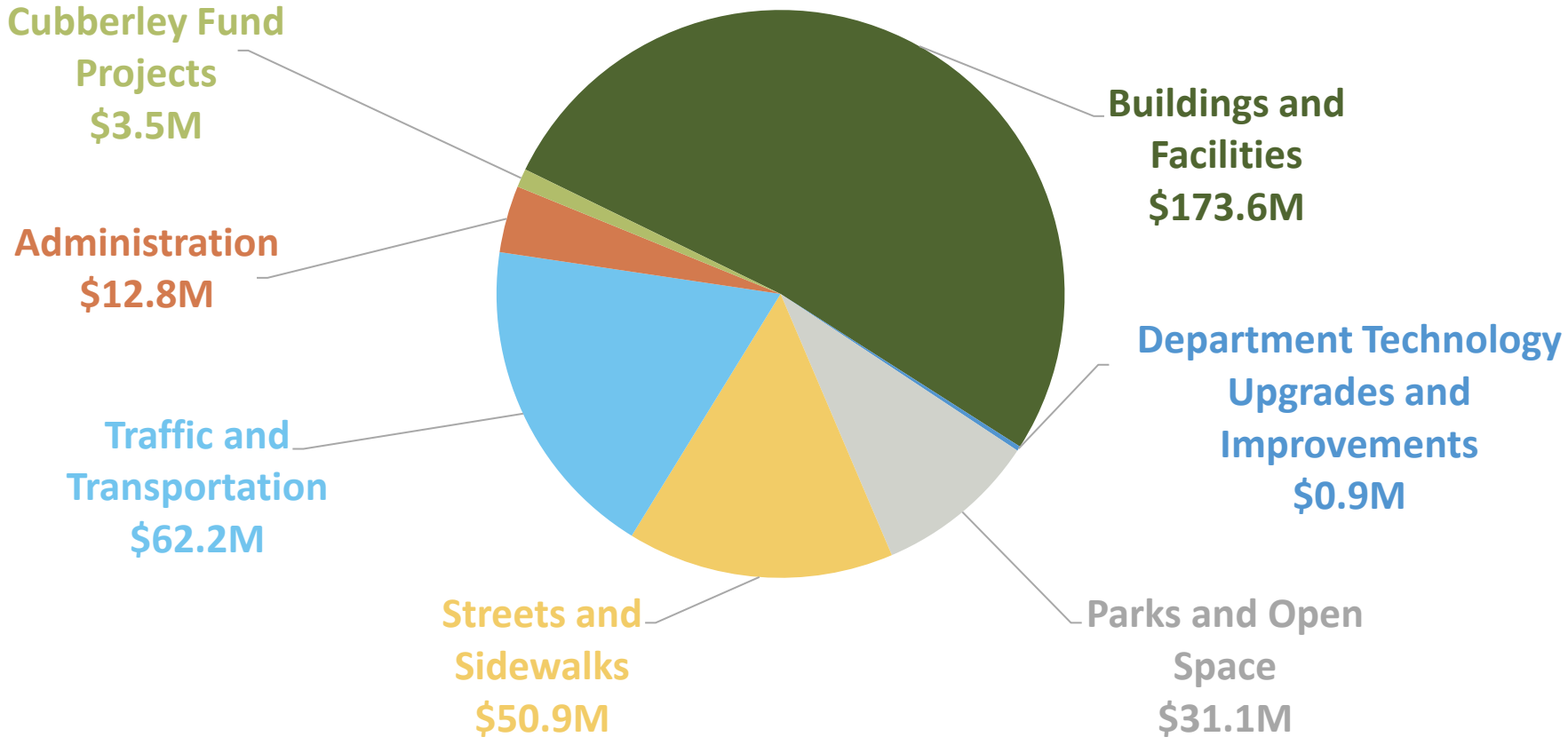
FY 2021 BASELINE BUDGET SUMMARY

2021-2025 CAPITAL IMPROVEMENT FUND, & CUBBERLEY FUND EXPENDITURES BY CATEGORY ($335.0 MILLION)



CITY OF PALO ALTO

GENERAL FUND CAPITAL PROJECT

General Capital Improvement Plan Pg. 51-282

Cubberley Capital Improvement Plan Pg. 285-298

FY 2021 GENERAL CAPITAL IMPROVEMENT PLAN

FY 2021- FY 2025 CIP Baseline Budget Summary

	FY 2021 Proposed	FY 2022	FY 2023	FY 2024	FY 2025	5-Year Total
Revenues	162.2 M	54.6 M	48.3 M	39.0 M	39.4 M	$343.5 M
Expenses	176.8 M	46.2 M	40.9 M	42.1 M	25.5 M	$331.5 M

FY 2021 – FY 2025 Capital Improvement Plan Outlook

- Transfers from the General Fund anticipated to decrease due to impacts in the Operating General Fund budget:
  $8.1M in FY 2021; $20.2M over 5-Year CIP

- Lower overall Transient Occupancy Tax (TOT) revenues, including TOT revenue dedicated by Council for infrastructure improvements:
  $8.5M in FY 2021; $26.3M over 5-Year CIP

- Two new projects:
  $0.5M in FY 2021; $1.7M over 5-Year CIP

COUNCIL CONSIDERATIONS & GENERAL FUND CAPITAL PROJECT SUMMARY

FY 2021 – FY 2025 Capital Improvement Plan Strategy

- Projects reprioritized to address reduced capacity for capital investments
- Criteria based on health and safety issues; Council priorities, including the Infrastructure Plan (IP) projects; and external funding sources
- Strategic reductions considering project priority, timeline, impact
- Previous “catch up” and “keep up” helps limit impact of reduced investments for two years

FY 2021 BUDGET SUMMARY
GENERAL CAPITAL IMPROVEMENT PLAN MAJOR CHANGES

- PE-15007 New Downtown Parking Garage (revenue changes -$9.1M, expense changes -$21.4M) includes reallocation of SUMC funding between projects
- PL-15001 Embarcadero Road at El Camino Improvements (expense changes -$7.4M)
- PL-04010 Bicycle and Pedestrian Plan Implementation (expense changes - $4.0M)
- PE-15011 Ventura Building Improvements (expense changes -$2.0M)
- PE-13017 El Camino Median Landscape Improvements (expense changes -$1.0M)

NEW PROJECT
- PE-19003 Birch Street Improvements (revenue changes +$2.4M, expense changes +$2.4M)

FY 2021 BUDGET SUMMARY
GENERAL CAPITAL IMPROVEMENT PLAN CONTINUING PROJECTS

- PE-15001 Public Safety Building
- PE-18004 Fire Station #4
- PE-13011 Charleston/Arastradero Corridor Project Phase 3
- PE-16006 Municipal Service Center (MSC) Lighting, Mechanical and Electrical Improvements
- PF-17000 MSC Roof Replacement
- PE-86070 Street Maintenance

FY 2021 CUBBERLEY IMPROVEMENT PLAN

FY 2021- FY 2025 CIP Baseline Budget Summary

	FY 2021 Proposed	FY 2022	FY 2023	FY 2024	FY 2025	5-Year Total
Revenues	1.8 M	1.8 M	1.8 M	1.8 M	1.8 M	$9.0 M
Expenses	1.3 M	0.7 M	0.5 M	0.5 M	0.5 M	$3.5 M

FY 2021 – FY 2025 Cubberley Improvement Plan Outlook

- Revenues from General Fund transfers of $1.8 M are based on the contract with Palo Alto Unified School District (PAUSD)
- No new projects, continuation of maintenance and upkeep of the facilities

FY 2021 – FY 2025 Cubberley Improvement Plan Strategy

- Incorporating Cubberley Master Plan recommendations to be revisited as circumstances continue to change

REVISED FY 2021 CAPITAL BUDGET – CMR #11322

	General Fund CIP (Funds 471 & 472)			
	Revenues FY 2021	Expenses FY 2021	Revenues 2021-2025	Expenses 2021-2025
Baseline FY 2021 Budget and 2021-2025 CIP (released April 20,2020)	**$164,028**	**$178,199**	**$352,815**	**$335,130**
Revenues				
City Council Recommended				
General Fund Transfer	(8,050)	-	(20,160)	-
TOT Funding Realignment	(8,455)	-	(26,250)	-
Council Recommended Revenue Changes	**$(16,505)**	**$ -**	**$ (46,410)**	**$ -**
Expenses				
Project Category				
Buildings & Facilities	-	(4,132)	(922)	(25,629)
Parks & Open Space	-	(558)	2,400	1,937
Streets & Sidewalks	-	(2,408)	-	(5,310)
Traffic & Transportation	-	(1,674)	-	(12,502)
Vehicle & Equipment Replacement	-	-	-	-
Proposed Revenue and Expense Changes	**$(16,505)**	**$ (8,772)**	**$ (44,932)**	**$ (41,504)**
Proposed FY 2021 Budget and 2021-2025 CIP	**$147,523**	**$169,427**	**$307,883**	**$293,626**

COUNCIL MEETING
5/12/20
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CITY OF PALO ALTO

FY 2021 PROPOSED BUDGET HEARINGS

PUBLIC SAFETY CITY SERVICE AREA

OFFICE OF EMERGENCY SERVICES, POLICE, & FIRE DEPARTMENTS

OP PG. 185 - 192, 223 – 227, 239 - 246

May 12, 2020

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FY 2021 BASELINE BUDGET SUMMARY (APRIL 20)

Department	General Fund Revenue	General Fund Expenses	General Fund FTE	All Funds Revenue	All Funds Expenses	All Funds FTE
Fire	$11,008,403	$36,210,834	98.40	$11,008,403	$36,210,834	98.40
Emergency Services	$95,589	$1,585,814	3.48	$95,589	$1,585,814	3.48
Police	$4,371,318	$47,110,074	152.30	$4,371,318	$47,110,074	152.30

CITY OF PALO ALTO

Fire Department

Operating Pg. 185-192

May 12, 2020

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FY 2021 BUDGET SUMMARY (FIRE)

Balancing Strategy

The Department will seek new revenue streams, move to a flexible resources model based on daily staffing numbers, reducing units on evenings and weekends; and will reduce management and administration staff to its leanest levels. Response times will increase and changes will require negotiations for the Stanford Fire Services Contract.

Major Proposed Changes in General Fund

- Flexible staffing model resulting in unit brownouts (-$811,000)
- Paramedic Subscription Program (+$1.5 M rev)
- First Responder Fee (+$375,000 rev)
- Management and Administrative Reductions (-$802,000)
- Ambulance Services (+$510,000)
    - Restore day-time ambulance, includes savings resulting from overtime reduction model.

FY 2021 DEPARTMENT OUTLOOK (FIRE)

- Emergency response to fires, medical emergencies, technical rescue incidents and hazardous materials emergencies
- Maintain an effective response force to stop the escalation of emergencies, e.g. structure fires, and focus on optimizing our emergency response system
- Maintain current emergency medical response and ambulance transport services
- Continue to perform fire inspections on State mandated occupancies, foothill residences, businesses with hazardous materials and new construction's fire protection systems

CITY OF PALO ALTO

Office of Emergency Services

Operating Pg. 223-227

May 12, 2020

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FY 2021 BUDGET SUMMARY (OES)

Balancing Strategy

OES will reduce staff resources in FY's 2021 and 2022 and reduce the operations and maintenance funding aligned with the Intrusion Detection System (Caltrain right of way camera system).

Major Proposed Changes in General Fund

- Staff resource reduction (-$109,000)
- Reduce funding for IDS program (-$60,000)

FY 2021 DEPARTMENT OUTLOOK (OES)

- Palo Alto OES will lead the corrective action process to improve our response and recovery systems as we prepare for a potential resurgence of COVID-19 in the fall.
- A heightened interest within the community to provide all-hazards based education and training is anticipated.
- Update to the Local Hazard Mitigation Plan (LHMP) in 2021-2022
- Coordinate the implementation of a Foothills Fire Early Warning system
- Participate in the final design/build of the Public Safety Building

CITY OF PALO ALTO

Police Department

Operating Pg. 239-246

May 12, 2020

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FY 2021 BUDGET SUMMARY (POLICE)

Balancing Strategy

- With the exception of revenue from parking enforcement, special events, regional partners, and alarm registrations/fees, most services provided have little cost recovery.
- Seek new revenue streams; move to a flexible resources model based on daily staffing, reducing units where permitted; and reduce management and support staff.
- Services related to quality of life or administrative in function will be provided as staffing, funding or cost recovery permits. Examples are traffic team, school services or going to non-injury traffic reports. These services will be subordinate to emergencies and mandated activities.

FY 2021 BUDGET SUMMARY (POLICE)

Major Budget Changes

- Reduction in Patrol Operations (-$1.7 M)
- Reduction in Communications & Dispatch (-$179,000 rev / -$1.1 M exp)
- Reduction in Investigations/School Services (-$839,000)
- Reduction in Traffic Enforcement (-$526,000)
- Reduction in Hiring of new staff and training of existing staff (-$585,000)
- Reduction in Business Operations (-$472,000)
- Reduction in Technical Services (-$380,000)
- Reduction in Records Services (-$296,000)
- Reduction in Animal Control Services (-$40,000 rev / -$235,000 exp)
- Reduction in Special Events (-$12,000 rev / -$76,000 exp)

FY 2021 DEPARTMENT OUTLOOK (POLICE)

- Answer calls for help and respond to urgent or escalated calls for help 24/7
- Investigate crimes against at-risk people or communities such as children, seniors or other vulnerable citizens
- Maintain an Animal Control team at various times of the week
- Maintain lobby hours various times of the week
- Respond to mandated activities such as crime reporting
- Maintain sensitive records and evidence
- Coordinate with other agencies such as the District Attorney's office and other law enforcement agencies
- Maintain parking enforcement

SERVICE AREA SUMMARY

	General Fund FY 2021 Baseline (as of 4/20/20)	General Fund FY 2021 Revised (as of CMR #11322)	% change	All Funds FY 2021 Baseline	All Funds FY 2021 Revised	% change
Public Safety	$84.9 M	$79.2 M	(6.8%)	$84.9 M	$77.2 M	(9.1%)

COUNCIL MEETING
5/12/2020
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CITY OF PALO ALTO

FY 2021 PROPOSED BUDGET HEARINGS

COMMUNITY AND LIBRARY SERVICES SERVICE AREA

Community Services & Library Departments

Ops Pg. 171 – 184, 215-221

May 12, 2020

www.cityofpaloalto.org/budget

FY 2021 BASELINE BUDGET SUMMARY (APRIL 20)

Department	General Fund Revenue	General Fund Expenses	General Fund FTE	All Funds Revenue	All Funds Expenses	All Funds FTE
Community Services	$11,179,132	$32,390,494	130.71	$11,179,132	$32,390,494	130.71
Library	$116,116	$10,447,853	61.28	$116,116	$10,447,853	61.28

CITY OF PALO ALTO

COMMUNITY SERVICES DEPARTMENT

Operating Pg. 171-184

May 12, 2020

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FY 2021 BUDGET SUMMARY (COMMUNITY SERVICES)

Balancing Strategy

- Hold position vacancies, including three manager positions
- Increase cost-recovery for some programs
- Pause programs/events with low cost-recovery or that promote gatherings
- Reduce operating hours or close some facilities; scale back or eliminate contracts

Major Proposed Changes in General Fund

- Pause Art Center exhibitions, Children's Theatre productions, and teen services programs (-$593,000 rev/ -$2.6 M exp)
- Reduce parks maintenance contracts by 50%, eliminate contract rangers, close Baylands Interpretative Center (-$686,000)
- Reduce operating hours at 3 community centers and Art Center by one day per week (-$277,000)
- Increase cost recovery of programs: middle school + adult athletics programs and Junior Museum & Zoo (JMZ) ($52,000 rev/-$263,000 exp)
- Reduce special events and pause Know Your Neighbors Grants (-$13,500 rev/ -$278,000 exp)

FY 2021 DEPARTMENT OUTLOOK (COMM. SVC.)

- CSD will continue to offer recreation, theatre, and art classes and programs, striving for high cost-recovery levels
- Park, playgrounds and open space areas will be open and maintained for safety
- Community Centers will remain open, but on a more limited schedule
- The new JMZ will open in FY21 with new animals and exhibits and improved accessibility
- CSD will continue collaborations with our nonprofit partners
- Funding for human services needs through HSRAP remains consistent with the levels included in the FY 2021 Proposed Budget as of April 20, 2020.

CITY OF PALO ALTO

Library Services Department

Operating Pg. 215-221

May 12, 2020

www.cityofpaloalto.org/budget

FY 2021 BUDGET SUMMARY (LIBRARY)

Balancing Strategy

Eliminated service hours at Library branches during lower usage period. Adjusted service delivery to focus on two full-service libraries with two neighborhood branches in light of the expected shelter in place and social distancing orders. Consolidated services to increase efficiency.

Major Proposed Changes in General Fund

- Reduce full-service Children's Library to basic "neighborhood branch" model – reduce from 7 to 4 days open per week (-$518,000)
- Eliminate Rinconada Library evening hours (-$102,000)
- Close College Terrace Library (-$168,000)
- Decrease library materials (books) budget (-$150,000)
- Reduce staffing based on reduction of services and vacancies (-$707,000)

FY 2021 DEPARTMENT OUTLOOK (LIBRARY)

- The Library Services Department continues to nurture innovation, discovery and delight through connecting our diverse community through knowledge, resources and opportunities.
- Four libraries would remain open to support patrons.
- The Library is looking to expand its online presence through increased virtual programming and digital resources, in light of the Shelter in Place and public space restrictions continuing into FY 2021.
- Continue to provide technology and support for those seeking education and professional development in this time of economic crisis.

SERVICE AREA SUMMARY

	General Fund FY 2021 Baseline (as of 4/20/20)	General Fund FY 2021 Revised (as of CMR #11322)	% change	All Funds FY 2021 Baseline	All Funds FY 2021 Revised	% change
Community & Library Services Area	$42.8 M	$36.4 M	(15.1%)	$42.8 M	$36.4 M	(15.1%)

CITY OF PALO ALTO

PRELIMINARY OPERATING PLAN FOR THE JMZ

Item 4b

FY 2020-2021

City Council MAY 12, 2020

www.cityofpaloalto.org

SUMMARY AND RECOMMENDATIONS

The JMZ was anticipated to reopen in October 2020 as a larger facility with more animals, exhibits, and services. Staff recommended to Finance Committee:

- Expanding personnel and some non-personnel expenses
- Setting new fees to offset increased service costs

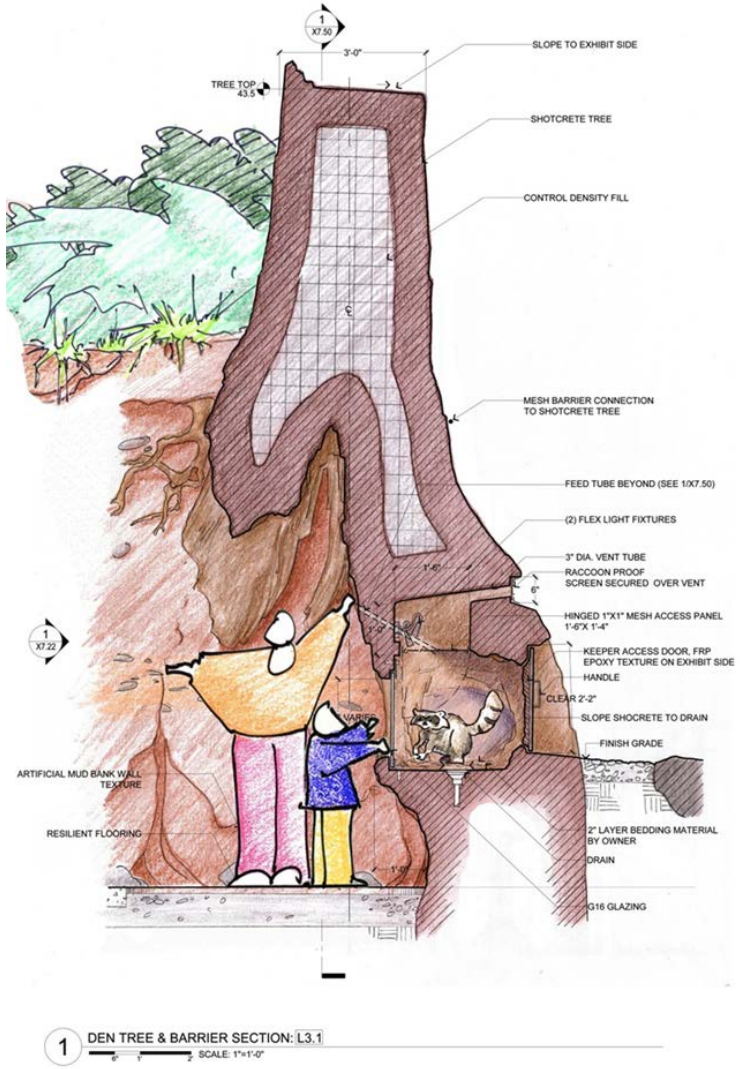
THE NEW JMZ

The City and the Friends have built a new JMZ to:

- Improve the visitor experience
- Expand and optimize space
- Make science programing scalable for future generations

The New JMZ is a state-of-the-art museum with a focus on:

- Inclusion
- Accessibility
- Highest standards in animal care



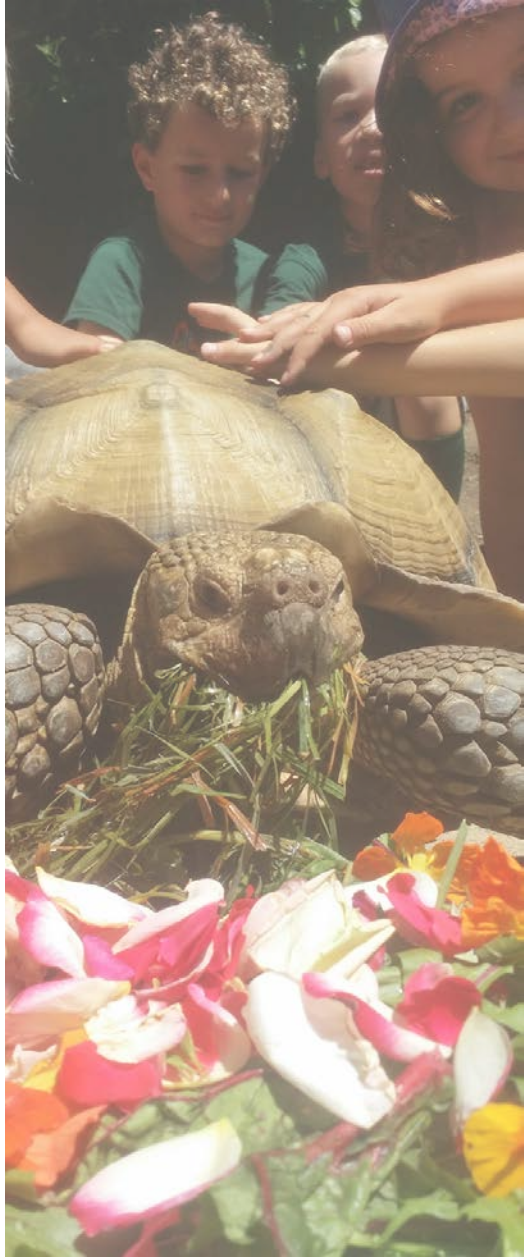
The JMZ's mission is to engage a child's curiosity for science and nature.

COMPARING THE ORIGINAL AND NEW JMZ

	Museum (sq. ft.)	Zoo (sq. ft.)	Education Space (sq. ft.)	Exhibition Area (sq. ft.)	Number of Interactive Exhibits	Number of Science Play Areas
Original JMZ	9,000	10,000	3,300	2,500	40	7
New JMZ	15,150	18,520	4,690	6,715	78	13
Difference	*6,150*	*8,520*	*1,390*	*4,215*	*38*	*6*
Increase at new JMZ	68%	185%	142%	269%	195%	186%

ADJUSTMENTS DUE TO COVID-19

- March 2021 Projected Opening Date
- Increased cost recovery expectations
- Increase in recommended fees from $10 to $18 per ticket (85% cost recovery)
- Potential adjustments and reductions in educational programming through Spring 2021
- Ongoing evaluation of public confidence and market research around museum and zoo visitation



PRICING RECOMMENDATIONS

Daily Entrance Ticket	$18 ($0 - 2 and younger)
Discounted Ticket Fee	$2
Annual Family Membership - Resident	$150
Annual Family Membership - Non-Resident*	$216
Annual Family Plus Membership - Resident	$300
Annual Family Plus Membership - Non-Resident*	$430

** Per Policy, non-resident fees are set at approximately 30% above resident fee rates*

Charging admission will help to develop a sustainable funding path that allows for future growth of services and experiences within the JMZ.

RESOURCE IMPACT

	FY 2020	FY 2021	*FY 2022****
Revenue*	$734,000	$1,871,000	*$3,200,000*
Staffing Expense	$1,854,000	$2,117,000	*$2,380,000*
Non-personnel Expense	$126,000	$498,000	*$498,000*
Allocated Charges**	$500,000	$900,000	*$900,000*
Total Expense	$2,479,000	$3,515,000	*$3,778,000*
Net General Fund Impact	*$1,745,000*	*$1,644,000*	*$580,000*

**Current revenue is generated from science-based classes and camps, birthday party programs, facility rentals, school fieldtrips, and in-class science lessons.*

***Allocated Charges include direct services such as electricity and refuse collection.*

****Projected based on current models*

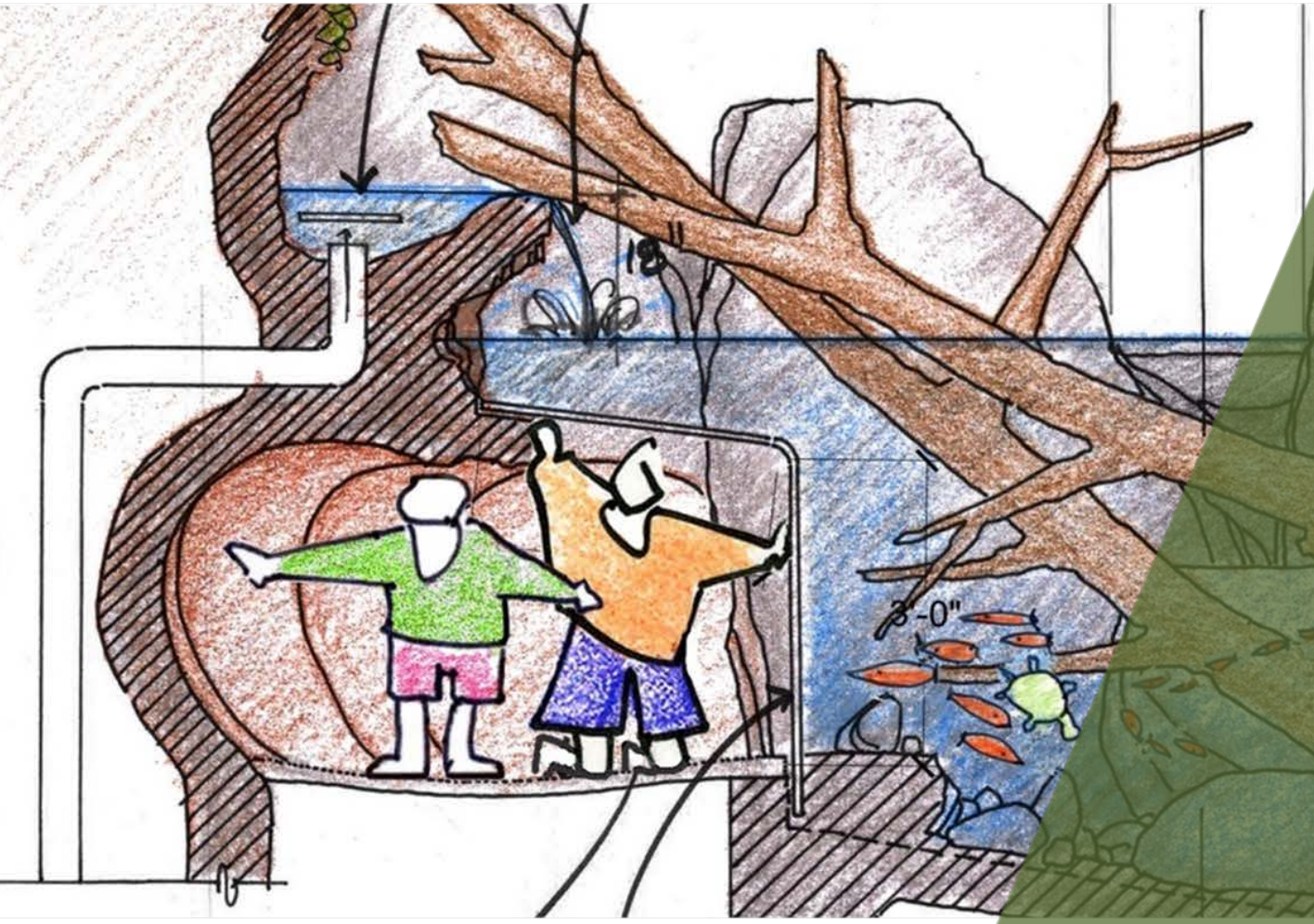
CURRENT STAFFING

Status Quo Staffing (Full-time Equivalent)	Animal Care & Experiences	Exhibitions & Museum Maintenance	Education Programs	Guest Services & Experiences	Management	Total
Benefitted Positions	1.00	1.00	4.60	1.00	1.15	**8.75**
Part-Time Positions	1.07	1.38	4.26	0.48	-	**7.19**
Total	**2.07**	**2.38**	**8.86**	**1.48**	**1.15**	**15.94**

PROPOSED STAFFING UPON REOPENING (AS PRESENTED TO FINANCE COMMITTEE)

Recommended Additions	Animal Care & Experiences	Exhibitions & Museum Maintenance	Education Programs	Guest Services & Experiences	Management	Total
Benefitted Positions	1.00	-	-	-	-	**1.00**
Part-Time Positions	2.16	0.75	-	2.88	-	**5.79**
Total	**3.16**	**0.75**	**-**	**2.88**	**-**	**6.79**

NEXT STEPS



- Construction resumed May 4th
- Continue to evaluate March 2020 opening
  - Pricing
  - Staffing
  - Educational programs
  - Adaptability of exhibits and programs to social distancing requirements

CITY OF

PALO ALTO

COUNCIL MEETING
5/12/2020
☑Received Before Meeting
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CITY OF PALO ALTO

Pension Funding Policy

May 12, 2020

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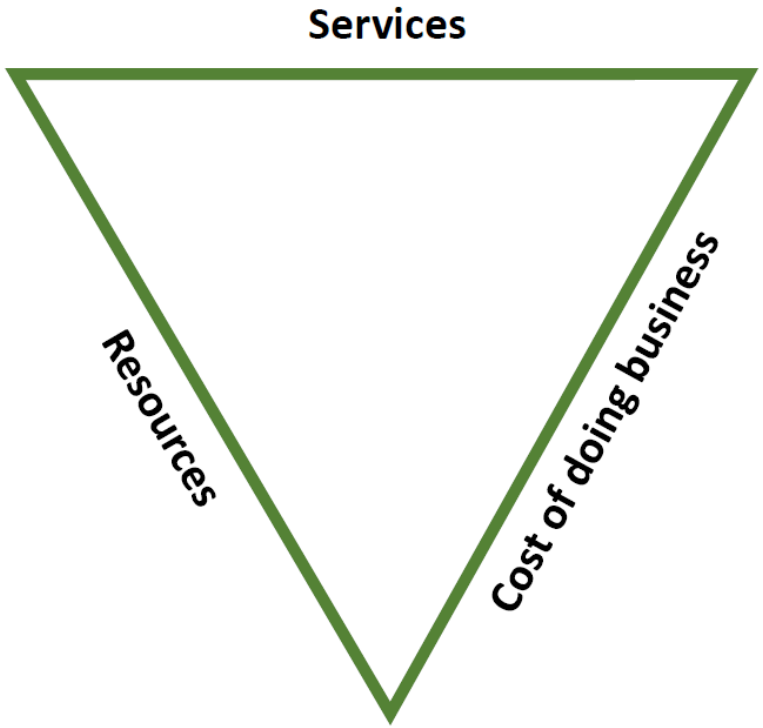
PENSION FUNDING POLICY – INPUT AND GUIDANCE

- Tonight, seeking input and guidance from the City Council on elements of a Pension Funding Policy (PFP), as recommended by the Finance Committee, which will proactively address the City's long-term pension obligations
- Will incorporate that input and guidance and return to City Council for final adoption of a policy
- Approve contract amendment with Bartel Associates to continue work on this important topic

SERVICE DELIVERY ECOSYSTEM

Overarching goal of a Pension Funding Policy is to avoid service delivery crowd-out from escalating pension costs; requires looking at near-term and long-term



PENSION FUNDING POLICY – KEY PRINCIPLES

- What is the desired funding target and corresponding timeline to achieve it?
- The Pension Funding Policy should be “evergreen”, guiding staff and Council when certain parameters are met but providing flexibility and adaptability
- What can the City afford? What is the most efficient use of its funding? What payment options and tools best align with those considerations?
- Important to keep in mind that this is a state-wide issue; CalPERS invests over a very long-term timeframe.

ELEMENTS OF A PFP

- Funding Goal and Timeframe
- Funding Components
- Allowable Uses of Funding
- Service Delivery Outcomes
- Fiscal Impacts

✓ These items were identified and supported by consensus by the Finance Committee

TABLE 2: Pension Funding Policy Examples

Pension Funding Policy Elements	Example 1: CalPERS (Baseline)	Example 2: Lower Funding Target (Current Practice)	Example 3: Medium Funding Target	Example 4: Higher Funding Target
% Funded Goal (Range)	100%; no lower element of range	80% - 100%; Target of 85%	80% min - 100%; Target of 95%	90% - 100%+; Target of 100%+
Time frame	30 years	Within 10 years	Within 10 years	Within 10 years
Funding Components	✓ Normal Cost (NC) calculated at 7.0% ✓ Discount Rate	✓ **(+)** Cost-sharing with employees (see table above for specific rates)	**(+)** Additional cost-sharing with employees	**(+)** Recalculate the UAL with the same lower DR (phase-in)
	✓ Changes in actuarial assumptions amortized over 20 years	✓ **(+)** Using a more conservative discount rate (DR) for calculation of normal cost	✓ **(+)** Identify funding for the pension obligation through Budget	**(+)** Amend existing BSR policy, 100% excess BSR allocated for pension costs (all funds contribute a commensurate amount)
	✓ UAL amortized over 30 years for gains/ losses; calculated at 7.0% Discount Rate (20 years beginning 6/30/2019)	✓ **(+)** Amend existing BSR policy, 50% excess BSR can be allocated for pension costs (all funds contribute a commensurate amount)		
		✓ **(+)** Reach one-year of funding for CalPERS ADC in 115 Trust Fund (invest moderately conservatively); subsequent proactive funding to CalPERS as ADP		
Allowable Uses of Funding Components	✓ NC covers pay-go portion; UAL portion pays off unfunded liability in 30 years if CalPERS investment returns met	✓ **(+)** Use of 115 Trust Fund funding to be addressed through annual budget process or separate City Council approved action. Pension Rate Stabilization Program	**(+)** Fresh start in concept for the Safety group, beginning in a target year	**(-)** Contractual Partial Fresh Start for the Safety group beginning in a target year in-lieu of fresh start in concept
Service Delivery Outcomes	✓ Continue services throughout the City including the ability to keep up with the cost of doing business as well as limited strategic investments.	✓ Continue current constraints and limitations on service delivery including an inability to keep up with the cost of doing business. Prioritization would continue to be necessary annually through the budget process.	**(+)** City Manager to identify plan to address additional contributions to pension as part of annual budget process	**(+)** Significant adverse impacts on service delivery levels; additional revenue
			(+) Impacts on Service Delivery and/or structural additional revenue	
Fiscal Impact	Savings to the City	✓ Continue $5.0 million structural adjustments necessary to maintain contributions	Additional structural adjustments Estimated at 3.5% of the General Fund	Significant additional structural adjustments Estimated at 8.0% of the General Fund

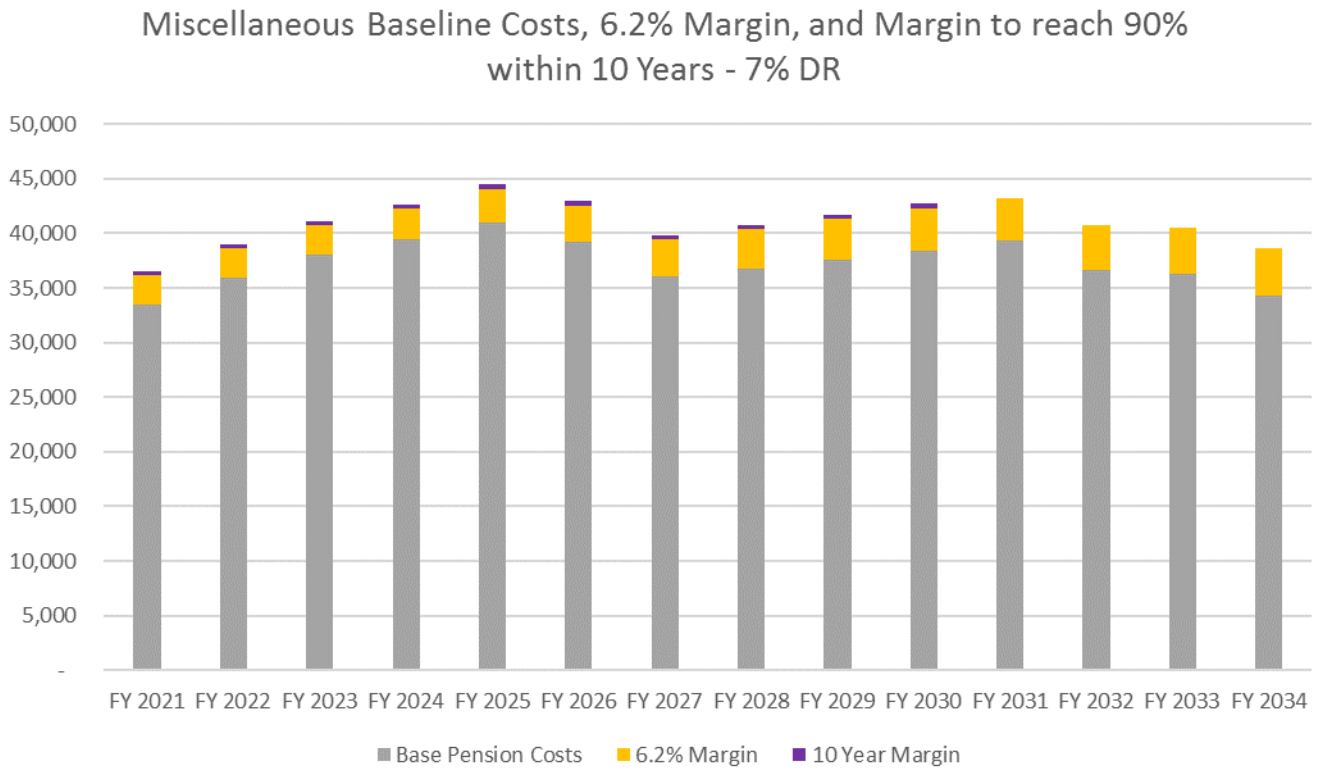
(+) Indicates that this is in addition to the step to the left while **(-)** indicates that this is instead of the step to the left.

CITY OF PALO ALTO

FINANCE COMMITTEE DISCUSSION – OCTOBER 15, 2019

- General consensus that the City should continue its practice of paying the CalPERS Actuarial Determined Contribution (ADC) on an annual basis
- Continue methodology of using a lower discount rate (DR) to calculate the normal cost (NC) or “pay-go” costs; revisit DR every three years to ensure alignment with policy goals
- Explore options for additional payments, understanding impacts on service delivery outcomes and fiscal impacts dependent on timeframe to achieve Funding Goal

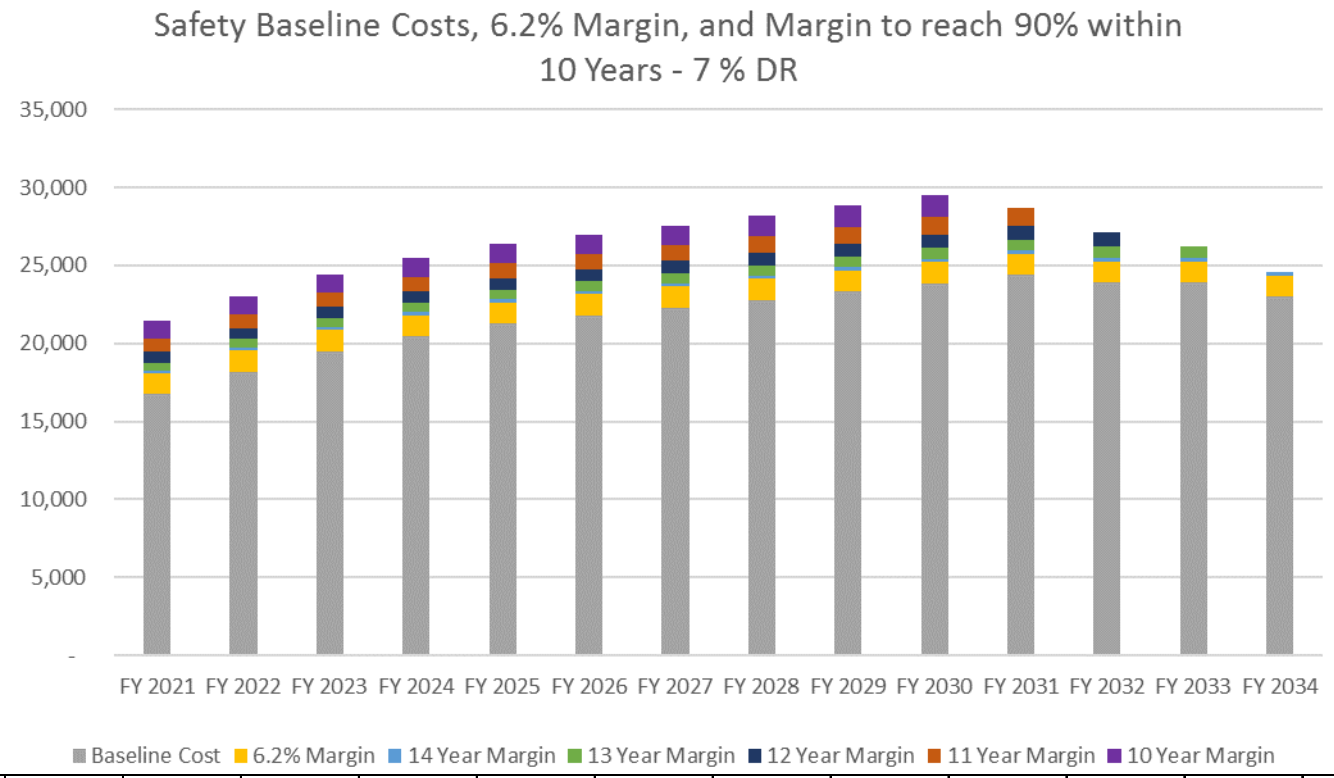
FINANCE COMMITTEE REQUEST FOR INFORMATION



	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034
6.2% DR NC Margin	2,729	2,686	2,668	2,648	2,624	2,603	2,583	2,566	2,550	2,535	2,520	2,505	2,490	2,476
14 Years	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13 Years	-	-	-	-	-	-	-	-	-	-	-	-	-	
12 Years	-	-	-	-	-	-	-	-	-	-	-	-		
11 Years	-	-	-	-	-	-	-	-	-	-	-			
10 Years	368	378	389	399	410	421	433	445	457	470				

CITY OF PALO ALTO

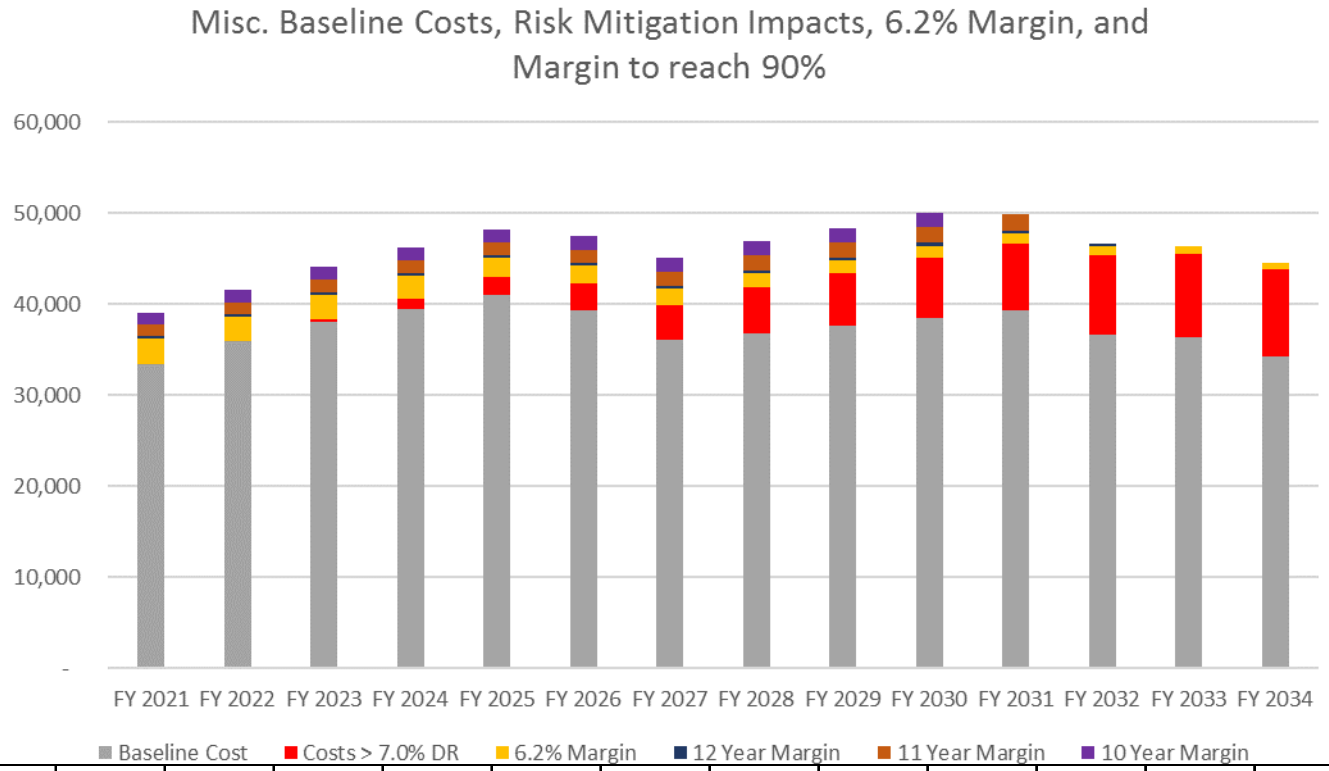
FINANCE COMMITTEE REQUEST FOR INFORMATION (CONT'D.)



	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034
6.2% DR NC Margin	1,337	1,369	1,365	1,363	1,361	1,359	1,357	1,356	1,354	1,348	1,334	1,322	1,308	1,291
14 Years	165	170	174	179	184	189	194	200	205	211	216	222	228	235
13 Years	539	554	569	585	601	617	634	652	670	688	707	726	746	
12 Years	695	714	734	754	775	796	818	840	863	887	912	937		
11 Years	854	877	902	926	952	978	1,005	1,033	1,061	1,090	1,120			
10 Years	1,088	1,118	1,149	1,180	1,213	1,246	1,280	1,316	1,352	1,389				

CITY OF PALO ALTO

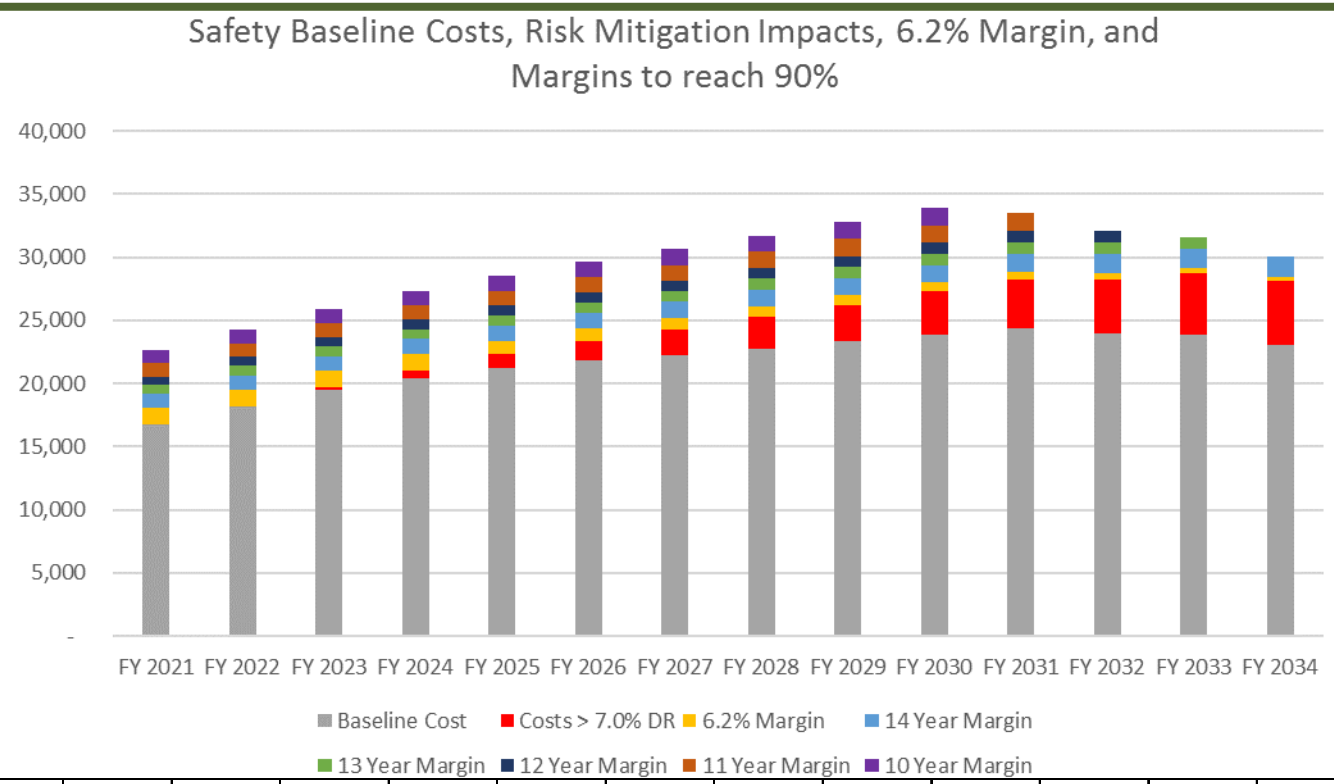
FINANCE COMMITTEE REQUEST FOR INFORMATION (CONT'D.)



	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034
Costs > 7.0% DR	-	-	331	1,167	1,964	2,967	3,831	4,987	5,735	6,678	7,377	8,703	9,268	9,564
6.2% DR NC Margin	2,729	2,686	2,668	2,482	2,132	1,952	1,776	1,604	1,435	1,268	1,102	939	778	619
14 Years	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13 Years	-	-	-	-	-	-	-	-	-	-	-	-	-	
12 Years	255	121	121	121	121	121	121	121	121	121	121	121		
11 Years	1,320	649	670	692	714	737	761	785	810	836	862			
10 Years	1,286	629	646	664	682	701	720	740	761	781				

CITY OF PALO ALTO

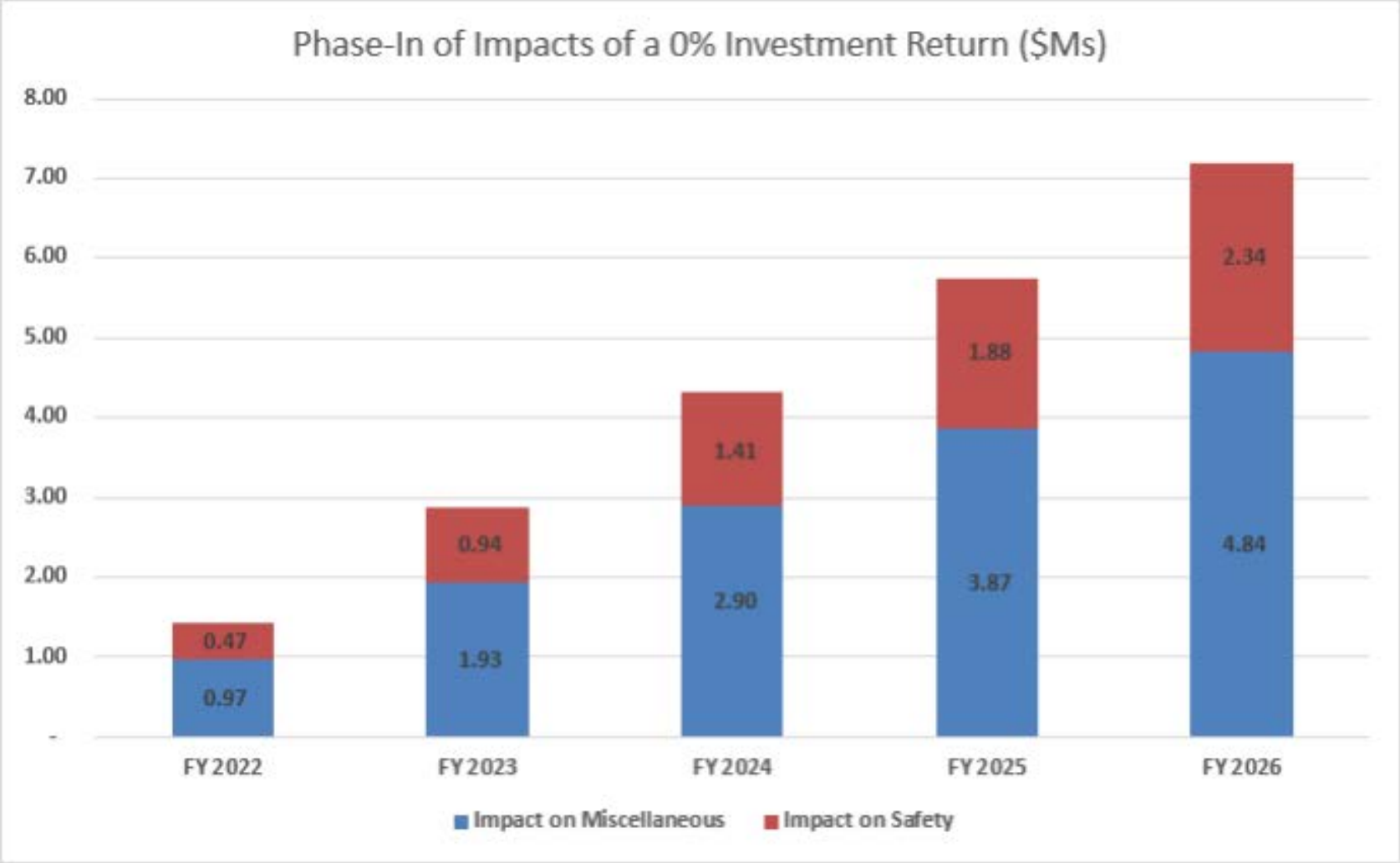
FINANCE COMMITTEE REQUEST FOR INFORMATION (CONT'D.)



	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034
Costs > 7.0% DR	-	-	186	612	1,021	1,536	1,995	2,482	2,929	3,467	3,825	4,324	4,807	5,094
6.2% DR NC Margin	1,337	1,369	1,365	1,278	1,106	1,019	933	847	762	674	584	496	409	323
14 Years	1,088	1,118	1,149	1,180	1,213	1,246	1,280	1,316	1,352	1,389	1,427	1,466	1,507	1,548
13 Years	710	730	750	770	791	813	836	858	882	906	931	957	983	
12 Years	694	713	733	753	774	795	817	839	862	886	910	935		
11 Years	1,066	1,095	1,125	1,156	1,188	1,221	1,254	1,289	1,324	1,361	1,398			
10 Years	1,068	1,097	1,128	1,159	1,190	1,223	1,257	1,291	1,327	1,363				

CITY OF PALO ALTO

IMPACT OF AN FY 2020 CALPERS INVESTMENT RETURN OF 0%



CITY OF PALO ALTO

EXAMPLE PENSION FUNDING POLICY

- *Funding Goal and Timeframe:* 90% of CalPERS Liabilities within 10 years
- *Funding Components:* Calculate NC at 6.2%, transmit to PARS.

  Excess BSR > 18.5% at City Manager's discretion to PARS

  Other options may be pursued
- *Allowable Uses of Funding:* Payments from PARS to CalPERS to be addressed as part of Budget Process
- *Service Delivery Outcomes & Fiscal Impacts:*

  If maintaining contributions impact service delivery levels, City Manager to identify impact on funding goal and timeframe and recommendations to mitigate those adverse outcomes and impacts

PENSION FUNDING POLICY – INPUT AND GUIDANCE

- Seeking input and guidance on the example Pension Funding Policy
  - Confirm the Finance Committee consensus direction and clarifications as needed
  - Additional dimensions of any of the elements to include in final Pension Funding Policy
- Balance flexibility and adaptability with long-term strategy for addressing pension obligations
- Staff will incorporate direction from City Council into a final Pension Funding Policy for adoption at later date
- Adopt contract amendment for Bartel Associates

CITY OF

PALO ALTO