

**City Manager Comments and
Presentations from the**

March 4, 2019

City Council Meeting

CITY MANAGER COMMENTS

3/4/19

Topic: Baylands Golf Course Award

Submitted by: CSD

This past Thursday, the City was recognized with an Award of Excellence by the California Parks & Recreation Society for the category of Facility Design of the Baylands Golf Links. The award recognized the course's contribution toward environmental sustainability, accommodation of flood protection needs, and reservation of land for future recreation usage.

The golf course design incorporates aesthetic and environmental play features with additional vegetation and wetlands. Selection of a turf grass tolerant of recycled water has allowed for a major reduction in potable water consumption. The flood levee expansion into the footprint of the prior golf course provides safety to homes and businesses in neighboring communities. The new course's design also set aside acreage for future recreational use.

Much of the credit for this award is given to the Public Works Department for its project management and to the Community Services Department for operating the course.

Topic: Summer Camp Sign Ups

Submitted by: CSD

Submissions for "The Draw" for summer camp enrollments are due by **Friday, March 8th** before 5:30 pm at any one of our Palo Alto Community Centers or the Art Center. Staff will begin processing camp registrations on March 11th. Check your Enjoy Online account to see the camps where you have been enrolled. Residents have another chance to register beginning March 21st, in person, mail-in or online.

Topic: International Cultural Exchange Week at Art Center

Submitted by: CSD

Five visiting artists will present their unique mastery of various traditional Chinese methods for creating contemporary ceramics starting on **Friday, March 15** with a kick off reception. The artists will share their expertise in wheel-thrown pottery, handmade brush making, traditional Chinese brush painting, and *Yixing* teapot making. The Cultural Exchange Week will include hands-on workshops, demonstrations, and open studio opportunities to see the artists at work. The week will conclude with a one-day exhibition celebrating the work of all participating artists on **Sunday, March 24**, 12 p.m.-4 p.m.

Two transportation related items:

Bike helmet use: City transportation staff recently conducted an observation of Cal Ave Tunnel bicycle traffic recently and found that 93% of student bicyclists were wearing helmets. That's the good news. Only 70% of the adults were wearing helmets. So, the kids get an A and the adults get a C! Helmet use is included in the more than 65 in-school Safe Routes to School bicycle safety classes held for PAUSD students each year. A [flyer on proper helmet fitting and use](#) can be found on the Safe Routes to School [Education Resources](#) page. For more information visit www.cityofpaloalto.org/saferoutes.

CITY MANAGER COMMENTS

3/4/19

Safe Routes to School: The Safe Routes to School Partnership is working with Greene Middle School students to create a Walk & Roll Map for East Palo Alto Voluntary Transfer Program students. The project is timed to coincide with the opening of the new Clarke Ave / Hwy 101 Pedestrian / Bicycle Overcrossing currently being constructed and set to open in late April or early May depending on the weather. The completed map will be available by early to mid-May and will join the suite of existing PAUSD Walk and Roll maps available on the [Palo Alto Safe Routes to School website](#).

Topic: State of City reminder

Submitted by: CMO

Finally, just a reminder that the community is invited to the Mayor's State of the City address tomorrow evening in the El Palo Alto Room at Mitchell Park. The doors will open around 6:30 to the public with the mayor's address scheduled to begin at 7 p.m. We look forward to see many of you there tomorrow evening.

FY 2020-2029 Long Range Financial Forecast

City Council Item #12

March 4, 2019



Overview

- Review short-term and long-term financial outlook in the General Fund
- Provide insight for the development of FY 2020 Operating and Capital Budgets
- Examine high-level trends
- Material Change from past practice: Per City Council direction, used 6.2 percent discount rate for Normal Cost calculation

Note: This presentation and staff report are all based on figures developed during fall 2018 as presented to the Finance Committee November 2018.

Finance Committee Reviewed November 2018

Finance Committee Motion:

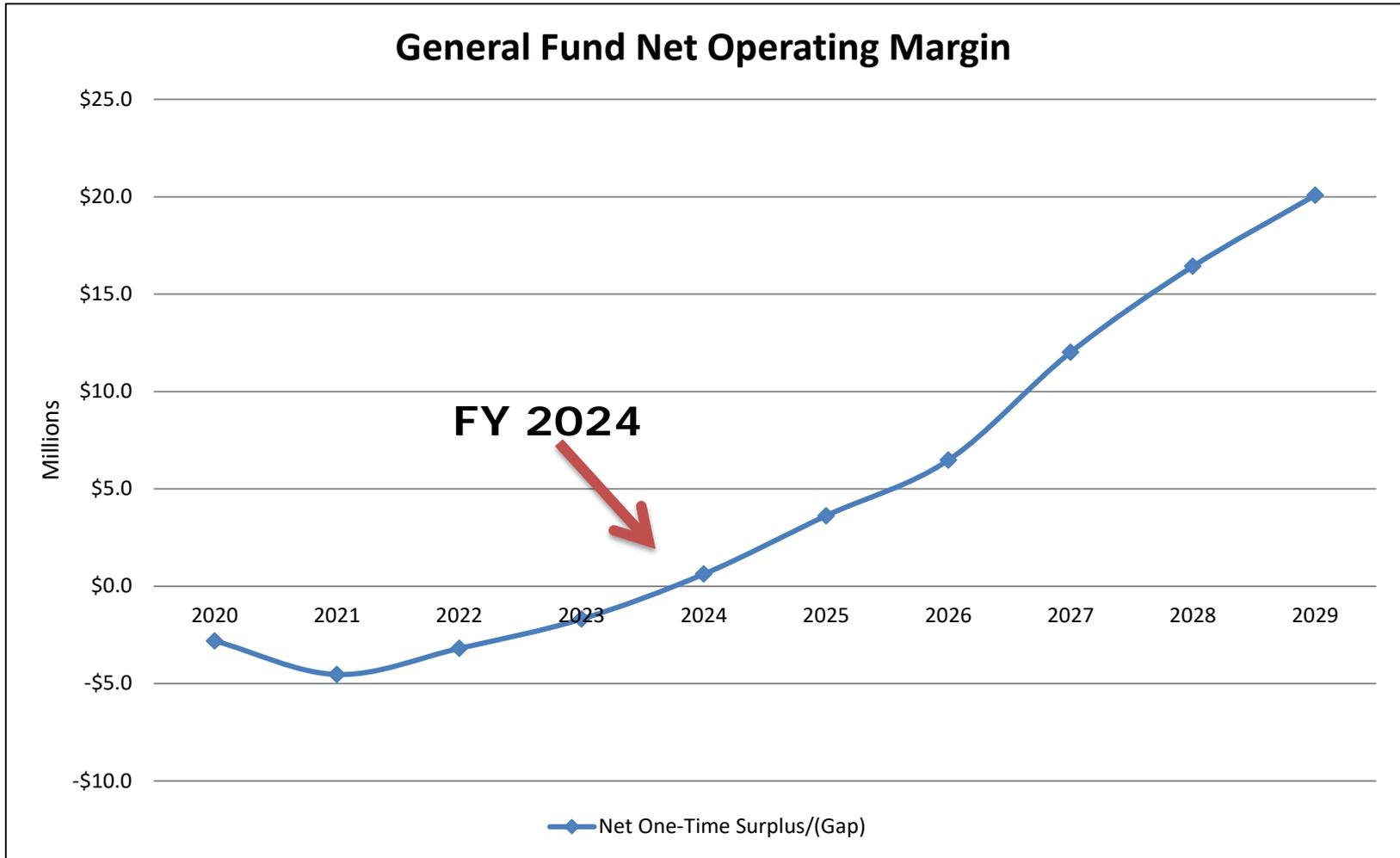
Accept the Long Range Financial Forecast and forward to the City Council for approval and to include deltas in the LRFF

(3-1, Councilmember Tanaka)

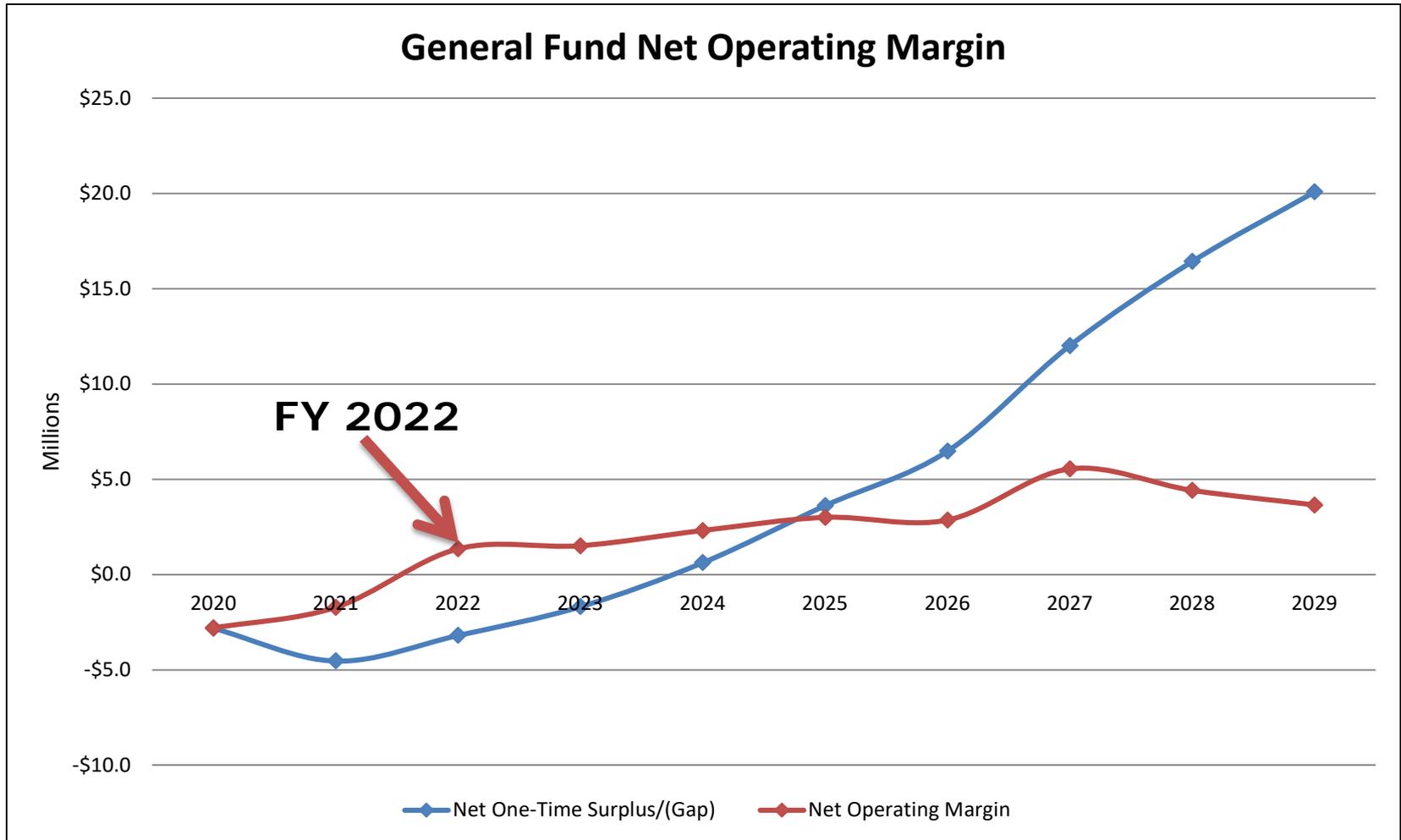
Key Discussion Items:

- Identify changes from prior presentations, for example:
 - Identify in the Proposed Budget significant changes from that year's LRFF;
 - In future LRFF's, compare estimates from prior forecasts.
- Longer-term liabilities, acknowledgement of the major assumption change for pensionable "normal costs"

FY 2020 - 2029 General Fund LRFF: Base Case



FY 2020 - 2029 General Fund LRFF: Base Case



FY 2020 - 2029 General Fund LRFF: Base Case

	Adopted 2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Total Revenue	\$214,497	\$227,108	\$233,938	\$241,315	\$248,921	\$256,571	\$264,392	\$273,133	\$281,311	\$290,856	\$299,948
		5.9%	3.0%	3.2%	3.2%	3.1%	3.0%	3.3%	3.0%	3.4%	3.1%
Total Expenditures	\$210,706	\$229,916	\$238,472	\$244,508	\$250,606	\$255,948	\$260,771	\$266,655	\$269,292	\$274,424	\$279,867
		9.1%	3.7%	2.5%	2.5%	2.1%	1.9%	2.3%	1.0%	1.9%	2.0%
Net One-Time Surplus/(Gap)	\$3,791	(\$2,807)	(\$4,534)	(\$3,193)	(\$1,685)	\$623	\$3,622	\$6,478	\$12,019	\$16,432	\$20,081
Cumulative Net Operating Margin (One-Time)											\$47,036
Net Operating Margin		(\$2,807)	(\$1,727)	\$1,341	\$1,508	\$2,308	\$2,998	\$2,857	\$5,541	\$4,413	\$3,650
Cumulative Net Operating Margin											\$20,081

Assumes that the annual shortfalls are solved with ongoing solutions and annual surpluses are spent for ongoing expenditures.

Changes in Expenses (yr over yr)

FY 2019 Adopted
\$210.7 M



FY 2020 Forecast
\$229.9 M

Cost Components	Percentage Point Change
Restoration of City Council \$4 million expense reduction	1.9%
Restoration of one-time FY 2019 balancing solutions	0.6%
6.2% Discount Rate	1.9%
FY 2020 Labor Agreement Costs	1.9%
Other Cost Adjustments (includes general inflation increase assumptions)	2.8%
Forecasted increase in expenses from FY 2019	9.1%

Costs/Revenues - NOT Included

Year 1

Capital Infrastructure Plan increased costs
New CIPs: JMZ Phase II, Foothills Park, Boulware
Park potential acquisition, 10.5 acres @ Baylands
Future labor agreements (SEIU ended Dec 31, 2018)
New Revenues: Measure E (TOT)
Master Plans (Parks & Cubberley)
Grade Separation
Unfunded Actuarial Liability for Pension and Retiree
Healthcare Trusts
City owned assets operated by non-profit
organizations
Potential recession

Year 10

See pages 18-20 of CMR #9764



Major Revenue Assumptions

- FY 2019 and FY 2020 projections = 5.9% 
 - Taxes growing 7.2% (\$9.1 M) compared to the FY 2019 Adopted Budget
 - Sales Tax*: Strong growth (medium-term)
 - Property Tax*: Resilient, steady incline
- Longer term projections (FY 2021 – FY 2029)
 - Taxes: Compound Annual Growth Rate (CAGR) methodology (4.3% CAGR)
 - Non-Taxes: growth aligned with salaries & benefits or cost of living increases (1.7% CAGR)

Major Expense Projections

- Salary & Benefit Expenses:
 - Built on actual employee data and consistent with current MOAs (Safety through June 30, 2021)
 - Annual pension contributions as required in CalPERS actuarial reports (August 2018) with lower discount rate calculated for Normal Cost
 - 2% General wage increases modeled per past practice for years which do not have an adopted MOA
- Non-Salary Expenses:
 - Adjustments to FY 2019 Adopted Budget (e.g. removal of one-time expenses and revenues)
 - Forecast models a CPI of 2.0% to 3.0% based on the type of expense and the current change in indices from August 2017 to August 2018

Alternative Forecast Scenarios one-time surplus/(gap)

Net One-Time Surplus/(Gap)

	Adopted											
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	
Base Case	\$ 3,791	(2,807)	(4,534)	(3,193)	(1,685)	623	3,622	6,478	12,019	16,432	20,081	Cumulative Surplus/(Gap) \$ 47,036
Alternative Scenario #1	\$ 3,791	1,075	(1,354)	(164)	1,185	3,288	5,675	8,139	12,805	16,911	20,376	Cumulative Surplus/(Gap) \$ 67,936
Alternative Scenario #2	\$ 3,791	(2,807)	(5,372)	(18,524)	(24,041)	(23,393)	(17,832)	(11,964)	(2,970)	5,393	13,531	Cumulative Surplus/(Gap) \$(87,979)
Alternative Scenario #3	\$ 3,791	(3,522)	(5,842)	(5,586)	(5,187)	(3,984)	(2,621)	(768)	3,630	6,851	8,677	Cumulative Surplus/(Gap) \$ (4,563)

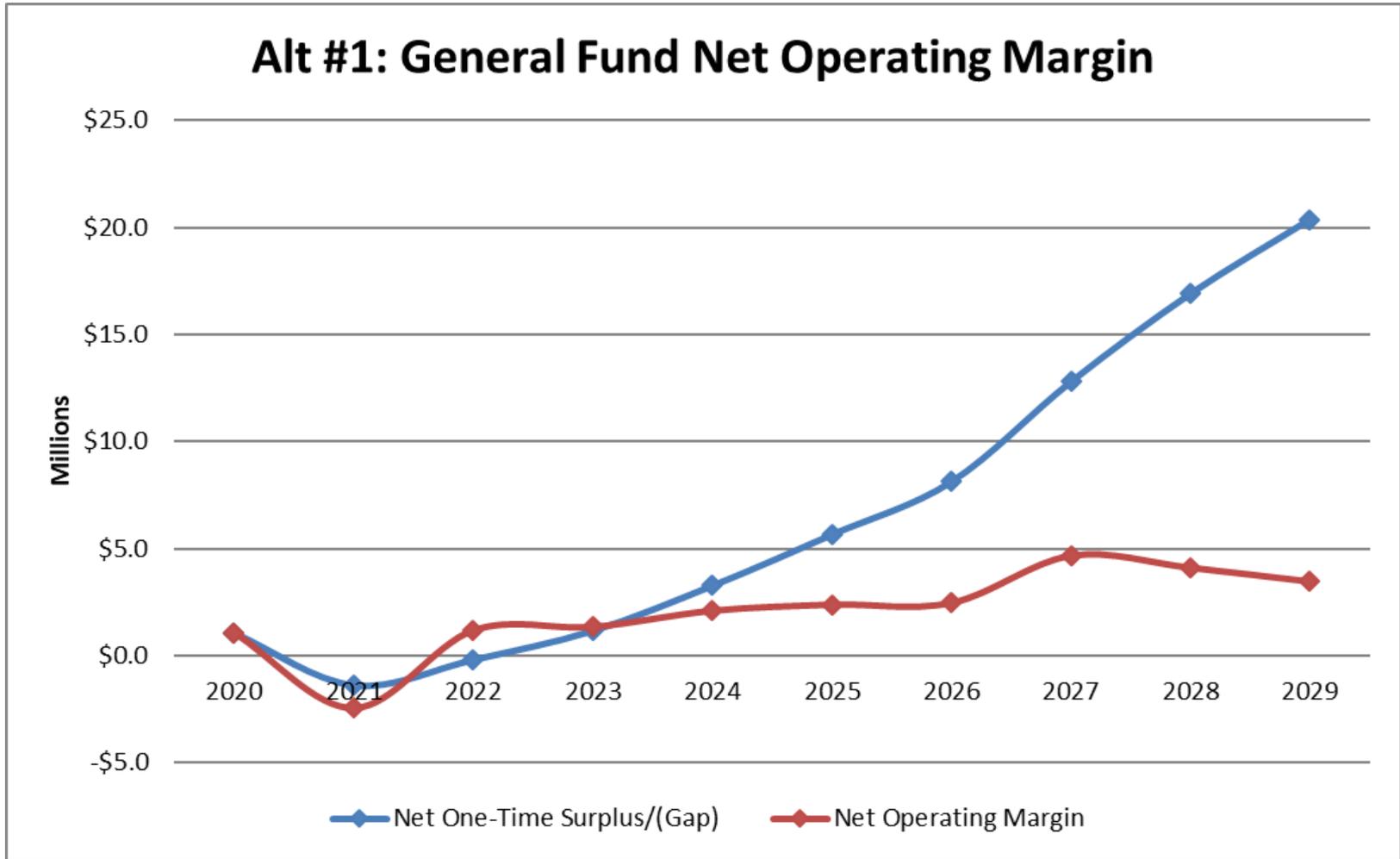
Base Case

Alternative Scenario #1: Normal Cost calculated at CalPERS Discount Rate (phase-in to 7.0 percent by FY 2021) (NC – CalPERS DR)

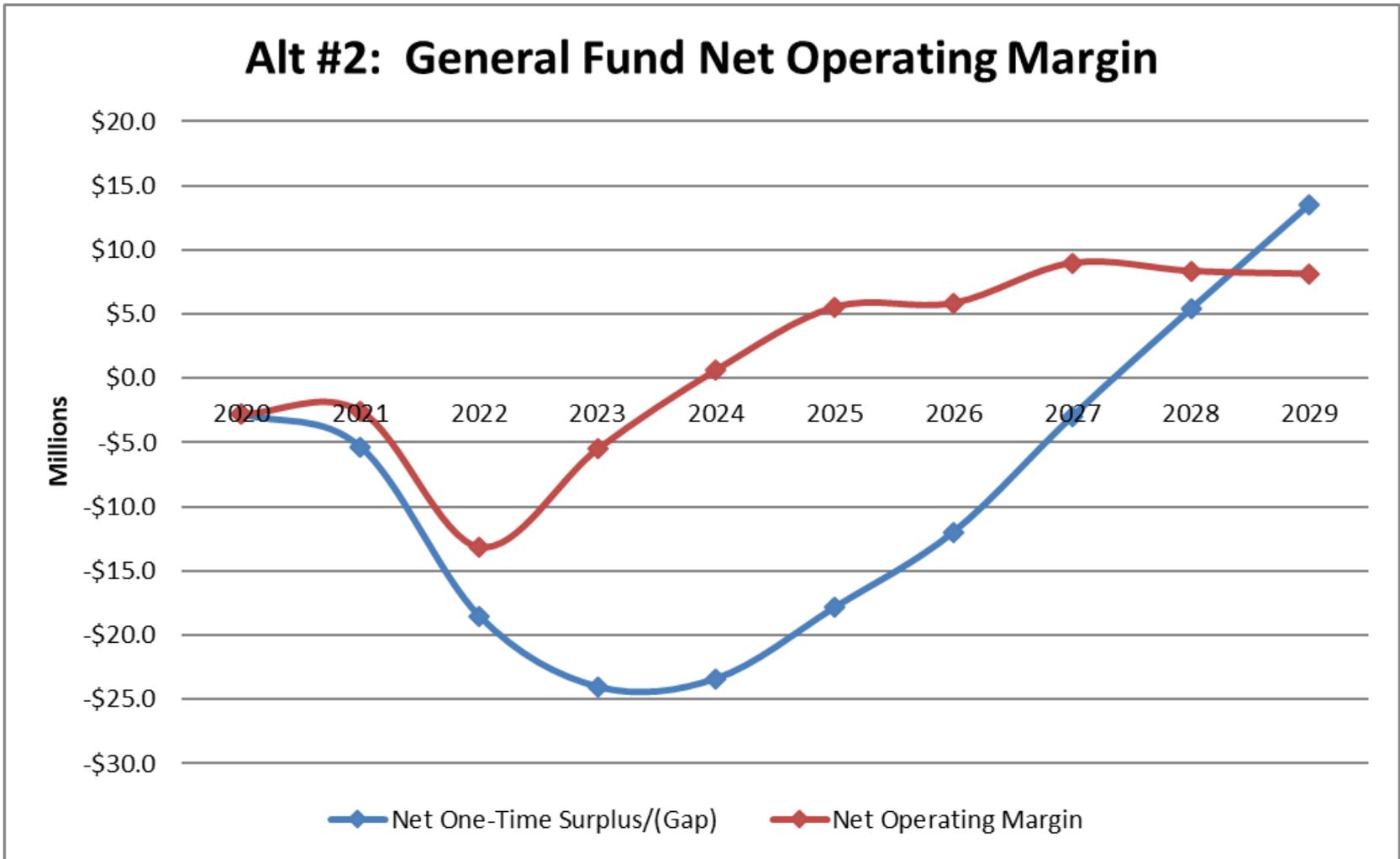
Alternative Scenario #2: Major tax revenue sensitivity analysis

Alternative Scenario #3: +1% growth in salaries outside of MOU terms (all units)

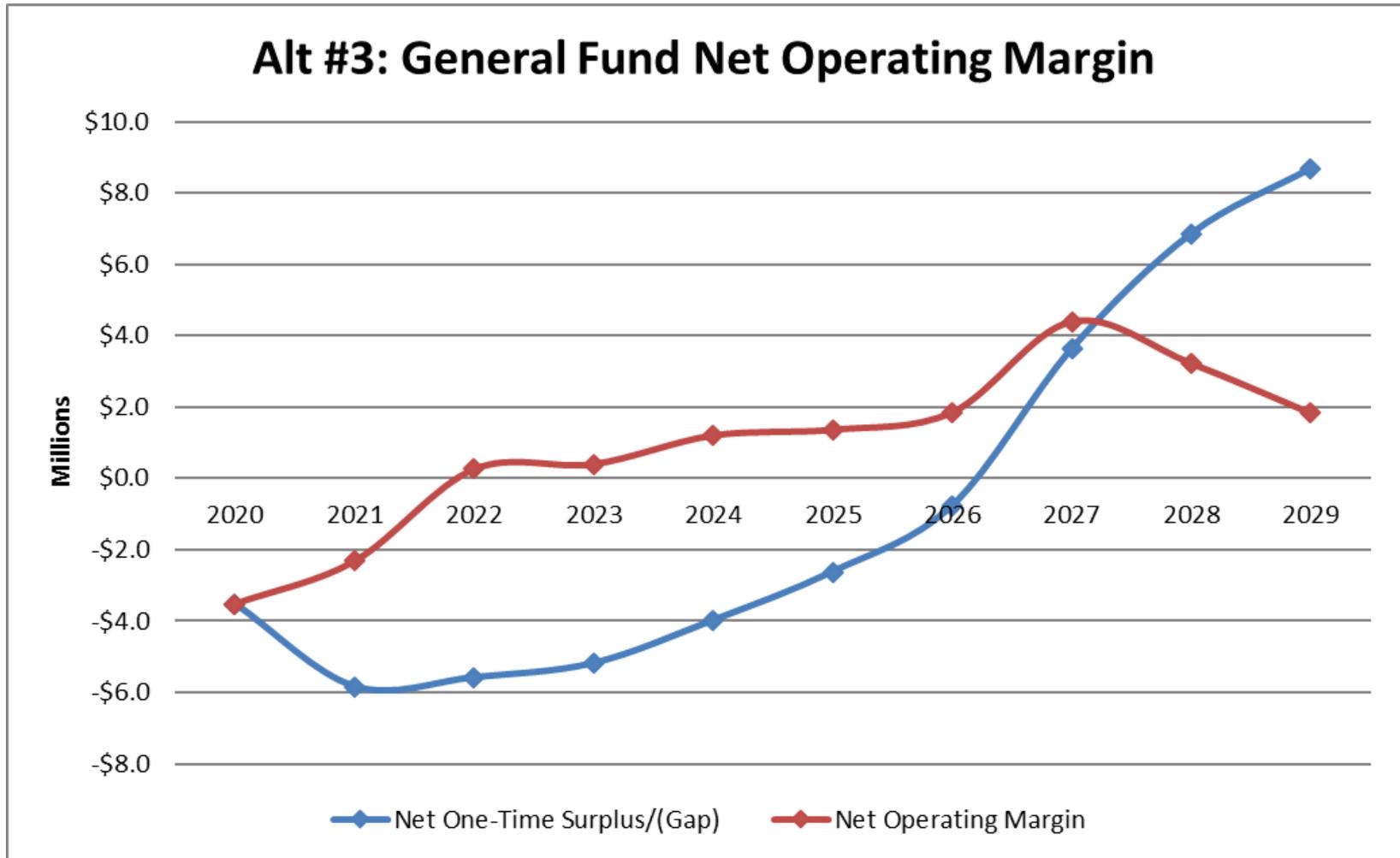
Alt Scenario #1: NC @ CalPERS Discount Rate



Alt Scenario #2: Major Tax Revenue Sensitivity



Alt Scenario #3: +1% Salary growth



Conclusion

- Forecast is intended to assist in informing daily policy decisions and ongoing long-term goals and challenges
 - Reflects a projection of the financial status based on current service levels in the General Fund.
 - The first few years of the forecast have a higher confidence level than the final years of the forecast.
- The City always faces competing priorities; in this timeframe, the City is faced with several large strategic decisions. These will be looked at in their totality to enable a balanced approach.
- The challenge of competing priorities will require structural adjustments to the City's financials and will likely have an impact on service delivery.

Next Steps

- Base Budget Development Sept - Oct
- General Fund Long Range Financial Forecast Nov - Dec
- Proposed Budget Process Jan – April
 - Department budget submittals
 - **Internal review of proposal and financial projections**
 - Proposed document preparation
- Release of Proposed Budget end of April
- Finance Committee Deliberations May
- City Council Budget Adoption June
- Publication of Adopted Budget August



Recommended Action

Staff and the Finance Committee:

Recommend that the City Council accept the Fiscal Year 2020 – Fiscal Year 2029 Long Range Financial Forecast (attachment A to CMR #10101) and include deltas in the assumptions from the Long Range Financial Forecast when the budget is presented.