Fiscal Year 2018 Budget Overview
City Council
June 27, 2017

Overview
Operating Budget
Capital Budget
Summary
Finance Committee Chair Comments

FY 2018 Citywide Sources

<table>
<thead>
<tr>
<th>FY 2018 Budget</th>
<th>Charges for Services</th>
<th>Use of Reserves/Fund Balance</th>
<th>Return on Investments</th>
<th>Sales Taxes</th>
<th>Charges to Other Funds</th>
<th>Other Revenue</th>
<th>Documentary Transfer Tax</th>
<th>Property Taxes</th>
<th>Other Taxes and Fines</th>
<th>Permits and Licenses</th>
<th>Sales on Non-Residential Property</th>
</tr>
</thead>
<tbody>
<tr>
<td>$672.2 Million</td>
<td>4.3%</td>
<td>12.2%</td>
<td>1.1%</td>
<td>4.7%</td>
<td>2.0%</td>
<td>6.4%</td>
<td>1.0%</td>
<td>6.9%</td>
<td>0.3%</td>
<td>1.7%</td>
<td>6.4%</td>
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</table>

FY 2018 Citywide Expenses

<table>
<thead>
<tr>
<th>FY 2018 Budget</th>
<th>General Expense</th>
<th>Rents &amp; Leases</th>
<th>Utility Purchase</th>
<th>Net Transfers</th>
<th>Budget Services</th>
<th>Other Services &amp; Equipment</th>
<th>Debt Service</th>
<th>Supplies &amp; Material</th>
<th>Transient Occupancy Tax</th>
<th>Permits and Licenses</th>
<th>Other Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>$672.2 Million</td>
<td>30.8%</td>
<td>4.9%</td>
<td>4.4%</td>
<td>3.0%</td>
<td>1.6%</td>
<td>6.4%</td>
<td>3.7%</td>
<td>2.6%</td>
<td>7.6%</td>
<td>1.7%</td>
<td>6.6%</td>
</tr>
</tbody>
</table>

FY 2018 Citywide Positions

<table>
<thead>
<tr>
<th>GF</th>
<th>ENT</th>
<th>Other*</th>
<th>Total</th>
</tr>
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<tbody>
<tr>
<td>603.94</td>
<td>353.61</td>
<td>94.55</td>
<td>1,052.10</td>
</tr>
<tr>
<td>1.25</td>
<td>0.75</td>
<td>-</td>
<td>2.00</td>
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<tr>
<td>605.19</td>
<td>354.36</td>
<td>94.55</td>
<td>1,054.10</td>
</tr>
<tr>
<td>(1.12)</td>
<td>-</td>
<td>1.12</td>
<td>-</td>
</tr>
<tr>
<td>0.35</td>
<td>3.50</td>
<td>1.00</td>
<td>4.85</td>
</tr>
<tr>
<td>(0.77)</td>
<td>3.50</td>
<td>2.12</td>
<td>4.85</td>
</tr>
<tr>
<td>604.42</td>
<td>357.86</td>
<td>96.67</td>
<td>1,058.95</td>
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</table>

* Other Funds include the Capital Improvement, Internal Service, and Special Revenue Funds.

Average Salary & Benefit Changes
(compared to FY 2017 Adopted Budget)

<table>
<thead>
<tr>
<th>Expenses Category</th>
<th>GENERAL FUND</th>
<th>ALL FUNDS</th>
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<tbody>
<tr>
<td>FY 2018 Budget</td>
<td>$74,333</td>
<td>$127,935</td>
</tr>
<tr>
<td>Change</td>
<td>3,681</td>
<td>6,109</td>
</tr>
<tr>
<td>% Change</td>
<td>5.2%</td>
<td>5.0%</td>
</tr>
<tr>
<td>FY 2018 Budget</td>
<td>$23,363</td>
<td>$37,674</td>
</tr>
<tr>
<td>Change</td>
<td>2,295</td>
<td>3,608</td>
</tr>
<tr>
<td>% Change</td>
<td>10.9%</td>
<td>10.6%</td>
</tr>
<tr>
<td>FY 2018 Budget</td>
<td>$13,654</td>
<td>$24,038</td>
</tr>
<tr>
<td>Change</td>
<td>356</td>
<td>880</td>
</tr>
<tr>
<td>% Change</td>
<td>2.7%</td>
<td>3.8%</td>
</tr>
<tr>
<td>FY 2018 Budget</td>
<td>$9,808</td>
<td>$14,527</td>
</tr>
<tr>
<td>Change</td>
<td>485</td>
<td>719</td>
</tr>
<tr>
<td>% Change</td>
<td>5.2%</td>
<td>5.2%</td>
</tr>
<tr>
<td>FY 2018 Budget</td>
<td>$4,673</td>
<td>$6,986</td>
</tr>
<tr>
<td>Change</td>
<td>2,620</td>
<td>3,924</td>
</tr>
<tr>
<td>% Change</td>
<td>127.6%</td>
<td>128.1%</td>
</tr>
<tr>
<td>Total</td>
<td>$125,831</td>
<td>$211,160</td>
</tr>
<tr>
<td>% Change</td>
<td>8.1%</td>
<td>7.8%</td>
</tr>
</tbody>
</table>
Major Changes from FY 2018 Proposed Budget

Finance Committee Approved:

- Parking Permit fee increases ($762,000 additional revenue annually; to invest in parking initiatives)
- Transportation Management Association (TMA; $480,000 annually)
- Youth Community Services Funding ($50,000 annually)
- Seven Year Tree Trimming Cycle (additional $338,000 annually)
- Storm Drain Ballot Measure implementation of Blue Ribbon Commission recommendations

Additional Recommended Adjustments:

- Buena Vista Mobile Home Park ($14.8 million)
- Estimate for Property Tax revenues (increase from 6.5% to 6.8% growth; $200,000 revenue)

General Fund

FY 2018 General Fund Sources

- Salary & Benefits 59.8%
- Contract Services 14.1%
- Supplies and Materials 9.1%
- Contract Services 9.1%
- Operating Transfers 1.8%
- Rent 0.6%
- Other Revenues 0.6%
- Operations and Maintenance in Other Funds 0.5%
- Charges to Other Funds 0.5%
- Return on Investments 0.5%
- Permits and Licenses 0.5%
- Charges for Services 0.5%
- Other Revenues 0.5%
- Utility Users Taxes 0.5%
- Documentary Transfer Tax 0.3%
- Transfer Tax 0.3%
- Revenue 0.3%
- Property Taxes 19.3%
- Transient Occupancy Tax 11.9%
- Sales Taxes 14.9%

FY 2018 General Fund Expenses

- Salary & Benefits 59.8%
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- Sales Taxes 14.9%

General Fund Gap Drivers

- Project Safety Net – Track Watch ($1.7 million)
- City streetlights & traffic signal electricity costs ($2.3 million)
- Stanford negotiations for fire services ($2.0 million)

General Fund Trends

REVENUE GROWTH: 6%, +$12 Million
- 7.6% Property Tax $3M
- 7.9% Sales Tax $2.3M
- 8.7% Transient Occupancy Tax $2M

EXPENSE GROWTH: 8%, +$16.3 Million
- 11% Police $4.2M
- 9.8% Fire $2.8M
- 8.1% Community Services $2.1M
- 33.5% Infrastructure $6.2M

General Fund BSR at 18.5% or $38.9 million
General Fund - Major Expenses

- Salary & Benefits (not including UAL): 53%
- Transfer to Infrastructure: 12%
- All other Non-Salary Expenses: 28%
- Unfunded Liability: 7%

General Fund Financial Outlook

<table>
<thead>
<tr>
<th></th>
<th>FY 2018 Budget</th>
<th>FY 2019 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund Gap</td>
<td>($4,537)</td>
<td>N/A</td>
</tr>
<tr>
<td>FY 2018 Proposed Budget</td>
<td>$273</td>
<td>N/A</td>
</tr>
<tr>
<td>FY 2018 Budget</td>
<td>$0</td>
<td>$3,385</td>
</tr>
</tbody>
</table>

Note: Staff has provided City Council with an option to reallocate $348,000 in maintenance costs associated with Cubberley facilities to the Cubberley Property Infrastructure Fund. This additional funding may be used to provide additional financial capacity in the General Fund OR increase the General Fund Stabilization Reserve beyond the $18.9M level in FY 2018.

Special Revenue Funds - Major Initiatives

Federal & State Revenue Funds
- FY 2018 allocation process for Community Development Block Grant Funding (approx. $900,000); funding risks at Federal level

Street Improvement Funds
- New legislation passed: SB 1; effective July 1, 2017 raising revenues up to $1.2 million in out years ($600,000 in FY 2018) not included in this proposed budget

Stanford University Medical Center (Development Agreement)
- Next phase of funding anticipated in calendar year 2017, estimated at $11.7 million (all funds are already programmed)

Special Revenue Funds - Parking

<table>
<thead>
<tr>
<th>Permit</th>
<th>FY 2017</th>
<th>FY 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Downtown Parking (lots, garages, and RPP Reg. Employee)</td>
<td>$466/yr</td>
<td>$730/yr</td>
</tr>
<tr>
<td>California Avenue Parking (lots, garages, and Evergreen Mayfield RPP Reg. Employee)</td>
<td>$149/yr</td>
<td>$365/yr</td>
</tr>
<tr>
<td>Daily Permits (lots, garages)</td>
<td>Various</td>
<td>$25/day</td>
</tr>
<tr>
<td>RPP Resident: Annual**; Daily</td>
<td>Various</td>
<td>$50/yr; $5/day</td>
</tr>
<tr>
<td>RPP Employee: Reduced Price</td>
<td>$100/yr</td>
<td>$100/yr</td>
</tr>
</tbody>
</table>

* Increased rates will be charged once the pilot program is over Spring 2018
**Includes the Crescent Park overnight parking restrictions in addition to RPP districts

- Investment in the Transportation Management Association to reduce SOV commute trips to downtown ($480,000/yr)
- Fund needed CIPs including: resurfacing, consolidated permit system, and parking guidance system

Enterprise Funds
FY 2018 Utility Rate Changes

<table>
<thead>
<tr>
<th>Utility Service</th>
<th>Proposed Rate Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electric</td>
<td>10.8%</td>
</tr>
<tr>
<td>Gas</td>
<td>4.6%</td>
</tr>
<tr>
<td>Wastewater</td>
<td>0.0%</td>
</tr>
<tr>
<td>Water Utility</td>
<td>-3.4%</td>
</tr>
<tr>
<td>Refuse</td>
<td>5.0%</td>
</tr>
<tr>
<td>Storm Drain</td>
<td>4.8%</td>
</tr>
<tr>
<td>User Tax</td>
<td>2.1%</td>
</tr>
<tr>
<td>Total</td>
<td>2.5%</td>
</tr>
</tbody>
</table>

Total monthly bill is estimated to increase $6.79 per month, or 2.5% to $278.39 per month.

Note: Water Utility, Refuse, and Storm Drain have all been approved by Council. Rates are provided for information purposes only.

Capital Budget

FY 2018 All Funds Capital Expenses $172.9M

- General CIP Fund 44.8%
- Cubberley Infrastructure 1.5%
- Water 3.5%
- Gas 3.5%
- Electric 12.1%
- Wastewater Treatment 22.0%
- Vehicle Replacement & Maintenance 4.5%
- Fiber Optics 1.0%
- Airport 3.3%
- Storm Drainage 0.5%
- Wastewater Collection 1.2%

FY 2018 General CIP Fund Expenses $77.5M

- Buildings & Facilities 45% ($34.8 million)
- Unallocated Salaries and Benefits 3% ($2.4 million)
- Traffic and Transportation 26% ($20.0 million)
- Department Technology Upgrades & Improvements 1% ($0.8 million)
- Parks and Open Space 6% ($4.4 million)
- Streets and Sidewalks 19% ($15.1 million)
- Unallocated Salaries and Benefits 3% ($2.4 million)

Infrastructure Plan (multi-year plan)

$196 million estimated cost (includes full salaries & benefits and public art funding)

- Public Safety Building (potential $75.3 million)
- Replacement of Fire Stations 3 and 4 ($15.6 million)
- California Avenue Area Parking Garage ($34.8 million, CMR #7738, 4/6/17)*
- Downtown Area Parking Garage ($23.5 million, CMR #7942, 4/11/17)*
- Bicycle/Pedestrian Transportation Plan ($20.0 million)
- Highway 101 Bicycle/Pedestrian Bridge ($14.0 million)
- Charleston/Arastradero Corridor Improvements ($10.0 million)
- Byxbee Park Completion ($2.8 million)
- Charleston/Arastradero Corridor Improvements ($10.0 million)

* Includes additional costs of $35.7 million as approved by the City Council in April 2017

Summary
Costs/Revenues - Not Included

Year 1
- Parking initiatives
- Animal Shelter Service Delivery
- Future labor agreements
- New Revenues: SB1, Measure B, TOT related to two new, potential hotels
- New CIPs: JMZ Phase II?, Animal Shelter??
- 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 5

Staff & Finance Committee Recommendation

Staff and the Finance Committee recommend that the City Council approve and adopt the following:

1) Budget Appropriation Ordinance (Attachment A), which includes:
   - City Manager’s Fiscal Year 2018 Proposed Operating and Capital Budgets, previously distributed at the April 25th City Council meeting (Attachment A, Exhibit 1);
   - Amendments to the City Manager’s Fiscal Year 2018 Proposed Operating and Capital Budget (Attachment A, Exhibit 2);
   - Fiscal Year 2018 City Table of Organizations (Attachment A, Exhibit 2);
   - Fiscal Year 2018 Proposed Municipal Fee Changes (Attachment A, Exhibit 3);
2) A Resolution of the City Council of the City of Palo Alto approving the Fiscal Year 2018 Electric Financial Plan and proposing several transfers for FY 2018 (Attachments B & C);
3) A Resolution of the City Council of the City of Palo Alto amending Rate Schedules F-1 (Residential Electric Service), E-2 (Small Non-Residential Electric Service), E-3-G (Small Non-Residential Green Power Electric Service), F-4 (Medium Non-Residential Electric Service), E-4-G (Medium Non-Residential Green Power Electric Service), E-7-TOS (Medium Non-Residential Time of Use Electric Service), E-7 (Large Non-Residential Electric Service), E-7-G (Large Non-Residential Green Power Electric Service), E-7-TOS (Large Non-Residential Time of Use Electric Service), and E-14 (Street Lights) (Attachments D & E);
4) A Resolution of the City Council of the City of Palo Alto approving the Fiscal Year 2018 Gas Utility Financial Plan (Attachment F & G).

Looking Forward

- Balance expectations of the Council, community, & staff
- Address pension and retiree healthcare unfunded liabilities (continue discussions fall of FY 2018)
- Continue service delivery evaluations to maintain high quality services while mitigating cost escalation
- Upcoming labor negotiations will balance long term financial implications and strive to be a competitive employer
- Significant investments requiring new revenues to fund strategic initiatives such as grade separation and Cubberley master plan and improvements
- Capital Improvements – emerging gap in available funding

Finance Committee Referral

Return to the Finance Committee beginning August to review the citywide implications of:
1) Structural revenue and expense growth ensuring expense growth remains at or below that of revenues; and
2) Unfunded pension liability.

Some specific areas to address include:
- Look first at current public safety growth rate of 10 to 12 percent in relation to citywide growth rate of 6 percent. Include a review of staffing levels and alternative models.
- Review of the financial reporting of the unfunded pension liability