REVISED FY 2020-2021 PROPOSED OPERATING AND CAPITAL BUDGETS
OVERVIEW

• Unprecedented time in our history

• Appreciate City Council’s thoughtful approach to the tough budget discussions ahead
  • On May 4, Council adopted revenue assumptions in response to the current public health emergency, resulting in FY 2020-2021 $39 million General Fund deficit
  • May 7 Staff report provides a starting point for Council discussion
  • Based on Council feedback and community input, refine budget strategies and return on May 26

• Community budget communications and engagement is underway

• While service levels are anticipated, essential City services will be maintained and continue
OUR CITY AT WORK

General Fund Expenses

- Public Safety: 35.2%
- Infrastructure and Environment: 21.8%
- Neighborhood, Community & Library Services: 20.7%
- Administration and Government: 12.0%
- Planning and Transportation: 10.2%
- Economic Sustainability: 0.1%
BUDGET CONVERSATIONS AND NEXT STEPS

May 11-13
- City Council will discuss operating protocols for the budget hearings and how they will conduct their work
- Staff will provide an overview of the revised balancing strategy
- Council will be presented potential City service area balancing actions and discussion of City services that will be maintained
- Council will have time to review the progress of the hearings at the end of the May 13, and provide guidance for May 26 budget deliberations

May 26
- City Council will be presented a final, revised balancing strategy, based on their input from the May 11-13 budget hearings
- Council approval will provide final direction in preparation for budget adoption on June 22
FY 2020-2021 PROPOSED BASELINE BUDGETS

- Council adopted budget principles continue to guide our work.

- Additional Budget and Fiscal Recovery Priorities help guide our work and evolve through these uncertain times:

  1. Support economic recovery through changes to our policies and programs
  2. Focus on resiliency over the long term while making service reductions and changes, ensuring that any services eliminated can be restored in future years
  3. Seek new ways to conduct our work through efficiencies and a learning environment
  4. Apply a broad-based approach to reductions, balancing impacts to the community
  5. Use temporary solutions to bridge revenue losses expected in the short term
CONTINUED UNCERTAINTIES

- Estimating $20 million impact to current FY 2019-2020 General Fund budget (likely a draw on the Budget Stabilization Reserve)

- Tax revenue receipts remain unknown, two-month lag for Transient Occupancy Tax (hotel tax) and 3-month lag for sales tax by quarter

- Cost of transitioning to implement service level reductions

- Proposals are works in progress and will be refined further

- Shelter in Place orders by Santa Clara County and the State continue to evolve but consumer confidence will continue to be uncertain
• Baseline Operating and Capital Budgets submitted on April 20, provide where the City would have been based on a normal budget year, in comparison to last year

• Staff Report #11322 outlines incremental amendments to these budgets based on the Council direction from 5/4.

• Baseline budgets continue to help guide our work
  • Outlines base line services that will continue
  • Defines changes to programs, staffing and service models
  • Showcases Capital investments
# REVISED FY 2021 BUDGETS – CMR #11322

<table>
<thead>
<tr>
<th></th>
<th>General Fund</th>
<th></th>
<th>All Funds (inclds ISF)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Revenues</td>
<td>Expenses</td>
<td>FT FTEs</td>
<td>Revenues</td>
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<td>$241,509</td>
<td>$238,801</td>
<td>573.68</td>
<td>$755,846</td>
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<tr>
<td>Adjustments to Proposed Budget as released</td>
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<td>Revenue Adjustments</td>
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<td>City Council Requested Major Tax Revenue</td>
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<tr>
<td>Realignment Scenario C (CC May 4, 2020)</td>
<td>(38,793)</td>
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<td>(38,793)</td>
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<tr>
<td>Other Economically Sensitive Departmental Revenue</td>
<td>(5,000)</td>
<td></td>
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<td>(5,000)</td>
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<tr>
<td></td>
<td>$197,716</td>
<td>$238,801</td>
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<td>Adjustments by Service Area</td>
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<td>Public Safety</td>
<td>1,488</td>
<td>(7,734)</td>
<td>(38.27)</td>
<td>(2.42)</td>
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<tr>
<td>Planning &amp; Transportation</td>
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<td>(3,725)</td>
<td>(10.90)</td>
<td>(1.44)</td>
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<td>Infrastructure &amp; Environment</td>
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<td>(2,856)</td>
<td>(0.20)</td>
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<tr>
<td>Internal Services/Strategic Support</td>
<td>-</td>
<td>(2,652)</td>
<td>(7.83)</td>
<td>(0.98)</td>
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<td>Citywide Balancing Solutions</td>
<td>-</td>
<td>(19,990)</td>
<td>-</td>
<td>-</td>
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<tr>
<td>SUBTOTAL CHANGES FROM FY 2021 PROPOSED</td>
<td>(1,412)</td>
<td>(43,427)</td>
<td>(77.45)</td>
<td>(30.03)</td>
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<tr>
<td></td>
<td>-0.6%</td>
<td>-18.2%</td>
<td>-13.5%</td>
<td>-6.9%</td>
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<tr>
<td>Citywide Revenue and Expenses (as of May 11th CC Discussion)</td>
<td>$196,304</td>
<td>$195,374</td>
<td>496.23</td>
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<tr>
<td>Net Surplus/(Deficit)</td>
<td>$930</td>
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City of Palo Alto
HISTORICAL FULL-TIME STAFFING COMPARISON

General Fund FTE  Citywide Total FTE

FY 2002: 750 FTE (GF), 1,150 FTE (Citywide)
FY 2003: 700 FTE (GF), 1,100 FTE (Citywide)
FY 2004: 650 FTE (GF), 1,050 FTE (Citywide)
FY 2005: 600 FTE (GF), 1,000 FTE (Citywide)
FY 2006: 550 FTE (GF), 950 FTE (Citywide)
FY 2007: 500 FTE (GF), 900 FTE (Citywide)
FY 2008: 450 FTE (GF), 850 FTE (Citywide)
FY 2009: 400 FTE (GF), 800 FTE (Citywide)
FY 2010: 350 FTE (GF), 750 FTE (Citywide)
FY 2011: 300 FTE (GF), 700 FTE (Citywide)
FY 2012: 250 FTE (GF), 650 FTE (Citywide)
FY 2013: 200 FTE (GF), 600 FTE (Citywide)
FY 2014: 150 FTE (GF), 550 FTE (Citywide)
FY 2015: 100 FTE (GF), 500 FTE (Citywide)
FY 2016: 50 FTE (GF), 450 FTE (Citywide)
FY 2017: 0 FTE (GF), 400 FTE (Citywide)
FY 2018: 0 FTE (GF), 350 FTE (Citywide)
FY 2019: 0 FTE (GF), 300 FTE (Citywide)
FY 2020: 0 FTE (GF), 250 FTE (Citywide)
FY 2021: 0 FTE (GF), 200 FTE (Citywide)

943 FTE Citywide
496 FTE GF
GENERAL FUND SOURCES

TOTAL GENERAL FUND REVENUES

$232.1 Million

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>FY 2020 Adopted</th>
<th>FY 2021 Revised</th>
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</thead>
<tbody>
<tr>
<td>Property Tax</td>
<td>$48.6 M</td>
<td>$52.0 M</td>
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<tr>
<td>Sales Tax</td>
<td>34.4 M</td>
<td>20.5 M</td>
</tr>
<tr>
<td>Transient Occupancy Tax</td>
<td>29.3 M</td>
<td>14.9 M</td>
</tr>
<tr>
<td>Utility User Tax</td>
<td>17.6 M</td>
<td>15.1 M</td>
</tr>
<tr>
<td>Documentary Transfer Tax</td>
<td>8.4 M</td>
<td>4.7 M</td>
</tr>
<tr>
<td>Charges for Services &amp; Licenses &amp; Permits</td>
<td>38.8 M</td>
<td>33.6 M</td>
</tr>
<tr>
<td>All Other Revenues</td>
<td>55.0 M</td>
<td>55.5 M</td>
</tr>
<tr>
<td><strong>Total General Fund Revenue</strong></td>
<td><strong>$232.1 M</strong></td>
<td><strong>$196.3 M</strong></td>
</tr>
</tbody>
</table>
REVISED OPERATING BUDGET – CITYWIDE ACTIONS

- Transfer to the Capital Fund (reduction of $16.5 M to $16.1 M)
- Cubberley Lease (net reduction of $2.5 M to $3.7 M)
- Section 115 Trust & Long-Term Liabilities (reduction of $2.3 M GF to $1.7 M 115 contribution and $8.6 M OPEB)
- Internal Service Fund Reserve Balances (reduction of $1.0 M GF, TBD all funds)
Six City Services Areas link to the City’s Services Guide, released in early 2020

- Public Safety
- Infrastructure and Environment
- Planning and Transportation
- Economic Sustainability and Business Support
- Neighborhood, Community and Library Services
- Administration and Government
Police & Fire will respond to all priority emergency calls ensuring health and safety

Utility services including water, electric, gas, and sewer services will continue including necessary maintenance for safety

Parks, open spaces, recreation areas and trails will be available for the community to enjoy

Four (4) libraries will remain open welcoming patrons all seven days of the week

Ensure health and safety measures are addressed on our neighborhood streets & roads, sidewalk and trees

Keep three community centers open with classes and other programming continuing

Continue to support the Development Center and requests for planning, building permits

Manage traffic signals maintenance and timing and continue youth education through safe routes to school
Neighborhood Community & Library Services (reduction of $6.5 million to ~$36 million)

• Reduce operating hours at 3 community centers and the Arts Center

• Reduce Children’s Theatre productions, maintaining classes and camps

• Elimination of program and grant subsidies such as youth Connectedness Initiative (YCS), SCC Unhoused Programs, Know Your Neighbors

• Increase fees to increase cost recovery levels: middle school and adult athletics & Junior Museum and Zoo

• Close College Terrace Library and reduce library hours at Children’s library (open 4 days) and Rinconada (open until 6pm)
Public Safety (reduction of $7.7 million to ~$77 million)

- Restructure dispatch staffing
- Reduce patrol staffing and eliminate specialized units such as traffic unit and reduce investigations
- Reduce fire prevention staffing
- Implement new medical emergency response fee and ambulance subscription program
- Reduce incident response resources and move towards a brownout flexible staffing model
Planning & Transportation (reduction of $3.7 million to ~$19.5 million)

• Eliminate both the Crosstown and Embarcadero shuttle

• Reduce the administration of the Residential Preferential Parking Program (RPP)

• Substantial reduction in contract and consultant services for planning and building eliminating service such as new day inspections

• Reductions impact long range planning and housing, code enforcement, curtailing work such as the North Ventura Coordinated Area Plan (NVCAP) to focus on state housing laws and preparing the new Housing Element.
Infrastructure & Environment (reduction of $2.9 million to ~$17 million)

- Reduce tree trimming and city’s sidewalk program (still addressing 7 year cycle and trip/fall areas)
- Defer vehicle replacement and maintenance
- Maintain 0% or close to 0% rate increases for the next year

Internal Services/Appointees (reduction of $2.7 million to ~$22 million)

- Reduced staffing in purchasing, accounting and revenue collections & two-year pause on annual performance report
OTHER FUNDS

Federal & State Revenue Funds

• Community Development Block Grant Funding of approx. $1.1M ($547,000 for COVID response, including rent relief, food assistance, and testing & equipment)

Parking Funds:

• Residential Preferential Parking (RPP) Permit Program revisions (est. $200,000 GF savings)

• Continues $750,000 for the Transportation Management Association (TMA)

Stanford University Medical Center (Development Agreement)

• Significant investments anticipated in FY2021-2025 Capital Improvement Plan

• Potential reallocation of funds between City Council approved 2014 Infrastructure Plan projects

• Remaining unspent balance ~ $6 M
Enterprises Funds – Rate Changes

### FY 2021 Baseline Rate Change (As of 4/20/20) vs. Current Balancing Strategy Rate Change (as of 5/7/20)

<table>
<thead>
<tr>
<th>Service</th>
<th>FY 2021 Baseline Rate Change</th>
<th>Current Balancing Strategy Rate Change</th>
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<tbody>
<tr>
<td>Electric</td>
<td>3%</td>
<td>0%</td>
</tr>
<tr>
<td>Gas</td>
<td>5%</td>
<td>0%*</td>
</tr>
<tr>
<td>Water</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Wastewater</td>
<td>6%</td>
<td>0%</td>
</tr>
<tr>
<td>Fiber</td>
<td>2.5%</td>
<td>0%</td>
</tr>
<tr>
<td>Refuse</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Storm Drain</td>
<td>2.5%</td>
<td>2.5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2.4%</strong></td>
<td><strong>0.1%</strong></td>
</tr>
</tbody>
</table>

Total monthly bill is estimated to increase $0.37 per month, or 0.1% to $319.61 per month.

* The Finance Committee approved a 3% increase in Gas with a 2:1 vote, which is not reflected above.
CAPITAL IMPROVEMENT PROGRAM (CIP) - OVERVIEW

Data as of 4/20/20 Proposed Capital Budget books

2021-2025 CIP PLANNED PROJECTS BY FUND TYPE (189 PROJECTS)

- Capital Project Funds 49% (93 Projects)
- Enterprise Funds 42% (79 Projects)
- Internal Service Funds 9% (17 Projects)

2021-2025 CIP PLANNED FUNDING BY FUND TYPE ($749.8 MILLION)

- Capital Project Funds 45% ($335.0M)
- Enterprise Funds 51% ($390.5M)
- Internal Service Funds 3% ($24.3M)
## REVISED FY 2021 CAPITAL BUDGET – CMR #11322

<table>
<thead>
<tr>
<th></th>
<th>General Fund CIP (Funds 471 &amp; 472)</th>
<th>All Funds CIP</th>
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<tr>
<td>Baseline FY 2021 Budget and 2021-2025 CIP (released April 20,2020)</td>
<td>$147,524</td>
<td>$169,153</td>
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<tr>
<td>Revenues</td>
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<tr>
<td>City Council Recommended</td>
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<tr>
<td>General Fund Transfer</td>
<td>(8,050)</td>
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<tr>
<td>TOT Funding Realignment</td>
<td>(8,455)</td>
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<tr>
<td>Council Recommended Revenue Changes</td>
<td>$(16,505)</td>
<td>$</td>
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<tr>
<td>Expenses</td>
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<tr>
<td>Project Category</td>
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<tr>
<td>Parks &amp; Open Space</td>
<td>-</td>
<td>(558)</td>
</tr>
<tr>
<td>Streets &amp; Sidewalks</td>
<td>-</td>
<td>(2,408)</td>
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<tr>
<td>Traffic &amp; Transportation</td>
<td>-</td>
<td>(1,674)</td>
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<tr>
<td>Vehicle &amp; Equipment Replacement</td>
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<tr>
<td>Proposed Revenue and Expense Changes</td>
<td>$(16,505)</td>
<td>$(8,772)</td>
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<tr>
<td>Proposed FY 2021 Budget and 2021-2025 CIP</td>
<td>$131,019</td>
<td>$160,381</td>
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CIP – MAJOR INVESTMENTS

- Public Safety Building, Fire Station 4, and 101 Bike & Pedestrian Bridge
- Train crossings/rail grade separation planning
- Fire/life safety and electrical upgrades at City Hall
- Airport Apron Reconstruction prioritized by the FAA
- 6 of 13 Storm Water Management Fee ballot measure projects planned
- Water Quality Control Plant has $133.3 M of infrastructure investment projects
CIP – MAJOR CHANGES

• Reductions in General Fund transfers to Capital Infrastructure result in a $16.5 M loss in revenues in FY 2021 (-$46.4 M over 5-yr CIP)

• Capital Infrastructure Plan adjustments
  • General Fund Capital: 21 projects were adjusted from baseline
    • Realignment of SUMC funding allocation among projects
    • Expenses by (-$8.8 M in FY 2021; -$43.9 M over 5-yr CIP)
  • All Funds: 23 projects were adjusted from baseline
    • Revenues by (-$1.8 M in FY 2021; -$2.1 M over 5-yr CIP);
    • Expenses by (-$10.6 M in FY 2021; -$45.1 M over 5-yr CIP)

• Timeline adjustments: 8 projects adjusted within the 5-year CIP
BUDGET PROCESS AND TIMELINE

APRIL
- April 20-Proposed Budget Transmittal to Council
- Finance Committee to review Waste Water, Stormwater rates
- Business Financial Support Development
- Recovery Strategy Development

MAY
- Finance Committee to review Water, Electric and Gas rates
- Committee/Commission review as needed (E.g. PTC 6/10, Storm Drain Oversight)
- City Council FY 2021 Budget Hearings & Deliberations: May 11, May 12/13, May 26
- Roundtables / Business Support Development

JUNE
- City Council FY 2021 Budget Adoption, FY 2021 Municipal Fees & Charges Adoption, various FY 2021 Utility Rates Adoption
- Committee/Commission review as needed (E.g. PTC 6/10)
- Business Financial Support Plan Council Consideration
- Recovery Strategy Council Consideration and Implementation

JULY/BEYOND
- FY 2021 Budget Implementation
- Recovery Strategy Implementation

www.cityofpaloalto.org/budget
JOIN THE BUDGET CONVERSATION

BUDGET CONVERSATIONS AND COMMUNITY BUDGET PARTICIPATION

Online Budget Priority Input

May 5 - 13
Share your budget priorities through our OpenGov engagement tool.

May 13 - 22
Share your input on specific proposed budget reductions.

Council Review of Service Area Budget Impacts

Tune in and Share your feedback

• May 11 | 7:30 p.m. – 10:00 p.m.*
• May 12 | 1:00 p.m. – 10:00 p.m.*
• May 13 | 1:00 p.m. – 10:00 p.m.*

*tentative end times, subject to change

Council Review of Revised Operating and Capital Budgets

May 26 | 1:00 p.m.

www.cityofpaloalto.org/budget
How would you prioritize the City’s six service areas? The more dots you assign to a service area, the higher a priority it is for you.

<table>
<thead>
<tr>
<th>Service Area</th>
<th>Response Percent</th>
<th>Response Count</th>
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</thead>
<tbody>
<tr>
<td>Public Safety</td>
<td>25.7%</td>
<td>688</td>
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<tr>
<td>Infrastructure and Environment</td>
<td>16.8%</td>
<td>451</td>
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<tr>
<td>Planning and Transportation</td>
<td>15.6%</td>
<td>418</td>
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<tr>
<td>Economic Sustainability and Business Support</td>
<td>12.2%</td>
<td>327</td>
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<tr>
<td>Neighborhood, Community and Library Services</td>
<td>22.4%</td>
<td>600</td>
</tr>
<tr>
<td>Administration and Government</td>
<td>5.7%</td>
<td>154</td>
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COUNCIL INPUT AND NEXT STEPS

• At places memorandum on Council discussion and approach on the budget hearings

• Council confirmation of hearing process