FY 2020-2021 OPERATING AND CAPITAL BUDGET ADOPTION, FY 2021 MUNICIPAL FEES ADOPTION, MUNICIPAL CODE CHANGE, PROPOSED UTILITY RATES AND FINANCIAL PLANS
OVERVIEW

• Appreciate City Council’s thoughtful approach to the tough budget discussions
  • Adopted revenue assumptions reflecting the current public health emergency, resulting in FY 2020-2021 $39 million General Fund deficit
  • The City Council has held seven separate discussions on FY 2021 budget deliberations
  • Service impacts remain significant; however, essential City services will be maintained and can be restored when economic conditions improve
CONTINUED UNCERTAINTIES

• Estimating over a $20 million impact to current FY 2019-2020 General Fund budget (an estimated draw on the Budget Stabilization Reserve of $11.7 million)

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

• Shelter in Place orders by Santa Clara County and the State continue to evolve but consumer confidence will continue to be uncertain
FY2021 CITYWIDE REVENUES

$796.7 Million

Net Sales 40.9%
Other Revenue 20.8%
Use of Reserves/Fund Balance 11.1%
Charges for Services 3.4%
Charges to Other Funds 1.6%
Documentary Transfer Tax 0.6%
From Other Agencies 3.2%

Other Taxes and Fines 0.3%
Permits and Licenses 1.4%
Property Taxes 7.1%
Rental Income 2.1%
Sales Taxes 2.6%
Transient Ocucpancy Tax 1.9%
Utility Users Tax 1.9%
Other Revenue 20.8%
From Other Agencies 3.2%
Documentary Transfer Tax 0.6%
Charges to Other Funds 1.6%
Net Sales 40.9%
FY 2021 CITYWIDE EXPENSES

$796.7 Million

- Capital Improvement Program: 33.9%
- Utility Purchase: 19.30%
- Salary & Benefits: 25.97%
- Supplies & Material: 0.98%
- Rents & Leases: 1.72%
- General Expense: 2.04%
- Facilities & Equipment: 0.06%
- Debt Service: 2.56%
- Contract Services: 5.90%
- Allocated Charges: 6.36%
- Net Transfers: 1.20%

HISTORICAL FULL-TIME STAFFING COMPARISON

- 960 FTE Citywide (less 74 positions)
- 512 FTE GF (less 62 positions)

General Fund FTE  Citywide Total FTE
## GENERAL FUND SOURCES

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>FY 2020 Adopted</th>
<th>FY 2021 Revised</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Tax</td>
<td>$48.6 M</td>
<td>$52.0 M</td>
</tr>
<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>33.8 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>196.5 M</strong></td>
</tr>
</tbody>
</table>

*This excludes recognition of reserved Development Center revenues of $500,000 which are reported on the prior slide.*
GENERAL FUND EXPENSES $197.0 MILLION

- Salary & Benefits 63.2%
- Contract Services 11.5%
- Supplies & Material 1.5%
- General Expense 4.3%
- Rents & Leases 0.9%
- Facilities & Equipment 0.2%
- Allocated Charges 9.3%
- Transfers 9.0%
### FY 2021 BUDGETS – CMR #11330

#### Citywide Proposed FY 2021 Budget, Released April 20, 2020

<table>
<thead>
<tr>
<th></th>
<th>General Fund</th>
<th>All Funds (w/ Internal Service Funds)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Revenues</td>
<td>Expenses</td>
</tr>
<tr>
<td>Citywide</td>
<td>$241,509</td>
<td>$238,801</td>
</tr>
</tbody>
</table>

#### Adjustments to Proposed Budget as released

**Revenue Adjustments**

- City Council Requested Major Tax Revenue
- Realignment Scenario C (CC May 4, 2020) (38,794)
- Other Economically Sensitive Departmental Revenue (5,000)

|                      | Citywide      | $197,715 | $238,801 | 573.68   | 81.31   | $712,052 | $818,869 | 1,033.85 | 106.32 |

#### Adjustments by Service Area

<table>
<thead>
<tr>
<th>Service Area</th>
<th>General Fund</th>
<th>All Funds (w/ Internal Service Funds)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Safety</td>
<td>1,684</td>
<td>(7,257)</td>
</tr>
<tr>
<td>Planning &amp; Transportation</td>
<td>(2,127)</td>
<td>(3,267)</td>
</tr>
<tr>
<td>Infrastructure &amp; Environment</td>
<td>-</td>
<td>(571)</td>
</tr>
<tr>
<td>Internal Services/Strategic Support</td>
<td>-</td>
<td>(1,397)</td>
</tr>
<tr>
<td>Citywide Balancing Solutions</td>
<td>(24,475)</td>
<td>-</td>
</tr>
</tbody>
</table>

**SUBTOTAL CHANGES FROM FY 2021 PROPOSED BUDGET**

<table>
<thead>
<tr>
<th></th>
<th>General Fund</th>
<th>All Funds (w/ Internal Service Funds)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(44,536)</td>
<td>(41,828)</td>
</tr>
</tbody>
</table>

|                      | -18.4%       | -17.5%  | -10.8%  | -31.6%  | -1.3% | -6.0%  | -7.2%  | -24.6%  |

**Citywide Revenue and Expenses (after May 26th CC Discussion)**

|                      | $196,973     | $196,973 | 511.91  | 55.61   | $702,146| $769,750| 959.50  | 80.14   |

|                      | $0           |           |         |         |         |         |         |         |

Net Surplus/(Deficit) $0
CHANGES SINCE MAY 26, 2020

Adjustments since May 26, 2020
• Management & Professional Unrepresented Group changed to a 10% compensation reduction (savings of $2.3 M GF, $3.5 M all funds)
  • Offset by a reduction in the “Implementation Costs Associated with Balancing Strategy” reduced from $2.08 M to $1.06 M

Remaining items for City Council Action
• Strategy to manage attrition in Police & Fire
• Funding for KZSU
• Reserve for COVID-19 uncertainties to be revisited in the new fiscal year ($744,000)
No draw on the Budget Stabilization Reserve recommended in FY 2021 Budget

• Reserve projected at $33.0 million as of June 30, 2020
  • This is the remaining balance after the $11.7 million draw on the BSR in FY 2020
• BSR is 16.8 percent of the FY 2021 budgeted expenses; within the targeted range of 15 to 20 percent
• BSR remains below the City Council goal of 18.5 percent by $3.5 million
• City Council has established a separate reserve for “COVID-19 Uncertainties” to be revisited within the first six months of FY 2021 of $744,000
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)
• Transportation Management Association (TMA) funding of $453,000 ($297,000 for COVID-19 business support)

Stanford University Medical Center (Development Agreement)

• Significant investments anticipated in FY2021-2025 Capital Improvement Plan
• Reallocation of funds between City Council approved 2014 Infrastructure Plan projects
• Remaining unspent balance ~ $6M
# ENTERPRISE FUNDS – RATE CHANGES

<table>
<thead>
<tr>
<th>FY 2021 Rate Changes</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Electric</td>
<td>0%</td>
</tr>
<tr>
<td>Gas</td>
<td>2%</td>
</tr>
<tr>
<td>Water</td>
<td>0%</td>
</tr>
<tr>
<td>Wastewater</td>
<td>0%</td>
</tr>
<tr>
<td>Fiber</td>
<td>2.5%</td>
</tr>
<tr>
<td>Refuse</td>
<td>0%</td>
</tr>
<tr>
<td>Storm Drain</td>
<td>2.5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>0.5%</strong></td>
</tr>
</tbody>
</table>

Total monthly bill is estimated to increase $1.47 per month, or 0.5%, to $320.71 per month.
Reflects a 56% reduction in General Fund support for the Capital Improvement Fund or $18.4 million reduction in FY 2021.

Note: This excludes the transfer to the Cubberley Infrastructure Fund that began in FY 2015 and is $1.8M annually.
CIP – MAJOR INVESTMENTS

- Public Safety Building construction, Fire Station 4 design, and 101 Bike & Pedestrian Bridge (under construction)
  - Plan Public Safety Building bidding and certificates of participation sales to take advantage of recessionary construction market
- Parks investments such as Boulware Park (including Birch Street) and Byxbee Park
- Train crossings/rail grade separation planning
- Airport Apron Reconstruction prioritized by the FAA grant funding
- 6 of 13 Storm Water Management Fee ballot measure projects planned
- Water Quality Control Plant has $133.3 M of infrastructure investment projects
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.
ADDITIONAL ACTIONS

• FY 2021 Municipal Fee Schedule

• Other Post-employment Benefits (OPEB) Actuarial Valuation

• Ordinance: Councilmember Waiver Of Compensation

• Various enterprise rate approvals for FY 2021 (separate staff report on June 22 agenda)

• Salary Schedules & Employment/Union Agreements (separate staff reports on June 22 agenda)
RECOMMENDED ACTION ITEM 31; CMR #11330

1) Adopt the Fiscal Year 2021 Budget Ordinance (Attachment A), which includes:

   a) City Manager’s Fiscal Year 2021 Proposed Operating and Capital Budgets, previously distributed at the April 20\textsuperscript{th} City Council Meeting (Attachment A, Exhibit 1)

   b) Amendments to the City Manager’s Fiscal Year 2021 Proposed Operating Budget (Attachment A, Exhibit 2)

   c) Amendments to the City Manager’s Fiscal Year 2021 Proposed Capital Budget (Attachment A, Exhibit 3)

   d) Allocated Charge Amendments to the City Manager’s Fiscal Year 2021 Proposed Operating and Capital Budgets (Attachment A, Exhibit 4)

   e) Fiscal Year 2021 City Table of Organization (Attachment A, Exhibit 5); and

   f) Fiscal Year 2021 Municipal Fee Changes (Attachment A, Exhibit 6)
RECOMMENDED ACTION ITEM 31; CMR #11330

2) Adopt the Ordinance (Attachment E) Amending Section 2.04.360 of the Palo Alto Municipal Code to Allow Council Members a Salary Waiver Option. A regular majority vote is required to approve this ordinance which becomes effective 30 days after this second reading and final adoption.

3) Accept the Fiscal Year 2021 – 2025 Capital Improvement Plan.

4) As recommended by the Finance Committee at the May 5, 2020 meeting (CMR 11284), accept the June 30, 2019 biennial actuarial valuation of Palo Alto’s Retiree Healthcare Plan and approve full funding of the Actuarial Determined Calculation (ADC) for Fiscal Year 2021 and Fiscal Year 2022 using a 6.25% Discount Rate for the calculation (Attachment B).
RECOMMENDED ACTION ITEM 32; CMR #11341

Recommendation Staff and the Finance Committee recommend that the City Council approve and adopt the following resolutions of the City Council of the City of Palo Alto:

a. Approving the FY 2021 Electric Utility Financial Plan, including reserve transfers, and amending the Electric Utility Reserve Management Practices (Attachments A, B & C);

b. Approving the FY 2021 Gas Utility Financial Plan, including reserve transfers, amending the Gas Utility Reserve Management Practices, and adopting a Gas Rate Increase by Amending Utility Rate Schedules G-1, G-2, G-3 and G-10 (Attachments D, E, F & G);

c. Approving the FY 2021 Water Utility Financial Plan, including reserve transfers, and amending the water Utility Reserve Management Practices (Attachments H, I & J);

d. Amending Utility Rate Schedule D-1 increasing the Storm Water Management Fee by 2.5 percent per month per Equivalent Residential Unit for FY 2021 (Attachments K & L); and

e. Amending Utility Rate Schedules EDF-1 and EDF-2 to increase Dark Fiber Rates 2.5 percent (Attachments M & N); There are no proposed changes to the Wastewater Collection utility rates or Financial Plan at this time.