

FISCAL YEAR 2020 PROPOSED BUDGET

Overview

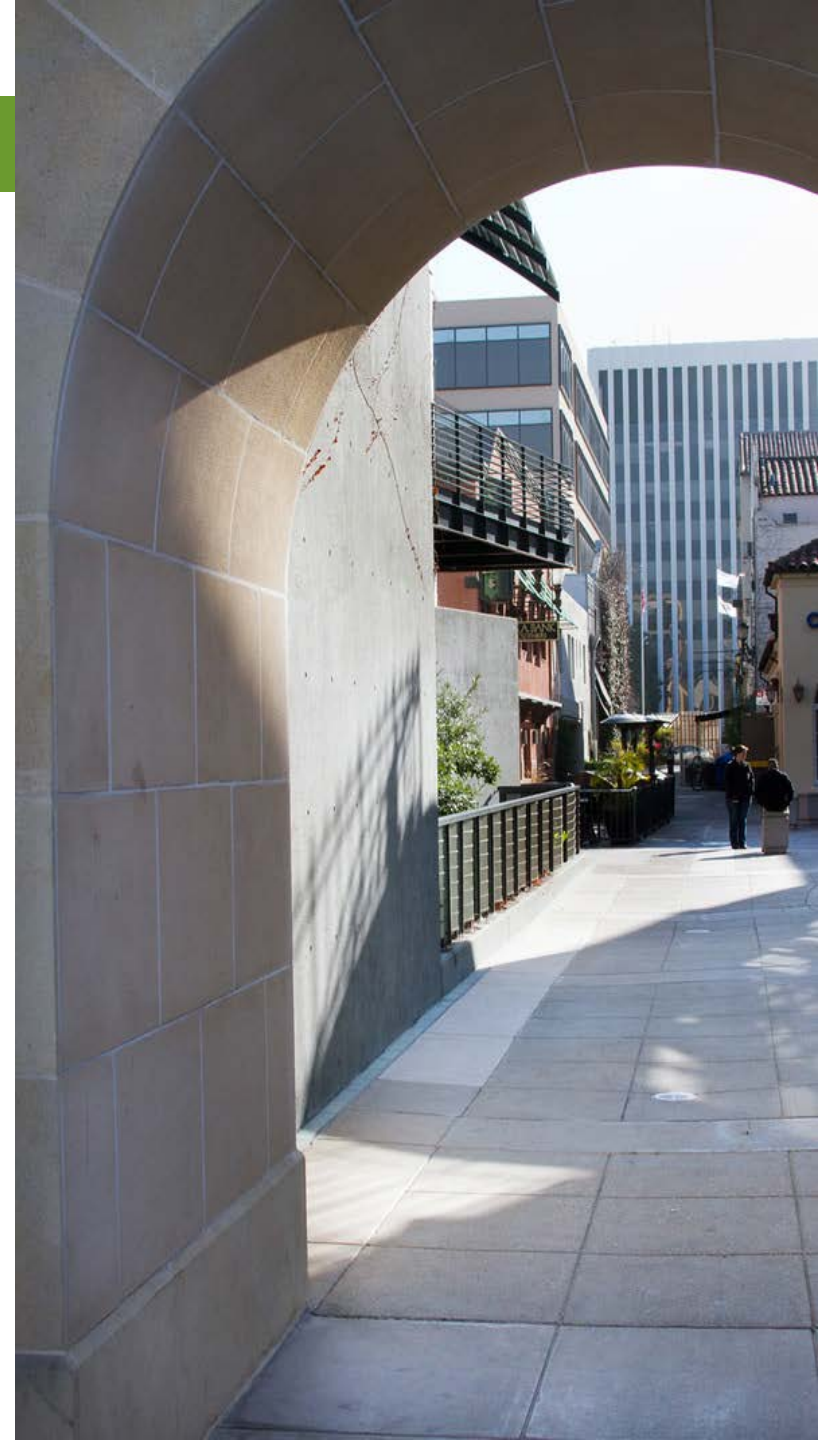
May 15, 2019



CITY OF
PALO ALTO

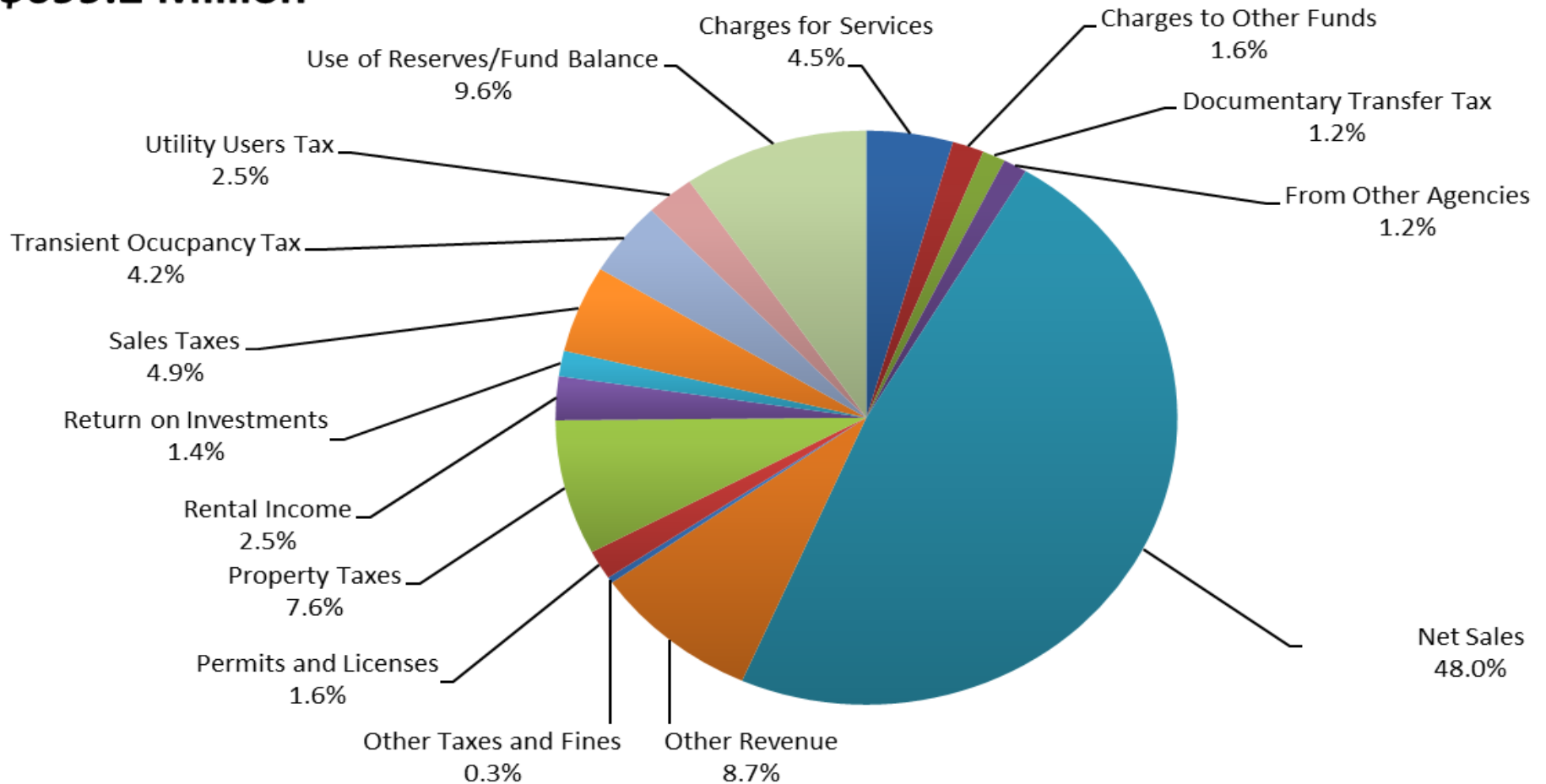
Overview

- Operating Budget
 - Citywide Funds
 - Internal Service Funds
 - General Fund
 - Special Revenue Funds
 - Enterprise Funds
- Capital Budget
- Summary



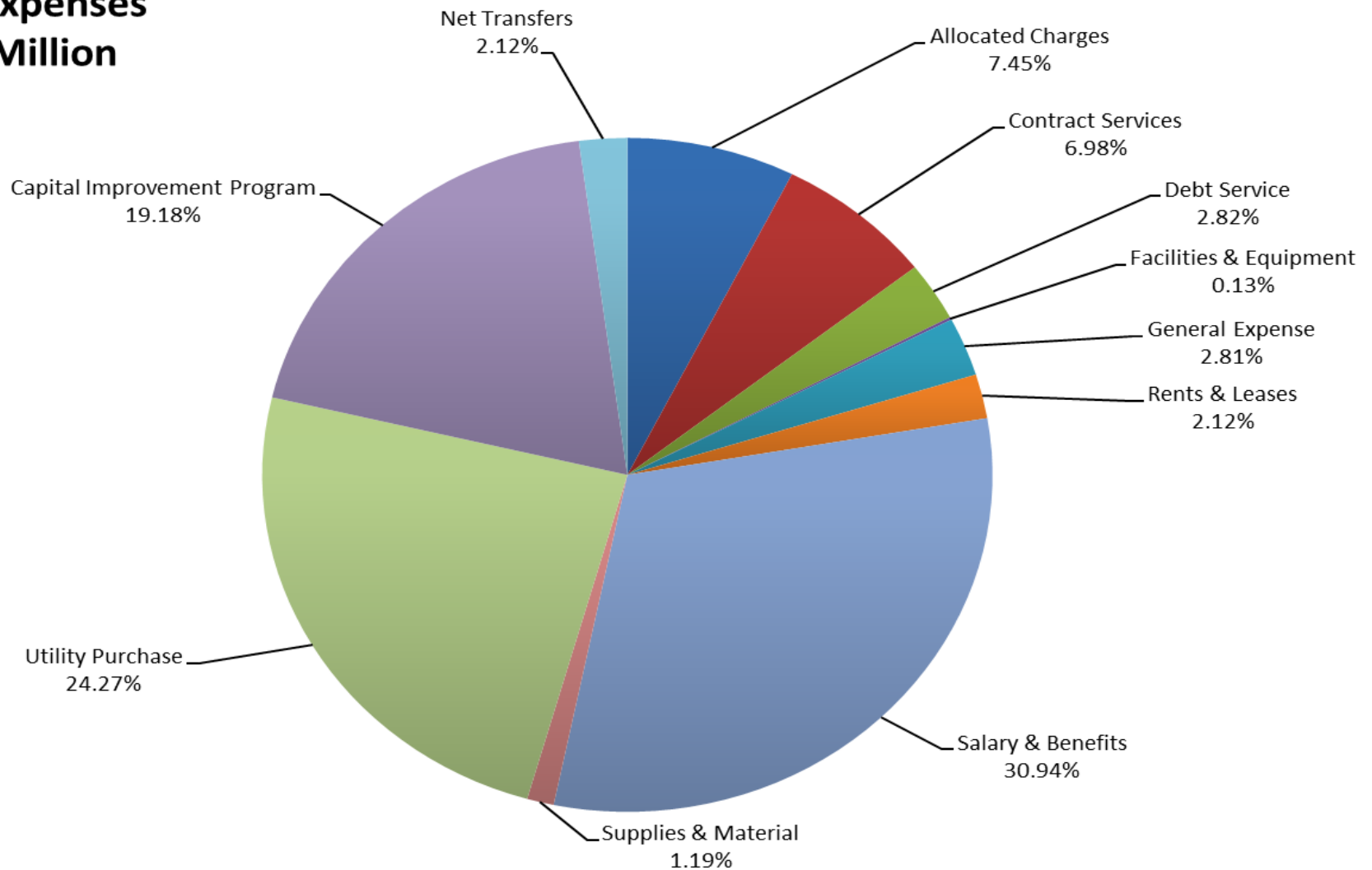
FY 2020 Citywide Sources

FY 2020 Sources \$699.2 Million



FY 2019 Citywide Expenses

FY 2020 Expenses
\$699.2 Million



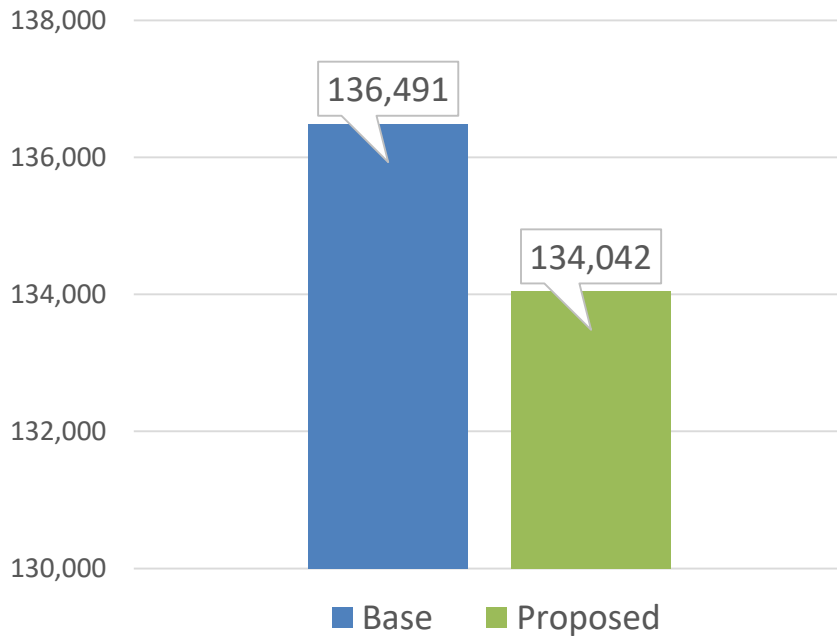
FY 2020 Citywide Full-Time Positions

	GF	ENT	Other*	Total
FY 2019 Adopted Budget	585.43	357.86	98.06	1,041.5
FY 2019 Approved adjustments	(3.15)	-	2.15	(1.00)
<i>FY 2019 Revised Budget</i>	<i>582.28</i>	<i>357.86</i>	<i>100.21</i>	<i>1,040.35</i>
FY 2020 Changes	(7.89)	0.75	(0.36)	(7.50)
FY 2020 Reallocations	(2.06)	-	2.06	0.00
FY 2020 Changes	(9.95)	0.75	1.70	(7.50)
FY 2020 Proposed Budget	572.33	358.61	101.91	1,032.85

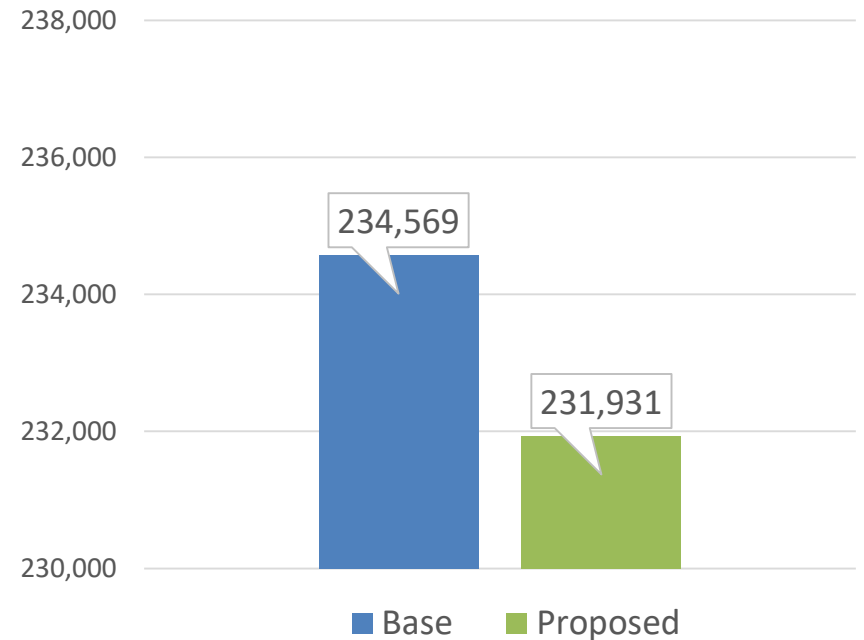
* Other Funds include the Capital Improvement, Internal Service, and Special Revenue Funds.

Salary & Benefit Changes: Base to Proposed

General Fund



All Funds



Salary & Benefit Changes

(compared to FY 2019 Adopted Budget)

Expenses Category	GENERAL FUND			ALL FUNDS		
	FY 2020 Proposed	\$ Change	% Change	FY 2020 Proposed	\$ Change	% Change
Salary	75,218	524	0.7%	132,625	2,873	2.2%
Pension	31,358	6,790	27.6%	53,025	13,599	34.5%
Healthcare	12,445	(98)	-0.8%	22,632	501	2.3%
Retiree Health	9,054	264	3.0%	14,214	414	3.0%
Other Benefits	5,967	1,110	22.9%	9,435	1,861	24.6%
Total	\$134,042	\$ 8,590	6.8%	\$231,931	\$19,248	9.1%

Internal Service Funds

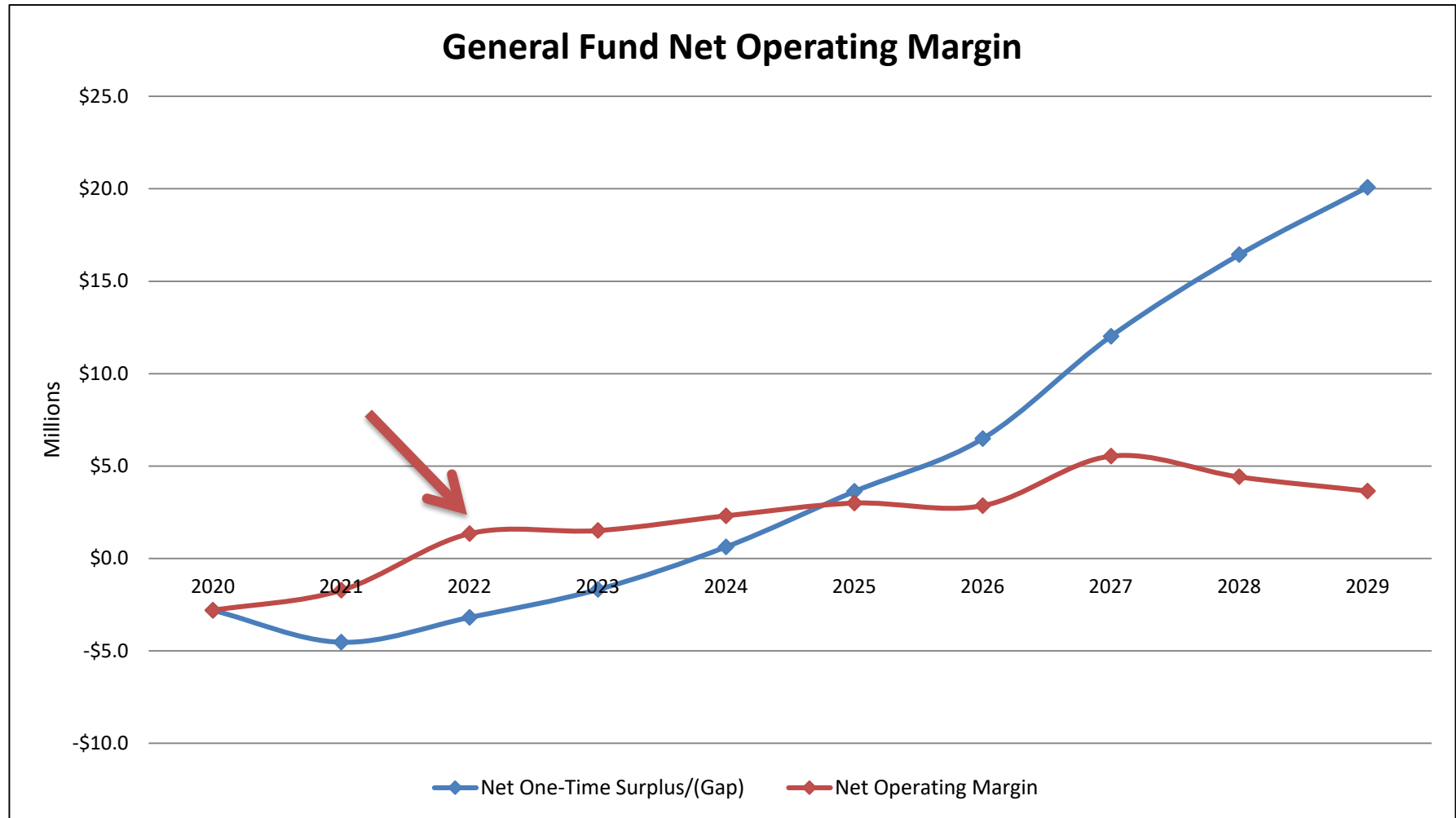
Internal Service Fund Allocated Charges

(compared to FY 2019
Adopted Budget)

Fund	GENERAL FUND			ALL FUNDS			GF %
	FY 2019 Adopted	FY 2020 Proposed	% Change	FY 2019 Adopted	FY 2020 Proposed	% Change	
General Benefits Fund	358	408	14.0%	616	686	11.4%	59.5%
General Liability Fund	1,079	1,356	25.7%	1,977	2,445	23.7%	55.5%
Print & Mail Fund	1,056	1,199	13.5%	1,566	1,569	0.2%	76.4%
Retiree Healthcare Fnd	8,790	9,054	3.0%	13,800	14,214	3.0%	63.7%
Technology Fund	7,145	7,283	1.9%	14,570	14,279	-2.0%	51.0%
Vehicle Fund	5,085	5,276	3.8%	9,014	9,192	2.0%	57.4%
Workers' Comp Fund	2,560	3,665	43.2%	3,764	5,399	43.4%	67.9%
Total	\$ 26,073	\$ 28,241	8.3%	\$45,307	\$47,784	5.5%	59.1%

General Fund

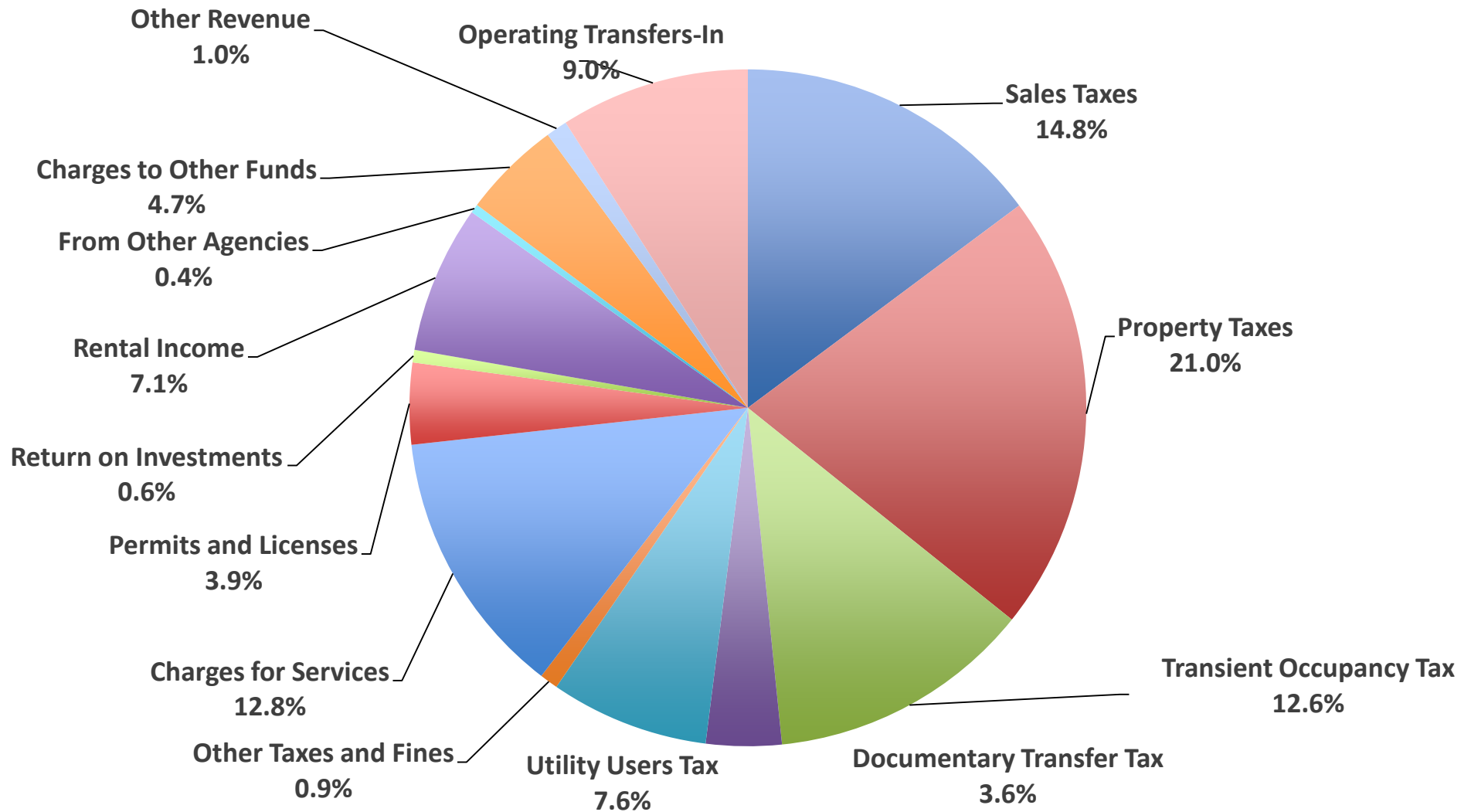
FY 2020 - 2029 General Fund LRFF: Base Case



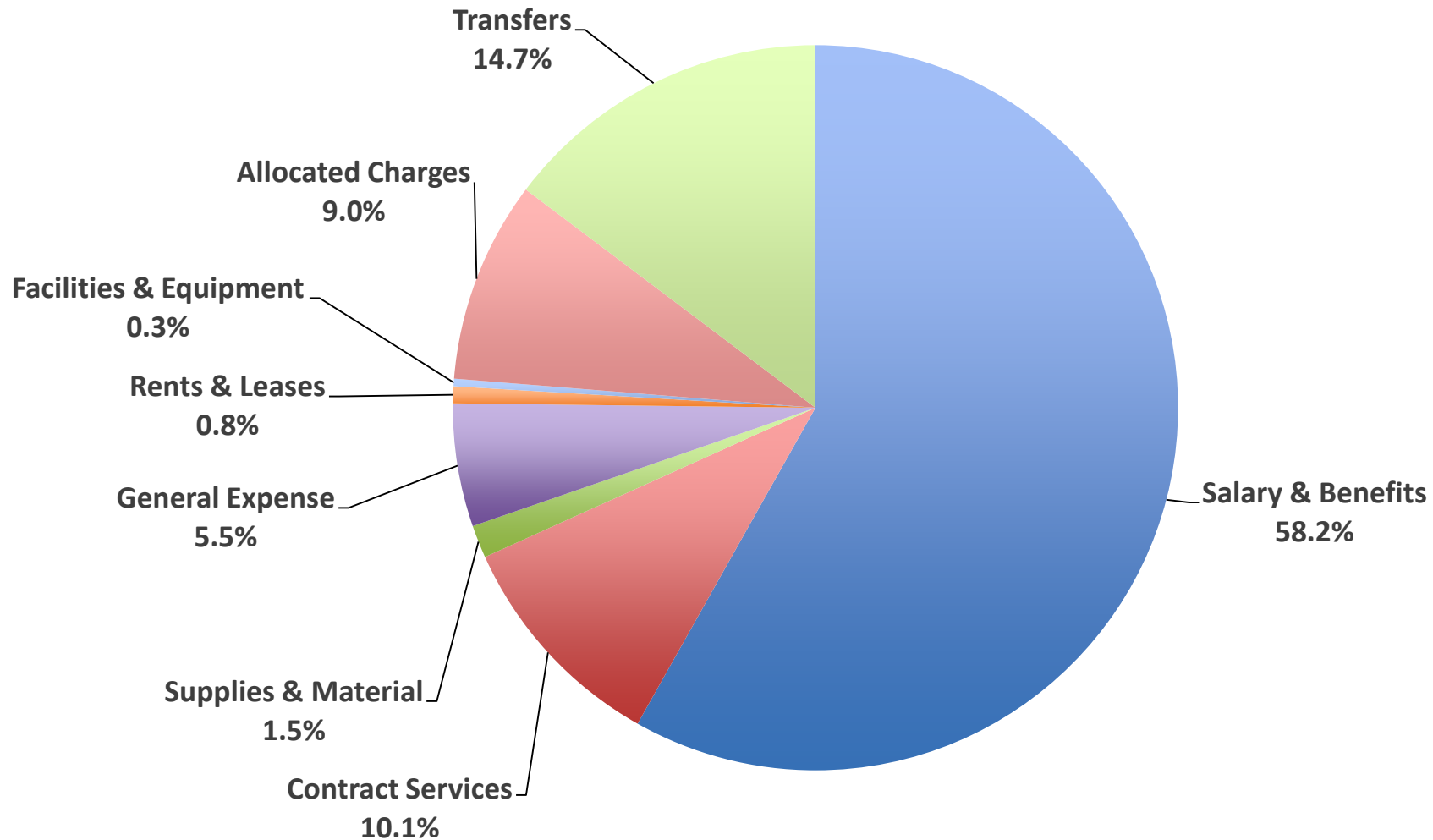
FY 2019-2028 General Fund LRFF: Base Case

	Adopted 2019	2020	2021	2022
Total Revenue	\$214,497	\$227,108	\$233,938	\$241,315
		5.9%	3.0%	3.2%
Total Expenditures	\$210,706	\$229,916	\$238,472	\$244,508
		9.1%	3.7%	2.5%
Net One-Time Surplus/(Gap)	\$3,791	(\$2,807)	(\$4,534)	(\$3,193)
Cumulative Net Operating Margin (One-Time)				
Net Operating Margin		(\$2,807)	(\$1,727)	\$1,341

FY 2020 General Fund Revenues - \$232.1 M



FY 2020 General Fund Expenses - \$230.8 M



General Fund Trends

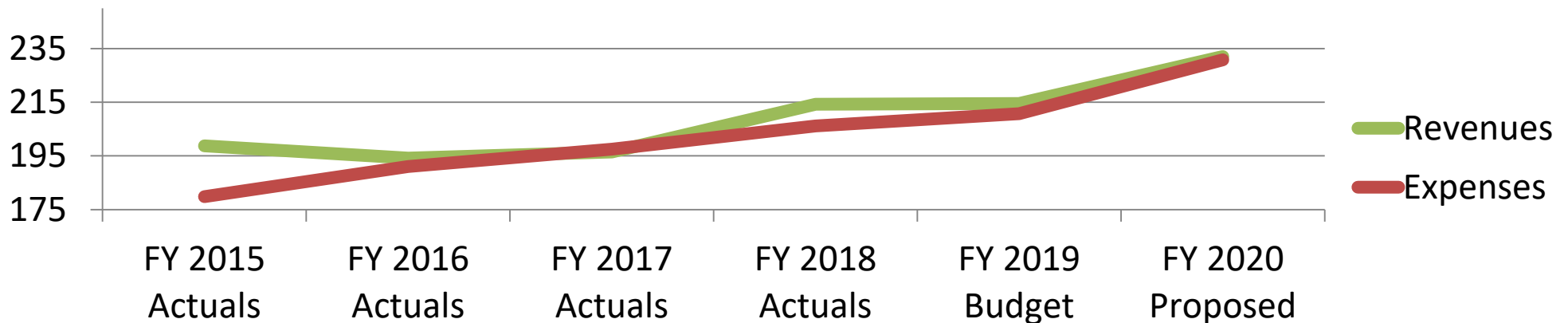
REVENUE GROWTH: 8.2%, +\$17.7 M

- Over 75% growth due to tax revenue increases, or \$13.0 M (e.g. 7.3% Property Tax, \$3.3M)

EXPENSE GROWTH: 9.5%, +\$20.1 M

- Includes restoration of FY 19 one-time actions
- Includes 6.2% DR for Normal Cost
- Includes Labor Agreement Costs

\$1.3 M BSR Contribution in FY 2020 to maintain BSR at target 18.5%, or \$42.7 M



General Fund - Balancing

- Balances FY 2020, positions the City well for FY 2021
 - Incorporate Council Direction to change pension forecasting (\$3.8M increase)
 - ❖ Ongoing reductions in expenses; include position eliminations
 - One-time savings while departments evaluate ongoing strategies
- Net reduction of 8.5 full-time equivalent positions from FY 2019 adopted levels
 - Council approved changes (1.0 position)
 - Recommended net reduction of 7.5 additional positions
- Targeted enhancements include: establishing an Office of Transportation, committing funds to workforce stabilization, and continued leadership in public/private partnerships

Special Revenue Funds

Special Revenue Funds - Major Initiatives

Federal & State Revenue Funds

- Community Development Block Grant Funding of approx. \$661,000

Street Improvement Funds

- \$2.6 M investment in capital projects for transportation and street maintenance; current PCI average is > 85 , working towards all streets exceeding PCI score of 60

Parking Funds

- Focus on strategies to address traffic and transportation challenges
 - Establish Office of Transportation (OOT)
 - General Fund subsidy to the Residential Parking Permit (RPP) Fund (\$720,000)
 - \$1.5 M investment in capital projects, including a comprehensive parking management system (\$1.1 M), University Avenue improvements (\$0.3 M), and parking wayfinding (\$40,000)

Enterprise Funds

FY 2020 Utility Rate Changes*

Utility Service	Proposed	
	Rate Change	\$ Difference
Electric	5.5%	\$2.98
Gas	8.4%	\$4.91
Wastewater	7.0%	\$3.83
Water Utility	4.4%	\$2.71
Refuse	0.0%	\$0
Storm Drain	4.5%	\$0.63
User Tax	5.9%	\$0.59
Total	5.0%	\$ 15.65

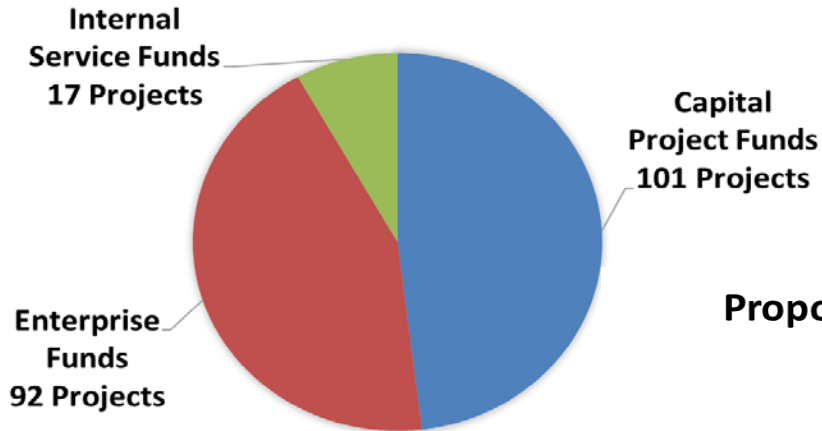
*The electric and gas rates are scheduled for review by the Finance Committee later today.

Total residential monthly bill is estimated to increase \$15.65 per month, or 5.0%, to \$312.15 per month.

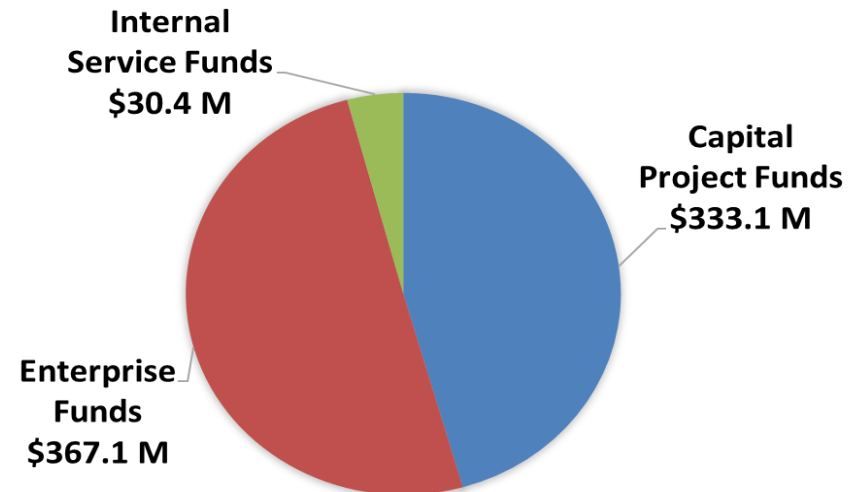
Capital Budget

Capital Budget Overview: 2020-2024 CIP

**Proposed Projects by Fund Type -
210 Projects**



Proposed Funding by Fund Type - \$730.6 Million



Capital Budget Overview: 2020-2024 CIP Highlights

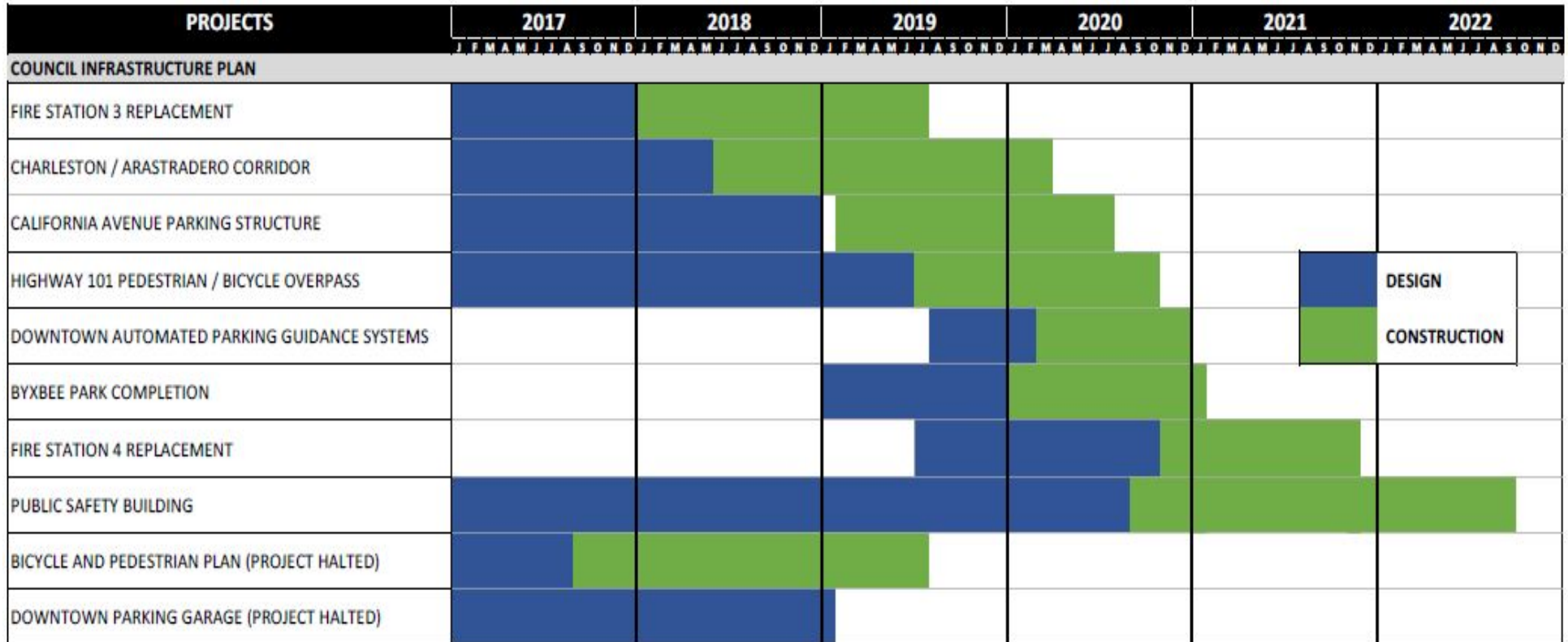
- 13 New Projects (9 Capital Project Funds, 3 Enterprise, 1 Internal Service)
- Decrease of \$16.4M from 2019-2023 CIP
 - Realignment of Replacement Schedule for Utilities Infrastructure
- Major Capital Initiatives over the five-year CIP
 - Focus on funding the Infrastructure Plan (IP) and maintaining funding for Infrastructure Blue Ribbon Committee “catch-up” and “keep- up”
 - Recognize Operating and Maintenance costs for Capital Projects
 - 6 of 13 Storm Water Management Fee ballot measure projects planned
 - Water Quality Control Plant: \$131.7M of infrastructure investment

Infrastructure Plan Project Expenditures

Project Name	Estimated Completion	Through FY 2019	2020-2024 CIP Budget	Total Project Budget*
Fire Station 3 Replacement (PE-15003)	Summer 2019	\$9.8M	\$0.3M	\$10.1M
Charleston/Arastradero Corridor Project (PE-13011)	Spring 2020	\$13.3M	\$6.3M	\$19.6M
California Avenue Parking Garage (PE-18000)	Summer 2020	\$49.0M	\$1.1M	\$50.1M
Highway 101 Pedestrian/Bicycle Overpass (PE-11011)	Fall 2020	\$18.4M	\$0.3M	\$18.7M
Downtown Automated Parking Guidance Systems (PL-15002)	Spring 2021	\$0.3M	\$2.5M	\$2.8M
Byxbee Park Completion (PE-18006)	Spring 2021	\$0.6M	\$3.0M	\$3.6M
Fire Station 4 Replacement (PE-18004)	Fall 2021	\$0	\$10.2M	\$10.2M
Public Safety Building (PE-15007)	Fall 2022	\$7.7M	\$107.8M	\$115.5M
Bicycle and Pedestrian Transportation Plan Implementation (PL-04010)	On Hold	\$9.7M	\$11.1M	\$20.8M
Downtown Parking Garage (PE-15007)	On Hold	\$2.5M	\$26.6M	\$29.1M
	Total	\$111.4M	\$169.2M	\$280.6M

*Does not include debt service payments for COP bond proceeds.

Infrastructure Plan Projects Timeline




www.infrastructure.cityofpaloalto.org/

Summary



Additional Needs

Near-Term



- Capital Infrastructure Plan increased costs
- Master Plans (Parks & Cubberley)
- New CIPs: JMZ Phase II, Animal Shelter, Foothill Park
- Transportation initiatives
- Grade Separation
- Housing
- Unfunded Actuarial Liability for Pension and Retiree Healthcare Trusts
- City owned assets operated by non-profits
- Future labor agreements – competitive workforce
- Potential recession

Longer-Term



Conclusion

- The City continues to face competing priorities and strategically significant decisions; will comprehensively review all options to ensure an informed and balanced approach.
- Continue service delivery evolutions to maintain high quality services while containing costs.
- Balance long-term financial implications with our ability to attract and maintain the workforce our community requires.
- Significant investments requiring new revenues to fund strategic initiatives such as grade separation and Cubberley master plan and improvements.
- Capital Improvements – cost escalation continues, compressing our ability to fund anticipated projects.
- Manage expectations of the City Council, community, & staff.

Budget Hearing Schedule

- Finance Committee May 2019:

Monday	Tuesday	Wednesday	Thursday	Friday
13	14	15 FC @ 1 PM	16	17
20	21	22	23 FC @ 1 PM	24
27 HOLIDAY	28 FC @ 1 PM	29	30	31

- City Council:
 - June 17th Rate Adoption @ TBD (Monday)
 - June 17th Budget Adoption @ TBD (Monday)

Budget Hearing Recommended Guidelines

- Budget hearings → budget wrap-up → City Council
- Meeting proceedings:
 - Presentations by departments, grouped by service area, including service inventories
 - Recap of budgetary highlights by OMB
 - ❖ This symbol denotes a reduction to address City Council's direction to proactively address the pension liability
 - Finance Committee discussion
- Recommended Motions:
 - "Tentative Approval of *[insert item]*": **majority vote**
 - Recommend to be placed in the "parking lot": **majority vote**
 - Request additional information/staff follow up: **majority vote**

FY 2020 Proposed Budget Non-Departmental

Operating Budget pp. 447 - 452
Finance Committee
May 15, 2019



FY 2020 Proposed Budget Placemaking & Infrastructure

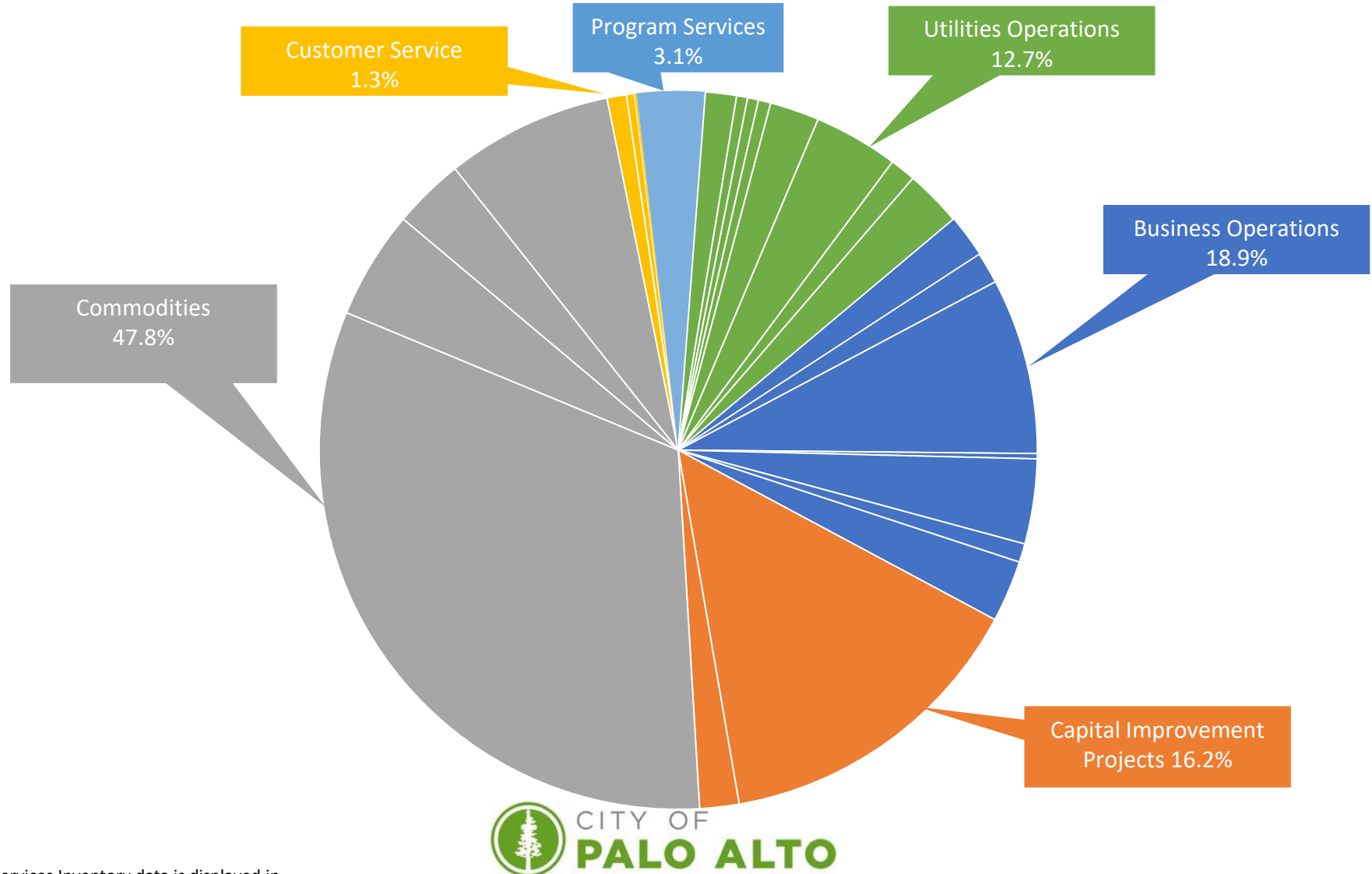
Utilities Department, Operating & Capital Budgets

Finance Committee May 15, 2019 Item #2

Operating Pgs 391-446 Capital Pgs 337-476, 501-532, 557-606

Services Inventory: Utilities

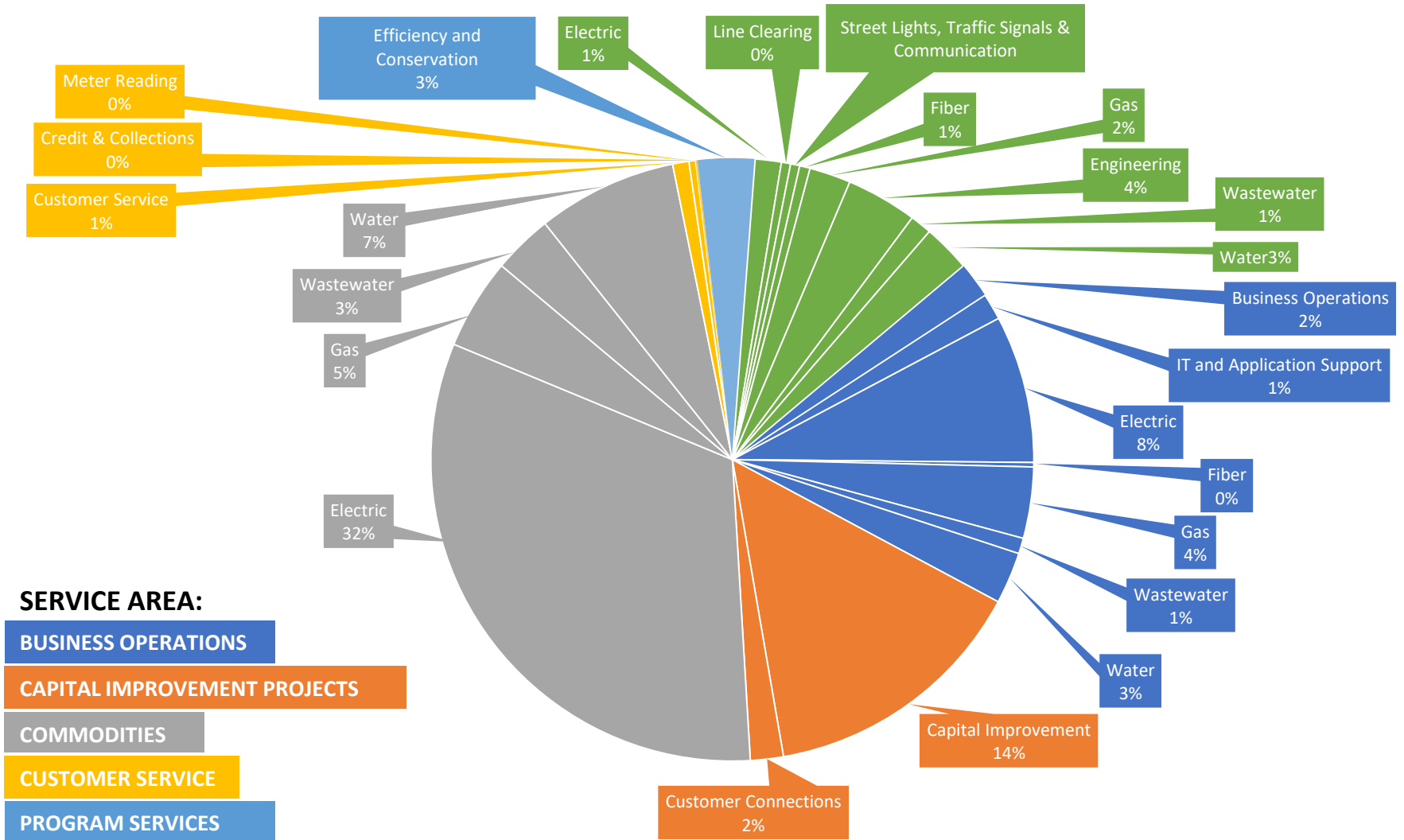
FY 2019 Expenses by Service Area - \$316.0 Million



Note: Services Inventory data is displayed in
FY 2019 Adopted Budget figures.

Services Inventory: Utilities

FY 2019 Expenses by Service - \$316.0 Million



Department Highlights: Utilities

Capital investments over the past year:

- University Avenue Infrastructure Improvements
- Sewer Sanitary Replacement – Junior Museum Zoo
- Underground Districts 46 & 47

Future investments planned include:

- Cross Bore Safety Inspection Phase 2
- Upgrading Online Utilities Customer Account Services
- Colorado Power Station Upgrade
- Corte Madera Reservoir Replacement

Operations Focus

- Control cost to minimize rate changes, ie. Gas Prepay and Western Hydro Contract
- Continue to invest in succession planning for 257 FTEs

Budget Overview for Utilities

Operating Budget Proposals

- Realign Resource Management Division for succession planning and professional development (+\$39,000; -0.96 PT, +0.50 FTE)
- Upgrade engineering positions, increases technical expertise (+\$23,000)
- Elwell Court facility tenant improvements (+\$356,000, one-time)

Capital Infrastructure Investment

- New construction schedule for gas, water, and wastewater infrastructure replacement.

Utilities Advisory Commission (UAC) Recommendation - Electric (CMR 10217)

Item #2 a. i. CMR 10217 (Electric)

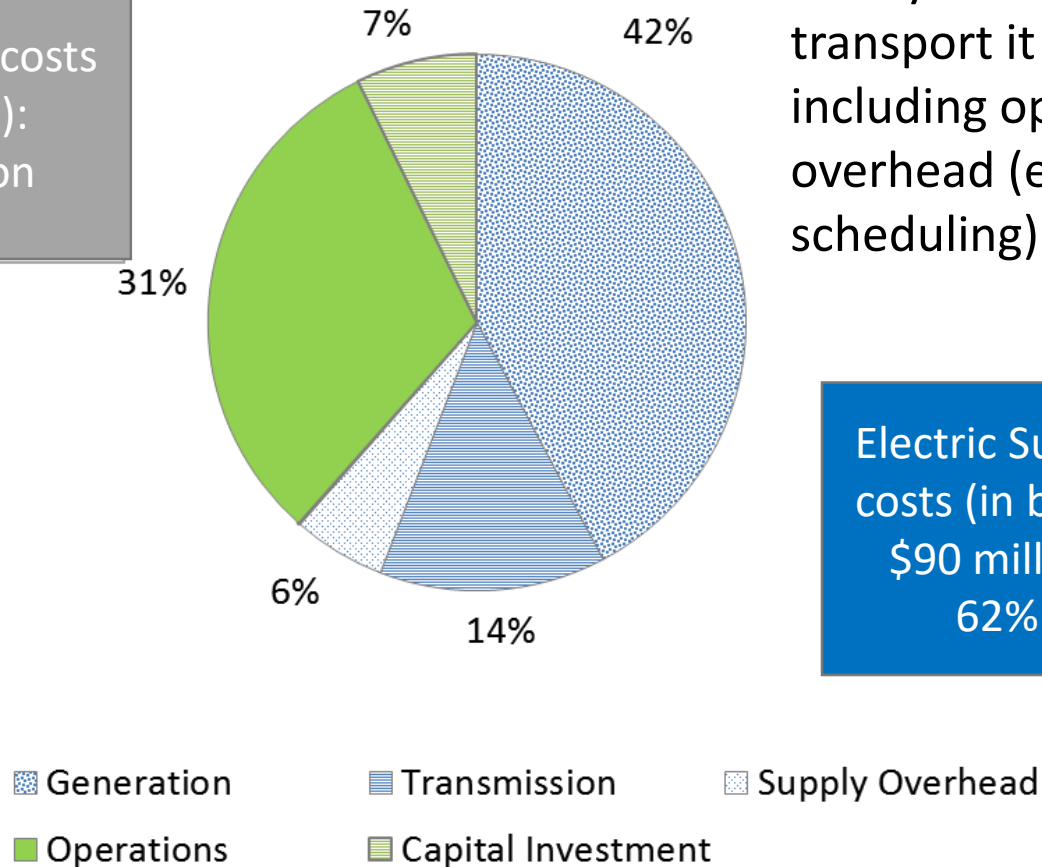
Staff and the UAC recommend that the Finance Committee recommend that the Council:

1. Adopt a resolution approving the fiscal year (FY) 2020 Electric Financial Plan and proposed transfers; and
2. Adopt a resolution amending Rate Schedules E-1 (Residential Electric Service), E-2 (Small Non-Residential Electric Service), E-2-G (Small Non-Residential Green Power Electric Service), E-4 (Medium Non-Residential Electric Service), E-4-G (Medium Non-Residential Green Power Electric Service), E-4 TOU (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 TOU (Large Non-Residential Time of Use Electric Service), E-14 (Street Lights), E-NSE (Net Metering Net Surplus Electricity Compensation), and E-EEC (Export Electricity Compensation).

Electric Utility Cost Structure

Electric Distribution: The cost to distribute electricity within Palo Alto, including: maintaining and replacing electric infrastructure, customer service, billing, administration, etc.

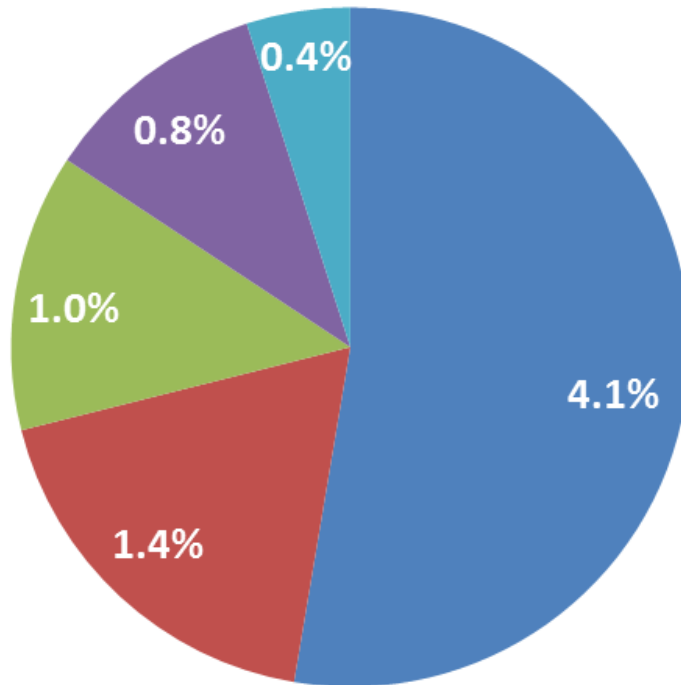
Electric Distribution costs (in green):
\$56 million
38%



Electric Supply: The cost to buy electricity and transport it to Palo Alto, including operational overhead (e.g. energy scheduling)

Electric Supply costs (in blue):
\$90 million
62%

Electric Rate Change Breakdown



Total Rate Increase: 8%

- Electric Supply Cost Increases
- Operations cost increases
- CIP expense increases
- Existing Revenue Shortfall
- Load loss

Utilities Advisory Commission Recommendation (UAC) - Gas (CMR 10255)

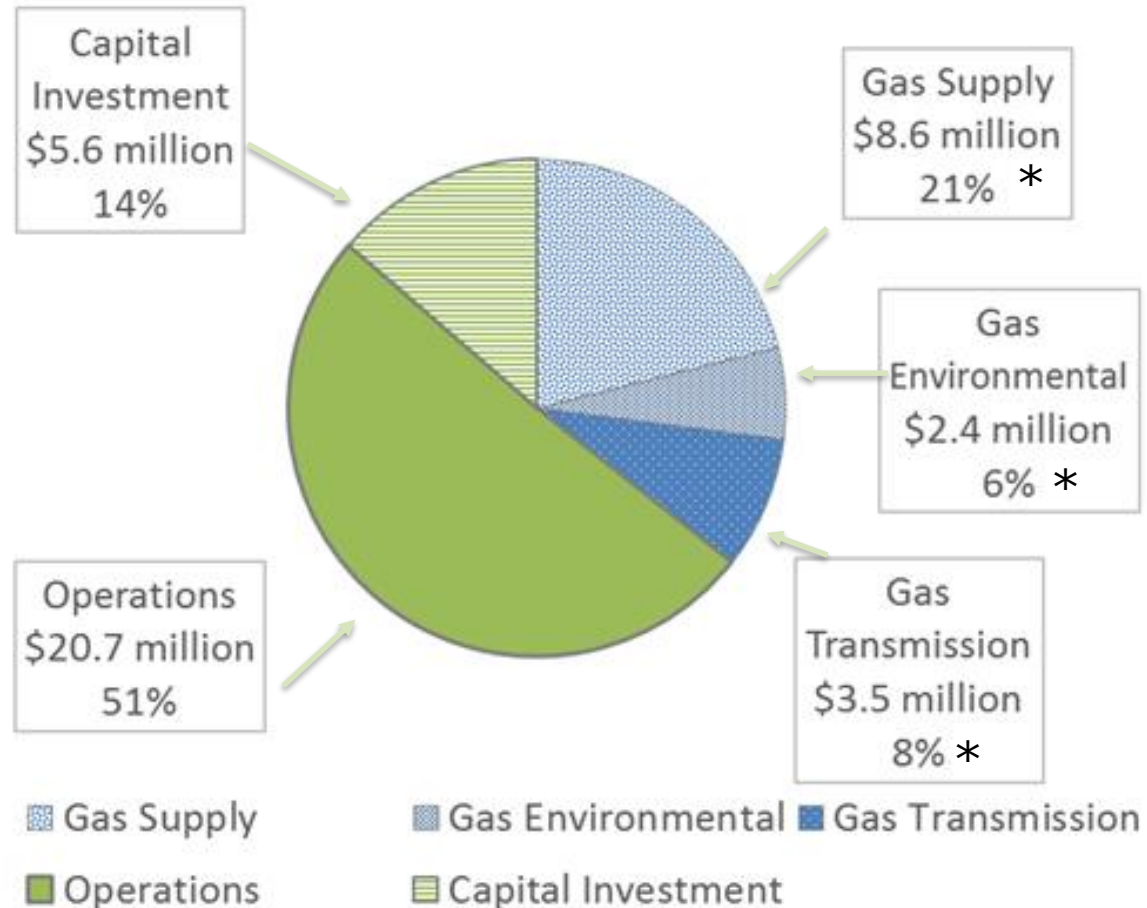
Item #2 c. i. CMR 10255 (Gas)

Staff and the UAC recommend that the Finance Committee recommend that the Council:

1. Adopt a resolution approving the fiscal year (FY) 2020 Gas Financial Plan and proposed transfers; and
2. Adopt a resolution amending Rate Schedules G-1 (Residential Gas Service), G-2 (Residential Master-Metered and Commercial Gas Service), G-3 (Large Commercial Gas Service), and G-10 (Compressed Natural Gas Service)

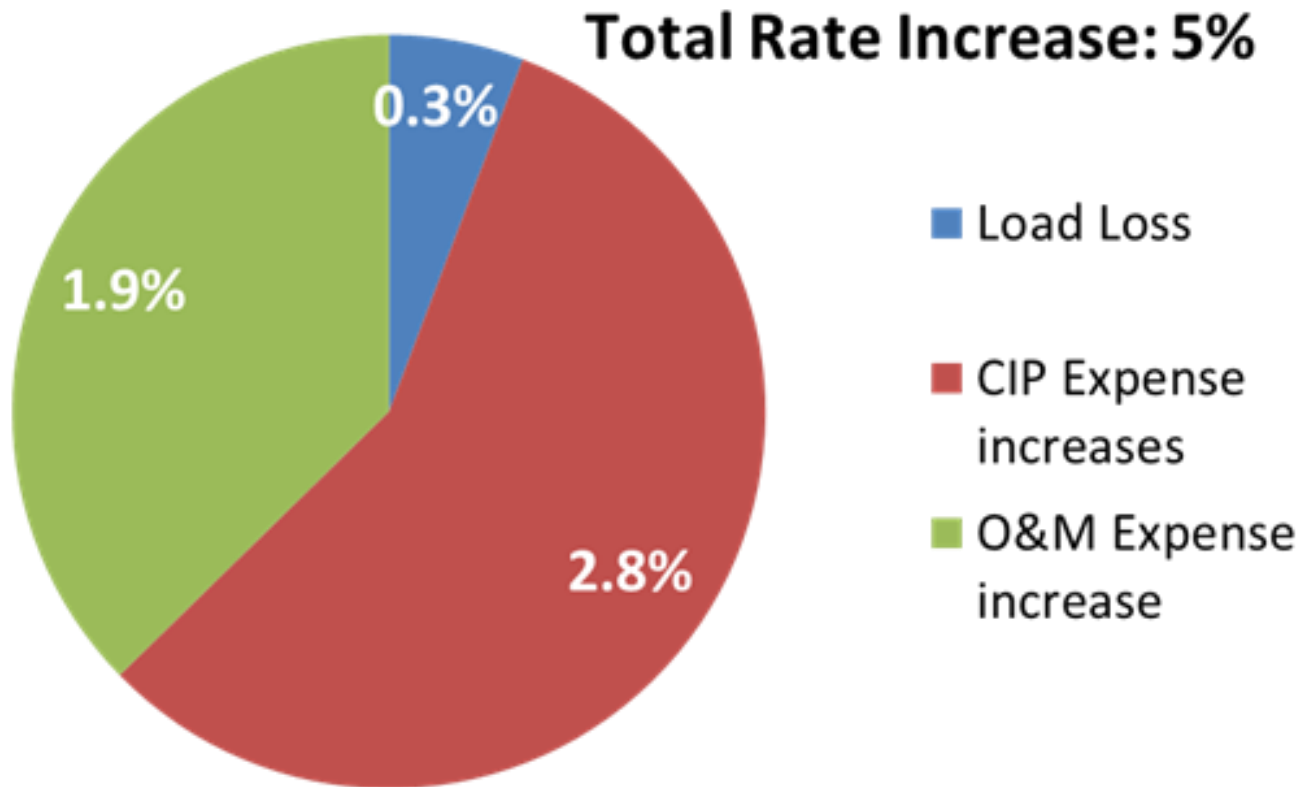
Gas Utility Cost Structure

Gas Distribution (in green): The cost to distribute gas within Palo Alto, including: maintaining and replacing gas infrastructure, customer service, billing, administration, etc.



** Market-based pass-through costs.*

Gas Rate Change Breakdown



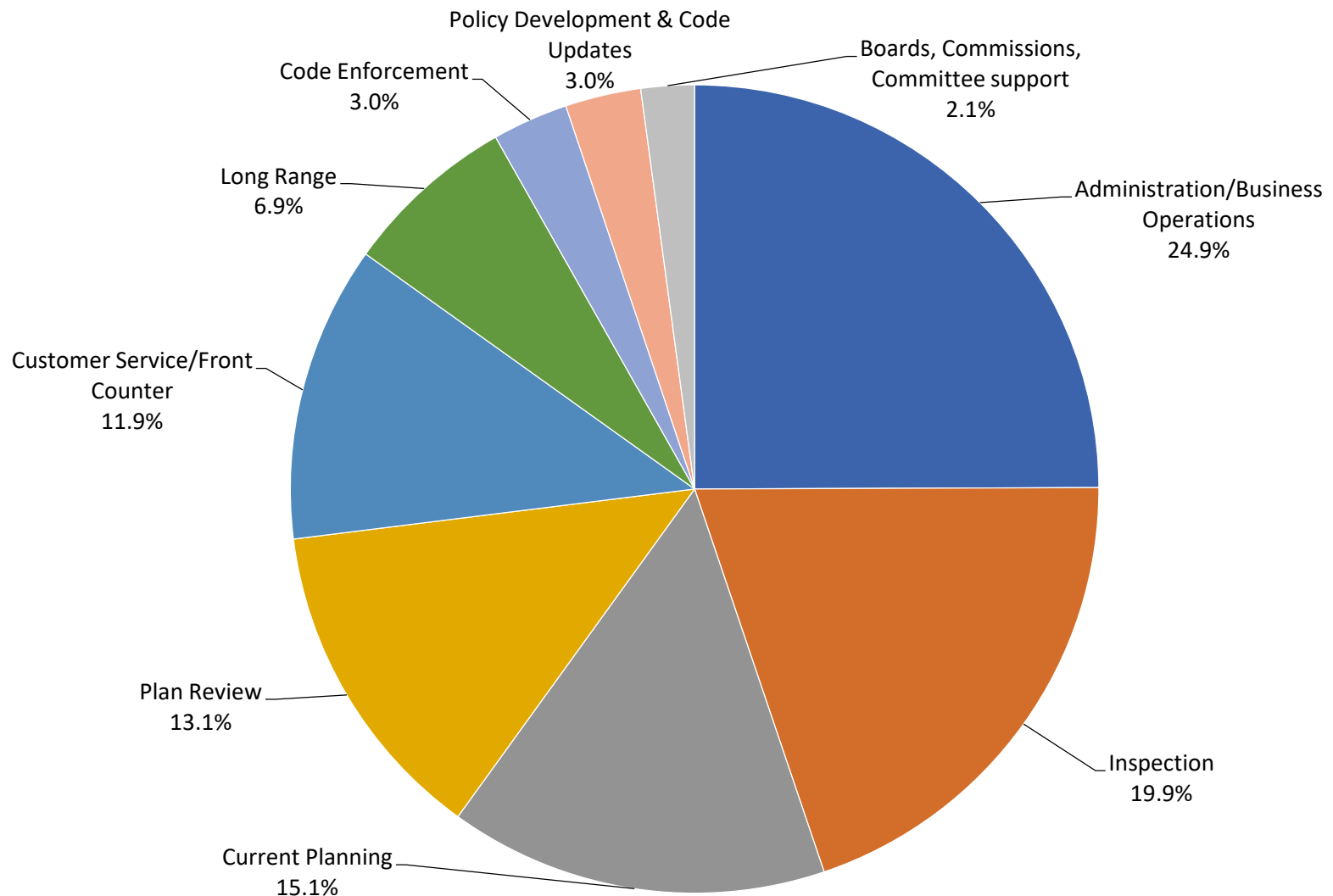
FY 2020 Proposed Budget Placemaking & Infrastructure

Planning & Community Environment (including
Development Services), Office of Transportation, and
Special Revenue Funds

Finance Committee May 15, 2019, Item #3

Operating Pg. 91-107, 283-295, 295-312 Capital Pg. 249-287

Services Inventory: Planning & Community Environment



Department Highlights: PCE

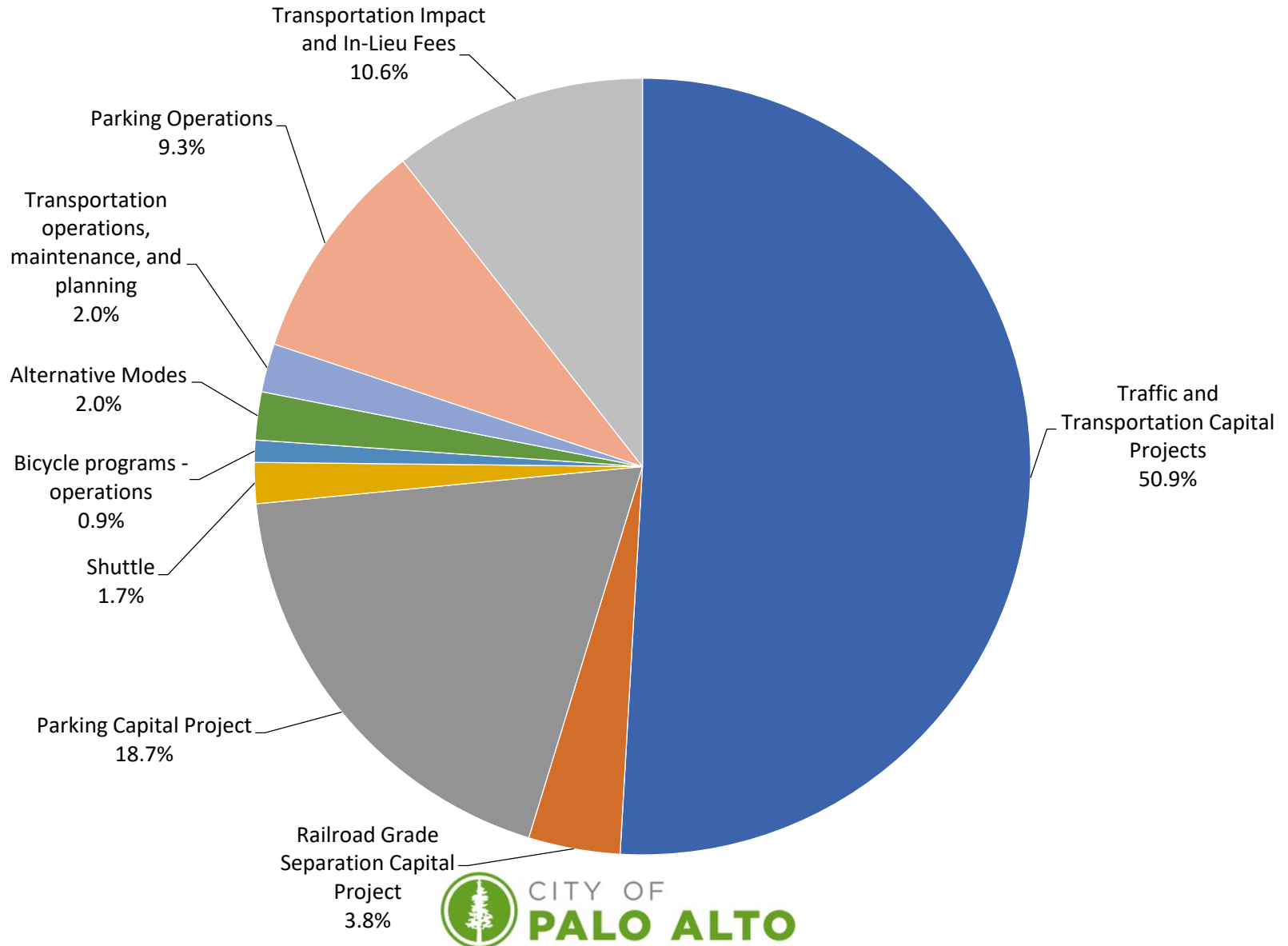
What's Working Well

- Managed a high volume of customers at Development Center
- Advanced the Housing Work Plan
- Processed development applications

Where We Plan to Focus

- Recruitment and organizational management/culture
- Maintain high level of customer service
- Advance City Council policies

Services Inventory: Transportation



Department Highlights: Transportation

What's Working Well

- Enhanced community engagement by conducting over 50 meetings and reducing possible grade separation alternatives to 6
- Increased the number of middle & high school students biking to school through a collaboration with PAUSD and the Palo Alto PTA
- Completed infrastructure changes on Quarry Road and Colorado Avenue/Sandra Place

Where We Plan to Focus

- Implementing the Transportation and Traffic Workplan
- Implementing the Rail Grade Separation Workplan
- Improving data collection and staff capacity

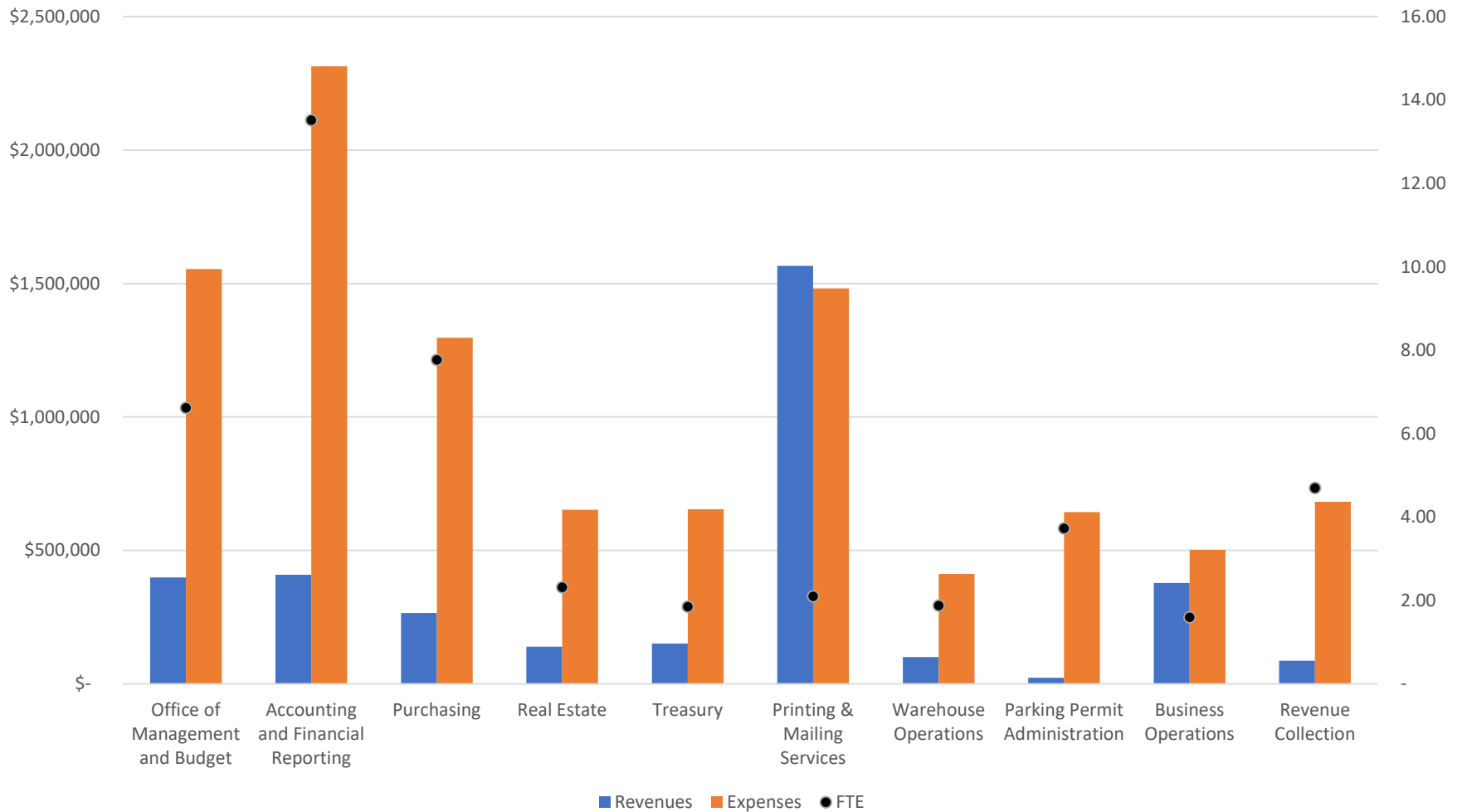
Budget Overview

- Establish Office of Transportation (OOT)
 - Net-zero reallocation of existing 13.48 positions from PCE and City Clerk's Office (\$141,000 revenue, \$2.0 M expense)
 - Add 1.0 Parking Manager to oversee parking and shuttle programs (+\$253,000)
 - Add 1.0 Senior Engineer to oversee transportation CIP and rail (+\$266,000)
 - Funding realignments in various parking funds to reflect this new office staffing
- Merge Development Services Department (DSD) & Planning and Community Environment (PCE)
 - Net-zero reallocation of existing 40 positions from DSD to PCE (\$14.5 M revenue, \$12.6 M expense)
 - Transfer Business Registry Certificate (BRC) Program from former DSD to ASD (includes 1.0 FTE, \$175,000 revenue, \$50,000 non-salary expense)
- Recognize an operating subsidy transfer from the General Fund to the Residential Parking Permit (RPP) Fund to cover an operating deficit in FY 2020 (\$721,000, one-time)
- Continue Special Revenue Fund investments in various capital projects (\$10 M)

FY 2020 Proposed Budget Internal Service Departments Administrative Services, Human Resources, & Information Technology

Finance Committee May 15, 2019 Item #4
Operating pgs 173-192, 227-260, 455-463; Capital pgs 609-640

Services Inventory: ASD



Department Highlights: ASD

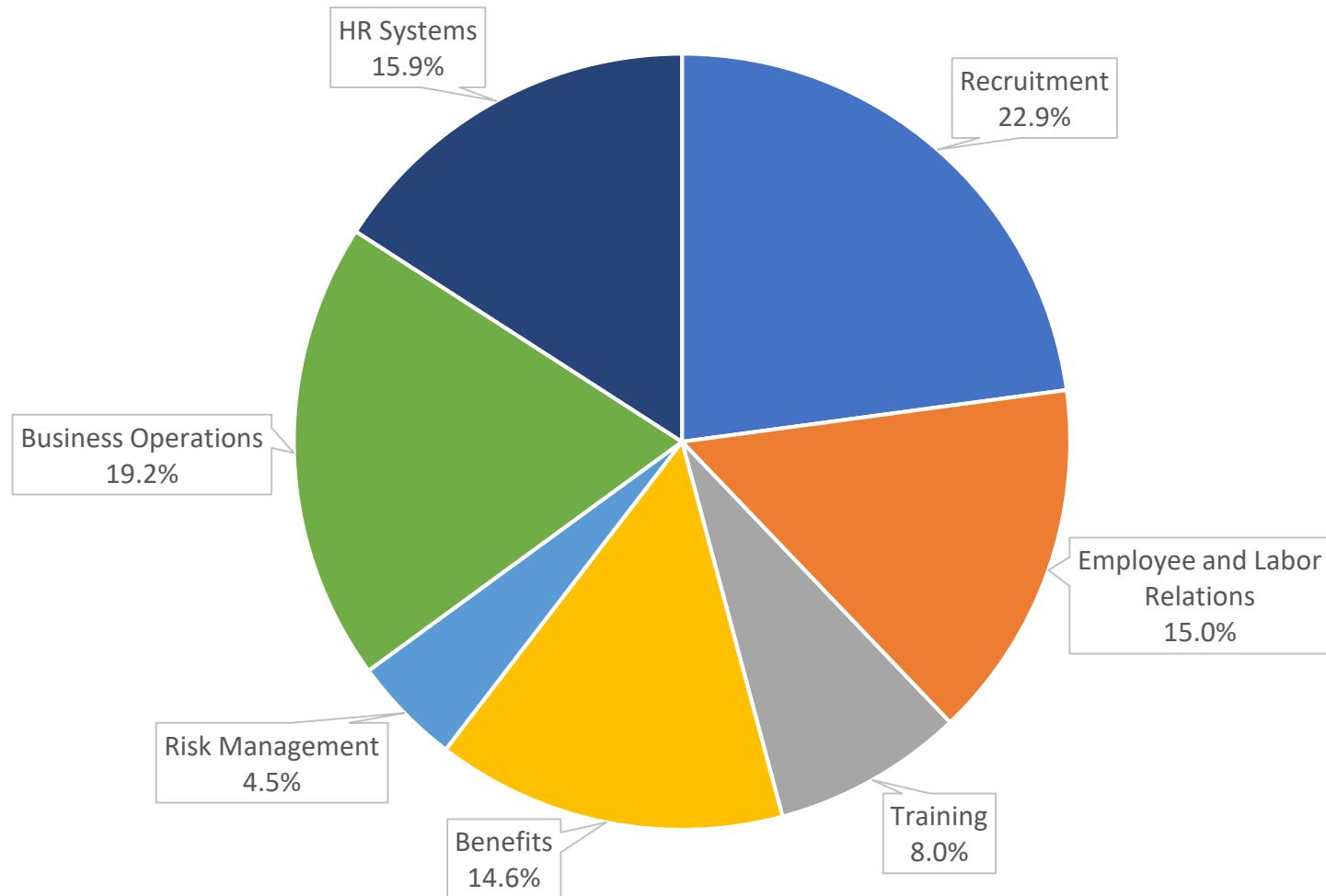
What's Working Well

- Contributed additional \$4 million to City's Pension 115 Trust account
- Issued \$37.4 million in bonds for the California Avenue Parking Garage
- Maintained the City's AAA credit rating resulting in lower debt costs

Where We Plan to Focus

- Continue implementation of the Fiscal Sustainability work plan
- Provide citywide procurement training on best practices
- Evaluate service evolutions in certain business areas such as printing and mailing

Services Inventory: HR



Department Highlights: HR

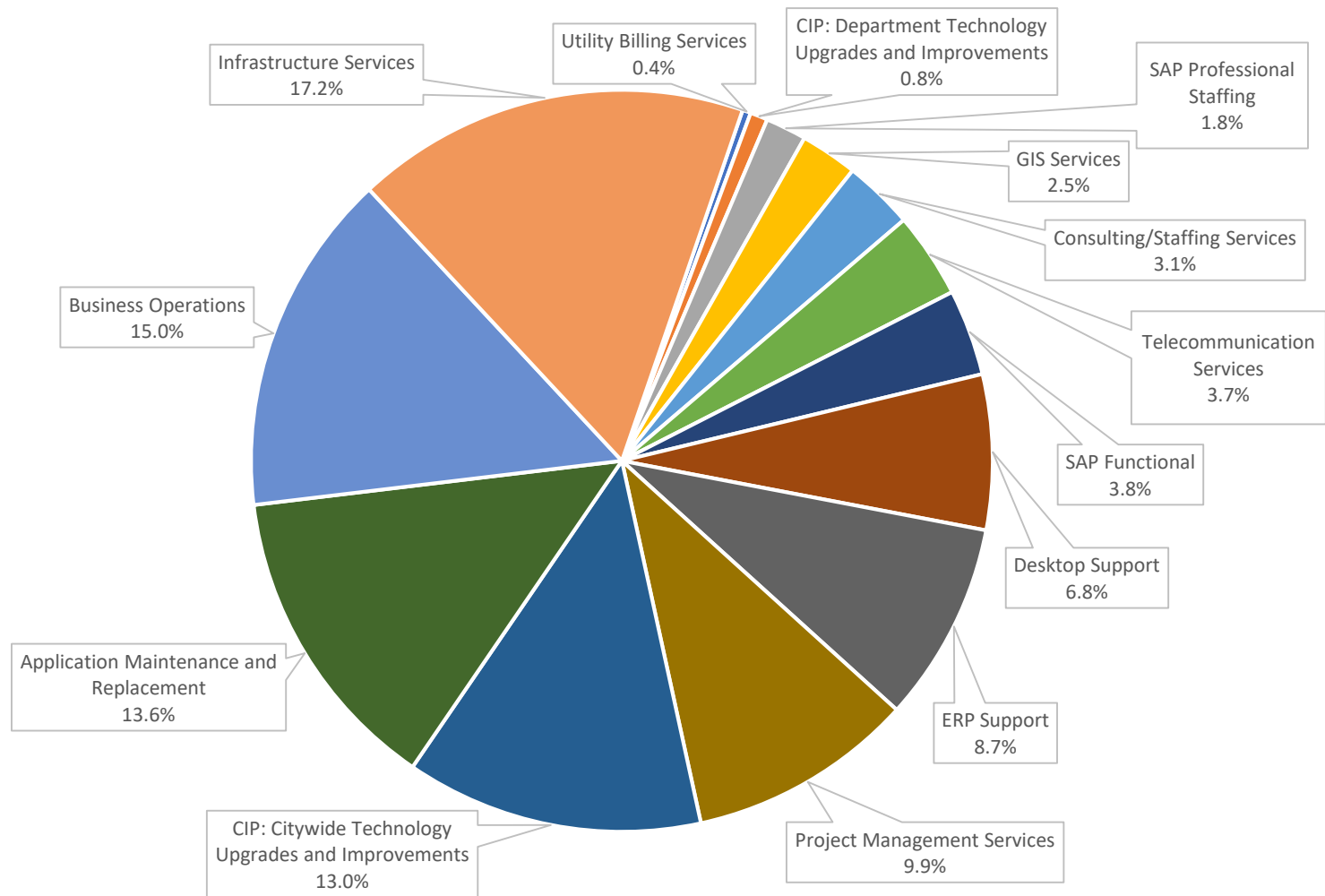
What's Working Well

- Reached agreements with all bargaining groups (SEIU, SEIU Hourly, IAFF, FCA, PAPOA, PAPMA and UMPAPA)
- Implemented a Leave Management System and launched a comprehensive Parental Leave Program
- Reduced work related injuries by 8%

Where We Plan to Focus

- Emphasize efforts on Retention and Recruitment of workforce
- Implement a Citywide comprehensive training plan to further support the retention and recruitment efforts
- Focus efforts to create a harmonious and collaborative work environment

Services Inventory: IT



Department Highlights: IT

What's Working Well

- Completed Projects: Fire MDC (Mobile Digital Computer) Rollout, Data Center consolidation project, MDM (Mobile Device Management) deployment, Replacement of Fire's RMS (Record Management System), City Website ADA Compliance
- Adopted 3-Year IT Strategy

Where We Plan to Focus

- Set the foundation for several large, citywide projects:
 - ERP (Enterprise Resource Planning) Upgrade, Council Chambers Upgrade, GIS (Geographic Information System) Modernization, Next Generation City website, Police MDC Replacement
- Continue to implement/refine newly adopted 3-year IT Strategy
 - Goals: Customer Service, Infrastructure, Cybersecurity, Data Governance

Budget Overview

Operating Budget Proposals

- ❖ Realizes \$280,000 vacancy savings in ASD (equivalent of 2.0 FTE, one-time)
- ❖ Reduces IT non-salary expenses in project services, staff training, professional services, and GIS contract expenses, and eliminates the Civic Innovation program (-\$350,000)
- Transfers Business Registry Certificate Program from former DSD to ASD (includes \$175,000 revenue, \$50,000 non-salary expenses, 1.0 FTE)
- Adds 0.48 part-time position in Human Resources in workers' compensation processing (+\$30,386, +0.48 FTE, one-time ending June 30, 2020)

Information Technology Capital Investment

- City Council Chambers Upgrade (FY 2020 and 5-Year CIP total: \$1,700,000)
- Continuation of existing projects (5-year CIP: \$6.8 million, 7 projects)

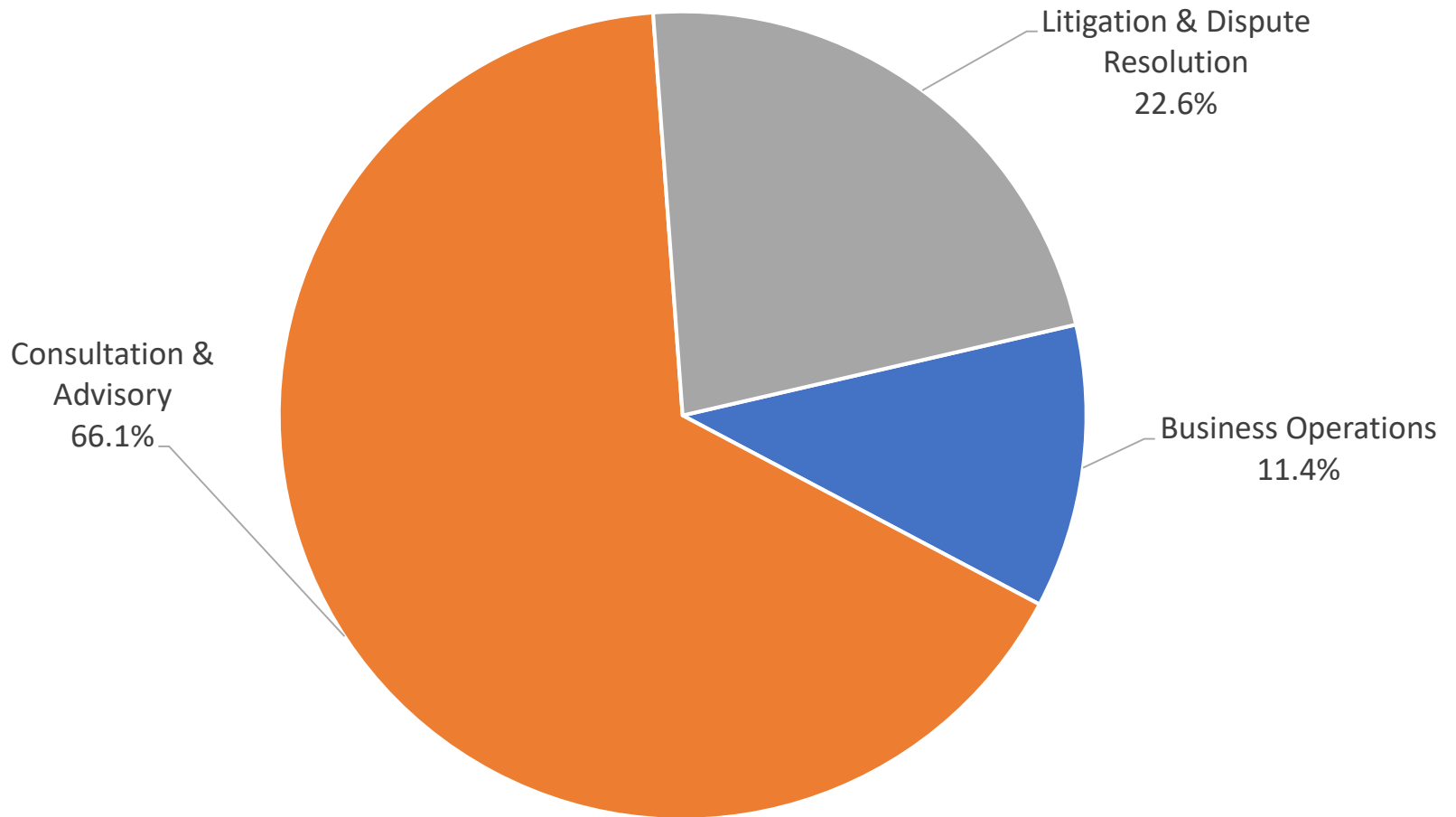
FY 2020 Proposed Budget Council Appointed Officers & City Council

Attorney, Clerk, Auditor, Manager, City Council

Finance Committee May 15, 2019, Item #5

Operating pg. 121-172

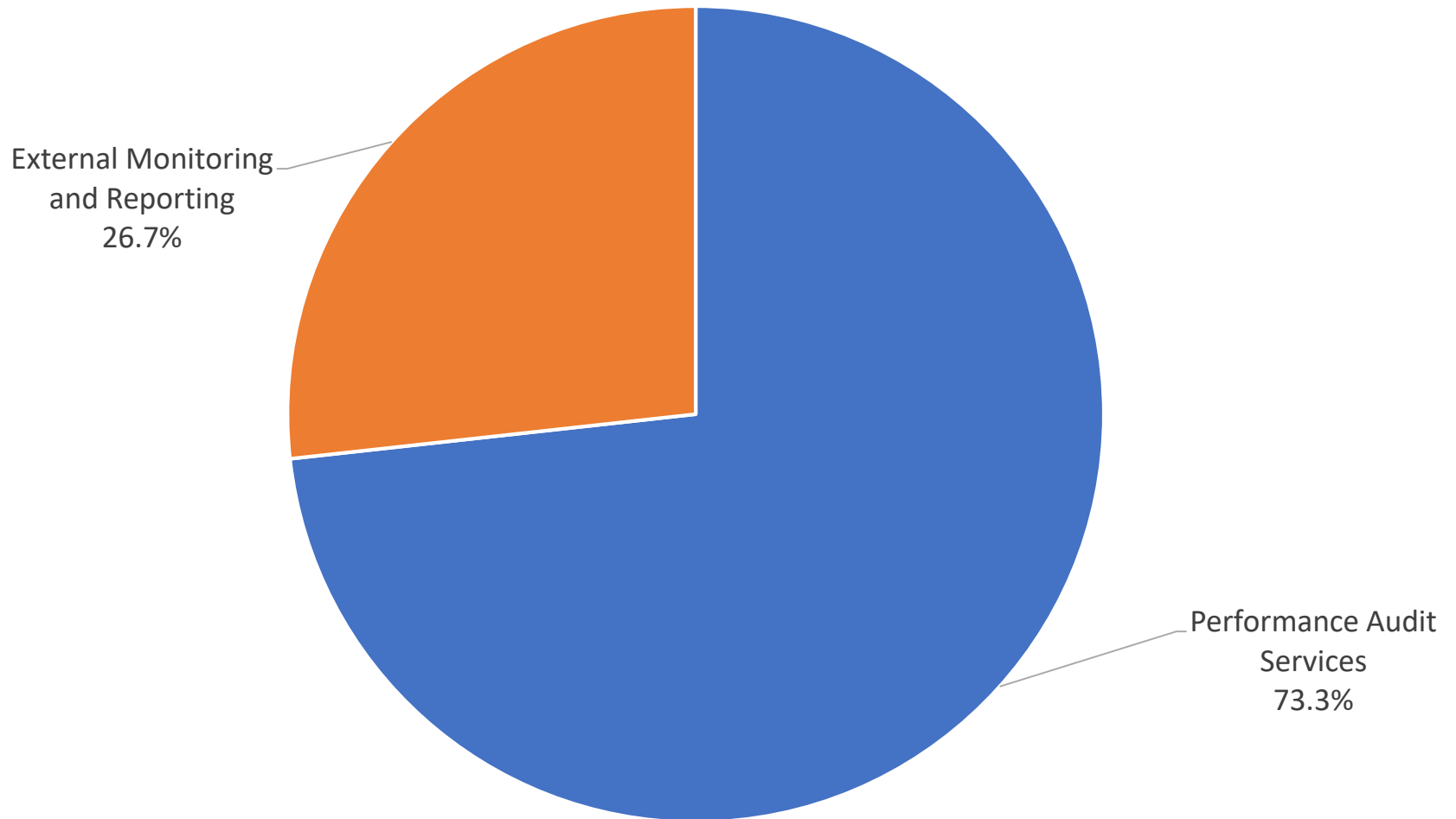
Services Inventory: City Attorney's Office



Department Highlights: City Attorney's Office

- What's Working Well
 - Hiring and onboarding
 - Ordinances supporting Council priorities – e.g. housing
 - Training programs – e.g. construction management
- Where We Plan to Focus
 - Changing state and federal mandates
 - Dispute resolution and advocacy
 - Supporting new managers and staff

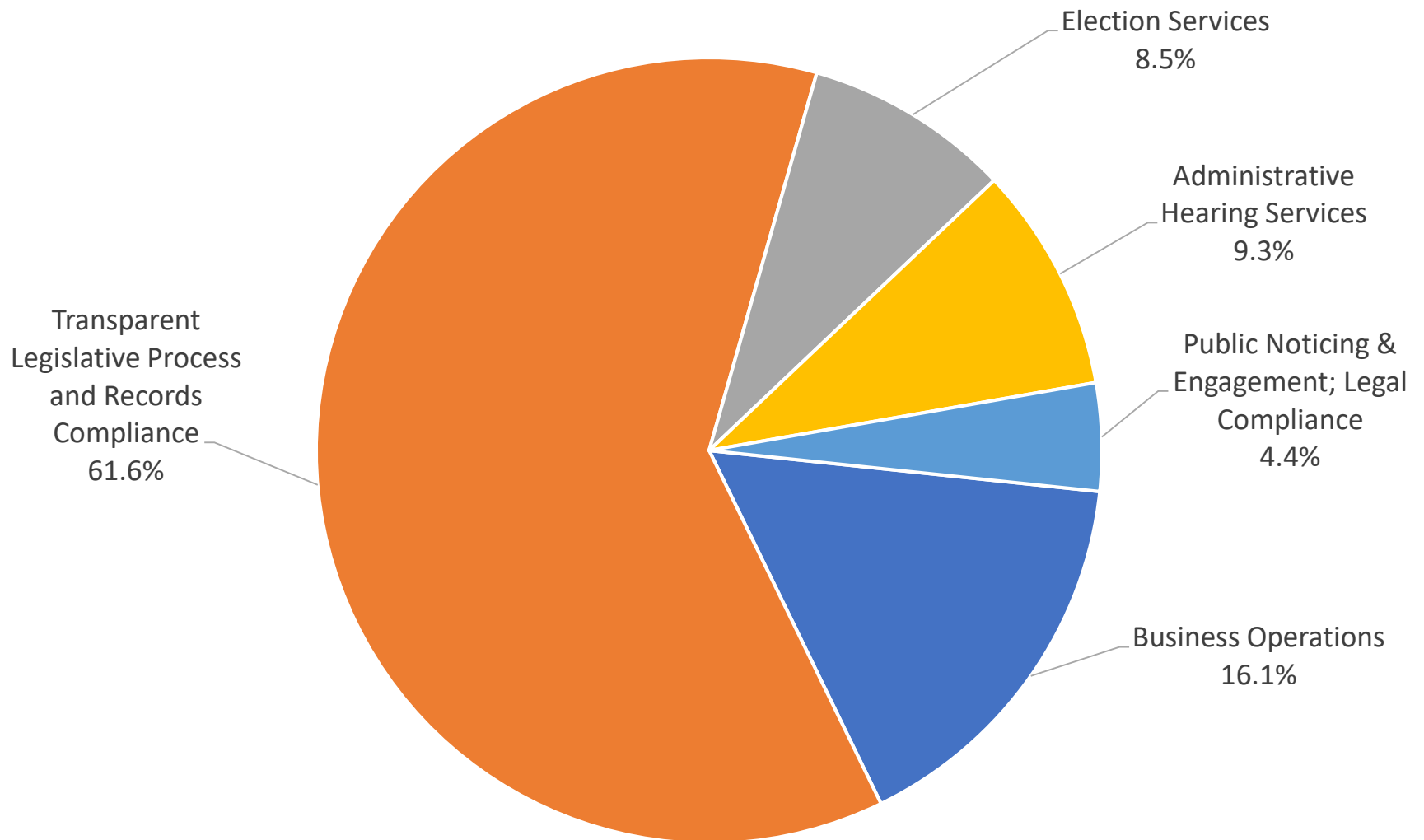
Services Inventory: City Auditor's Office



Department Highlights: City Auditor's Office

- What's Working Well
 - Code Enforcement Audit
 - Enterprise Resource Planning Audits: Data Governance, Data Standardization, Separation of Duties
 - Annual Performance Report and National Citizen Survey
- Where We Plan to Focus
 - Transferable Development Rights Audit
 - Contract Risk and Oversight Audit
 - Supervisory Control and Data Acquisition (SCADA) System Security and Audit
 - Organizational Assessment of the Office of the City Auditor

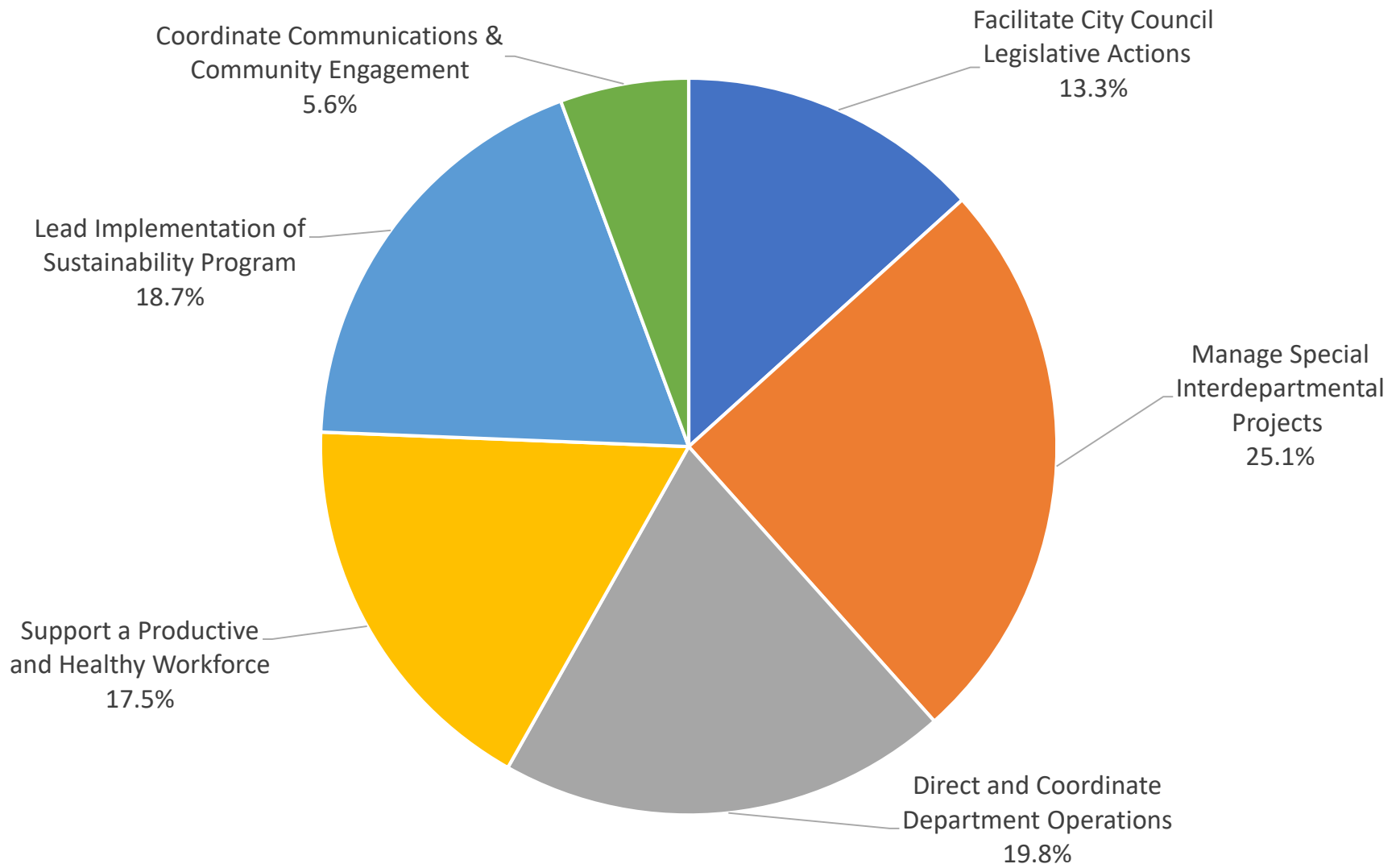
Services Inventory: City Clerk's Office



Department Highlights: City Clerk's Office

- What's Working Well
 - Maintaining workload even with short staffing
 - Increased Transparency-Older Clerk Records on City Website
 - Cross training staff
 - Administrative staff clerking Council Standing Committee meetings
- Where We Plan to Focus
 - Hiring/training a new Deputy City Clerk
 - Chambers Upgrade
 - Boards and Commission Application Process

Services Inventory: City Manager's Office



Department Highlights: City Manager's Office

- What's Working Well
 - Developed Rail workplan with new consultants for improved citizen engagement
 - Negotiated large contracts (Stanford Fire, Pets in Need, Baylands Golf Course)
 - Continue to support key business districts
 - Finalized 2018-2020 Sustainability Implementation Plan (SIP)
- Where We Plan to Focus
 - Implement City Council policy priorities
 - Lead City's management team
 - Plan & manage City finances
 - Enhance citizen engagement

Budget Overview

- ❖ Reductions in City Clerk's Office expenses (-\$16,000)
- Recruitment and retention initiatives (\$250,000, one-time)
- S/CAP implementation expenses (\$100,000, one-time)
- City Manager's Office staffing realignment (\$0)