

BUDGET IN BRIEF



CITY OF
**PALO
ALTO**

FISCAL YEAR 2022

PALO ALTO AT A GLANCE

INCORPORATION:

April 23, 1894

GOVERNMENT:

Palo Alto is a charter city operating under the Council-Manager form of government

POPULATION:

Approx. 67,000

AREA:

25.85 square miles

CREDIT RATING:

AAA, highest possible credit rating

PARKS, RECREATION, & COMMUNITY CENTERS:

Parks, Preserves, and Open Space: 4,385 acres

Parks/Preserves: 36

Playgrounds: 30

Community and Museums: 5

Gymnasiums and Fitness Rooms: 6

Walking/Biking Trails: 41 miles

LIBRARIES:

Library Branches: 5

Items Checked Out: 1.2 million

Books: 249,455

eBooks and eMusic: 217,244

Audio Visual Materials: 47,463

INFRASTRUCTURE AND UTILITIES:

Streets: 471 miles

Water Mains: 235 miles

Water Delivered to Customers:

9.6 million gallons per day

Wastewater Mains: 216 miles

Wastewater Treated: 6.3 million gallons

Gas Mains: 211 miles

Overhead Electrical Lines: 116 miles

Underground Electrical Lines: 273 miles

Fiber Optic Backbone: 48 miles

PUBLIC SAFETY:

Number of Police Calls for Service: 48,394

Number of Fire/Ambulance Calls for Service: 8,102

Police Vehicles: 29

Police Motorcycles: 3

Canine Units: 2

Fire Stations: 7

Fire Engines: 9

Fire Trucks: 1

Ambulances: 6



DEAR PALO ALTANS

I am pleased to present this summary of our City's Fiscal Year (FY) 2022 Budget, adopted by the City Council on June 21, 2021. This \$703.5 million balanced budget will be in effect from July 1, 2021 through June 30, 2022 and includes funding for all major City services such as public safety, libraries, parks and recreation, utilities, infrastructure improvements, and internal support functions. The FY 2022 Budget was developed as the process of recovery from the COVID-19 pandemic begins to take place. Utilizing a budget balancing strategy of addressing the community's immediate service needs, the City has positioned itself to effectively restore services and adapt to changing circumstances related to public health and economic conditions.

While mindful of the unprecedented circumstances at hand, development of the budget was guided by a number of factors including, but not limited to, the City Council's 2021 Top Four Priorities (economic recovery, housing for social and economic balance, social justice, and climate change – protection and adaptation), Council adopted budget principles, legal mandates, and the City's goal of long-range financial sustainability.

Highlights of this year's budget include:

- Restorations of services to FY 2021 levels, with an emphasis on community services and public safety
- Responsible preparation for future financial obligations, especially future pension obligations
- Leveraging creative problem-solving and strategic teamwork with community partners for service delivery
- Restoration of citywide administrative support functions to aid in the reopening of City facilities
- Continuing to provide safe, reliable, and efficient utilities to the community at competitive rates

This Budget in Brief is intended to provide an overview of the City's approach to balancing the budget; outline the major sources of funding to pay for City services and infrastructure; and summarize the FY 2022 operating and capital budgets.

For additional detail, I invite you to review the full FY 2022 operating and capital budget documents, available on the City of Palo Alto website at www.cityofpaloalto.org/budget. For comments regarding the budget or this document, please send an email to budget@cityofpaloalto.org.

Respectfully,



Ed Shikada

CITY COUNCIL PRIORITIES

Though the City has many important goals, the following areas were determined to be the top three priorities for the City Council to address in 2021; examples of how we are addressing these priorities are shown below and additional information about the 2021 City Council Priorities can be found on the City's website at: www.cityofpaloalto.org/councilpriorities

ECONOMIC RECOVERY

- Expanded pedestrian only access on California Avenue to maximize outdoor dining and retail opportunities
- Administered the Palo Alto Restaurant Relief Grant Program to provide emergency relief funding
- Supported the Temporary Murals Pilot Project's commission of eight community murals to animate commercial corridors and encourage pedestrian traffic in business districts

HOUSING FOR SOCIAL AND ECONOMIC BALANCE

- Supported approval of the 110-apartment complex development for teachers and school district employees on Grant Avenue
- Broke ground on the 59-unit Wilton Court affordable housing project, which includes 21 units for adults with intellectual or developmental disabilities

SOCIAL JUSTICE

- Adopted the Race & Equity mission statement and voted on 16 other actions to advance equity work on a range of topics from use of police data to a community summit on gender equity issues
- Initiated the Palo Alto 21-Day Racial Equity Habit Building Challenge
- Supported the Palo Alto Summit on Women & Girls to help progress access and equity for local women and girls
- Partnered with the Palo Alto City Library and Stanford's Bill Lane Center for the American West to host a community conversation on antiracism in a community context

CLIMATE CHANGE - PROTECTION AND ADAPTATION

- Continued development of the 2020 Sustainability and Climate Action Plan Update
- Awarded \$2 million grant award to support a new Palo Alto On-Demand Transit Services pilot program
- Progressed construction of the Highway 101 Pedestrian/Bicycle Overpass project
- Continued work on Connecting Palo Alto to design the City's rail corridor for the future



COMMUNITY ENGAGEMENT

Annual Budget Process

FALL:

- To prepare for the next year's budget, the City calculates the cost for delivering the same services currently provided to the community with updated contractually obligated cost changes. The capital budget preparation process begins with department staff and appointed committees meeting to review potential modification to the five-year capital plan.



WINTER:

- The City publishes the 10-year General Fund Long Range Financial Forecast (LRFF), which projects the revenues and expenditures based on available information and is discussed with the Finance Committee and the City Council during public meetings.
- Departments submit budget change requests to reduce or augment budgets for existing services including targeted outcomes and performance measures associated with these requests.
- Internal budget discussions are held with the City Manager to discuss department budget proposals and to prepare the City Manager's annual budget.

SPRING:

- The City Manager releases and presents the proposed operating and five-year capital budgets to the City Council.
- The Finance Committee conducts a series of public hearings and recommends the proposed budgets with or without amendments to the City Council.
- The public provides input to the budget as part of the Finance Committee hearings and City Council deliberations.

SUMMER:

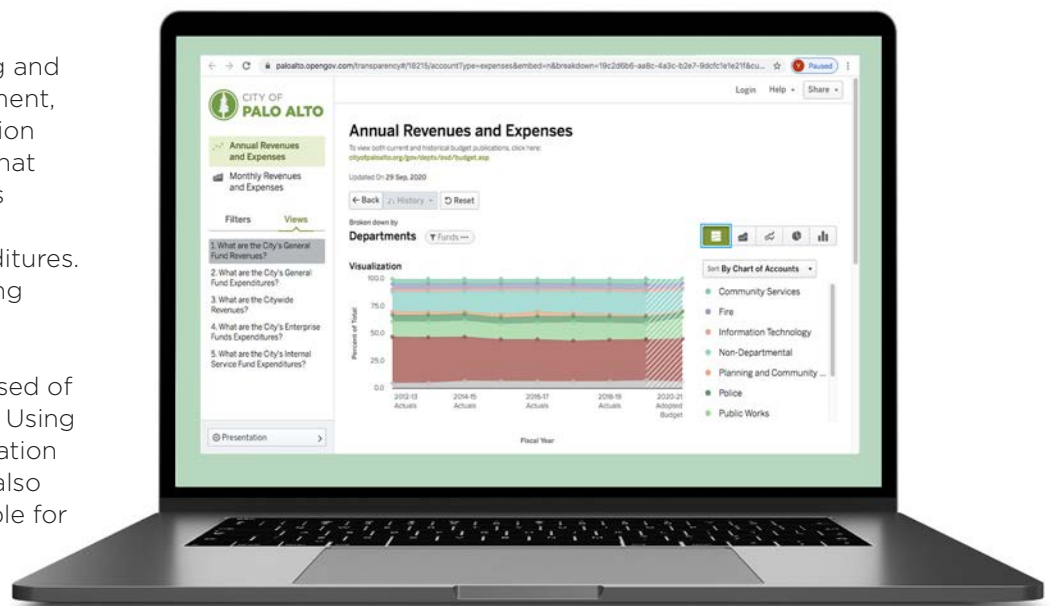
- Final adoption by the City Council occurs at a public hearing in June.
- The City publishes the Adopted Budget documents and Municipal Fee Schedule.

Open Budget

In order to facilitate understanding and transparency of the budget document, the City provides budget information through OpenGov, an online tool that provides users with different views of the City's budget data by fund, department, revenues, and expenditures. The tool can be accessed by visiting www.paloalto.opengov.com.

Governmental budgets are composed of funds, departments, and accounts. Using filters, you can choose the combination you want to explore. The City has also saved a few common views available for selection for ease of reference.

By clicking on one of these icons, you can choose whether you want to display graphs showing changes over the years, a pie chart for a single year, or download portions into Excel.



CITYWIDE REVENUES

Major revenue elements of the citywide sources are described below.

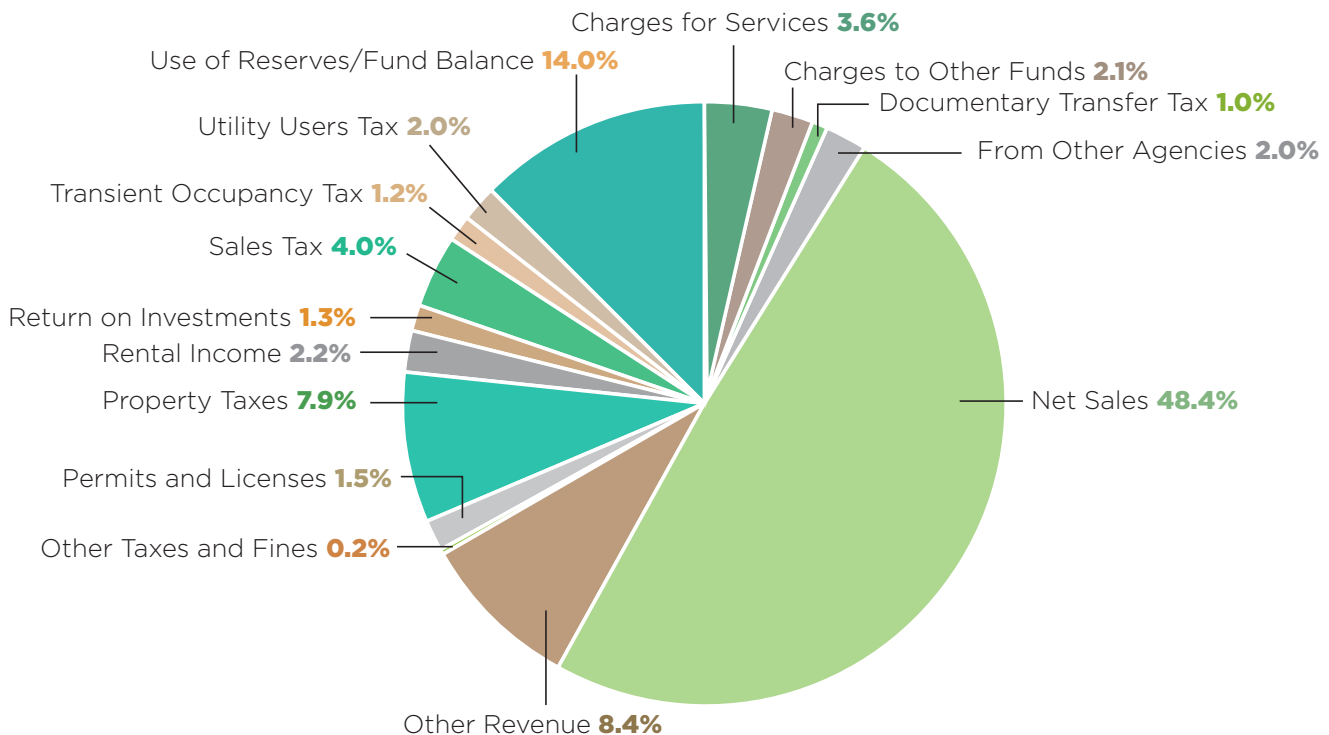
Net Sales – The City of Palo Alto offers a full suite of utilities (including electric, gas, water, and wastewater) as well as refuse and stormwater management. The provision of these services is done on a cost-recovery rate payer basis, and the revenues generated by these activities are referred to as “Net Sales.” This is the largest source of funds citywide, accounting for 56% of total sources. More information on the City’s utilities can be found in the Enterprise Funds Budget Section of this document.

Tax Revenues – Tax revenue makes up approximately 19% of total citywide sources (55% of General Fund revenue) and are mainly in the General Fund. Tax Revenue include property taxes, transient occupancy tax, sales tax, documentary transfer tax, and utility users tax. More information on these tax revenue sources can be found in the General Fund section of this document.

Other Revenue – Other sources of funding in the FY 2022 budget include charges for services such as for the provision of recreation classes and programs, plan check fees, permits and licenses, and funding from other agencies. Funding the City receives from Stanford for the provision of fire services and public safety communications (totaling \$7.6 million) is included under Charges for Services.

Use of Reserves/Fund Balance – Use of reserves (or fund balance) of 14% of total sources reflects the planned usage of accumulated funds within Council-approved levels. Typically, the result of funds carried forward from a prior year or for rate stabilization purposes in Enterprise or Capital Improvement Funds as seen in the following Citywide Expenses section.

Citywide Revenues by Category



TOTAL: \$703.5 Million

CITYWIDE EXPENSES

Enterprise Funds – These funds are the largest source of expenses for the City and support the purchase and delivery of electricity, gas, and water to the community and collect and treat refuse and wastewater. They also support the operation and maintenance of the City’s airport and fiber optic network. These services are typically funded by the Net Sales and Use of Reserves revenue categories. More information can be found in the Enterprise Fund section of this document.

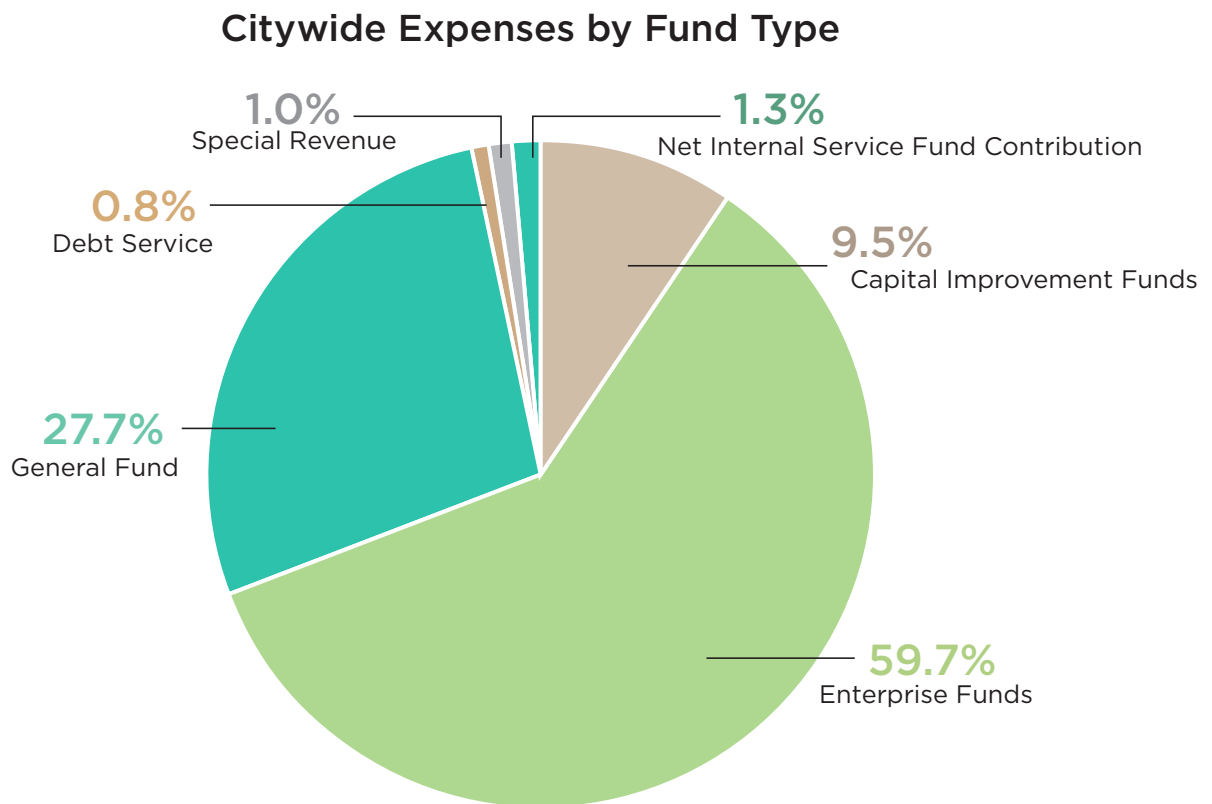
General Fund – The General Fund comprises approximately 28% of the total Citywide expense budget and includes funding for general City services:

- Public Safety
- Community and Library
- Citywide Internal Support and Administration
- Planning, Transportation, and Infrastructure

More detailed information on the expenses in these areas can be found in the General Fund Expenses section of this document.

Capital Improvements – In FY 2022, Capital Improvement Funds will be used to rehabilitate our roads and sidewalks, enhance and replace aging utility infrastructure, and continue work on the 2014 Council-approved Infrastructure Plan. More information can be found in the Capital Budget section of this document.

Other Funds – Other funds include Internal Service Funds, such as information technology and vehicle replacement and maintenance, Debt Service Funds, and Special Revenue Funds such as development impact fee funds, parking funds and housing funds. More information on these funds can be found in the FY 2022 Operating Budget document.



TOTAL: \$703.5 Million

GENERAL FUND REVENUES

Where do your tax dollars and fee payments go? The City's General Fund revenue portfolio is quite diversified. About 55% of all annual revenues are from taxes such as Property Tax, Sales Tax, and Utility Users Tax. The remaining revenue sources include fees and charges from residents and businesses, charges to other funds for services provided, and rental income.



Property Tax

Residential land use comprises 72% of taxable value. For every \$1,000 in property taxes paid by property owners, the City receives \$94. The majority, or 57%, of property taxes support local schools.



Sales Tax

For every \$100 in purchases, residents, businesses, and visitors pay \$9 in sales tax. Of this amount the City receives approximately \$1. The majority of the \$9 in sales tax benefits the State.



Charges for Services

Services include fire and communications services provided to Stanford, paramedic services, golf-related fees, arts and science classes, and plan check fees.



Equity Transfer

Annual payments from the Electric and Gas Fund for the General Fund's initial investment in the utilities.

Rental Income



Utility Users Tax

Residents and businesses pay a Utility Users Tax of 5% for electricity, gas, and water and 4.75% for telephone services.

Services Provided to Other Funds

Miscellaneous Revenues

Includes investment earnings at an average rate of return of 1.9%, grants, and other revenue collected from external agencies.



Transient Occupancy Tax

Visitors staying at our local hotels pay a 15.5% tax applied to the room rate.

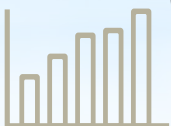
Permits & Licenses



Documentary Transfer Tax

This tax is applied when a property is sold.

Other Taxes & Fines



Investment Earnings

TOTAL

\$51.2

\$28.2

\$23.9

\$21.7

\$14.5

\$14.4

\$14.2

\$12.2

\$8.4

\$8.4

\$7.1

\$1.4

\$0.9

\$206.5

All numbers indicated to the left are in \$ millions.

GENERAL FUND EXPENSES

The General Fund pays for various City services such as police, fire, libraries, parks and recreation, and internal support functions such as administrative, finance, human resources, and legal services. The FY 2022 Adopted Budget is balanced; however, the General Fund Budget Stabilization Reserve is 17.2% of General Fund expenses, which is below the 18.5% target level set by the City Council.



38.2%

PUBLIC SAFETY = \$79.9

EXPENSE

Police	43.0
Fire and Emergency Service	36.9



INFRASTRUCTURE AND ENVIRONMENT = \$31.5

EXPENSE

Streets, Sidewalks, and Trees	9.9
Public Works and Engineering	3.0
Facility Repair and Maintenance	7.9
Capital investments	10.4
Sustainability	0.3



9.3%

PLANNING & TRANSPORTATION = \$19.4

EXPENSE

Building, Plan Check, & Permit Issuance	11.7
Planning and Transportation	7.7



NEIGHBORHOOD, COMMUNITY AND LIBRARY SERVICES = \$40.6

EXPENSE

Five Library Branches	\$8.9
Parks, Fields, Open Space, & CSD services	\$13.5
Recreation programs	\$5.9
Arts & Science programs	\$7.0
Municipal Golf Course	\$3.2
Support for Non-Profits	\$0.6
Animal Services	\$1.4
Project Safety Net	\$0.1

19.4%

15.1%



ADMINISTRATIVE AND GOVERNMENT = \$37.7

EXPENSE

Council Appointed Officials and City Council	10.5
Finance	8.9
Human Resources	3.9
Non-Departmental*	14.4

*Includes expenses such as transfers to Capital funds, contingency accounts for various appointees, Cubberley Community Center, and streetlights.

18.0%

\$209.2 Million

All numbers indicated above are in \$ millions.

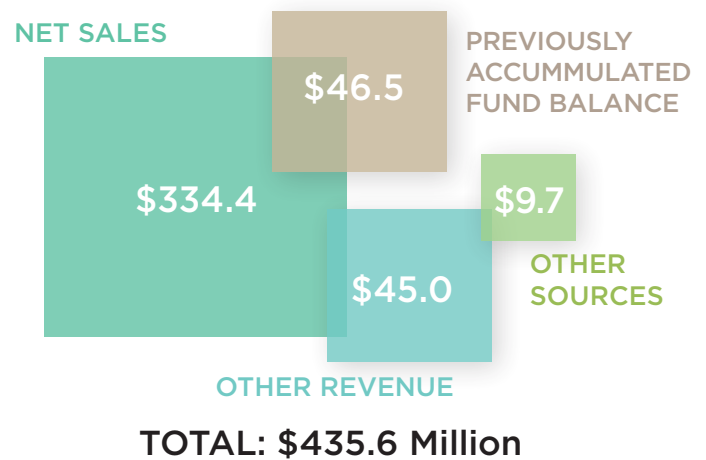
ENTERPRISE FUNDS BUDGET

The City of Palo Alto delivers electricity, gas, and water to its residents and customers; collects and treats wastewater; collects and properly disposes garbage and recyclable materials; and maintains the City's stormwater system. Revenues and expenses associated with these services are discussed in this section.

The City also provides commercial dark fiber optic services and operates and maintains the Palo Alto Airport. More information about the revenues and expenses for those activities can be found in the FY 2022 Adopted Operating Budget Book.

The FY 2022 Adopted Budget anticipates \$435.6 million in commodity, infrastructure, and operations costs to deliver rate payer and regional services. These costs are funded by the sources detailed below.

Enterprise Funds Revenue by Category



Revenues

Net Sales of \$334.4 million account for the sale of commodities and services to ratepayers. This includes residential (34.0%) and commercial (54.0%) ratepayers, wastewater treatment partner agencies (6.0%), and the City's cost as a ratepayer (6.0%) for these services. Rate adjustments for electric, gas, stormwater, wastewater collection, and water charges are included in the FY 2022 Adopted Budget. The median monthly residential utility bill is expected to decrease by 0.9% from \$329.36 to \$326.41.

Fund Balance and Reserves are used as a tool to address timing issues in the flow of revenues and expenses in Enterprise Funds reflecting usage of reserves for rate stabilization, previously accumulated balances carried

forward from one fiscal year to another due to the timing of infrastructure investment. FY 2022's use of previously accumulated reserves is \$46.5 million, including realignments of Capital Projects across the five-year Capital Improvement Program.

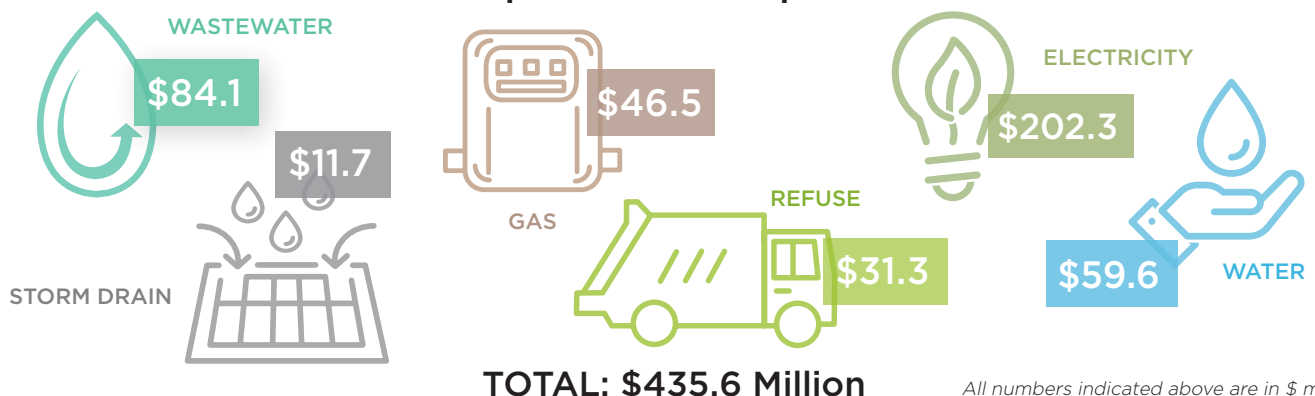
Other Revenue totals \$45.0 million with the single largest component of this revenue composed of contributions from partner agencies for Capital Projects at the Wastewater Treatment Plant (\$32.4 million). This category also includes connection fees for new customers (\$3.3 million).

Other Sources total \$9.7 million and include interest earnings (\$4.9 million) and transfers from other City funds (\$2.6 million).

Expenses

The majority of expenses are related to purchasing commodities such as electricity, gas, and water from third-party providers, maintaining the capital infrastructure to distribute the commodities, and administering operation of the utilities.

Enterprise Funds Expenses



All numbers indicated above are in \$ millions.

CAPITAL BUDGET

The capital budget accounts for funding to build, repair, and upgrade the City's infrastructure such as roads, buildings, electric transmission lines, gas and sewer pipes, and the City's fleet of vehicles. The City Council adopted a \$174.3 million budget for FY 2022, the first year of the \$747.2 million five-year Capital Improvement Program (CIP), though the remaining four years are used for forecasting and planning purposes.

Enterprise Funds are associated with a broad range of municipal services and account for \$96.4 million of the FY 2022 capital budget.

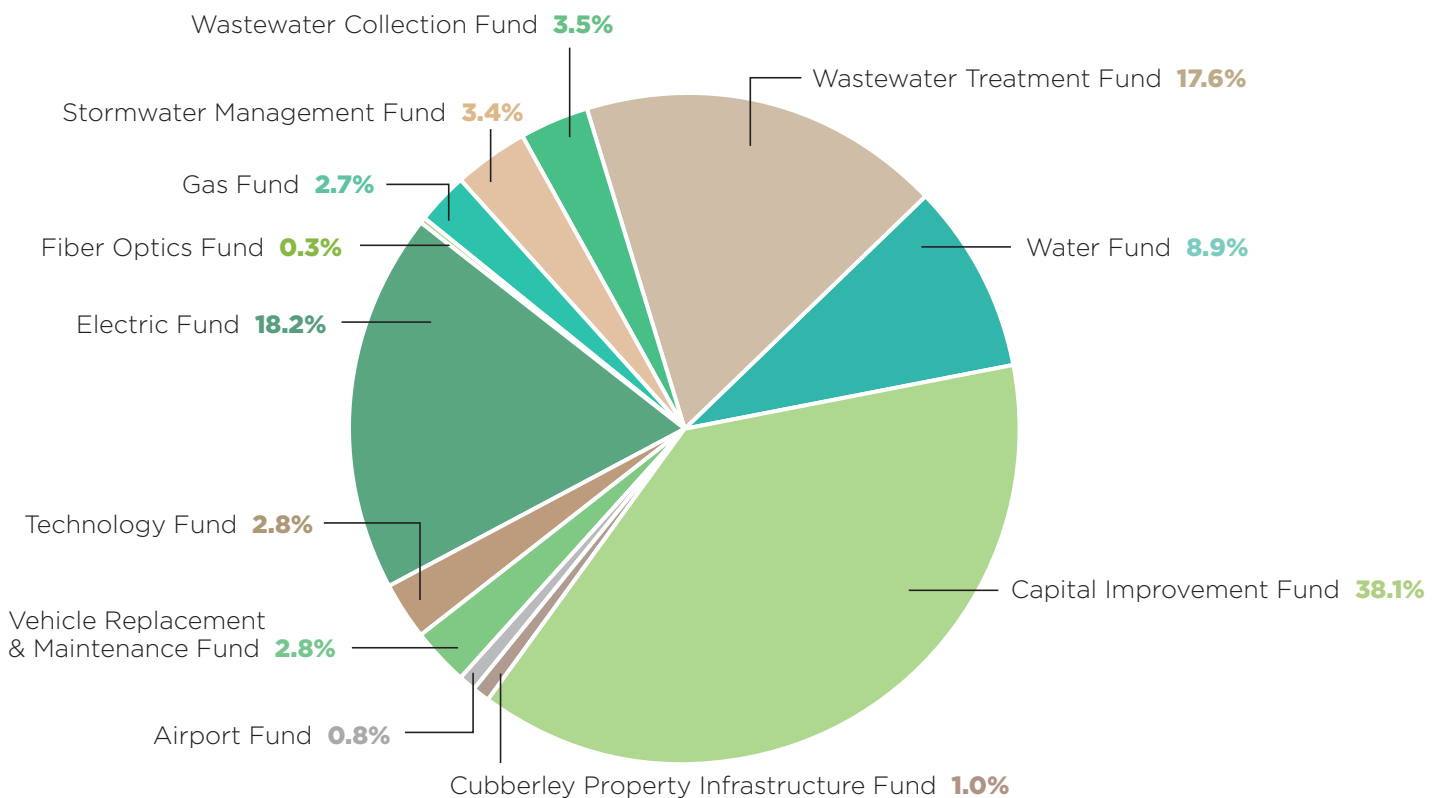
Internal Service Funds account for \$9.7 million of the FY 2022 capital budget and fund replacement and maintenance of the City's vehicles and technology.

The Cubberley Property Infrastructure Fund was established in 2015 to repair, renovate, and improve facilities at the Cubberley Community Center.

The Capital Improvement Fund is supported by the General Fund as well as grants and reimbursements from other agencies and accounts for \$24.5 million of the FY 2022 capital budget. This fund is used to repair the City's roads, refurbish and upgrade parks and open space, and build and maintain a majority of City facilities that do not directly benefit the Enterprise Funds or support the Internal Service Funds.

The Infrastructure Plan (IP) is a subset of ten high priority projects in the Capital Improvement Fund approved by the City Council in 2014. The IP consists of a new public safety building, two parking garages, a bicycle and pedestrian transportation plan, rehabilitation of two fire stations, Charleston/Arastradero corridor improvements, completion of Byxbee Park, a Highway 101 pedestrian/bicycle overpass bridge, and Downtown Automated Parking Guidance Systems. For descriptions of these projects and their progress, please see the City's Infrastructure Plan website at www.infrastructure.cityofpaloalto.org.

Capital Budget Expenditures by Fund



TOTAL: \$174.3 Million

CITY COUNCIL

Tom DuBois, Mayor

Patrick Burt, Vice Mayor

Alison Cormack, Council Member

Eric Filseth, Council Member

Lydia Kou, Council Member

Greer Stone, Council Member

Greg Tanaka, Council Member

Edward Shikada, City Manager



City Hall

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General City Information

(650) 329-2100

Visit our website at:

www.CityofPaloAlto.org

Contact the City Council

City.Council@CityofPaloAlto.org

Contact the City Manager

citymgr@CityofPaloAlto.org

Americans With Disabilities Act Statement

In compliance with Americans with Disabilities Act (ADA) of 1990, this document may be provided in other accessible formats.

For Information Contact:

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(650) 329-2496