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**Sent:** Monday, October 19, 2020 1:35 PM  
**To:** Minor, Beth; Council, City  
**Subject:** Item 8: Preliminary Q1 Fiscal Year (FY) 2021 Financial Status

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October 19, 2020

## **Item 8: Preliminary Q1 Fiscal Year (FY) 2021 Financial Status Recommendations in Response to City Budget Report**

Dear City Council,  
Please consider the following recommendations.  
Sincerely Pat Burt

### **Summary**

We are now in our eighth month of a health and economic crisis. In the first month, circumstances were chaotic and fast-moving, and reactive decisions were made.

Although circumstances remain highly abnormal and fluid, ***we must now move towards more strategic and proactive actions***. This is the Council's first review of a budget that in June made radical changes in a truncated timeframe without the ability to proceed strategically. The Council is now able to adjust some actions based on emerging information, public response, and more time to reflect on best strategies.

Since June, ***there has emerged a strong community consensus for placing people first***. The city council campaign has clarified that the council candidates, the press, and the community are aligned in principle that the Capital Plan should be slowed down moderately so that funds can be redirected toward critical services over certain capital projects that can be reasonably delayed. During the emergency, resources should focus on the needs of people over capital investments that are not essential in the near term- but still appropriate in the medium term.

The Staff report also includes an excerpt from the Silicon Valley Recovery Roundtable from August which describes (page 18) the Guiding Principles used to develop their plan for economic recovery. These principles are aligned with the recommendations to the Council in March 2020 by 10 community leaders and former Mayors. The current budget review provides an opportunity to adopt ***Guiding Principles for pandemic response and recovery***. From the Staff report's attachment:

SV Roundtable core questions:

1. How do we reduce risks and reopen safely and productively?
2. How do we make the recovery inclusive for our community's most vulnerable members?
3. How do we enable businesses to survive and thrive?
4. How do we innovate to build the foundation of the new normal?

SV Roundtable Guiding principles:

1. Gather input from multiple stakeholders across industries, sectors, and communities
2. Take an equity lens to center and support vulnerable communities
3. Identify immediate-, short-, medium- and long-term actions
4. Balance bold vision with specific, tactical, and practical actions
5. Harness Silicon Valley's innovative spirit to address challenges

Recommended Budget principles should include:

- 1) Restoration of critical public safety and human services. Cuts to public safety and human services should be restored where possible, including fire, emergency preparedness, teen and youth services, and traffic patrol.
- 2) Respond to emerging needs. Recognize that even with significantly lower revenues, new needs have emerged during the crisis that must be prioritized and addressed, compounding the need to push out unnecessary capital expenditures.
- 3) Leverage cost savings. By delaying some capital projects, the city is likely to save millions of dollars from falling construction costs as the economic downturn progresses. Cities are already seeing this trend.

## Recommendations

1. Information. Staff should provide tables or graphs showing current revenues and forward estimates compared to previous projections and historic numbers.
2. Revenue. Revenue projections remain highly uncertain, but the budget should be updated immediately to reflect the best current estimates that are contained in the staff report.
3. Operations. Have staff return within a month with a clear breakdown of which services have been curtailed, which of those reductions correlated to staffing reductions, and what reassignments have occurred by staff who are unable to provide their normal functions.
4. Capital Plan. Direct staff return to the Council within one month with a revised non-Utilities Capital Plan identifying which projects are not likely to require their budgeted expenditures this fiscal year, which are unlikely to be accomplished as scheduled this year, and which are not truly necessary to provide the *minimum necessary investment* to maintain the city's infrastructure. Provide an update on current and estimated project cost trends compared to budgeted estimates based on our recent experience, and the experience of other local governments.

## Emerging Needs

While many services have been necessarily curtailed, several important new needs have become apparent. In this challenging time, the City must pivot to support these needs:

- Healthy Public and Private Buildings. Actions *making city buildings healthy from COVID spread and future other risks (wildfire fumes, influenza, and future pathogens) is essential to worker and public health, greater normalization of city services, and recovery of the local economy*. As we enter a period of greater reopenings of indoor spaces, concurrently with colder and wetter months, the City must act to insure indoor spaces in city buildings have adopted best practices in indoor air quality management. Santa Clara County has released a series of guidelines (<https://www.sccgov.org/sites/covid19/Documents/Guidance-for-Ventilation-and-Air-Filtration.pdf>) and PAUSD has developed a set of best practices for their buildings that the city should implement with urgency; auditing/air quality testing, retrofitting of HVAC systems, and installation of air purification equipment. ***A full update on the status of the implementation of these guidelines should be given to the Council.*** Also, the City should share and facilitate the adoption of these practices with our private and non-profit sectors.
- Foothills Fire Protection. In 2009 and 2016, the city acted proactively to address Foothill Fire Protection. Given the now great threat of annual proliferation of California megafires and the severe local threat that now exists, ***an update to the Foothills Fire protection Plan should be conducted immediately and the budget should set aside funds to implement additional measures this fiscal year*** that follows the best practices of prevention, detection, response.
- Public Safety Reforms. The Council should authorize adding mental health clinician and social service providers in collaboration with the Police Department as first responders to non-violent dispatch calls. This need is accelerated by the mental health impacts of the pandemic.

## Summary

In this critical and dynamic time, the Council needs to respond to emerging developments and information with strategic actions that better protect the public health, restore normal city services, support the local economy, and meet critical community needs that our city government must provide.

## **Additional Review of the Budget Staff Report:**

<https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?t=58347.05&BlobID=78801>

Overall, the staff report provides valuable update narratives.

### **Revenue**

*“The General Fund is tracking at or below adopted estimated revenues”.*

*“If current activity levels continue through the full fiscal year, staff expects revenues to fall below budgeted estimates by at worst case \$11 million below, though more optimistically may fall \$5.5 million below budgeted levels.”*

### **Operating Expenses**

**Efficiency and costs of remaining services.** *“Often, staff finds that it takes increased resources to deliver the same quantity of service in modified ways to ensure the safety of the community and employees. For example, the library is offering sidewalk services at some City libraries. To offer these services staff must manually process each item several times, where past practice allowed use of automation to return and sort materials.”*

- How much of that is offset by reduced services (for example libraries) and more efficient delivery of services (online books vs physical)? In the case of libraries, what is the change in the number of physical check-outs, even if the cost of each of the remaining check-outs is higher?
- The Council is yet to receive an overview by department of what services are not able to be currently rendered and how staff who would normally provide those services have been redeployed. This is essential information to understanding the efficient utilization of resources and the potential for reallocation of staff to meet extraordinary needs during the emergency.

**Salaries.** Salaries are described as having an “overage” to date due to extra Police and Fire expenses. However, expenditure through Q1 is 23.55% of the budget and that figure includes separation expenses as well as partial salaries for that quarter for separated employees. This requires additional explanation to understand revised projected salaries through FY year-end.

- **Public safety.** Collaborations with fire unions have enabled avoiding non-voluntary separations of existing staff through city expenditure toward an “attrition ramp” or, more clearly, incentives toward accelerated retirement. But, the department is still absorbing a reduction of eight positions. While the state will reimburse “strike force” expenses to help fight major wildfires, the impacts on local fire staffing due to now annual major wildfires, combined with staff reductions, should be fully explained and vetted by the Council. The report is not clear as to the net reduction in Fire and police staffing that is now projected and what the staffing levels are expected to be throughout the remainder of the year. A table format would provide the best clarity.
- **High-Speed Internet Access** – Fiber to the Premise (FTTP). This project has always been important but the increased dependence on work and education from home during the pandemic has made FTTP a vital “utility.” The Council should provide strong support to the Staff work on fast-tracking FTTP.

### **Capital Expenses**

**Rollovers.** The staff report claims that all projects are on schedule and all budgeted expenditures will occur in the fiscal year. That is very contrary to patterns in recent years. In this critical time, accurate information is vital – the Council should be provided with a table that verifies the accuracy of this assertion to help enable their best decisions

