

From: Rice, Danille
Sent: Monday, June 14, 2021 1:55 PM
To: Council, City; Council Agenda Email
Cc: ORG - Clerk's Office; Executive Leadership Team
Subject: Council Agenda Consent Questions for June 14: Item 6



Council Question Response

Dear Mayor and Council Members:

On behalf of City Manager Ed Shikada, please find below the staff responses to inquiries made by **Vice Mayor Burt** in regard to this evening's Council Meeting agenda.

Item 6: Third Quarter Financial Status & Budget Amendment

1. Based on this report having been provided in the first week of June, will the FY21 Q4 update be available around the first of September?

A Q4 report is not produced, final Fiscal Year financial figures are reported out as part of the year-end report, typically provided in December, including the City's full audited financials in the Annual Comprehensive Financial Report. This reflects a typically extended timeframe for year-end financial closeout activities, as well as staff capacity for production at this time of year.

2. The second paragraph of the Executive Summary states that "Overall, funds are expected to remain within or below budgeted estimates". Does this statement refer to the Enterprises Funds and other Funds rather than to the General Fund?

This responds to all funds citywide, and overall financials are trending as expected for the various fund types including Enterprise Funds, Special Revenue Funds, and other funds.

3. Staff had previously estimated a General Fund surplus of \$2.0-\$3.5M, but more recently stated that they are optimistic that the GF will end up with an even larger excess by FY year-end. What is the revised estimated range of the General fund surplus?

Staff is not certain what the new range could be, as informed speculation based on economic trends and signs was used to determine \$2.0-\$3.5M. At most staff would estimate an additional million in excess revenues/expense savings above the previous estimate, but that is a speculative estimate and Staff recommends staying with the current range. Staff expects to provide the preliminary figures (unaudited) in the preliminary Q1 financial report schedules for October 2021.

4. The various tables in the report refer to "Adjusted Budget" amounts in contrast to "Adopted Budget" amounts. To better understand trends, can the dates be included when "Adjusted" budgets were generated? This would be valuable as a routine reporting method.

The adjusted budget is reflective of the reporting period that the report covers; for example, if in the Q3 report, the adjusted budget is as of March 31 of that year.

Budget adjustments can be made by the City Council at any Council meeting and are posted monthly for reference and consolidated review on the budget monitoring webpage: <https://www.cityofpaloalto.org/Departments/Administrative-Services/Budget-Adjustments-and-Monitoring>.

5. **Table 1 “General Fund Revenues” provides valuable comparisons, although the FY21 “Adopted Budget” numbers are not included (they can be found in Attachment A). Can a similar table be provided that includes the initial FY22 “Initial” and “Revised” revenue projections?**

Staff expect to provide updates to the FY 2022 revenue and expense projections through the quarterly financial status updates during the coming fiscal year (both preliminary and formal quarterly reports). The FY 2022 revenues estimates were provided as part of the FY 2022-2026 Long Range Financial Forecast and were updated through the proposed budget process with the Finance Committee. At this time staff has not completed a full refresh of the FY 2022 revenues estimates since these discussions in February 2021 through May 2021, and the next estimates are expected no earlier than October 2021 as part of the FY 2022 Preliminary Q1 financial Status report to be considered by Council. Staff also routinely adjust the revenue estimates as part of the Annual Mid-Year Budget Review, or Q2 financial report which is typically scheduled in the first three months of calendar year 2022.

6. **An ERAF property tax issue (pg 5) refers to the County setting aside \$1.6M out of \$5.6M in disputed revenues to Palo Alto. The report refers to “a net of \$3.9M in estimated Excess ERAF revenues”, and that “This is consistent with the City of Palo Alto’s practices to reserve any disputed amounts from prior years”. Does this mean that the entire \$5.6M is being reserved by the County and the City?**

No, the County has been inconsistent in it’s transmittal of excess ERAF funds, some years sending the gross amount and other years sending the net amount of the current dispute between the County and State of California. Regardless of how the amounts have been distributed, the City ensures that any disputed amount of excess ERAF is not recognized as revenues but rather reserved pending the outcome of this dispute. For example, in FY 2021, excess ERAF payments of \$3.9 million are expected, this figure is the one staff uses for year-end projections, and is consistent with the County estimate net of the disputed amount.

7. **The section on General Fund Expense Highlights (pg 8) states that “a reserve of \$845,000 remains to address any higher than budgeted expenses by year-end. On June 7, the Council was informed that the additional anticipated increase in the Budget Stabilization reserve was due to higher both higher revenues and lower expenses due in part to vacant positions. Do the latest projections anticipate total GF expenses to be higher than projected or lower than projected and by approximately how much?**

This reserve (\$845,000) for transition costs and any usage of this or liquidation of it has been factored into the year-end expense estimates for the General Fund. Overall the General Fund is expected to achieve some expense savings by year end as is typical; however, that is the net result of some departments experiencing potentially higher expenses than budgeted appropriations and others achieving savings compared to budgeted appropriations. Departmental estimates are inclusive of any one-time reserve or allocations of funding and the expected expenses or savings they may yield across all operating departments, including non-departmental activities and funds.

8. **The Police Overtime section and Table 3 (pg 9) state that overtime has increased by ~\$1.2M through FY21 Q3 with continuing high overtime through the year-end due to vacant positions. How does the extra overtime cost compare to what would have been the cost of filling the vacancies?**

Overtime has decreased between FY 2020 Q3 and FY 2021 Q3 by \$1.2 million, not increased. This decrease may be due to a number of factors including attrition ramps, COVID-19 impacts, offset by needs for public support for special assignments or 'events' such as retail detail support. Staff is unable to complete a calculation in under an hour's worth of time to determine overtime cost versus full-time staffing backfill due to the varying causes for the need of overtime usage.

9. **The Electric Fund (pg11) shows that higher expenses were partially offset by \$4.3M in revenue from Renewable Energy Credit Sales and Carbon Allowance Revenue. Are these revenues anticipated to continue in similar amounts in future years? How do these revenues impact the net cost of City renewable electricity costs compared to the costs the city would have incurred from non-renewables?**

Over the next five years, the Renewable Energy Credit (REC) Exchange Program is expected to yield around \$2.5 million to \$3 million, and Carbon Allowance Revenues are anticipated to remain at or near \$3.0 million annually. The REC Exchange Program is expected to significantly reduce the cost of the City's electric supply portfolio over the next five to ten years. Since the City's renewable energy supply costs are all locked in through long-term power purchase agreements, the REC Exchange Program is how the City can (a) minimize supply costs, (b) remain in compliance with the state's RPS requirements, and (c) maintain a carbon-neutral supply portfolio. [See Staff Report 11566 \(August 2020\) approving the REC Exchange Program and its implications for the City's electric portfolio and supply costs.](#)

Thank you.



Danille Rice

Executive Assistant to the City Manager

(650) 329-2105 | danille.rice@cityofpaloalto.org

www.cityofpaloalto.org

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