• Proposed budget balancing strategy that addresses the community's immediate service needs, while positioning to restore services and adapt as recovery takes shape

• Council directed staff to use LRFF Scenario B assumptions which outlines a conservative recovery from the current pandemic over a three to five-year period

• Following an extremely difficult year, balancing strategies to address the City's continued fiscal challenges, are neither recommended nor sustainable

• Advance public discussions on how to most effectively resource services that have the greatest impact on the community
MULTIYEAR IMPACTS OF THE PANDEMIC

• The past year has been filled with uncertainty and challenges
  • City of Palo Alto took swift, decisive, and difficult action to balance an approximately $40 million decline in FY 2021 revenues (particularly sales and hotel taxes)
  • Significant efforts have been underway and accomplished as the organization and community adapt to rapid changes
• This Proposed Budget begins the next phase of a conversation on how best to deliver services through the allocation of constrained resources
  • Balancing actions reflect extraordinary service and CIP reductions in this current reality of reduced resources
  • Need to ensure the City ends fiscally solvent for FY 2022
PROPOSED BUDGET BALANCING STRATEGY

FY 2022 Budget Gap

- $5.0
- $8.4

FY 2022 Budget Balancing Strategy

- $7.7
  - $4M Tier 2 Service Reductions*
  - $3M ARPA Funds Unallocated*

$ in millions

- COVID-19 Impacts (Rev/Exp)
- Reserve: Utilities Transfer Litigation
- Service & CIP Reductions
- Use of Program Specific Reserves
- Labor Concessions
- ARPA Funds (partial)

* Tier 2 and additional ARPA funds intended for Council / Finance Committee to use to restore reductions in proposed balancing strategy and/or available to address economic and labor uncertainties.

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BUDGET CONVERSATIONS & NEXT STEPS

May 4, 6, 11-12, 17
• Finance Committee will review specific City service area balancing actions and discussion of services that will be reduced / maintained
• Council will have time to review the progress of the hearings on May 17th, and provide guidance for May 25 budget deliberations
• A public budget townhall will be held on May 6th

May 25
• Finance Committee will be presented a final, revised balancing strategy, based on the input from the various May budget meetings
• Committee final adjustments and recommend Council budget adoption on June 21
GENERAL FUND SOURCES

Property Tax 25%
Sales Tax 14%
Transient Occupancy Tax 4%
Utility User Tax 7%
Documentary Transfer Tax 3%
Charges for Services & Licenses & Permits, 16%
All Other Revenues 31%

General Fund Revenues
HISTORICAL FULL-TIME STAFFING COMPARISON

Citywide Total FTE
General Fund FTE

Great Recession

939 FTE Citywide
490 FTE GF
CITYWIDE STRATEGIES

• Transfer to the Capital Fund a 67.7% reduction from pre-pandemic levels ($9.7 million Proposed Budget, a $2.4 million additional reduction)

• Potential labor concessions for the City's represented groups which totals $2.5 million Citywide and $1.6 million in the General Fund.

• Additional City's Pension & Other Post-Employment Benefits (OPEB) contributions assuming a 6.2 percent discount rate

• Continuing a hiring freeze and freezing all nonessential travel, eliminating current vacancies, and service reductions such as reduced walk-in office hours.
The balancing strategy uses one-time Federal funding ($6.25 million, 50% of the $12.5 million expected) to mitigate additional service reductions
  • $3.2 million set aside for use to restore reductions in the proposed balancing strategy and/or available to address other uncertainties

"Tier 2" service reductions outlined are not in the proposed budget balancing strategy. Available as alternative proposals in the event that the City faces:
  • Additional / more severe economic uncertainties,
  • Not reach agreement with labor
  • Council choose to not use the ARPA funds to balance the budget
  • Alternatives to the current proposed service reductions
  • Restore Budget Stabilization Reserve to target level of 18.5% (currently at 17.4%)
Neighborhood Community & Library Services

• Reduce operating hours and programming at Art Center, Cubberley Artist Studio Program (CASP), and Baylands Interpretive Center

• Reduce staff support for Cubberley and Children’s Theatre operations and productions

• Decrease marketing funding for Enjoy! Catalogue and Junior Museum and Zoo (JMZ)

• Increase fees to increase cost recovery levels & recognize revenue to offset existing teen services

• Restoration of a Foothills Supervising Ranger

• Close Downtown, Children's, and College Terrace Library branches offering

  • Up to 75% of the Children's Library collection will be moved to nearby Rinconada Library
  • Customers can pick up holds at Rinconada and Mitchell Park Libraries, or at Holds Machines planned to be installed at Downtown and College Terrace Libraries
Public Safety

- Further reduce patrol staffing, elimination of specialized units and reduce investigations
- Brownout flexible staffing model at Fire Station No. 2 where the station is staffed without mandatory backfill & adaptation to fire alarm responses
- Reduce Crossing Guard services 50% maintaining services only at high traffic intersections that are part of common routes to schools
- System maintenance for the railroad crossing intrusion detection system
OPERATING BUDGET SERVICE AREA IMPACTS

Planning & Transportation

• Delays in development review due to a reduction of current planning resulting in longer timelines and delays in permit issuance

• Reduced bicycle program and increased response time to transportation related 311 notifications due to reduction of traffic data services

• Implementing license plate recognition for efficiencies in parking enforcement and initiating a paid parking program to increase revenues
OPERATING BUDGET SERVICE AREA IMPACTS

Infrastructure & Environment
- Reduced facilities maintenance and traffic control maintenance and repairs.
- Maintain minimal rate increases for the next year

Internal Services/Appointees
- Reductions in these areas result in continuing increasing timeframes for assistance and review in areas such as recruitments, procurements, and risk management.
- Technology solutions will be constrained to only essential contracts and systems and to support equipment needs
Some examples of more severe reductions outlined in Tier 2:

- full closure of facilities and/or elimination of programs (e.g. neighborhood libraries, fire station, and Children’s Theatre)
- Additional public safety personnel
- long-range planning staff
- in-house sidewalk repair/maintenance
- park and open space maintenance
- reductions to human services contracts and grants, and
- further reductions of citywide administrative support, human resources, and more
### OTHER FUNDS

Additional actions included in the Proposed Budget address non-General Fund activities including but not limited to:

- Parking Funds
- Community Development Block Grant Funds
- Stanford University Medical Fund (SUMC)
- Enterprise Funds, proposed rate changes to the right

<table>
<thead>
<tr>
<th>Service</th>
<th>FY 2021 Adopted</th>
<th>Current Balancing Strategy Rate Change (as of 4/6/21)</th>
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<tbody>
<tr>
<td>Electric</td>
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</tr>
<tr>
<td>Gas</td>
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<td>3%</td>
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<tr>
<td>Water</td>
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<tr>
<td>Wastewater</td>
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<tr>
<td>Refuse</td>
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<td>0%</td>
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<tr>
<td>Storm Drain</td>
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<td>2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2.4%</strong></td>
<td><strong>0.1%</strong></td>
</tr>
</tbody>
</table>

Total monthly bill is estimated to increase $4.50 per month, or 1.4% to $326.41 per month.
$772M CIP plan in FY 2021-2025 decreased to $727 M in CIP plan FY 2022-2026
• FY 2021 Capital Budget of $300 M decreased to $153 M in FY 2022
CIP – GENERAL FUND INVESTMENT IN CAPITAL IMPROVEMENT FUND

FY 2018 Actual | FY 2019 Actual | FY 2020 Actual | FY 2021 Estimate | FY 2022 Proposed
---|---|---|---|---
Base Transfer | TOT Funding Transfer | Interest Income | Base Transfer | TOT Funding Transfer | Interest Income
59% | 36% | 5% | 59% | 34% | 4% | 62% | 44% | 36% | 44% | 20% | 61% | 27% | 64% | 31% | 5% | 12%
2022 CAPITAL IMPRVT FUND REVENUES BY SOURCE: $51.5 MILLION

- **Fund Balance/Reserve**: $20.0M
- **Transfer from Parking Funds**: $0.1M
- **Transfer from Enterprise Funds**: $1.9M
- **Stanford University Medical Center**: $3.2M
- **Revenue from Other Agencies**: $8.3M
- **Impact Fees/In-Lieu Fees**: $5.1M
- **Gas Tax Funds**: $2.7M
- **Federal and State Grants**: $0.0M
- **Transfer from General Fund**: $9.7M
- **Transfer from Other Funds**: $0.5M
JOIN THE BUDGET CONVERSATION

Save the date on the following ways for the community to join the budget conversations:

• Finance Committee FY 2021-22 Budget Preview: May 4, At 6:00 P.M.
• Online Survey to be Released: May 5
• Budget Town Hall: FY 2021-22 Budget Discussion May 6, 6:00 P.M. —Register online via the link below.
• Finance Committee Budget Hearings: May 11, 12, 25, All Hearings Begin At 9:00 A.M.
• Finance Committee Update at Council: May 17
• City Council Budget Adoption: June 21, at 5 P.M.