



CITY COUNCIL REVIEW
FY 2022 MID-YEAR REVIEW

City Council, Item #10

FEBRUARY 7, 2022

www.cityofpaloalto.org/budget

OVERVIEW

- Continued gradual improvement in the local economic outlook, similar to national trends
- Short-term positive news; however, the City's long-term financial sustainability continues to be an important focus and priority
- The City remains unable to restore services to pre-pandemic levels
- Strategic investments in key areas as well as City Council priorities recommended
 - All Funds 11.00 Full-time and 0.96 Part-time position additions, \$2.9M reinvestment resources
 - General Fund 3.66 Full-time and 0.96 Part-time position additions, \$1.8M reinvestment resources
- This action is one of many in a series of financial discussions

CALENDAR OF BUDGET AND FISCAL WORK PAST TO FUTURE

- *September/October 2021:* Community and Economic Development actions & Q1 Preliminary Financial Status update approved
- *December 2021:* Q1 Financial Status approved & Long-Range Financial Forecast reviewed
- *January 2022:* Potential local tax ballot measure actions adopted & Long-Range Financial Forecast approved
- ***February 2022: Consideration of Mid-Year Budget recommendations***
- *February/March 2022:* 2nd Polling on potential local tax ballot measure
- *March/April 2022:* Local tax ballot measure update following focus group outreach
- *April/May 2022:* Release Proposed FY 2023 Budget & 3rd Polling on potential ballot measure
- *May/June 2022:* FY 2023 Budget hearings and community outreach and engagement
- *June 2022:* FY 2023 Budget Adoption, Potential local tax ballot measure actions approved, and Economic Development contract approval

HIGH LEVEL TAKE AWAYS FROM PRIOR FISCAL REPORT

- Gradual improvement in the local economy, tax revenues are projected to exceed the conservative revenues estimated assumed and adopted by the City Council in the FY 2022 Adopted Budget
- As discussed during the budget process, the transition period will take time and departments are facing challenges:
 - Staff turnover, vacancies, recruitment/hiring and retention
 - Supply chain and procurement process delays
 - Additional new projects
- Incremental reinvestments approved, net addition of 9.00 full time positions and funding for administrative and Council priority projects authorized

PRIOR COUNCIL ACTION: Q1 PRELIM FINANCIAL STATUS

- A. *Approve a Budget Amendment Ordinance for Fiscal Year 2022 in various funds, as identified in Attachment A (requires 2/3 super majority approval, or 5 affirmative votes);*
- B. *Approve an amendment to the Utilities Management and Professional Association of Palo Alto (UMPAPA) Salary Schedule to increase the Utility Safety Officer classification salary in alignment with market rates in Attachment B;*
- C. *Approve amendments to the FY 2022 Table of Organization in Attachment C consistent with the budget amendments in Attachment A;*
- D. *Review and accept this preliminary financial status report for the first quarter of FY 2022;*
- E. *Direct Staff to further develop recommendations in specific areas and return to City Council for action, including for one FTE Code Enforcement Officer position with the expectation to return to City Council prior to the mid-year budget review.*

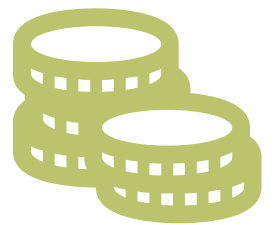
PRIOR ADJUSTMENTS TO THE BUDGET – GENERAL FUND

Council High Priority Project Resources (~\$1.0 M in additional funding)

- \$550,000 for Housing Support Operations (1.00 FTE)
- \$250,000 for Ballot Measure Contracts and Legal Support
- \$150,000 for Economic Development and Coordination (1.00 FTE)
- SAFER Grant Funding for additional Firefighter positions (5.00 FTE)

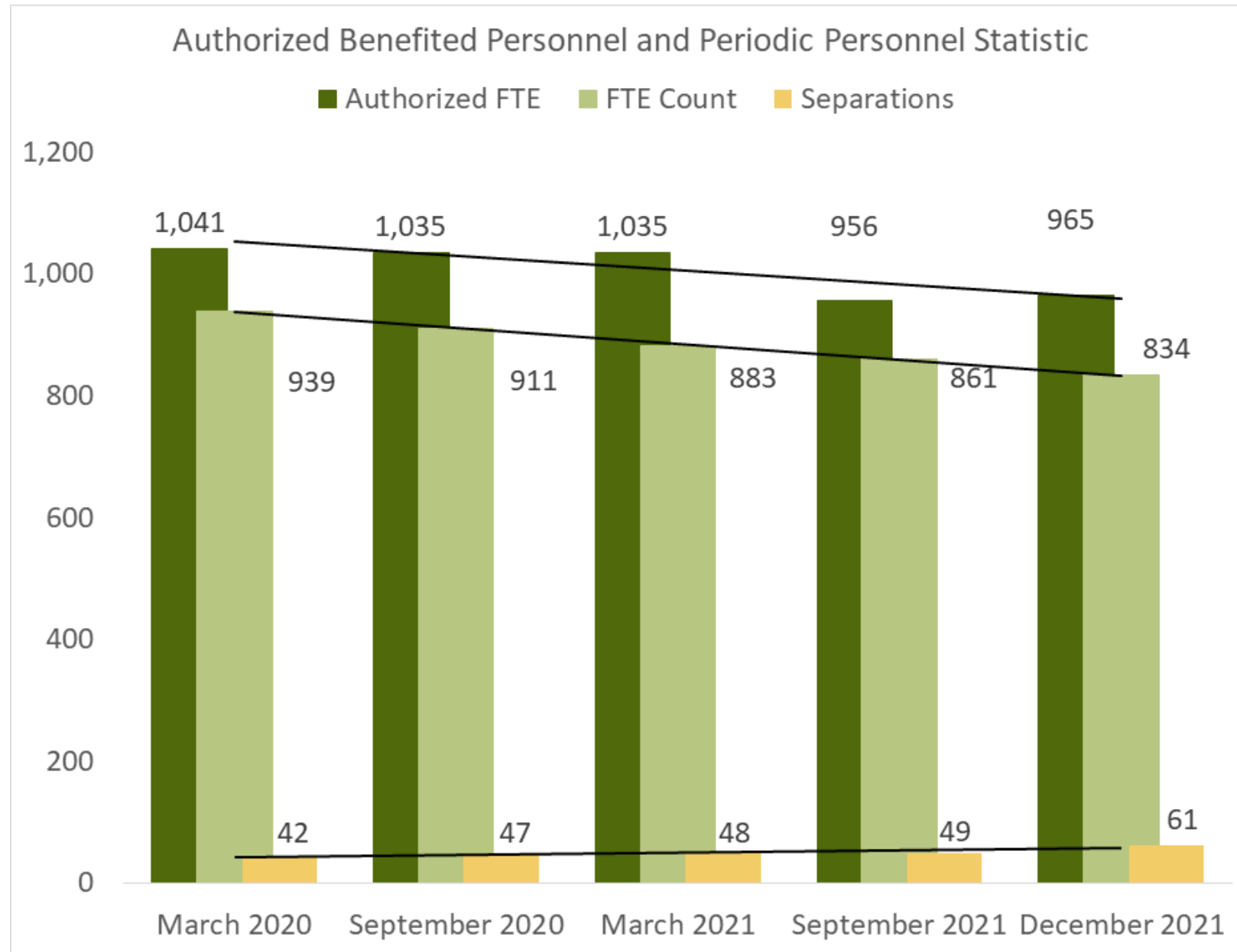
Administrative/Strategic Support (\$410,000 additional funding)

- \$125,000 for GIS Software Support (Technology Fund)
- \$120,000 for Public Safety Communications Management (1.00 FTE)
- \$100,000 for City Hall Lobby Support
- \$65,000 for Development Center Front Desk Staffing (1.00 FTE)



STAFFING CHART








- Staff capacity to deliver services lower than pre-pandemic levels by 11%
- ~120 full-time vacancies (13% vacancy rate)
- Competitive labor market
- Focus must also be placed on retaining our current talented workforce



PRELIMINARY FY 2022 Q2 GENERAL FUND STATUS

- General Fund Budget Stabilization Reserve (BSR)
 - Current BSR is projected at \$39.7 million or **\$1.0 million above the 18.5% target of \$38.7 million** (based on FY 2022 adopted budget)
 - FY 2021 fiscal year end reflected a \$4.6 million excess BSR, this report recommends use of \$3.6 million for reinvestment and technical adjustment actions
 - Additional BSR excess projected in FY 2022, these one-time funds will be included in the FY 2023 annual budget process for allocation
- Major Tax Revenues overall continue to trend above the FY 2022 Budget conservative estimates, \$2.0 million in additional Property Tax funding recognized in this report

PRELIMINARY Q2 FY 2022 STATUS - GENERAL FUND REVENUE

Revenue Category	FY21 Adjusted Budget	FY21 Preliminary Actuals	FY22 Adopted Budget	FY21 Bgt - FY22 Bgt (% chg)	FY22 Trend vs Budget
Property Tax	\$53.2 M	\$56.6 M	\$51.2 M	-3.7 %	
Sales Tax	\$25.0 M	\$29.1 M	\$28.2 M	12.6 %	
Transient Occupancy Tax	\$5.1 M	\$5.2 M	\$8.4 M	74.5 %	
Utility User Tax	\$14.1 M	\$14.6 M	\$14.4 M	2.1 %	
Documentary Transfer Tax	\$6.9 M	\$10.6 M	\$7.1 M	3.8 %	
Charges for Services, Licenses, & Permits	\$32.8 M	\$32.4 M	\$32.3 M	-1.5 %	
Other Taxes, Fines, & Return on Investments	\$1.5 M	\$1.7 M	\$2.3 M	53.2 %	
All Other Revenues (transfers, charges to other funds/agencies, etc.)	\$53.7 M	\$50.7 M	\$62.5 M	Various	

URGENT NEEDS AND REINVESTMENTS

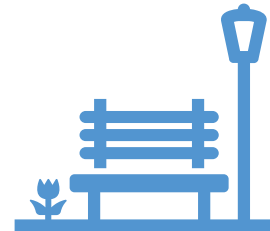
- Staff managed diligently through the pandemic reducing resources to manage financial constraints while striving to maintain high quality services for the community
- Staff are struggling to meet day-to-day service requirements with the current constrained resources and preparing for the continued economic recovery
- Work on priorities that involve high profile, cross functional projects competing with operational tasks
- Actions recommended in this report add support for important and engaging projects; however, it will take time to realize the benefit of increased capacity



URGENT NEEDS AND REINVESTMENTS (CONT'D.)

Neighborhood, Community and Library Services (Net Cost \$0.1M and 0.73 FTE)

- Community Services
 - Art Center Staffing for Children and Youth Ceramics Classes
 - Art Center Staffing for Spring and Summer Camps
 - Parks Maintenance Services
- Library
 - Library Community Needs Assessment Study
 - Library Collections



URGENT NEEDS AND REINVESTMENTS (CONT'D.)

Public Safety (Net Cost \$1.2M and 1.00 FTE)

- Fire
 - Temporary Fire Training Facility
 - Firefighter Academy and Personal Protective Equipment (up to 7.00 hires)
 - Paramedic Training and Promotional Opportunities for Sworn Fire Personnel
- Police
 - Deputy Director to Manage Technical Services Division



URGENT NEEDS AND REINVESTMENTS (CONT'D.)

Planning and Transportation Services (Net Cost \$0.2M and 1.00 FTE)

- Office of Transportation
 - Safe Routes to School Mobile Information Kiosk
 - Traffic Engineering Division Staffing Reclassification to Sr. Engineer
- Planning and Development Services
 - Code Enforcement Staffing (1.0 FTE)



URGENT NEEDS AND REINVESTMENTS (CONT'D.)

Infrastructure and Environment (ALL FUNDS: Net Cost \$0.4M and 5.25 FTE)

- Public Works



- Foothills Road Brush Clearing
- Sustainability and Climate Action Plan (S/CAP)
 - Program Management, Coordination, and Oversight

- Utilities Enterprise Funds



- Sustainability and Climate Action Plan (S/CAP)
 - Program Management, Coordination, and Oversight
 - Electrification Program Phase I

URGENT NEEDS AND REINVESTMENTS (CONT'D.)

Internal Services/Strategic Support (Net Cost \$0.3M and 1.96 FTE)



- Attorney's Office: Staffing Reclassification for Succession Planning

- Human Resources:

- Administrative and Special Projects Staffing

- Recruitment Staffing

- Information Technology:

- Security/Network Management and Geographic Information System Staffing

- Security and Records Management Software



ADDITIONAL TECHNICAL ADJUSTMENTS – GENERAL FUND

Technical Adjustment Action	Net (Cost)/Benefit
Department Revenue and Property Tax Revenue	\$1.8M
Supplemental Pension 115 Trust Contribution	(\$2.0M)
Consultancy Services (High priority projects)	(\$0.5M)
Code Enforcement Litigation – Edgewood Plaza	(\$0.4M)
Public Safety Employee Appreciation Leave	(\$0.4M)
Utility Equity Transfer	(\$0.3M)
Golf Course Services	(\$0.1M)
Gas Commodity Purchases/Utility Allocated Charges	(\$0.1M)

FINANCIAL STATUS & TECHNICAL ADJUSTMENTS – OTHER FUNDS

Enterprise Funds

- Electric and Gas Utilities budget alignment with current market conditions for the purchase of commodities and various operations
- Fiber revenue projections

Internal Service Funds

- General Liability cost increases for Umbrella Excess Liability and Property Loss Insurance to align with current trends

Special Revenue Funds

- Parking Funds revenue increases are not recommended to align with previously approved permit price adjustments due to slower demand for parking permit sales

URGENT NEEDS AND REINVESTMENTS – OTHER FUNDS

Enterprise Funds

- *Airport Fund* - Management software and tractor for grounds maintenance
- *Electric Fund* - Tree Line Clearing and 4.00 FTE for S/CAP Electrification Program

Internal Service Funds

- *General Benefit Fund* - one-time \$2.0 M contribution to the Section 115 Pension Trust Fund
- *Technology Fund* - 2.00 FTE to provide enhanced security/network management and Geographic Information System (GIS) support; Software for enhanced security, public meeting, and records management
- *Vehicle Fund* - Several vehicle purchases for Code Enforcement activities, Airport grounds maintenance, and replacement of a Police vehicle involved in an accident

ADJUSTMENTS TO TABLE OF ORGANIZATION



Add net 11.00 full-time positions, increase full-time staffing in the General Fund to 519.46 FTE (976.00 FTE Citywide)

NOTE: This is in addition to **9.00 FTE added** since FY 2022 budget adoption; 4.00 at Q1 and 5.00 via the SAFER grant.

Net Position Changes*	Operational Program
<p><i>+5.25 FTE for S/CAP Program Support</i> <i>0.25 FTE (net increase) Manager Enviro Control Prog.</i> <i>1.00 FTE Environmental Specialist</i> <i>2.00 FTE Electric Project Engineer</i> <i>1.00 FTE Manager Utilities Program Services</i> <i>1.00 FTE Senior Engineer</i></p>	<p>Resources for the Sustainability and Climate Action Plan (S/CAP)</p>
<p><i>0.75 FTE Junior Museum and Zoo Educator</i></p>	<p>Capacity for popular recreation classes</p>
<p><i>1.00 FTE Deputy Director Technical Srvcs Division</i></p>	<p>Oversight of the Public Safety Technical Srvcs Division</p>
<p><i>1.00 FTE Code Enforcement Officer</i></p>	<p>Code violations including gas powered leaf blower use</p>
<p><i>2.00 FTE Senior Technologist</i></p>	<p>Network and security administration and manage the geographic information system (GIS)</p>
<p><i>1.00 FTE Human Resources Technician</i></p>	<p>Support citywide recruitment</p>

*Reclassifications, other net-zero FTE changes, and changes to part-time positions are detailed in Attachment B of the staff report.

SUMMARY OF FINANCIAL STATUS

- Overall, the City Council's conservative financial planning has allowed the organization to recognize the positive economic recovery and continue to take steps to systematically reinvest in the services to the community
- Financial actions in this report do NOT allocate all identified funding:
 - Excess BSR funding of \$1.0 million remains unallocated (typically this would be recommended to CIP infrastructure investment)
 - Excess BSR projected in FY 2022 as major tax revenues projected to exceed the conservative budgeted levels (only \$2.0 million in excess Property Tax recognized)
- Specific targeted areas for close watch include parking fund activities, maintaining current reduced service levels citywide remains challenging due to recruitment & retention of the workforce, supply chain, and procurement challenges

NEXT STEPS

- MARCH/APRIL 2022
 - Utility Rates and Financial Forecast reviews with the Utility Advisory Committee and the Finance Committee
 - Community and stakeholder engagement regarding fiscal sustainability and funding priorities as part of consideration of potential ballot measures
- MAY 2022
 - Release of the FY 2023 Proposed Operating and Capital Budgets
 - Public Budget Hearings with the Finance Committee
- JUNE 2022
 - FY 2023 Operating and Capital Budget Adoption
 - FY 2023 Municipal Fee Adoption
 - FY 2023 Utility Rates Adoption

DRAFT POTENTIAL MOTION FOR COUNCIL CONSIDERATION

- 1) Approve a Budget Amendment Ordinance for Fiscal Year 2022 in various funds, as identified in Attachment A (requires 2/3 super majority approval, or 5 affirmative votes);
- 2) Approve amendments to the FY 2022 Table of Organization in Attachment B consistent with the budget amendments in Attachment A; and
- 3) Review and accept this preliminary financial status report for the second quarter of FY 2022
- 4) Direct staff to further develop recommendations in specific areas and return to the City Council for action as part of the FY 2023 Budget process.



CITY OF
**PALO
ALTO**