FY 2023 PROPOSED OPERATING AND CAPITAL BUDGETS & 2023-2027 CAPITAL IMPROVEMENT PLAN
Proposed budget balancing strategy that continues to reflect a recovery period and transition to an endemic state, building on reinvestments made by Council in the current fiscal year.

Foundation for budget is Long-Range Financial Forecast (LRFF) approved by Council, reflecting a conservative recovery over 3-5 years and more rapidly investing in services and the workforce, including midyear actions.

Transitional year while the Council contemplates major changes for funding of program and services such as affordable housing and grade separating train crossings.

- Fiscal Sustainability: A Community Conversation
- Community input and surveys help inform Council actions on service priorities and next steps
OVERVIEW

- Operating budget totals $934.2 million ($247.2 million in General Fund) and capital budget totals $351.8 million in FY 2023 and $789.0 million over the five-year Capital Improvement Program (CIP)
  - Full time staffing additions of 38.85 FTE result in total staffing of 1,015 FTE; remains below pre-pandemic levels

- Balancing continues ambitious pace of alignment of resources with pace of recovery.
  - Use of one-time funding for limited term priority service investments
  - Provide time for the Council to contemplate significant changes in funding

- Recognizing uncertainties in the year ahead, staff looks forward to working with Finance Committee to refine proposals for full City Council consideration in June
BUDGET CONVERSATIONS & SCHEDULE

May 2nd, 10th, & 11th

- TONIGHT: City Council to review and discuss the FY 2023 Proposed Budget, providing insight and feedback for Finance Committee colleagues
- Finance Committee will review specific adjustments in the proposed budgets and recommend amendments

May 24th

- Finance Committee will be presented a final, revised balancing strategy, based on the input from the May budget meetings & recommend final adjustments

June 20th

- City Council budget adoption as amended by the Finance Committee in May
SUMMARY OF ACTIONS TO DATE

• **September 21, 2021, Finance Committee:** Accept CalPERS Pension Annual Valuation as of June 30, 2020
• **October 25, 2021, City Council:** Preliminary Q1 Fiscal Year (FY) 2022 Financial Status and Amendments in Various Funds and the Table of Organization to add 4.00 FTE Positions
• **November 2, 2021, Finance Committee:** Report on Public Safety Long Term Financial Trends
• **November 30, 2021, Finance Committee:** Recommendation to the City Council to Approve the Fiscal Year (FY) 2021 Annual Comprehensive Financial Report (ACFR) & FY 2021 Budget Amend. in Various Funds
• **December 7, 2021, Finance Committee:** Review and Recommend that the City Council Accept the FY 2023 – FY 2032 Long Range Financial Forecast (LRFF) and FY 2023 Budget Development Guidelines
• **December 7, 2021, Finance Committee:** First Quarter Financial Report FY 2022
• **January 10, 2022, City Council:** Review and Accept the FY 2023 – FY 2032 Long Range Financial Forecast (LRFF) and FY 2023 Budget Development Guidelines
• **January 24, 2022, City Council:** Approval of the FY 2021 Annual Comprehensive Financial Report (ACFR); and Amendment of the FY 2021 Budget in Various Funds
• **February 3, 2022, Finance Committee:** Review Preliminary Utility Rate Forecasts
• **February 7, 2022, City Council:** Approval of the FY 2022 Mid-Year Budget Review and Amendments in Various Funds and the Table of Organization
• **February 18, 2022, Finance Committee:** Recommend Approval of Utility Rates for FY 2023 & financial plans
FISCAL SUSTAINABILITY COMMUNITY CONVERSATION: Ballot Measures Under Consideration

- Council direction to continue to evaluate two measures:
  - Affirmation of current natural Gas Utility Transfer
  - Establishment of a new Business Tax

- Council is considering these measures for placement before the voters for the voter’s decision as part of the November 2022 election

- New revenues can restore services to pre-pandemic levels, support investments in the community's future, expand priority services, and build on Palo Alto’s services as community needs evolve

www.cityofpaloalto.org/fiscalsustainability
ALL FUNDS SOURCES

Citywide Revenues $934.2

- Net Sales 39%
- Charges for Services 3%
- Charges to Other Funds 2%
- Documentary Transfer Tax 1%
- From Other Agencies 3%
- Use of Reserves/Fund Balance 10%
- Other Revenue 24%
- Permits & Licenses 1%
- Property Tax 7%
- Rental Income 2%
- Sales Tax 3%
- Transient Occupancy Tax 2%
- Utility User Tax 2%
ALL FUNDS USES

Citywide Expenses $934.2

Salary & Benefits 26%

Rents & Leases 3%

General Expenses 3%

Debt Service 3%

Utility Purchase 19%

Supplies & Materials 1%

Capital Improvement Program 34%

Net Internal Service Fund Contribution 1%

Allocated Charges 1%

Contract Services 6%
FY 2022 BUDGET ADJUSTMENTS +$6.6M

- **Ongoing additions of $6.6 million** approved by the City Council in FY 2022
  - $3.2 million additions in the General Fund

- **Net addition of 20 full time positions** and three part-time positions, 12.66 in the General Fund
  - Housing initiatives (1.00 FTE)
  - Economic development initiatives (1.00 FTE)
  - Development Center & Code Enforcement staffing (2.00 FTE)
  - Police Communications management and executive support (2.00 FTE)
  - Staffing for Adequate Fire & Emergency Response (SAFER) Grant (5.00 FTE)
  - Human Resources full restoration to pre-pandemic staffing levels (1.96 FTE)
  - Sustainability & Climate Action (5.25 FTE)
  - Reclassifications to align with existing and anticipated workload and expertise expectations
Two alternative scenarios also presented:

- **Alt A**: Restoration of Services, full restoration of services in FY 2023
- **Alt B**: Compensation Adjustment, modeled a higher salary increase

**BASE CASE**

<table>
<thead>
<tr>
<th></th>
<th>Actual 2021</th>
<th>Adopted 2022</th>
<th>Projected 2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>$200,925</td>
<td>$206,452</td>
<td>$218,167</td>
<td>$230,393</td>
<td>$239,692</td>
<td>$252,271</td>
<td>$259,853</td>
<td>$268,149</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>5.7%</td>
<td>5.6%</td>
<td>4.0%</td>
<td>5.2%</td>
<td>3.0%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>$185,634</td>
<td>$209,210</td>
<td>$207,468</td>
<td>$227,995</td>
<td>$240,741</td>
<td>$251,691</td>
<td>$256,437</td>
<td>$260,691</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>-0.8%</td>
<td>9.9%</td>
<td>5.6%</td>
<td>4.5%</td>
<td>1.9%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Net One-Time Surplus/(Gap)</td>
<td>$15,291</td>
<td>($2,758)</td>
<td>$10,699</td>
<td>$2,398</td>
<td>($1,049)</td>
<td>$581</td>
<td>$3,416</td>
<td>$7,458</td>
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</table>

**Cumulative Net Operating Margin (One-Time)**

<table>
<thead>
<tr>
<th></th>
<th>Actual 2021</th>
<th>Adopted 2022</th>
<th>Projected 2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Operating Margin</td>
<td>$0</td>
<td>$2,398</td>
<td>($3,446)</td>
<td>$1,629</td>
<td>$2,836</td>
<td>$4,041</td>
<td></td>
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</table>

**Cumulative Net Operating Margin**

Assumes that the annual shortfalls are solved with ongoing solutions and annual surpluses are spent for ongoing expenditures.

- Recovery revenue stabilizes in FY 2026
- 3-5 Year recovery forecasted, varies by revenue source
- This scenario does NOT assume restoration of service reductions to pre-pandemic levels
FY 2023 GENERAL FUND REVENUES

- Property Tax: 24%
- Sales Tax: 13%
- Transient Occupancy Tax: 8%
- Utility User Tax: 6%
- Documentary Transfer Tax: 3%
- Charges for Services & Licenses & Permits: 16%
- All Other Revenues: 26%
- Use of Reserves: 4%

General Fund Revenues: $247.2M
## FY 2023 GENERAL FUND REVENUES

<table>
<thead>
<tr>
<th>Revenue &amp; Other Sources</th>
<th>Adopted 2022</th>
<th>LRFF Est. 2022</th>
<th>Current Est. 2022</th>
<th>Change</th>
<th>LRFF 2023</th>
<th>Proposed 2023</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales Taxes</strong></td>
<td>28,184</td>
<td>30,633</td>
<td>31,478</td>
<td>845</td>
<td>32,306</td>
<td>32,580</td>
<td>274</td>
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<tr>
<td><strong>Property Taxes</strong></td>
<td>51,228</td>
<td>56,469</td>
<td>56,838</td>
<td>369</td>
<td>58,220</td>
<td>59,770</td>
<td>1,550</td>
</tr>
<tr>
<td><strong>Transient Occupancy Tax</strong></td>
<td>8,428</td>
<td>11,055</td>
<td>13,195</td>
<td>2,140</td>
<td>16,922</td>
<td>18,199</td>
<td>1,277</td>
</tr>
<tr>
<td>General Purpose</td>
<td>2,528</td>
<td>5,398</td>
<td>6,324</td>
<td>926</td>
<td>7,684</td>
<td>8,472</td>
<td>788</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>5,899</td>
<td>5,657</td>
<td>6,871</td>
<td>1,214</td>
<td>9,238</td>
<td>9,727</td>
<td>489</td>
</tr>
<tr>
<td><strong>Documentary Transfer Tax</strong></td>
<td>7,137</td>
<td>8,125</td>
<td>9,627</td>
<td>1,502</td>
<td>7,391</td>
<td>7,217</td>
<td>(174)</td>
</tr>
<tr>
<td><strong>Utility Users Tax</strong></td>
<td>14,370</td>
<td>14,667</td>
<td>14,655</td>
<td>(12)</td>
<td>14,898</td>
<td>15,579</td>
<td>681</td>
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<tr>
<td><strong>Other Taxes and Fines</strong></td>
<td>1,434</td>
<td>1,434</td>
<td>1,434</td>
<td>0</td>
<td>1,784</td>
<td>1,784</td>
<td>(0)</td>
</tr>
<tr>
<td><strong>Subtotal: Taxes</strong></td>
<td>$110,780</td>
<td>$122,383</td>
<td>$127,227</td>
<td>$4,844</td>
<td>$131,522</td>
<td>$135,129</td>
<td>$3,607</td>
</tr>
<tr>
<td><strong>Chrgs for Services/Permits &amp; Lic.</strong></td>
<td>32,276</td>
<td>32,276</td>
<td>32,276</td>
<td>0</td>
<td>37,903</td>
<td>40,035</td>
<td>2,132</td>
</tr>
<tr>
<td><strong>Return on Investments</strong></td>
<td>852</td>
<td>964</td>
<td>1,044</td>
<td>80</td>
<td>985</td>
<td>1,066</td>
<td>81</td>
</tr>
<tr>
<td><strong>Rental Income</strong></td>
<td>14,476</td>
<td>14,476</td>
<td>14,476</td>
<td>0</td>
<td>15,487</td>
<td>15,572</td>
<td>85</td>
</tr>
<tr>
<td><strong>From Other Agencies</strong></td>
<td>8,521</td>
<td>8,521</td>
<td>8,521</td>
<td>0</td>
<td>6,696</td>
<td>7,526</td>
<td>830</td>
</tr>
<tr>
<td><strong>Charges to Other Funds</strong></td>
<td>14,165</td>
<td>14,165</td>
<td>14,165</td>
<td>0</td>
<td>12,946</td>
<td>13,690</td>
<td>744</td>
</tr>
<tr>
<td><strong>Other Revenue</strong></td>
<td>2,260</td>
<td>2,260</td>
<td>2,260</td>
<td>0</td>
<td>2,261</td>
<td>2,201</td>
<td>(60)</td>
</tr>
<tr>
<td><strong>Operating Transfers-In</strong></td>
<td>23,121</td>
<td>23,121</td>
<td>23,121</td>
<td>0</td>
<td>22,592</td>
<td>22,532</td>
<td>(60)</td>
</tr>
<tr>
<td><strong>Total Source of Funds</strong></td>
<td>$206,452</td>
<td>$218,167</td>
<td>$223,091</td>
<td>$4,924</td>
<td>$230,393</td>
<td>$237,751</td>
<td>$7,358</td>
</tr>
</tbody>
</table>
FY 2023 GENERAL FUND EXPENSES

General Fund Expenses $247.2 M

- Public Safety 36%
- Planning & Transportation 10%
- Infrastructure & Environment 16%
- Citywide (Non-Dept & Transfers) 10%
- Administration & Government 10%
- Community & Library Services 18%
Use of one-time funding

• $14 million in FY 2022 projected surplus recommended to be used 1) $8.9 million for service investments & 2) $5.1M contribution to BSR to reach 18.5% target level
• $5.5 million remainder of the $13.7 million ARPA expected for the provision of government services offsetting the reduction in revenue due to the pandemic

Limited Term 2-Year Transition: Restoration of $4.0 million in services
• Ongoing revenue needed otherwise services will sunset at the close of FY 2024

City Council Priorities: Focus on investment in workplan projects

City's Pension & Other Post-Employment Benefits (OPEB) funding: Proactive contributions continue at 6.2% discount rate
• Begin transition to 5.3% discount rate, consistent with most recent CalPERS ALM and Council Pension Funding Policy
Neighborhood Community & Library Services

- Reinvest in support for arts programs including public art and art center facilities rentals
- Support continuing investment in the Junior Museum and Zoo staffing and systems
- Reinvest in staff support for Children’s Theatre operations and productions, Twilight Concert Series, and staffing support at community centers
- Support areas with growing interest and participation including open space staffing, camps, and golf course facilities
- Increase Library Hours
  - Small branches: open four days a week
  - Large branches: open six days a week
- Enable support for special programming and events such as New American programs, Summer Reading Program, re:Maker Fair, Palo Alto Reads author programs and the Celebrate Culture series
Public Safety

• Strategic Recruitment Plan establishing Fire Fighter trainee positions to establish a continuous and proactive recruitment pipeline for expected staff turnover

• Support Services Deputy Chief restoration for oversight of new program such as recruitment as well as centralized support for Fire Prevention division

• Restore staffing for special teams such as Special Problems Detail, Psychiatric Emergency Response Team, and Investigative Unit
  • Allowing for appropriate patrol staffing and support for Council priorities such as support for unhoused and alternative public safety response models

• Restore staffing for dispatch services and the expected return to pre-pandemic call volumes
Planning & Transportation

- Invest and adapt resources in Fire Prevention program to meet demands for hazmat facility inspections and compliance with state mandates
- Support system updates and enhancements such as G
- Improve operations at the Development Center:
  - Restore resources for operational needs
  - Augment staffing for building inspections
- Downtown Housing Plan Grant and staffing support (as review by the Council April 18, 2022)
- Resources for key initiatives and projects such as NVCAP and Housing Element Financial Feasibility Studies
Operating Budget Service Area Impacts

Infrastructure & Environment

- Invest in airport operations to support billing, fee studies, and maintaining capacity to sustainably cover operational shirts
- Adjust utility rate increases for the next year inline with inflation and fiscal plans
- Significantly invest in resources to support sustainability and climate action plans, primarily for electrification

Internal Services/Appointees

- Invest in restoration to continue to support recovery efforts and reinvestment citywide including support for but not limited to labor negotiations, procurements, warehouse, and systems.
- Support for Council priorities including equity and inclusion staffing support
## OPERATING BUDGET SERVICE AREA IMPACTS

<table>
<thead>
<tr>
<th>Non-Departmental &amp; Citywide</th>
<th>General Fund Adjustment</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Rescue Plan Act (ARPA) Revenue</td>
<td>$5.5 million of the $13.7 million</td>
</tr>
<tr>
<td>Reserve for Utility Transfer Litigation</td>
<td>$5.1 million total reserve of $17.5 million</td>
</tr>
<tr>
<td>FY 2023 Restorations, 2\textsuperscript{nd} Year of Funding</td>
<td>$3.7 million (funding through FY 2024)</td>
</tr>
<tr>
<td>Supplemental Pension Trust: Transition toward lower discount rate of 5.3%</td>
<td>$1.3 million (6 month contribution)</td>
</tr>
<tr>
<td>Reserve for Project HomeKey: Operating support as directed by Council</td>
<td>$1 million (total of $7 million)</td>
</tr>
<tr>
<td>Reserve for labor and inflation</td>
<td>$900,000</td>
</tr>
</tbody>
</table>
TWO-YEAR FUNDED RESTORATIONS

Neighborhood Community and Library Services
- Arts Programs: Art Camps, Art Center, Public Art
- Children's Theatre Operations & Productions
- Junior Museum and Zoo staffing
- Large & small branch Library hours
- Open space staffing
- Twilight Concert Series
- Community Center staffing
- Management software & systems

Public Safety
- Fire Strategic Recruitment Plan
- Special Problems Detail
- Psychiatric Emergency Response Team
- Investigations Unit Restorations
- Dispatch Service Restorations
- Technical Services Staffing

Planning and Transportation
- Downtown Housing Plan Grant & Support
- Current Planning Reorganization

Internal Services/Appointees
- Purchasing staffing & Procurement software
- Neighbors Abroad contract
- Training and Development funding

Position Changes:
~23 FTE full-time
~5 FTE part-time
### OTHER FUNDS

<table>
<thead>
<tr>
<th></th>
<th>FY2022 Adopted</th>
<th>FY2023 Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electric</td>
<td>0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Gas</td>
<td>3.7%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Water</td>
<td>0%</td>
<td>4.0%*</td>
</tr>
<tr>
<td>Wastewater</td>
<td>4.7%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Fiber</td>
<td>2.0%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Refuse</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Storm Drain</td>
<td>2.0%</td>
<td>4.2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1.8%</strong></td>
<td><strong>3.5%</strong></td>
</tr>
</tbody>
</table>

Residential monthly bill is estimated to increase $11.73/month

*Projected SFPUC rate increase may cause Water to be 8.9%

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

- Parking Funds (General Fund Loan)
- Community Development Block Grant Funds
- Enterprise Funds, proposed rate changes to the right
• $747M CIP plan in FY 2022-2026 increased to $789M in CIP plan FY 2023-2027

• FY 2022 Capital Budget of $174M increased to $352M in FY 2023, primarily due to investment in Regional Water Quality Control Plant long range facility plan.
<table>
<thead>
<tr>
<th></th>
<th>FY 2019 Actual</th>
<th>FY 2020 Actual</th>
<th>FY 2021 Actual</th>
<th>FY 2022 Estimated</th>
<th>FY 2023 Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Millions</td>
<td>$0</td>
<td>$5</td>
<td>$10</td>
<td>$15</td>
<td>$20</td>
</tr>
<tr>
<td>Base Transfer</td>
<td>62%</td>
<td>64%</td>
<td>28%</td>
<td>65%</td>
<td>45%</td>
</tr>
<tr>
<td>TOT Funding</td>
<td>34%</td>
<td>31%</td>
<td>59%</td>
<td>24%</td>
<td>50%</td>
</tr>
<tr>
<td>Interest Income</td>
<td>4%</td>
<td>5%</td>
<td>13%</td>
<td>11%</td>
<td>5%</td>
</tr>
</tbody>
</table>
2023 CAPITAL IMPRVT FUND REVENUES BY SOURCE: $82.0 MILLION

Federal and State Grants $12.5M
Gas Tax Funds $3.2M
Impact Fees/ In-Lieu Fees $9.5M
Revenue from Other Agencies $7.5M
Stanford University Medical Center $4.4M
Transfer from Enterprise Funds $2.3M
Transfer from General Fund $19.6M
Transfer from Other Funds $0.5M
Fund Balance/ Reserve $22.4M
JOIN THE BUDGET CONVERSATION

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

• **City Council FY 2023 Proposed Budget Study Session:** May 2, @ 5 P.M.

• **Finance Committee Budget Hearings:**
  • May 10 @ 9:00am
  • May 11 @ 9:00am
  • May 24 @12:00pm

• **City Council Budget Adoption:** June 20, @ 5 P.M.

Fiscal Sustainability, A Community Conversation:
Ongoing @ www.cityofpaloalto.org/fiscalsustainability

Reference: FY 2022 Budget Schedule
• **FY 2021-22 Budget Transmittal:** May 4
• **Committee Budget Hearings:** May 11 & 12
• **City Council/Committee Update:** May 17
• **Committee Wrap-up:** May 25
• **City Council Budget Review:** June 7
• **City Council Budget Adoption:** June 21
• Provide general guidance to Finance Committee colleagues for their upcoming detailed work reviewing the budget documents

• Feedback for consideration regarding budget strategies; such as two-year funding strategy

• Feedback on the review process moving forward between now and budget adoption scheduled June 20, 2022