



City of Palo Alto

Finance Committee Staff Report

(ID # 7039)

Report Type: Action Items

Meeting Date: 6/7/2016

Summary Title: FY2017 Proposed Budget Follow-Up

Title: Fiscal Year 2017 Proposed Operating and Capital Budget Follow-up

From: City Manager

Lead Department: Administrative Services

Recommendation

Staff is providing additional information regarding the FY 2017 Proposed Operating and Capital Budgets as requested by the Finance Committee for review and direction on any further changes.

Executive Summary

This report is being provided at the Finance Committee's request summarizing the motions approved during the Budget Wrap-up meetings on May 23, 2016 and providing additional information as requested. Given the timing, concurrent to the distribution of this report is the distribution of the City Manager's FY 2017 Adopted Budget Report for City Council Consideration on June 13, 2016. Included in the FY 2017 Adopted Budget report is a summary of final recommended changes to the City Manager's FY 2017 Proposed Operating and Capital Budgets as transmitted on April 25, 2016. These recommended changes take into consideration approved changes by the Finance Committee throughout the budget hearings, staff recommended changes, as well as staff's recommended final balancing solutions based on the various scenarios requested by the Finance Committee and outlined in further detail in this report.

Discussion

Finance Committee Recommended General Fund Balancing Options

At the Budget Wrap-up meeting on May 23, 2016, the Finance Committee approved two motions outlining changes to the City Manager's FY 2017 Proposed Budgets, these motions outlined a Scenario A and a Scenario B as discussed in detail below.

Included in the City Manager's Proposed Operating Budget was an estimated June 30, 2016 BSR level of \$40.5 million with a recommended draw on this reserve by \$4.9 million bringing the FY 2017 recommended BSR level to approximately 18% or \$35.6 million of the estimated FY 2017 expenses. The scenarios below outline 1) the changes to draw on the BSR for FY 2017, 2)

provides the revised estimated percent of FY 2017 expenses in the General Fund, and 3) context of the revised FY 2017 BSR level based on the City Council adopted policies guiding the BSR level (15% of General Fund expenses minimum, 20% of General Fund expenses maximum, with an 18.5% target level within that range).

Finance Committee Recommended Changes – Scenario A

On May 23, 2016, the Finance Committee approved a motion to amend the City Manager’s FY 2017 Proposed Budget with the actions outlined in the scenario below. These changes would result in a reduction to the Budget Stabilization Reserve proposed use of \$4.9 million to \$3.5 million, resulting in a \$37.0 million BSR or 18.8% of the FY 2017 Proposed Expenses.

GENERAL FUND BALANCING MODELING

	<i>FY2017 Exp Proposed</i>	<i>FC Revised</i>
	\$ 198,072	\$ 196,598
Estimated BSR (June 30, 2016)	\$ 40,511	20.61%
<i>Current Use of BSR (City Manager's FY17 Proposed Budget)</i>	\$ (4,944)	18.09%
<i>Finance Committee (FC) Proposed Adjustments</i>		
- Reduce Tree Trimming Cycle to 10 years	(170)	
- Two New RPPs Operations and Maintenance Costs	(230)	
- Planning & Transportation Contingency	(500)	
- 2.0 Position Reduction	374	
- POTENTIAL: FY 2017 General CIP Fund Reduction/Deferral (resulting in a reduction to the General Fund Transfer)	2,000	
<i>Subtotal Finance Committee Proposed Adjustments</i>	\$ 1,474	
Proposed BSR (FY 2017)	\$ 37,041	18.84%
<i>Revised BSR Draw</i>	<i>(3,470)</i>	
Budget Stabilization Reserve (BSR) Goals (based on "FC Revised" expense level)		
15% Minimum	\$ 29,490	\$ 7,551
18.5% Target	\$ 36,371	\$ 670
20% Maximum	\$ 39,320	\$ (2,279)

Finance Committee Recommended Changes – Scenario B

On May 23, 2016, the Finance Committee approved a motion to amend the City Manager’s FY 2017 Proposed Budget with the actions outlined in scenario A and then they made a subsequent motion directing staff to explore a second scenario B that would eliminate any draw on the Budget Stabilization Reserve, thereby increasing the potential reductions to the

General CIP in FY 2017 from \$2.0 million to \$5.5 million in total. These changes would result in no reduction to the Budget Stabilization Reserve leaving it slightly above the 20% maximum at an estimated 21% of expenditures or \$40.5 million.

GENERAL FUND BALANCING MODELING

	<i>FY2017 Exp Proposed</i>	<i>FC Revised</i>
	\$ 198,072	\$ 193,128
Estimated BSR (June 30, 2016)	\$ 40,511	20.98%
<i>Current Use of BSR (City Manager's FY17 Proposed Budget)</i>	\$ (4,944)	18.42%
<i>Finance Committee (FC) Proposed Adjustments</i>		
- Reduce Tree Trimming Cycle to 10 years	(170)	
- Two New RPPs Operations and Maintenance Costs	(230)	
- Planning & Transportation Contingency	(500)	
- 2.0 Position Reduction	374	
- POTENTIAL: FY 2017 General CIP Fund Reduction/Deferral (resulting in a reduction to the General Fund Transfer)	2,000	
- POTENTIAL SCENARIO B: FY 2017 General CIP Fund additional Reduction/Deferral (resulting in a reduction to the General Fund Transfer)	3,470	
<i>Subtotal Finance Committee Proposed Adjustments</i>	\$ 4,944	
Proposed BSR (FY 2017)	\$ 40,511	20.98%
<i>Revised BSR Draw</i>		
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Budget Stabilization Reserve (BSR) Goals (based on "FC Revised" expense level)		
15% Minimum	\$ 28,969	\$ 11,542
18.5% Target	\$ 35,729	\$ 4,782
20% Maximum	\$ 38,626	\$ 1,885

Additional Information Provided by Staff at the Request of the Finance Committee

The Finance Committee requested additional information from staff in regards to the implications of their proposed balancing solutions. This information is detailed below as requested.

General Capital Improvement Fund Potential Scenario Impacts: \$2.0 million or \$5.5 million

At the May 23, 2016 Finance Committee Budget Wrap-up meeting, the Finance Committee approved a motion requesting staff to provide two scenarios in which the Fiscal Year 2017

General Capital Improvement Fund budget be reduced or deferred by \$2.0 million and \$5.5 million. At the Finance Committee’s request, staff reviewed the Proposed Capital Budget focusing only on the projects included in the FY 2017 Capital Budget. After looking at the status of current projects and the upcoming pipeline in the context of resource capacity, the following projects have been identified by staff that could be deferred to FY 2018 and beyond in order to reach the \$2.0 million to \$5.5 million target reduction. The value represents the net FY 2017 hard costs of the project, excluding salaries and benefits and adjusted for outside funding sources which will be reallocated to support other capital initiatives under way.

It should be noted, that this one year deferral will be reviewed in the context of the full five year Capital Improvement Plan as part of the development of the FY2018-FY2022 Proposed CIP to ensure project plans align within the five year plan. The Ventura Building Improvements CIP is one that staff has some concerns given the age of the mechanical equipment of the facility.

Potential project deferrals:

- Ramos Park Improvements (PG-14000); page 226	\$ 175,000
- Ventura Buildings Improvements (PE-15011); page 174	\$ 600,000
- Municipal Services Center A, B, & C, Roof Replacement (PF-17000); Page 150	\$ 817,000
- Rinconada Park Improvements (PE-08001); page 228	<u>\$3,335,000</u>
	\$4,927,000

Planning & Transportation Contingency Reserve: \$500,000

On May 10, 2016, the Finance Committee discussed the Department of Planning and Community Environment’s need for additional resources. As a result, staff recommended a \$500,000 contingency reserve, similar to the \$500,000 transportation contingency reserve in FY 2016. The Department would use this reserve to supplement staff resources in furtherance of City Council priority projects during the course of the year. Specific uses of the reserve would require City Council approval, and recommended uses would include, but may not be limited to the following activities:

- Urban design support: The Department would retain the services of an architect or urban design professional to support staff’s work and to manage the preparation of design guidelines for two story homes in Eichler neighborhoods (either in the form of standalone guidelines or an amendment/supplement to the Individual Review (IR) guidelines).
- Middlefield Road traffic analysis and safety enhancements: The City has committed to undertake a review of the time of day turn restrictions implemented on a trial basis at two intersections along Middlefield Road close to the border with Menlo Park. The review will include a comprehensive analysis of traffic safety in this area, community engagement, and analysis of options for the future. This analysis and implementation of the selected option are not currently budgeted.

- Shuttle and RPP expenditures: A portion of the Department's FY 2016 contingency was used to support implementation of Downtown RPP phase two, and the FY 2017 contingency could likewise support any unanticipated costs associated with the Evergreen Park and Southgate programs. The contingency could also support shuttle service expansions, either in the form of increased frequencies or a new route(s), if the City Council elects to pursue these expansions based on results of an ongoing study of the shuttle system.

This funding will increase the Planning and Community Environment's effectiveness and responsiveness in the course of the year.

2.0 FTE Position Eliminations

As part of the Finance Committee recommended balancing revisions approved on May 23, 2016, a request for 2.0 FTE position reductions was requested. The City Manager is currently evaluating staffing resources and priorities throughout the City and will bring forward a recommendation at a later time.

RESOURCE IMPACT

Depending on further direction provided by the Finance Committee to staff on recommended changes to the FY 2017 Proposed Budget, the General Fund Budget Stabilization balance could be impacted. Any deferral of capital projects will need to have funding solutions in FY 2018 in order to keep them in the 5 year plan. Staff will also discuss revenue updates that were too late to include in the reports.