



City of Palo Alto

Finance Committee Staff Report

(ID # 9553)

Report Type: Action Items

Meeting Date: 9/18/2018

Summary Title: Discuss FY 2019 Adopted Budget Referral to Identify \$4 Million in General Fund Savings

Title: Discuss and Confirm the Workplan to Address the City Council FY 2019 Adopted Budget Referral to Identify \$4 Million in General Fund Savings

From: City Manager

Lead Department: Administrative Services

Recommendation

Discuss and provide direction on the workplan to address City Council's referral to identify \$4 million in General Fund structural reductions including identification of implications in non-general funds as well.

Background

As part of the adoption of the FY 2019 Budget, the City Council directed staff to:

Return to the Finance Committee with a work plan and timeline to discuss the \$4 million in structural reductions in the General Fund and the impacts of the reduction in expenses when the City Council returns from break, including a discussion of optimizing library hours. Also include discussion regarding the implications of closing the pension gap, at a commensurate 50% level to the General Fund, accounting for rising costs in non-general funds, specifically Enterprise and Other Funds.

In the FY 2019 Adopted Budget, a \$4 million negative adjustment was recorded in the Non-Departmental section of the General Fund expenses. These funds were added to the General Fund Budget Stabilization Reserve (BSR). Prior to this action, the City Manager's FY 2019 Proposed Budget was balanced with estimated revenue supporting the estimated levels of expenditures and the BSR slightly above the Council recommended level of 18.5% of General Fund operating expenditures. This additional \$4 million in the BSR increased the BSR beyond the City Council target of 18.5% of General Fund expenses to 21.4% of General Fund expenses. The specific implications associated with the lower expense level in the General Fund were left to be discussed during the FY 2019 budget year. Should the City Council choose not to reduce FY 2019 expenses by this \$4 million, an adjustment to reinstate this reduction would simply drop the BSR to Council approved levels of 18.5 percent of General Fund expenses.

Discussion

Staff has developed two workplans for Finance Committee review including rough timelines to address this referral: 1) “immediate action” and/or 2) “strategic action”. When considering the approach, it is important to take a step back and understand this referral in the landscape of where the City is as an organization. This broader lens includes review and acknowledgement of the current economic conditions, the knowledge depth and capacity in the organization, desired capital investments, desire for service levels juxtaposed with the costs to provide those services, etc. These largely opposing forces will make a comprehensive discussion of available resources - and providing services within limited resources - very challenging. In short, growing pension liabilities are not the only variable placing strain on the prioritization of City expenses. As the economy in the valley prospers, the demand on resources for services increases, as well as the cost to live in the Bay Area. This simple economic theory of supply and demand impacts the City on multiple levels - the cost of services the City seeks as a consumer (capital project construction costs, general day to day business such as janitorial services), and the cost to provide service to the community (majority is staff costs). At the Finance Committee meeting, staff will be prepared to review these additional fiscal demands on our current budget.

Ultimately, the City is faced with a few issues despite and because of the economic prosperity that both the City and community are enjoying.

- Attracting and retaining a highly qualified workforce to provide services to the community
- Safeguarding employee retirement benefits by proactively saving for the future
- Rising costs for services due to the hot economy and competition in the Bay Area

Every organization faces tough conversations at certain points, and the City is no exception. As always, community input is welcomed and encouraged through open, public discussions regarding the services purchased with taxpayer funds. City employees, those on the front lines every day ensuring residents are safe, have learning centers in libraries and community centers, and general utilities such as electricity and water, will also be encouraged to participate as their work and expertise are valued contributions to the community. Even as the organization may shift, it is the City’s commitment to be open and honest and manage the challenges that the work ahead may present for employees.

Potential Approaches

As mentioned earlier, staff have two potential workplans for review and discussion to address the prioritization of how the City spends its funding on services to the community.

Immediate Action

This approach would allow for potential resolution of this \$4 million referral by December 2018, with final budget adjustments completed during the FY 2019 Mid-Year Budget review, considered by the Council in early February.

Returning to the Finance Committee in November/December, staff would bring forward recommended reductions based on a review of basic criteria. Examples of criteria in this review may include but are not limited to:

- Statutory or legally mandated services, versus discretionary expenses/programs)
- Service levels that exceed other agencies or are replicated by other organizations
- Complexity of divestment of current service or service delivery model
- Ability to quickly realize reductions in expenses

This expedited review would focus on the General Fund. Staff would strive to identify reductions across all funds including Enterprise Funds to identify a commensurate amount of expense reductions: however, this may lag until the new calendar year given the timeframes. After the Finance Committee review, staff's recommended reductions would be brought forward to the full Council for review and approval, including budget adjustments to redistribute the \$4 million adjustment in the General Fund.

Strategic Action

This approach would allow for a more comprehensive strategy to address the \$4 million referral with more lasting results. Setting the City up for future discussions this would could be leveraged beyond just the immediate referral but provide a platform to proactively and strategically address the competing priorities and polarities facing the City. Specifically, this workplan would require an initial approximately six-month intensive citywide program review effort, with budgetary actions occurring no earlier than the FY 2020 budget process.

Staff would begin a citywide review of all programs and services currently provided by the City of Palo Alto resulting in a "catalogue of services." Services are defined as discrete programs to identifiable users and vary in size across the organization. Variables that this compilation of programs and services may include:

- concise descriptions and outcomes,
- approximate costing and staffing resources,
- resources managed (i.e. vehicles),
- funding source(s) and cost recovery levels,
- Statutory or legal mandates (as opposed to discretionary expenses/programs),
- Service levels that exceed most other agencies or are replicated by other organizations.

Once the catalogue is complete it would provide a foundation to develop a more strategic basis of prioritization of services across the organization. This catalogue would also establish a common language and format for future discussions, agnostic of the department or division.

Although this comprehensive approach has the promise of actionable and valuable information, the organizational effort to undertake such a project must not be underestimated. This work would require a focused prioritization of this effort amid a very active workload and transition cycle the City is currently moving through. An explicit commitment to ensure the capacity of staff during this project would be key to its success, by restraining new initiatives and some curtailment of existing work.

Resource Impact

There are no immediate budget adjustments necessary; however, significant staffing resources will need to be dedicated to address either approach. The City Council will need to ensure that space and capacity are provided to execute the action plan. Both short term and long-term impacts to services to the community as well as City staff may result from these evaluations. It will take significant dedicated time to determine the impacts of recommended actions, and communicate with and hear feedback from key stakeholders, community forums, and City staff at large in a strategic manner. In addition, depending on the approach, consultant costs may be necessary.

Environmental Impact

This report is not a project for the purposes of the California Environmental Quality Act. Environmental review is not required.