



# City of Palo Alto

## City Council Staff Report

(ID # 9925)

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**Report Type: Consent Calendar**

**Meeting Date: 12/17/2018**

**Summary Title: Approve \$4 Million in General Fund Budget Amendments & Amend the Table of Organization**

**Title: Finance Committee Recommends the City Council Approve the \$4 Million in General Fund Savings and Approve Corresponding Budget Amendments in Various Funds and the Table of Organization**

**From: City Manager**

**Lead Department: Administrative Services**

### **RECOMMENDATION**

Finance Committee recommends that the City Council:

- 1) Amend the Fiscal Year 2019 Budget Appropriation for various funds as identified in Attachment A; and
- 2) Amend the Fiscal Year 2019 Table of Organization for the General Fund to:
  - a. Eliminate 1.0 Performance Auditor I in the Office of the City Auditor;
  - b. Reduce 1.4 Building Serviceperson-Lead and reduce 0.75 Building Serviceperson positions; and
- 3) Amend the Fiscal Year Table of Organization for Other Funds to increase by 1.4 Building Serviceperson-Lead and increase by 0.75 Building Serviceperson.

### **EXECUTIVE SUMMARY**

On November 28, 2018 Finance Committee discussed Recommended actions to identify \$4.0 million in additional revenues and expense savings when compared to budgeted estimates to transfer those funds to the irrevocable IRS section 115 Pension Trust fund. Ultimately, the Finance Committee unanimously approved the report and recommend that the City Council approve the recommended actions as staff outlined. More information is available in CMR #9817: <https://www.cityofpaloalto.org/civicax/filebank/documents/67824>

This action would complete the “immediate action” plan outlined by staff and approved by the City Council in October 2018. If approved, these adjustments identify \$4.0 million in excess revenues and additional expense savings in the General Fund as directed by the City Council as part of the FY 2019 Adopted Budget.

## **BACKGROUND**

As part of the FY 2019 Adopted Budget, the City Council directed staff to find \$4.0 million in structural fixes in the General Fund and return to the Finance Committee and City Council after the 2018 summer break. In September 2018 and October 2018, the Finance Committee and the City Council approved two strategies to address this task as presented by staff, an “immediate action” and a “strategic action” workplans. The workplans as presented in September and October are discussed briefly below.

*Immediate Action:* This approach would allow for potential resolution of this \$4.0 million referral by December 2018, with final budget adjustments completed during the FY 2019 Mid-Year Budget review, considered by the City 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 with a focus on the General Fund. As directed by the City Council, both one-time and ongoing solutions are viable for this workplan with a strong recommendation to stay away from using reserves.

*Strategic Action:* This workplan would require an initially intensive citywide program review effort anticipated to last approximately six-months, 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 “services portfolio.” Services are defined as discrete programs to identifiable users and vary in size across the organization.

Previous staff reports transmitted regarding this referral can be found below:

- [Finance Committee September 18, 2018: CMR #9553](#)
- [City Council, October 29, 2018: CMR #9740](#)
- [Finance Committee November 28, 2018: CMR# 9817](#)

## **DISCUSSION**

Staff has identified “Immediate Action” General Fund budget adjustments and the impacts of them to attain \$4.0 million in excess revenues or additional expense savings beyond those presumed in the FY 2019 Adopted Budget. These adjustments would allow for an additional principal contribution of \$4.0 million from the General Fund to the 115 Pension Trust Fund in FY 2019. Staff’s intent would be to contribute commensurate amounts from other funds, including Internal Service Funds and Enterprise Funds, to match this level as part of the annual budget development.

As we proceed in parallel with steps toward more comprehensive strategic recommendations, these immediate actions reflect near-term revenue and expense changes to hit the \$4.0 million target. A summary of recommended adjustments are as follows; additional details with the specific appropriation changes can be found in Attachment A, Exhibit 1.

Proposed Change	\$'s in '000s	Ongoing?
<b>Excess Tax Revenue FY 2019:</b> Collections are anticipated to exceed budgeted estimates, primarily Property Tax.	\$2,000	No
<b>Additional Expense Savings:</b> The City is currently experiencing 8 to 10 percent vacancy levels. In addition, it is anticipated three contingent accounts will remain unspent, the Innovation, Human Resources, and HSRAP contingent accounts.	1,440	No
<b>Cubberley Operations &amp; Maintenance:</b> Shift funding for CSD Cubberley operations and maintenance staffing into the Cubberley Fund (472).	325	Yes
<b>Eliminate One Staff Position in the Auditor's Office:</b> Eliminate 1.0 vacant Performance Auditor I position.	135	Yes
<b>Reduce Council Contingent Funds:</b> Reduce the City Council contingency account of \$225,000 per year to \$125,000 per year beginning in FY 2019.	100	Yes
<b>TOTAL</b>	<b>\$4,000</b>	

These recommended adjustments provide both incremental steps to addressing the structural costs associated with more conservative pension calculation assumptions as well as ensure the City can carefully consider the impacts of those structural reductions on a more long-term basis.

#### RESOURCE IMPACT

This report fulfills the City Council direction included as part of the FY 2019 Adopted Budget to identify \$4.0 million for contribution to the City's 115 Pension Trust Fund. Through a combination of recognizing additional one-time revenues, one-time expense savings, and structural expense reductions, \$4.0 million in additional General Fund resources are available. These additional resources will offset the \$4.0 million reduction included in the non-departmental budget as part of the FY 2019 Adopted Operating Budget.

#### ENVIRONMENTAL REVIEW

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

#### Attachments:

- Attachment A: FY 2019 Budget Amendments in Various Funds

**ATTACHMENT A**

**CITY OF PALO ALTO**

**RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2019 BUDGET**

<b>Department</b>		<b>Revenues Adjustment</b>	<b>Expenses Adjustment</b>
<b>GENERAL FUND (102)</b>			
<i>Administrative Services</i>	<p><b>Property Tax Revenue</b></p> <p>This action increases the estimate for Property Tax receipts by \$900,000, from \$49.9 million to \$50.5 million. This increase recognizes an unusually high payment of excess Educational Revenue Augmentation Fund (ERAF) which are estimated to be nearly double previous year collections totaling over \$2 million in FY 2019. This is anticipated to be a one-time adjustment.</p>	\$ 900,000	\$ -
<i>Administrative Services</i>	<p><b>Sales Tax Revenue</b></p> <p>This action increases the estimate for Sales Tax receipts by \$500,000, from \$31.2 million to \$31.7 million. Increased business to business activities, specifically in leased revenue, have seen significant growth in the near term. This revised estimate captures this growth; however, additional monitoring is necessary to determine if this is a new trend or a one-time event.</p>	\$ 500,000	\$ -
<i>Administrative Services</i>	<p><b>Documentary Transfer Tax Revenue</b></p> <p>This action increases the estimate for Documentary Transfer Tax receipts by \$600,000, from \$7.4 million to \$8.0 million. The FY 2019 Budget assumed collections in this category would remain flat from prior year levels. However, due to property values and transactions, receipts are tracking to end the year above budgeted estimates. This is anticipated to be a one-time adjustment as growth for future years was already assumed as part of previous Long Range Financial Forecasts.</p>	\$ 600,000	\$ -
<i>Administrative Services</i>	<p><b>Departmental Savings (vacancy savings)</b></p> <p>This action reduces appropriated funds by \$300,000 from \$8.0 million to \$7.7 million in the Administrative Services Department to recognize one-time salary and benefits savings. Additional vacancy savings is the result of three senior management positions recently vacated including the Chief Financial Officer, Chief Procurement Officer, and Real Estate Manager. Although it is anticipated these positions will be filled, sufficient savings is anticipated to accrue until that time. As a result, staff remains focused on core business functions.</p>	\$ -	\$ (300,000)
<i>City Auditor's Office</i>	<p><b>Reduce One Staff Position in the Auditor's Office</b></p> <p>This action eliminates 1.0 vacant Performance Auditor I position in the Office of the City Auditor. Each Auditor position has a goal of producing two performance audits annually; the elimination of this position would reduce the capacity for the number of audits that can be performed in a given year. During the development of the FY 2019 budget, no significant reductions were approved in the Auditor's Office, which had a full team of staffing, compared to the reductions felt by other departments and appointees.</p>	\$ -	\$ (135,000)
<i>City Clerk's Office</i>	<p><b>Departmental Savings (vacancy savings)</b></p> <p>This action reduces appropriated funds by \$50,000 from \$1.3 million to \$1.2 million in the Office of the City Clerk to recognize one-time salary and benefits savings. Currently the office has a vacant part-time staff position that provides administrative support and coverage for the Office. It is anticipated this position will continue to be recruited for; sufficient savings is anticipated to accrue until the position is filled. As a result, staff ensure the continuation of required business processes through additional coverage from management staffing.</p>	\$ -	\$ (50,000)

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<b>Department</b>		<b>Revenues Adjustment</b>	<b>Expenses Adjustment</b>
<b>GENERAL FUND (102)</b>			
<i>Community Services</i>	<p><b>Reallocation of Cubberley Operations &amp; Maintenance</b></p> <p>This action reallocates funding for CSD Cubberley operations and maintenance staffing into the Cubberley Fund (472). Staffing includes part-time custodial assistants (2.08 FTE) and full-time building servicepersons (2.15 FTE). This is in addition to the Department of Public Works staffing and resources shifted previously. In total, \$700,000 of the \$1.9 million annual contributions will be dedicated to O&amp;M and funding of \$1.2 million would be available annually for significant capital improvements. A corresponding change to the full-time Table of Organization is included in the recommendation.</p>	\$ -	\$ (325,000)
<i>Human Resources</i>	<p><b>Departmental Savings (vacancy savings)</b></p> <p>This action reduces appropriated funds by \$50,000 to \$3.5 million in the Human Resources Department to recognize one-time salary and benefits savings. The vacancy savings is the result of a vacant Senior Human Resource Administrator position in the Employee Relations &amp; Training team. Although it is anticipated this position will eventually be filled and reassigned to support organizational Recruitment demands, sufficient savings is anticipated to accrue until that time. As a result, staff remains focused on keeping up with critical timelines and deliverables and has augmented gaps in staffing with some contractual assistance to keep up with business needs.</p>	\$ -	\$ (50,000)
<i>Library</i>	<p><b>Departmental Savings (vacancy savings)</b></p> <p>This action reduces appropriated funds by \$200,000 from \$9.7 million to \$9.5 million in the Library Department to recognize one-time salary and benefit savings. Additional vacancy savings are the result of vacant positions such as a Senior Librarian and the current shared executive management between the Community Services Department and the Library Department. It is anticipated that vacant positions will continue to be recruited for and that the shared executive management where the savings is being realized in the Library Department in whole will accrue sufficient savings until the positions are filled. As a result, staff ensure the continuation of Library services and hours however, additional desk time for libraries may be necessary. In addition, both CSD and Library are operating with a reduced executive management team resulting in diminished capacity for strategic initiatives and oversight.</p>	\$ -	\$ (200,000)
<i>Non-Departmental</i>	<p><b>Contingent Account Savings</b></p> <p>This action eliminates funding of \$140,000 on a one-time basis with the elimination of the HSRAP contingent account (\$50,000), the Human Resources contingent account (\$50,000), and the Innovation contingent account (\$40,000).</p>	\$ -	\$ (140,000)
<i>Non-Departmental</i>	<p><b>Reduce City Council Contingent Account</b></p> <p>This action reduces the City Council contingent account by \$100,000 beginning in FY 2019 (from \$225,000 to \$125,000). Historically the City Council contingent account ends each year with expense savings. This action would limit the discretionary special projects and financial support in those years when there are extraordinary events. In FY 2019, approximately \$30,000 has been expended to date.</p>	\$ -	\$ (100,000)

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<b>Department</b>		<b>Revenues Adjustment</b>	<b>Expenses Adjustment</b>
<b>GENERAL FUND (102)</b>			
<i>Planning &amp; Community Environment</i>	<p><b>Departmental Savings (vacancy savings)</b></p> <p>This action reduces appropriated funds by \$500,000 from \$8.9 million to \$8.3 million in the Planning &amp; Community Environment Department to recognize one-time salary and benefits savings. Critical vacancies in the department are resulting in increased application processing time, diminished time for department strategic work planning, increased potential for administrative mistakes, staff burnout leading to increased vacancies, and possible delays in responses to governing bodies. This is being managed through spikes in management overtime however, this results in reductions in quality control as remaining staff are striving to meet deadlines. It is expected that these positions will be filled, however, sufficient vacancy savings is anticipated to accrue until they are filled.</p>	\$ -	\$ (500,000)
<i>Public Works</i>	<p><b>Departmental Savings (vacancy savings)</b></p> <p>This action reduces appropriated funds by \$200,000 from \$18.5 million to \$18.3 million in the Public Works Department in salaries and benefits funding. Additional vacancy savings is the result of four vacant positions, which include a Heavy Equipment Operator, Facilities staff, and the Director of Public Works. Although it is anticipated these positions will be filled, sufficient savings is anticipated to accrue until that time. In the interim period, staff has not been able to keep up with work orders and regular maintenance. Similarly, daily tasks have had to be reprioritized and/or deprioritized to accommodate the highest need requests. The interim Director of Public Works has focused on core business functions at the expense of strategic initiatives.</p>	\$ -	\$ (200,000)
<i>Non- Departmental</i>	<p><b>Transfer to General Benefit Fund (115 Pension Trust contribution)</b></p> <p>This action appropriates a \$4.0 million transfer from the General Fund to the General Benefits Fund for a contribution to the City's Section 115 Pension Trust Fund in alignment with the Council direction provided as part of the FY 2019 budget adoption. A corresponding revenue and expense adjustment in the General Benefits Fund will offset this action.</p>	\$ -	\$ 4,000,000
<i>Non- Departmental</i>	<p><b>Reversal of FY 2019 General Fund Structural Reduction</b></p> <p>This action reverses the adjustment approved in the FY 2019 Adopted Budget consistent with the Finance Committee Recommendation on May 23, 2018 which reduced budgeted expenses in the General Fund by \$4.0 million. The specific impacts of this reduction were to be identified and articulated to the Finance Committee during the remainder of the 2018 calendar year. Included in this report are the specific \$4 million in transactions including the implications of them.</p>	\$ -	\$ 4,000,000
<i>Non- Departmental</i>	<p><b>Budget Stabilization Reserve</b></p> <p>This action decreases the fund balance to offset adjustments recommended in this report.</p>	\$ -	\$ (4,000,000)
<b>GENERAL FUND (102) SUBTOTAL</b>		<b>\$ 2,000,000</b>	<b>\$ 2,000,000</b>

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**RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2019 BUDGET**

<b>Department</b>		<b>Revenues Adjustment</b>	<b>Expenses Adjustment</b>
<b>GENERAL BENEFIT FUND (687)</b>			
<i>Non- Departmental</i>	<b>Transfer from General Benefit Fund/115 Pension Trust contribution</b> This action recognizes \$4.0 million transfer from the General Fund and appropriates a \$4.0 million expense for a contribution to the City's Section 115 Pension Trust Fund. This action is in alignment with the Council direction provided as part of the FY 2019 budget adoption.	\$ 4,000,000	\$ 4,000,000
		<b>GENERAL BENEFIT FUND (687) SUBTOTAL</b>	<b>\$ 4,000,000 \$ 4,000,000</b>
<b>CUBBERLEY INFRASTRUCTURE FUND (472)</b>			
<i>Non- Departmental</i>	<b>Reallocation of Cubberley Operations &amp; Maintenance</b> This action reallocates funding for CSD Cubberley operations and maintenance staffing from the General Fund to the Cubberley Fund (472). Staffing includes part-time custodial assistants (2.08 FTE) and full-time building servicepersons (2.15 FTE). This is in addition to the Department of Public Works staffing and resources shifted previously. In total, \$700,000 of the \$1.9 million annual contributions will be dedicated to O&M and funding of \$1.2 million would be available annually for significant capital improvements. A corresponding change to the full-time Table of Organization is also recommended.	\$ -	\$ 325,000
<i>Non- Departmental</i>	<b>Ending Fund Balance Adjustment</b> This action decreases the fund balance to offset adjustments recommended in this report.	\$ -	\$ (325,000)
		<b>CUBBERLEY INFRASTRUCTURE FUND (472) SUBTOTAL</b>	<b>\$ - \$ -</b>