



# City of Palo Alto

## Finance Committee Staff Report

(ID # 10179)

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**Report Type: Action Items**

**Meeting Date: 3/19/2019**

**Council Priority: Fiscal Sustainability**

**Summary Title: 2019 Fiscal Sustainability Workplan & \$4 million FY 2019 Budget Referral Update**

**Title: Approval of the 2019 Workplan to Address the City Council Priority, “Fiscal Sustainability” and Update Regarding the FY 2019 Adopted Budget Referral to Identify \$4 Million in General Fund Savings**

**From: City Manager**

**Lead Department: Administrative Services**

### **Recommendation**

Staff recommends that the Finance Committee recommend that City Council approve the 2019 workplan to address the City Council Priority “Fiscal Sustainability” and discuss the status of the Fiscal Year 2019 Adopted Budget referral to identify \$4.0 million in General Fund structural reductions including identification of implications to non-general funds and direct staff to proceed with the workplan.

### **Background**

As part of the adoption of the Fiscal Year (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.*

Staff developed two plans to address this referral: 1) “immediate action” and 2) “strategic action.” Ultimately, the Finance Committee and City Council approved the report and directed staff to complete both workplans. The Finance Committee and City Council completed the immediate action item in December 2018 with the approval of budget adjustments to the FY 2019 budget ([CMR 9925](#)). This action included the approval of an additional \$4 million

contribution to the City’s IRS section 115 irrevocable pension trust fund. This report provides a brief update on the status of the second longer term plan for strategic action.

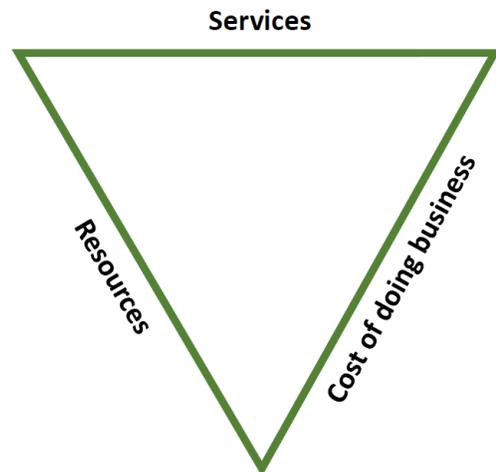
Subsequent to this referral and the approval of the plans to address it, the City Council met on February 2, 2019 for their annual retreat. Here the City Council adopted four (4) priorities for calendar year 2019 including “Fiscal Sustainability”.

**Discussion**

For the purpose of developing this workplan, staff has attempted to encapsulate what the Council means by the term fiscal sustainability. “Fiscal Sustainability” is the ability of a government agency to provide ongoing services while maintaining its finances at a credible and serviceable position with a long-term balance of resources and the cost of doing business. In order to accomplish this, governments adopt budgets and implement expense controls, while engaging in continual strategic forecasting of future revenues and liabilities, environmental factors, and socio-economic trends in order to adapt financial planning accordingly.

The goal of this workplan is to continue to make proactive progress towards fiscal sustainability for the City of Palo Alto in order to maintain the quality of life that the City of Palo Alto supports through its services. Engaging the public and fostering discussion on the City's current and projected financial status are elements of this, as is identifying strategies for the City Council to consider. In order to achieve fiscal sustainability, the ecosystem that supports a government agency must be understood and evaluated in totality. The day to day financial management of the organization is equally as important as the services provided by the City’s workforce and the local (and broader) economy that is impacting City revenues and expenditures. It is only by achieving a sound equilibrium balancing our resources, services, and costs, that fiscal sustainability can be achieved. The diagram below depicts this ecosystem:

Staff has identified several initiatives for prioritization because of their propensity to enhance one or more sides of this ecosystem; they may: expand or improve services to the Palo Alto community, increase or leverage resources, or reduce or mitigate costs.



The proposed Fiscal Sustainability Workplan for 2019 organizes these initiatives into three categories: 1) activities previously approved or directed by the City Council and currently resourced, 2) activities approved or directed by the City Council but not yet resourced, and 3) newly proposed or potential activities not yet resourced.

Overall, the workplan represents a variety of initiatives intended to improve the City’s fiscal sustainability position. They reflect a range of policy actions, process improvements, and

service model shifts that could: reduce costs, mitigate future increases in cost, add resources, or more effectively use existing resources, while maintaining services to the public.

It should be noted, however, that in pursuing this workplan a near term analogy applies. In order for staff to maintain a balanced ecosystem, the completion of activities during 2019 that have not yet been resourced would require a reallocation of resources; most notably a finite resource, staff time. This is likely to result in a reduction of resources – and an associated reduction in service – to other programs, initiatives, and competing demands.

DRAFT FISCAL SUSTAINABILITY WORKPLAN:

Previously approved or directed by the City Council and currently resourced: these are fiscal sustainability initiatives or activities that are currently directed by the City Council and have funding or staffing resources identified for completion.

- A. Annual 5+ year financial planning through reports such as General Fund Long Range Financial Report (Nov/Dec); Utility Financial Forecast and Rate Proposal (March – May); and the FY 2020-2024 Capital Improvement Budget (May/June)
- B. Annual budget process resulting in balanced adopted operating and capital budgets
- C. Review and confirmation of funding for the City Council approved 2014 infrastructure plan
- D. Continued implementation of the Infrastructure Blue Ribbon Commission (IBRC) recommendations to catch-up and keep-up with infrastructure maintenance needs and additional operating and maintenance implications of new capital projects and facilities coming online
- E. Focused labor relations with represented and management employee groups closing contracts expeditiously and cost effectively
- F. Services Portfolio/Inventory (discussed below) including stakeholder engagement and education
- G. Targeted support for Downtown and California Ave. business districts

Approved or directed by the City Council but not yet resourced: these are fiscal sustainability initiatives or activities that are currently directed by the City Council, however, they do not yet have funding or staffing resources identified for completion.

- H. Pension policy
- I. Improvement of code enforcement, 311 system, and customer relationship management activities
- J. Parking management

Newly proposed or potential activities proposed to be completed: these are new activities staff recommends undertaking as part of this 2019 workplan.

- K. Draft a formal budget development policy to guide annual financial planning and allocation of resources
- L. Develop proposals to address recruitment and retention challenges
- M. Analysis of revenue generating options
- N. Develop a plan for a business tax proposal, including reform of the business registry through implementation of a business license program.

### **Strategic Action Update: Services Portfolio/Inventory**

In November 2018, staff embarked on the strategic action alongside the City Council's immediate action in response to the City Council referral discussed above, identification of additional funding for payment of pension liabilities. Using the FY 2019 Adopted Budget, over 120 programs have been identified across the City, allocating over 1,000 full time positions and nearly 1,150 total positions when including part-time staffing.

Over the past few months, staff throughout the city have engaged in documenting an inventory of services and programs across departments, using a common set of terms to describe the wide range of services and programs currently provided by the City. This has informally been referred to as our "services portfolio". Staff has gathered the following information about each service and intends to review an example with the committee at the March 19<sup>th</sup> meeting:

- a brief description,
- quantitative identification of revenues, expenses, and staffing allocated,
- notes about resources managed or leveraged such as volunteer hours, grants, etc.,
- the return on investment or the outcome delivered by these resources, and
- identification of mandates such as state, Federal, or municipal code requirements.

In addition, staff is examining enterprise initiatives across all services. The completed body of work is intended to be presented to the Finance Committee as part of the Fiscal Sustainability workplan (discussed above) and it is anticipated that the information will be used as a tool to begin outreach and education on both the resources and the costs of business that support the delivery of services to the community.

### **Resource Impact**

Both staff and non-salary resources, such as consultants and the procurement of tools, will be necessary to complete this workplan. To complete the workplan and balance against other activities, a deliberate and judicious deployment of resources will be necessary. As portions of this workplan are developed more fully, resource needs will be identified at that time for the specific project.

**Policy Implications**

This recommendation aligns with existing City policy and City Council direction.

**Environmental Review**

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

**Attachments:**

- ATTACHMENT A: List of Enterprise Activities

## ATTACHMENT A

### DRAFT List of Enterprise Activities

#### External Activities

1. **Airplane Noise:** resources related to airplane noise
2. **Audit Recommendations (and/or impacts):** services, business processes, or programs that are due to, impacted by, or were a direct result of an audit recommendation.
3. **Boards, Commissions, & Regional or Interagency Support:** resources dedicated to supporting various City Boards & Commissions, seats on external boards/commissions on which the City is a representative. This includes regional coordination and activities with other entities in an official capacity or sharing resources across agencies.
4. **Communications/Community Engagement:** resources dedicated to marketing, communications, and/or community/stakeholder outreach. An example may be the Police Department's communication officer who addresses the press and the community. Also, the Zero Waste Team's contract for advertising and staff that works on the marketing and advertising for the program.
5. **Healthy Cities/Healthy Communities:** Resources for promoting or modeling the healthy city healthy communities' goals and priorities of the City. It's about public policy that fosters a healthy society. That means equity, health for all, and attention to such things as supportive environments and livability.
6. **Public/Private Partnership:** resources dedicated to supporting organization such as 'Friends of' or other partnerships through stipends or staffing resources that support non-profits.
7. **Resiliency/Emergency Preparedness:** resources dedicated to the planning or execution of redundancies for emergencies or potential emergencies. One example is the City's sea level rise project.
8. **Special Events:** Resources dedicated to support, staffing, or planning of special events within the City.
9. **Sustainability:** The City's sustainability action plan that requires departments across the City to work on and weave different sustainability goals into daily business. These are resources dedicated to the implementation or ongoing costs of adherence to the sustainability action plan.