



City of Palo Alto

Finance Committee Staff Report

(ID # 10643)

Report Type: Action Items

Meeting Date: 12/3/2019

Council Priority: Fiscal Sustainability

Summary Title: FY 2020 Budget Referrals Update

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From: City Manager

Lead Department: Administrative Services

Recommendation

This is an informational report and no Finance Committee action is required.

Background and Discussion

In April 2019, Finance Committee reviewed the Fiscal Year 2020 Budget. As part of this review, the Finance Committee requested various information items. The table below provides an update on both completed and outstanding referrals. These updates have been provided in coordination with the assigned departments.

Referral	Assigned Department	Status
FY2020 Budget: <i>Return to the Finance Committee to strategize the use of uncommitted funds from the Stanford University Medical Center (SUMC) development agreement.</i>	Office of Management and Budget	Oct 2019: See Attachment A Included in Attachment A is a summary of the current status of the SUMC development agreement funds, remaining balances, future anticipated expenses and uncommitted balances. Staff recommends that considering the continuing competing priorities, the City Manager review and incorporate any recommended changes to current allocations and/or future allocations as part of the FY 2021 annual budget process.
FY2020 Budget: <i>Provide an update on the Bicycle/Pedestrian Plan to the City Council in Fall 2019.</i>	Office of Transportation	Nov 2019: Due to staff vacancies, in particular the position of Chief Transportation Official, the presentation of the Bicycle/Pedestrian Plan update has been be delayed. With new staff coming aboard and an amended consultant contract with Municipal Resource Group (pending Council approval on November 18), the update should be ready for Council in the first half of calendar year 2020.

<p>FY2020 Budget: <i>Review of New Junior Museum Zoo Staffing, Budget, and Fees planned for FY21-->Analyze the appropriate price levels for the gated Junior Museum and Zoo (JMZ), anticipated to open in summer 2020, to ensure appropriate cost recovery levels</i></p>	<p>Community Services Department</p>	<p>Oct 2019: The Junior Museum and Zoo (JMZ) construction project is well underway. Due to delays caused by rain, the anticipated re-opening date is now October 2020. Staff is currently in the process of refining the business plan for the new facility, which includes developing a new staffing model and operating budget. Staff is also finalizing the proposed ticket and membership price levels for the gated entry. Staff anticipate presenting these recommended changes to the Finance Committee in February 2020.</p>
<p>FY2020 Budget: <i>Discuss Library fines with the Library Advisory Commission. More extensively discuss the trade-offs associated with fines in the Library and the disadvantages and advantages of using fines.</i></p>	<p>Library</p>	<p>Oct 2019: Library fines were discussed with the Library Advisory Commission (LAC) during the June 27, 2019 meeting. Minutes from this meeting can be found here, video can be found here. An additional follow-up during the August 14 meeting included a letter explaining offset considerations here. A motion which was unanimously passed by the LAC recommends banning fines on policy terms and to allow staff to begin exploring what the potential offsets would be.</p> <p>Library fine revenue does not directly offset costs, is not guaranteed, and varies year to year; currently showing a 48% reduction over three years partially due to the elimination of children’s late fines. Further reduced late fines are expected in FY 2020 due to the implementation of automatic renewals in September 2019. Automatic renewals have resulted in up to 50% reduction in late fine revenues for other library systems, making it possible for further late fine reduction to occur in Palo Alto. The Library spends 1,560 staff hours each year processing late fines collection and \$8,000 annually on a collection service to facilitate fine collection over \$10. Some staff hours and collection services investments will still have to be made to collect other library fines, but both amounts should decrease upon elimination of late fines.</p> <p>Despite the decreased revenue over the years and the national and local trend to eliminate late fines as barriers to service for low-income customers, late fines still represent a line of revenue for the General Fund. \$59,000 was collected from late fines in FY 2019. This represents 0.6% of the Library’s entire operating budget and 0.03% of the entire General Fund’s revenue. Lost or damaged materials fines would remain (\$24,981 in FY 2019).</p>

		<p>The Library is seeking alternate forms of dependable revenue to offset a loss of late fine dollars, such as implementing community room rental fees in January 2020 for the Embarcadero and Midtown rooms at Rinconada and Mitchell Park libraries respectively. Other examples of potential new revenue streams the Library is exploring are a passport office and exam proctoring services. Recommendations related to library fines and other Library related revenue will be brought forward as part of the FY 2021 annual budget process.</p>
<p>FY2020 Budget: <i>Adopted budget approved a one-year phase out of Project Safety Net to a nonprofit or partnership relationship.</i></p>	<p>Community Services Department</p>	<p>Oct 2019: The Fiscal Year 2020 adopted budget anticipated that Project Safety Net (PSN) would transition from a Collective Impact Model funded by the City’s General Fund to a nonprofit entity by the start of FY 2021. This effort is underway and the City anticipates that PSN will be incorporated as a separate entity by Fiscal Year 2021. PSN has initiated the process of legally transitioning to a 501(c)(3) nonprofit by engaging with a law firm that is providing pro bono service to complete the application. PSN is also establishing the nonprofit board of directors and is developing the nonprofit’s operating model, by-laws, future mission, and scope of services.</p> <p>To support this transition, staff proposed to provide financial support in an amount of \$100,000 annually beginning in FY 2021 (an ongoing savings of \$170,000) and one-time funding of \$25,000 in FY 2020 to assist in transition costs. This funding level is still recommended but will be reassessed if PSN’s transition timeline is delayed.</p>
<p>FY2020 Budget: <i>Adopted budget approved the elimination of medic 61 beginning January 2020 (currently staffed by overtime)</i></p>	<p>Fire</p>	<p>Oct 2019: The planned deployment changes require consultation with the local International Association of Firefighters (IAFF) and renegotiation of the Stanford Fire Services Contract. The Fire Department has been in consultation with Human Resources and the Attorney’s Office and City Manager’s Office on the necessary consultations. The City has sent official notice in early October to Stanford University in accordance with the contract terms and has requested to schedule initial negotiations. There has not yet been a response from Stanford. Upon initiation of discussion with Stanford, the City plans to engage IAFF on the appropriate elements. The City and Stanford have not begun discussions; therefore, staff anticipates a revised start</p>

		<p>date of Q1 FY 2021. Additional funding may be needed in FY 2020 as a result of negotiations taking longer than initially planned. Staff may bring forward a funding recommendation as part of the FY 2020 Mid-Year Budget Review.</p>
<p><i>FY2020 Budget:</i> <i>Evaluation of Printing & Mailing Services levels and service delivery</i></p>	<p>Administrative Services Department</p>	<p>Oct 2019: The Administrative Services Department has convened an interdepartmental committee to review printing service alternatives. The review will look at how best to continue to provide printing services to City departments via possible alternative service delivery approaches including third party provided services. This will take into account a comparison of the current cost of these services compared to alternatives and related service levels.</p> <p>This group has outlined a set of requirements to include in a scope of services for printing services. Some of these requirements include turnaround times, service levels, onsite proof review, paper type, print format and size, binding options and oversize deliverables like banners and signs. Staff is expecting to issue a request for proposal (RFP) in the first quarter of 2020 and to make a recommendation to Council during calendar year 2020 on a proposed path forward. Meanwhile, the City's Print Shop continues to operate providing the full breadth of services to City departments.</p>

Stakeholder Engagement

All assigned departments have coordinated with the Office of Management and Budget to update the status of each referral for this report.

Resource Impact

This is an informational report; there are no financial impacts resulting from this report.

Environmental Impact

This is not a project.

Attachments:

- ATTACHMENT A: SUMC Summary of Fund Status

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CITY COUNCIL REFERRAL

Return to the Finance Committee to strategize the use of uncommitted funds from the Stanford University Medical Center (SUMC) development agreement. More information regarding this potential referral can be found below.

Staff recommends that considering the continuing competing priorities, the City Manager review and incorporate any recommended changes to current allocations and/or future allocations as part of the FY 2021 annual budget process. As a one-time source of funding, clear principals of spend should follow the important budgeting principal that funds only be spent and invested in one-time costs.

BACKGROUND

As part of the FY 2020 budget process, staff and the Finance Committee agreed, to return to the Finance Committee in the fall to strategize the use of uncommitted funds from the Stanford University Medical Center (SUMC) development agreement.

In 2011, the City of Palo Alto entered into a Development Agreement between the City of Palo Alto and the Stanford University Medical Center Parties (SUMC). Funds received in Fiscal Year 2012 as part of this agreement were used in Fiscal Years 2013, 2014, and beyond as outlined in the agreement and approved by the City Council. In Fiscal Year 2018, the City received the final payment of \$11.8 million, for a total principal amount of \$44.3 million over the course of the development agreement. The funds received per the development agreement are allocated for specific purposes, which include funding for the 2014 City Council approved Infrastructure Plan. As outlined in the agreement, expenses and revenues for each category must be accounted for separately. The full text of the agreement and significant background information can be found in the following documents:

- City Council adoption of the final SUMC Development Agreement, [Staff Report 1339](#), [Action Minutes](#)
- Ordinance of the Council of the City of Palo Alto Approving a Development Agreement Between the City of Palo Alto and Stanford Hospital and Clinics; Lucile Salter Packard Children's Hospital at Stanford; and the Board of Trustees of the Leland Stanford Junior University, [Ordinance 5124](#)
- Annually the Planning and Development Services Department, formerly the Planning and Community Environment Department, issues a report of activities during the prior period for Council review to ensure compliance with the agreement. The annual report for the 2016-2017 period is included in CMR 8999 found here: <https://www.cityofpaloalto.org/civicax/filebank/documents/65285>.

Historically, the City Council and Committees have provided direction to staff on the authorization process for use of SUMC funds, including guiding principles for their expenditure.

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At a high level, these funds should be consistent with 1) City Council priorities, 2) used for impactful and long-lasting projects, and 3) primarily focused on infrastructure.

The development agreement contains provisions for certain expenditures that have been programmed in prior years, including Project Safety Net and emergency vehicle traffic signal preemption. The authorization to use SUMC funds:

- For new projects (excluding Health and Safety) is completed as part of the annual budget process.
- Funding for Health and Safety is to be reviewed and recommended by the Policy & Services Committee to the City Council for approval. In prior years a joint Stanford/City Committee was created to advise Community Health and Safety programs.

At the May 15, 2019 Budget Hearing, the Finance Committee requested additional information regarding the definitions, restrictions, and current status of the SUMC development agreement funds. Staff provided follow up to this request during the May 28, 2019 Budget Hearing via an [At Places Memorandum](#). As result of this discussion, the Finance Committee requested that staff provide additional information related to the uncommitted balances in the SUMC Fund, assuming that FY 2020 - 2024 Capital projects are expended as planned. This information was provided in [Staff Report 10419](#). The Finance Committee also requested that staff return to the Finance Committee later to strategize a spending plan for uncommitted SUMC development agreement funds.

DISCUSSION

At the close of FY 2019, a total of \$20.5 million remains of the \$44.3 million in direct payments (plus nearly \$4.2 million in interest) with \$14.7 million programed for various capital investments and \$6.1 million remaining in unspent and unallocated funds.

Below is a summary table of the different expenditure categories outlined in the development agreement and the current status of each of those categories. Following the table is a summary of the expenses to date as well as the planned expenses. In light of the continuing competing priorities, staff recommends that **City Council direct the City Manager to incorporate any recommended changes or current allocations and future allocations as part of the FY 2021 annual budget process.** As a one-time source of funding, clear principals of spend should follow the important budgeting principal that funds only be spent and invested in one-time costs. The **Finance committee may review the planned expenses and the uncommitted balances, provide feedback on priorities and goals for future spend within the parameters of the development agreement.**

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Stanford University Medical Center (SUMC) Current Fund Status Summary (millions):

DEVELOPMENT AGREEMENT EXPENDITURE CATEGORY	PRINCIPAL FUNDING	FY 2020	FY 2020	PLANNED	
		BEGINNING BALANCE	INTEREST (EST)	COMMITMENTS	UNCOMMITTED
Community Health and Safety	4.00	2.78	0.04	-	2.81
Expansion Cost Mitigation	2.42	2.87	0.05	-	2.91
Intermodal Transit	2.25	1.20	0.02	1.7	(0.48)
Quarry Road Improvements "Linkages"	0.40	-	-	-	-
Infrastructure and Affordable Housing	23.20	10.86	0.17	10.6	0.43
Climate Change and Sustainable Communities	12.00	2.77	0.04	2.4	0.41
	\$44.3	\$20.5	\$0.3	\$14.7	\$6.1

Community Health and Safety:

Funds in this category are intended for use on community-based health and wellness programs that benefit residents of the City. Of the original funding of \$4.0 million, 50% or \$2.0 million was dedicated to Project Safety Net (PSN) expenses including program costs and means restriction costs. Through FY 2017, these funds were expended on PSN program costs including staffing and administrative expenses and the track monitors. Once the SUMC funds were exhausted, these costs were reallocated and this program has been funded from the General Fund – current annual expenses include approximately \$0.3 million in PSN program costs and \$0.4 million in annual intrusion detection system monitoring costs.

The remaining uncommitted balance of \$2.8 million (including interest earnings to date) can be used for a number of programs or initiatives such as, but not limited to:

- continued support of the PSN work (currently recommended to be transitioned to a separate agency from the city);
- repayment to the General Fund for past expenses in relationship to the investment of intrusion detection system equipment as well as the ongoing monitoring of the system; and
- new or expanded investments in one-time costs.

Per the agreement, this category of funding is to be reviewed by a joint Stanford/City Committee.

Expansion Cost Mitigation:

Funds in this category are intended for mitigating unexpected project impact costs and ensure cost neutrality of the development. Of the original \$2.4 million allocation, no funds in this category have been expended or planned for expense and therefore a balance of \$2.9 million remains as a result of interest accrued in this category. Funds are being held in this category for the purpose of assuring that City costs associated with the project do not exceed revenues to the City. These funds can be used for a number of programs or initiatives such as, but not

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limited to:

- Additional project costs for existing projects such as the El Camino/Quarry Road Intersection as discussed below, curing the projected negative balance in the “Intermodal Transit” category.
- Transportation program investments of a one-time nature including capital infrastructure and studies.

Intermodal Transit:

Funds in this category are intended to enhance pedestrian and bicycle connection from the Transit Center to the El Camino/Quarry Road intersection. Of the original \$2.25 million allocated, \$1 million has been spent on the estimated \$5 million Quarry Road Improvements and Transit Center Access project (PL-16000).

The remaining uncommitted balance of \$1.2 million plus additional funds of \$0.5 million which includes interest earnings are planned to be expended on the Quarry Road Improvement and Transit Center Access project (PL-16000) as part of the FY 2020-2024 Capital Improvement Plan. This would bring the total SUMC supported funding to \$3.1 million (combined funding from Intermodal Transit and Quarry Road Improvements categories) of this \$5.1 million project. This planned expense of \$1.7 million over the FY 2020-2024 CIP would result in a negative balance in this category of \$0.5 million which would need to be covered by another expense category from this development agreement. A letter from the the City Manager to Stanford from 2016 articulated that incremental cost increases may be funded from the Infrastructure, Sustainable Neighborhood and Communities and Affordable Housing Fund.

The Quarry Road improvements project has recently increased in cost by \$1.1 million to account for increased construction costs. Significant expenses have already been incurred for this project of an estimated \$1.3 million through FY 2019 and project completion is expected in FY 2022 with the most significant construction outlay of an estimated \$3 million in FY 2022.

Quarry Road Improvements:

These funds are to be used for improvements to the right-of-way for pedestrian and bicycle connection in the Quarry Road area, such as improvements to the right-of-way to enhance pedestrian and bicycle connection from west side of El Camino to Welch Road along Quarry Road. As of FY 2019, all of the original \$0.4 million allocation have been expended in this category towards the Quarry Road Improvement and Transit Center Access project (PL-16000). Remaining funding for Quarry Road Improvements are planned to be expended from the Intermodal Transit category.

Infrastructure and Affordable Housing:

Funds are to be used in connection with infrastructure, sustainable neighborhoods and communities, and affordable housing. Of the \$23.2 million principal allocation (plus nearly \$2

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million in interest earnings), \$14.2 million has been spent and an additional \$10.7 million is planned for expenditure over the FY 2020-2024 CIP exhausting all but \$0.4 million of the original allocation. To date, funds have been spent on projects such as \$6.0 million for the replacement of Fire Station 3, \$3.9 million for the construction of the new Public Safety Building, a \$2.7 million transfer to the Residential and Commercial Housing in-lieu funds (of which \$1.0 million has been appropriated through City Council direction), and \$1.55 million for the Charleston/Arastradero Corridor Project.

Over the coming FY 2020-2024 CIP, \$10.7 million is planned for the following projects:

PROJECT	SUMC \$'S ALLOCATED	PLANNED EXPENSE YEAR	PROJECT STATUS
Downtown Parking Garage (PE-15007)	\$9.1 million	FY 2022	Deferred (design development)*
Public Safety Building (PE-15001)	\$800,000	FY 2021	Construction Documents
Fire Station 4 Replacement (PE-18004)	\$750,000	FY 2021	Not started

* Project is currently under review per City Council direction.

Should these project expenditures not be completed as planned, eligible projects would be reevaluated for connection with infrastructure, sustainable neighborhoods and communities, and affordable housing initiatives. These three remaining projects are all part of the 2014 City Council approved Infrastructure Plan.

Climate Change and Sustainable Communities:

Funds are to be used for projects and programs for a sustainable community, including programs identified in the City's Climate Action Plan. Funding in this category is programed to be used for the Bicycle and Pedestrian Transportation Pan Implementation (PL-04010) capital plan, approved as part of the City Council approved 2014 Infrastructure Plan. In total this project, within the 2014 Infrastructure Plan, is planned to invest \$20 million, in the design and construction or bicycle boulevards, enhanced bikeways, shared-use paths, bicycle parking, and pedestrian improvements in accordance with the 2012 Council approved Palo Alto Bicycle and Pedestrian Transportation Plan. Of the \$20 million in capital investments, \$12 million is to be funded from the development funds. Beginning in FY 2020, this fund is estimated to begin with \$2.8 million in remaining funds, which are planned to be transferred to the General Capital Improvement fund for the Bicycle and Pedestrian Transportation Pan Implementation (PL-04010) in FY 2020 and FY 2021 in the total amount of \$2.4 million. The project is currently under review and appropriated expenses continue to be carried forward from year to year until a new plan is reviewed and approved by the City Council; this is part of the Office of Transportation's workplan for FY 2020.

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REFERENCE:

Annually a report outlining the activities associated with the Stanford University Medical Center Development agreement is transmitted. Below are links to all reports to date.

Fiscal Year 2011-2012 <http://www.cityofpaloalto.org/civicax/filebank/documents/31976>

Fiscal Year 2012-2013 <https://www.cityofpaloalto.org/civicax/filebank/documents/39991>

Fiscal Year 2013-2014 <http://www.cityofpaloalto.org/civicax/filebank/documents/45631>

Fiscal Year 2014-2015 <http://www.cityofpaloalto.org/civicax/filebank/documents/51645>

Fiscal Year 2015-2016 <https://www.cityofpaloalto.org/civicax/filebank/documents/60896>

Fiscal Year 2016-2017 <https://www.cityofpaloalto.org/civicax/filebank/documents/65285>

Fiscal Year 2017-2018 In progress, expected to be completed in 2020

Fiscal Year 2018-2019 In progress, expected to be completed in 2020.