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TO: HONORABLE CITY COUNCIL

FROM: KIELY NOSE, DIRECTOR, ADMINISTRATIVE SERVICES/CFO

DATE: JUNE 13, 2019

SUBJECT: AGENDA ITEM NUMBER 10 – PUBLIC HEARING: ADOPTION OF THE BUDGET ORDINANCE FOR FISCAL YEAR 2020, INCLUDING ADOPTION OF THE OPERATING AND CAPITAL BUDGETS AND THE MUNICIPAL FEE SCHEDULE

This memorandum transmits supplemental information pertaining to the FY 2020 Budget. Answers to questions submitted by Councilmember Tanaka regarding various aspects of the FY 2020 Budget and answers are provided here. Additionally, an updated overview of the University Avenue parking fund is provided as a result of changes recommended by the Finance Committee.

Questions asked by Councilmember Tanaka

During the transmittal of the Proposed Budget on April 22, 2019 Councilmember Tanaka asked various questions about the FY 2020 Operating Budget. These questions, responses to the questions, and detailed information regarding when these topics were discussed through the Finance Committee Hearings can be found below. The questions are italicized and responses immediately follow.

- 1) We have fewer Council Members, how come the budget is about the same? Could this budget be used for individual Council Members to do polling to understand the community better?*

The City Council budget is primarily used to fund the stipends and benefits of the Councilmembers and costs associated with contracts such as the contract for appointee reviews. As discussed at the Finance Committee, the primary driver for expenses remaining consistent despite the change in number of Councilmembers is the proactive funding of pensions and the increase healthcare costs that individual Councilmembers elect during open enrollment. The detailed discussion of this item, specifically why the increased costs and the use of budgeted expenses can be watched in the video beginning at 7:01, Item 5 on the May 15, 2019 Finance Committee Agenda.

- 2) For every \$1M in salary increases awarded to City MISCELLANEOUS employees--what is the impact on the UAL (Unfunded Accrued Liability)? In other words, what is the UAL increase/\$1M of increased regular salary?*



The effect of salary increases on UAL depends on how the increase compares to CalPERS actuarial assumptions. While this is a complex relationship, two notable variables are CalPERS' investment earning assumptions and payroll growth assumptions. When CalPERS investment earning assumptions are lower than what actually occurs, UAL increases. This is specifically the issue that the City Council addressed through its direction to assume a 6.2% earnings rate rather than CalPERS' current 7.0%. UAL also increases when payroll growth is higher than CalPERS assumptions. CalPERS currently assumes 2.8% payroll growth plus annual merit or professional progression growth in salaries. These and other assumptions are reviewed and adjusted regularly and reflected in the annual contribution rates set by CalPERS. City staff does not currently have a specific calculation as suggested in this question.

3) Why did fire budget increase 8.4% while the headcount is going down on page 220?

The FY 2020 Proposed Budget does not recommend a reduction in ongoing headcount in the Fire Department, it does recommend holding one position vacant and eliminating a 12-hour ambulance staffed on overtime. The major increase in costs is due to the implementation of the proactive pension funding assuming a more conservative discount rate for the calculation of normal cost contributions. As outlined in the at places memorandum reviewed by the Finance Committee, which can be found here: www.cityofpaloalto.org/civicax/filebank/documents/71350. Specifically for the Fire Department, on page 223, this proactive pension funding constitutes \$973,000 of the \$2.6 million increase or 38% of the increase.

4) Why is there a 30% increase in IT and 11.7% in salary and benefits on page 257?

The Finance Committee discussed this increase, the predominant driver of the increase from FY 2019 expenses is a \$5.3 million increase in capital expenses. This is primarily attributable to the Council Chambers upgrade project and the Enterprise Resource Planning and Customer Information System upgrades.

As discussed in the at places memorandum cited above and for the Fire department, the year over year increase in salary & benefits of 11.7% or \$926,000 is due to additional pension contributions. As identified on page 259, \$448,000 of the increase in expenses is due to proactive funding of contributions to the 115 Pension Trust Fund.

The detailed discussion of both of these items can be watched in the video beginning at 5:07 in the video, or Item 4 on the May 15, 2019 Finance Committee Agenda.

5) Why on page 39, is there a 38% increase on facilities and equipment and 28% increase in general expense vs. a 1.7% in the overall budget?



The increase in facilities & equipment of 38% or \$249,000 is primarily due to a grant received by the Office of Emergency Services for a mobile solar energy generation and storage trailer (details can be found on page 281).

The increase in general expenses of 28% or \$4.3 million is due to the action the City Council took as part of the FY 2019 Adopted Budget. A \$4 million adjustment to lower General Fund expenses was identified in the FY 2019 Adopted Budget, with the specific reductions to be identified at a later date. The FY 2020 budget restores this \$4 million adjustment in the 'general expenses' category, but takes a number of reductions in various expense categories where the recommended reductions in costs and services are funded.

6) *Why is there a 9% increase in total salary and benefits page 39 vs. bay area average increase of 3.9%?*

Included in the presentation to the Finance Committee was a detailed look at the 9.1% increase in overall salary and benefit growth. The presentation can be found here: www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?t=71022.32&BlobID=71330 specifically on page 7 and 8 of the PDF. As discussed previously, the primary drivers are the proactive pension contributions totaling \$8.5 million in FY 2020.

Updated Overview of the University Avenue Parking Fund

Through the Finance Committee Budget Hearings, the Committee recommended increasing employee parking permit fees. This recommendation is included in the FY 2020 Operating Budget, submitted for City Council adoption. The impact of this change on the University Avenue Parking Fund is detailed in Attachment A. The attachment provides a comprehensive look at Fund 236 and depicts the flow of funds through the FY 2019 Adopted Budget, current estimates for FY 2019, and for FY 2020. The attachment also details the Capital Projects supported by funding from the University Avenue Parking Fund.

Kiely Nose
Director of Administrative Services

Ed Shikada
City Manager

University Avenue Parking Permit Fund - Overview

	Adopted FY 2019	Estimate FY 2019	FY 2020
Beginning Fund Balance	3,759,461	3,759,461	3,769,778
Revenues			
Permit Sales	2,217,000	2,054,340	2,372,000
Day Passes	675,000	546,064	675,000
Ticket Machine	215,000	311,455	215,000
Transfer from Other Funds for City Share	354,000	354,000	380,250
Investment Income	21,800	37,178	68,200
			-
Total Revenue	3,482,800	3,303,037	3,710,450
Expenditures			
Administration			
Positions	1.30	1.30	1.66
Salaries & Benefits	189,541	189,541	249,261
Contract Staffing	182,248	173,071	182,248
Parking Occupancy Services	77,031	38,497	77,031
Miscellaneous Supplies	21,048	21,048	21,048
			-
Ticket Machine (bankcard services, transmission, maintenance)	20,790	14,103	28,100
			-
Subtotal Administration	490,658	436,260	557,688
Maintenance			
Positions	3.87	3.87	3.87
Salaries & Benefits	495,785	495,785	547,542
Supplies	60,090	60,090	60,090
Twinkle/Tree Lights	30,000	30,000	30,000
Landscaping	16,451	20,287	20,090
Maintenance (garage, elevator, fire sprinkler)	72,300	72,300	78,024
			-
Custodial (janitorial services, power washing, sweeping)	270,519	270,519	280,346
Steam Cleaning	94,660	94,660	94,660
			-
Subtotal Maintenance	1,039,805	1,043,641	1,110,752

Police Patrol

Positions	0.50	0.50	0.50
Salaries & Benefits	121,723	121,723	128,598

Subtotal Patrols	121,723	121,723	128,598
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Other

Valet Programs (Lots R, CC, CW, & S)	289,972	232,000	289,972
Temporary Valet Programs (garage construction)	150,000	-	-
Downtown Streets Team	118,744	118,744	118,744
Transportation Management Authority (TMA)	480,000	480,000	660,000
Utilities/Indirect costs	224,716	224,716	207,986
Transfer to GF (PARS trust)	5,621	5,621	-
(1) Transfer to CIP Fund	2,337,015	630,015	1,135,220
Subtotal Other	3,606,068	1,691,096	2,411,922

Total Operating Expenses	5,258,254	3,292,720	4,208,960
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Income from Operations	(1,775,454)	10,317	(498,510)
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Ending Fund Balance	1,984,007	3,769,778	3,271,268
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(1) Capital Improvement Plan

Downtown Automated Parking Guidance System (APGS), Access Controls, and Revenue Collections Equipment (PL-15002)	1,100,000	-	-
Downtown Parking Management and System Implementation (PL-16002)	607,000	-	752,220
Downtown Parking Wayfinding (PL-15004)	280,015	280,015	40,000
High Street Parking Garage Waterproofing Study (PE-18002)	300,000	300,000	-
Parking Lot J Elevator Modernization (PF-18000)	50,000	50,000	-
University Avenue Parking Improvements (PF-14003)	-	-	343,000
Total	2,337,015	630,015	1,135,220