



City of Palo Alto

City Council Staff Report

(ID # 12287)

Report Type: Consent Calendar

Meeting Date: 6/14/2021

Summary Title: Third Quarter Financial Status & Budget Amendment

Title: Accept the Fiscal Year (FY) 2021 Third Quarter Financial Status Report and Approve the FY 2021 Budget Amendment in the General Fund

From: City Manager

Lead Department: Administrative Services

RECOMMENDATION

Staff recommends that the City Council review and:

- 1) Accept the Third Quarter financial report
- 2) Amend the FY 2021 Budget Appropriation in the General Fund (2/3 vote required) by:
 - a) Increasing the estimate for Revenue from other Agencies in the amount of \$6,850,000; and
 - b) Establishing an appropriation for the American Rescue Program Act of 2021 (ARPA) Reserve in the Non-Departmental Budget.

EXECUTIVE SUMMARY

Staff brings forward quarterly financial status reports to provide the City Council with an update of revenue and expense trends and with information of the City's overall financial condition. This third quarter report converges with the FY 2022 Budget Process and is one of the many touch points throughout the year that communicates the City's overall financial condition, identifies trends and any potential adjustments needed to align the City's revenue resources with the cost of providing services.

The focus of this report is third quarter financial results of the General Fund; however, as is typical of these reports, staff has also reviewed Enterprise Funds and Other Funds. Overall, funds are expected to remain within or below budgeted estimates, will all funds projected to end with a positive balance by year end, June 30, 2021. Staff provided a preliminary estimate in early May 2021 to the Finance Committee identifying and approximately \$2 to \$3.5 million surplus in the General Fund and after reviewing all Q3 data, staff remain optimistic that the General Fund will end with an even larger excess by year end as the local economy shows positive signs in some sectors. This reflects excess funds above targets identified in the FY 2021 Mid-Year Budget review ([CMR 11872](#)). While the COVID-19 pandemic continues to impact out

of town travel and hotel activity within the City, loosened social distancing and shelter-in-place directives from the County of Santa Clara have significantly improved local economic activity.

As the City and County moves through and adapts through these various phases, the City operations are modified to respond to and best support and serve the community. Adjustments taken in the mid-year review represent that and the City's ability to expand and contract specific service areas to prioritize community needs. Often, staff continues to find tension in resource availability and demands for extreme flexibility in an environment that requires that services are modified at a nimble pace. The safety of the community and employees are highly considered as this pandemic continues to evolve.

BACKGROUND

To once again recognize the severity of the public health emergency, its impacts on the City's financial situation, and hard work by the City Council and staff to navigate through the impacts of the pandemic, in Spring 2020 the City Council directed staff to assume a more conservative revenue estimate to build the FY 2021 budget ([CMR 11315](#)). This financial balancing scenario reflected a loss of \$39 million in General Fund tax revenues from previously projected levels prior to the onset of the pandemic. As a result of the City Council's direction, in order to align expenses with lower revenue estimates staff returned with service reductions to prioritize essential services and pare back on discretionary services. More than 60 percent of the General Fund budget funds the workforce that delivers the City's services every day; staff and resource reductions were unavoidable. The General Fund workforce was reduced by 11.3 percent, as 83 full time staffing positions (76.5 FTE) and 107 part-time positions (26.18 FTE) were frozen and defunded. These reductions represent an overall 18 percent reduction-in-force that delivers services to the community.

As the organization and community moves through the pandemic and resulting financial impacts, more robust financial reporting and information. These updates provide routine opportunities to review services and identify any changes in priorities. In addition, forecasts for FY 2022 and beyond have been discussed with the City Council to assist in providing a longer outlook beyond June 30, 2021 and begin work on planning for FY 2022 and the continued contraction of available resources. Prior staff reports providing various fiscal updates for Council deliberations are below. This does not include information items that have been distributed for quarterly reporting such as investments.

- October 19, 2020, City Council ([CMR 11596](#)): *Preliminary Q1 Fiscal Year (FY) 2021 Financial Status Discussion and Potential Direction to Staff on Budget Revisions, Staffing Revisions, and Next Steps in Monitoring, Modeling, and Addressing Recovery Planning Approaches*
- November 30, 2020, City Council ([CMR 11790](#), [meeting video](#)): *Study Session on Community and Economic Recovery Strategies and Engagement*

- December 15, 2020, Finance Committee ([CMR 11844](#)): *Review and Recommend That the City Council Accept a Preliminary Forecast for Fiscal Year (FY) 2022 and FY 2022 Budget Development Guidelines*
- December 15, 2020, Finance Committee ([CMR 11750](#)): *First Quarter FY 2021 Financial Report*
- January 19, 2021, City Council ([CMR 11877](#)): *Provide Feedback and Direction on the Community & Economic Recovery Workplan and Approve Budget Amendments in Various Funds*
- January 25, 2021, City Council ([CMR 11808](#)): *Update on Status of Capital Improvement Fund and Potential Direction on Prioritization of Projects for the FY 2022 Budget and 2022-2026 Capital Improvement Plan*
- January 25, 2021, City Council ([CMR 11967](#)): *Provide Feedback and Direction on the Community & Economic Recovery Workplan Which Includes Four Focus Areas: Managing Through the Pandemic, Community Wellness and Wellbeing, Focused Business Support, and City Initiatives; and recommend Returning with Budget Amendments in Various Funds at the Mid-Year Budget Review*
- February 8, 2021, City Council ([CMR 11954](#)): *Review the Potential Financial Scenarios and Direction to Staff on Development of the Fiscal Year (FY) 2022 Budget, Review and Accept the FY 2022 Budget Development Guidelines, and Review and Accept the FY 2022 - 2031 Long Range Financial Forecast*
- March 1, 2021, City Council ([CMR 11872](#)): *FY 2021 Mid-Year Budget Review and Approve Budget Amendments in Various Funds; Provide Direction on (a) Potential Rent Forgiveness Programs for City Tenants and (b) Waiver of the Business Registry Certificate and Downtown Business Improvement District Fees*

Staff expect to continue these at minimum quarterly updates to the City Council to proactively focus on necessary budget adjustments to realign resources and costs of doing business as restrictions changes and the economic adapts.

DISCUSSION

This report summarizes the actual financial activity as of the end of the third quarter for the General and Enterprise Funds, March 31, 2021, compared those amounts to the same period of the prior year and to the FY 2021 Adjusted Budget. The General Fund Third Quarter Financial Report (Attachment A) provides a breakdown of revenues by source and expenses by function in the General Fund, with separate columns for Adopted Budget and Adjusted Budget. The Adjusted Budget column includes prior year commitments that were carried forward into this fiscal year and amendments to the FY 2021 Adopted Budget through March 31. Encumbrances and actual expenses for the nine-month period are also reported.

Overall, year-end General Fund is expected end the year with a surplus in line with or better than estimates provided to the Finance Committee on May 11th, between \$2 million to \$3.5 million; with positive economic trends and tracking with consumer activity in recent months,

staff is optimistic that the General Fund will end the year with a greater surplus than conservatively projected. The majority of departments are tracking as expected in the mid-year budget review; any significant variances will be brought forward to the City Council as part of the budgetary year-end close later this calendar year; adjustments for some higher than budgeted expenses are expected offset by reserve for transition costs and some citywide savings. As discussed with the City Council and Finance Committee during budget hearings in May, a large part of this year-end projected surplus is driven by improvements in major tax revenues. The City continues to monitor positive signs in property tax, sales tax, and documentary transfer tax partially offset by lower than expected revenues for transient occupancy tax, charges for services, and permits and license revenues.

In addition to these updated revenue and expense estimates, the City has also received its first of two distributions of the American Recovery Program Act of 2021 (ARPA) funds in May 2021. The first distribution totals \$6.85 million; the remainder of the City's \$13.7 million allocation will be received in May 2022. These funds are not reflected in the Q3 year to date actuals since they were received after March 31, 2021. Staff recommends that these funds be reserved in the General Fund in alignment with the current Finance Committee recommended FY 2022 budget for City Council consideration and ultimately adoption. This does not reflect new or additional funds not already factored into the FY 2022 budget.

General Fund Third Quarter Financial Status

General Fund Revenue Highlights

Table 1 highlights the General Fund's third quarter major revenue sources compared to the prior year's same quarter. Each quarter's revenue is expressed as a percentage of the Adjusted Budget for each year. General Fund revenues (excluding operating transfers) for the third quarter totaled \$113.8 million, 14.5 percent lower than actuals received the same period in prior year. Actual revenues received through the third quarter are tracking at 66.6 percent of the FY 2021 Adjusted Budget, compared to the FY 2020 actual to budget percentage of 62.5 percent. Shelter-in-Place directives from County of Santa Clara were put into place in late March 2020; impacts resulting from the pandemic significantly impacted FY 2020 fourth quarter revenues. The FY 2020 budget was adjusted in June 2020 to estimate these impacts ([CMR 11328](#)).

Table 1: FY 2021 Third Quarter General Fund Revenue

(000's)

	3rd Quarter Actuals			Adjusted Budget			
	FY 2021	FY 2020	% change	FY 2021	%	FY 2020	%
Property Tax	\$32,709	\$30,054	8.8%	\$53,173	61.5%	\$50,576	59.4%
Sales Tax	16,378	20,645	-20.7%	25,030	65.4%	36,085	57.2%
Charges for Services	18,009	17,872	0.8%	24,414	73.8%	30,267	59.0%
Transient Occupancy Tax	2,500	16,378	-84.7%	4,830	51.8%	26,555	61.7%
Utility User Tax	10,797	11,908	-9.3%	14,080	76.7%	17,572	67.8%
Permits and Licenses	4,384	4,506	-2.7%	8,366	52.4%	9,027	49.9%
Documentary Transfer Tax	6,689	5,770	15.9%	6,875	97.3%	8,100	71.2%
All Other Revenue Sources	22,289	25,931	-14.0%	34,062	65.4%	34,629	74.9%
Total Revenue	\$113,755	\$133,064	-14.5%	\$170,830	66.6%	\$212,811	62.5%

Property Tax. At the close of third quarter property tax revenue received was \$32.7 million, an increase of 8.8 percent over the same period in the prior year. This amount represents property tax is received from the County of Santa Clara during the second, third, and fourth quarters of the calendar year. Compared to the Adjusted Budget, these receipts represent 61.5 percent, 2.1 percent higher than the same period of prior year. The average annual property tax growth over the 10 years has been approximately 6.6 percent. The FY 2021 secured and unsecured property tax assessed values growth rates are 7.6 percent and 12.7 percent, respectively, an average of 7.8 percent. These higher assessed values reflect continued robust commercial and residential real estate markets. Historically, during economic downturn such as recession and/or COVID-19, impacts to property tax are delayed a year.

FY 2020 actual property tax revenue was \$51.1 million which included \$3.9 million for Excess Educational Revenue Augmentation Fund (ERAF)¹ distributions from the County of Santa Clara. Though Excess ERAF receipt has steadily grown the last five years, excess ERAF is not considered a permanent local revenue source. In addition to the uncertain amount of ERAF revenue the City is to receive, the State is claiming that five counties (Marin, Napa, San Francisco, San Mateo, and Santa Clara) are calculating excess ERAF in a way that is contrary to state law where too much property tax revenue is being shifted from schools to other local agencies. Though the final resolution of this dispute is pending, the County of Santa Clara estimates FY 2021 gross excess ERAF for Palo Alto as \$5.6 million and has set aside \$1.60 million of this as the State dispute settlement amount, totaling a net \$3.9 million in estimated Excess ERAF revenues. This is consistent with the City of Palo Alto's practices to reserve any disputed amounts from prior years. The amount net the litigated disputed amount, is expected to be distributed by the County of Santa Clara and is reflected in current year end projected estimates which are expected to slightly exceed budgeted levels by approximately \$1.0 - \$1.4 million.

1 ERAF is the fund used to collect and disburse property taxes that are shifted to/from cities, the County, and special districts prior to their reallocation to K-14 school agencies. When the state shifts more local property tax than required to support schools these funds are returned and known as excess ERAF.

Sales Tax. As of the third quarter sales tax revenue have seen significant decline by \$4.3 million or 20.7 percent, from the same period last year due to changes in consumer spending habits as a result of the COVID-19 pandemic. This only represents seven months' sales tax activity due to the timing delay in sales tax collection by the State and remittance to the City. The sixth and seventh-month's payments were estimated advance payments and not based on actual sales tax collection. Actual performance for this fiscal year will not be known until August/September.

Considering loosened social restrictions by the County and positive economic and consumer trends over the past few months, the revised outlook for FY 2021 year-end is positive and staff expects revenues will trend above FY 2021 Mid-Year Budget Review estimated receipts by up to \$3 million by year end.

Transient Occupancy Tax (TOT). TOT revenues continue to be the most significantly impacted and reached \$2.5 million only through the end of the third quarter, a decrease of 84.7 percent over the prior year. Due to the timing delay in receipts, this represents 7.5 months of TOT receipts. To date, recovery on hotel activity has been minimal and only one of the two Marriott hotels have slowly opened resulting in expected year-end receipts to fall below the FY 2021 Adjusted Budget and FY 2021 Mid-Year Budget Review estimates by approximately \$1 million by year end.

The open hotels average daily room and occupancy rates, as of March 31, 2021 were \$115 per day and 36.1 percent, respectively. For the open hotels, occupancy percentage ranges from 11.7 percent to over 80 percent, however, the higher occupancy was at the expense of a deep decline in average room rates (declines range from 1.8 percent to over 68.0 percent). Year-over-year, daily average room rates decreased by over half, from \$280 per day to \$115 per day, while the occupancy rate has declined from 74.9 percent to 36.1 percent.

Utility User Tax (UUT). Revenue for the quarter ended March 31st totals \$10.8 million, a decrease of \$1.1 million, or 9.3 percent from the prior year due to lower business consumption of water, gas, electric and electric and telephone services as a result of continued COVID-19 impacts. It is expected that UUT revenues will trend as expected at year-end.

Documentary Transfer Tax. Cash receipts total \$6.7 million, or 97.3 percent of the FY 2021 Adjusted Budgeted, and are \$0.9 million higher than prior year receipts for the same period. This revenue source is volatile since it is highly dependent on sales volume and the mix of commercial and residential sales. For example, in this period there are several large commercial transactions on Page Mill Road and in the Stanford Research Park. The positive outlook of this revenue source remains, as actual receipts continue to show robust real estate sale trends and receipts are expected to exceed FY 2021 Mid-Year Budget Review estimates by an estimated \$2 million by year end. This outlook is based on two additional months of actual receipts which continue to show the local residential and commercial real estate sales activity being robust. However, this is revenue is extremely volatile and difficult to predict with certainty.

Charges for Services. Through the first three quarters of FY 2021 is up by \$0.14 million, or 0.8 percent of the same period last year, a timing difference for quarterly billing to Stanford University for fire and emergency services did not include \$1.9 million in revenue in FY 2020 third quarter results. The FY 2021 Mid-Year Budget Review reflected reduction in budget estimates of \$5.1 million in this category due to significant declines in activity, only partially offset by expense savings. In FY 2021, this revenue category is below target by \$1.8 million due to:

- Paramedic service fees decreased \$0.7 million over the same period from last year due to fewer calls for service.
- Plan check and inspection fees decreased \$0.9 million due to fewer construction activities.
- Program and classes decreased \$0.9 million due to limited operations caused by COVID-19 restrictions.
- The decreases mentioned above were partially offset by the \$0.7 million increase in golf course revenues.

All Other Revenue Sources. Cash receipts for the third quarter has decreased \$3.6 million or 14.0 percent, from the same period of last year primarily due to the following:

- Facility and property rentals decreased \$3.3 million due to lower facility rentals and number of tenants. The City has continued to follow the Santa Clara County order which has been extended up to June 30, 2021 and allowed tenants to defer payment of rent.
- Parking violations decreased \$0.66 million due to suspension of parking enforcement.

In May 2021, the City received the first half of its total \$13.7 million ARPA distribution, or \$6.85 million. Staff recommends a corresponding revenue adjustment for this amount, along with an offset to the ARPA Reserve in the General Fund Non-Departmental Budget. The second half of the City's distribution is expected in May 2022.

General Fund Expense Highlights

Table 2 highlights General Fund expenses by department for FY 2021 third quarter, compared to the same period of prior year. Each quarter's expenses are expressed as a percentage of the Adjusted Budget for each year. General Fund expenses for third quarter are tracking as expected; year-to-date expenditures total \$13.2 million or 9.5 percent lower than prior year and are tracking at 67 percent of Adjusted Budget which is slightly higher compared to FY 2020.

Table 2: FY 2021 Third Quarter General Fund Expenses

(000's)

	3rd Quarter Actuals			Adjusted Budget			
	FY 2021	FY 2020	% chg	FY 2021	%	FY 2020	%
Police	\$30,241	\$32,974	-8.3%	\$40,547	74.6%	\$45,249	72.9%
Fire	26,178	26,859	-2.5%	34,735	75.4%	35,984	74.6%
Community Services	18,929	21,649	-12.6%	28,786	65.8%	32,517	66.6%
Public Works	12,656	12,493	1.3%	19,984	63.3%	19,983	62.5%
Planning & Development Services	11,339	13,575	-16.5%	19,612	57.8%	22,597	60.1%
Library	6,250	7,388	-15.4%	8,655	72.2%	10,582	69.8%
Administrative Services	5,578	5,985	-6.8%	8,338	66.9%	9,050	66.1%
All Other Departments	14,196	17,668	-19.7%	26,320	53.9%	35,258	50.1%
Total Expenses	\$125,367	\$138,591	-9.5%	\$186,977	67.0%	\$211,220	65.6%

In response to COVID-19 pandemic, the City left vacant positions unfilled and reduced various operating expenditures such as travel and training, program and project consultants, and other contractual services. Therefore, departments are expected to end close to budgeted levels, some may exceed slightly due to unforeseen costs or transition costs not adjusted for yet. Staff has proactively planned for this and a reserve of \$845,000 remains to address any higher than budgeted expenses by year end.

As a service driven organization, the largest expenses are salaries and benefits. Total General Fund salary and benefits expenditures through preliminary of March 2021 are approximately \$93.9 million, or 75.6 percent of the \$124.2 million Adjusted Budget, compared to \$98.3 million in the same period in the prior year. Excluding positions identified for freezes, there are approximately 40 full-time vacancies in the General Fund which is currently authorized for a staff of 510.91 FTE.

Police and Fire The expense budget for the Police and Fire Departments comprise approximately 45 percent of total General Fund expenditures for the third quarter, which is consistent with prior year trends. The following is a table highlights Police and Fire salaries and overtime for the third quarter. Net over time cost analysis for the Police and Fire Departments can be found in Attachment B.

Table 3: Public Safety Salaries and Overtime Expenses

(000's)

	3rd Quarter YTD Actuals			Adjusted Budget			
	FY 2021	FY 2020	% chg	FY 2021	%	FY 2020	%
Police - Salaries	\$12,862	\$13,425	-4.2%	\$17,713	72.6%	\$19,484	68.9%
Police - Overtime	1,028	2,224	-53.8%	944	108.9%	1,842	120.7%
Total Police	13,890	15,649	-11.2%	18,657	74.4%	21,326	73.4%
Fire - Salaries	10,294	10,589	-2.8%	13,529	76.1%	14,131	74.9%
Fire - Overtime	2,118	1,749	21.1%	2,971	71.3%	2,087	83.8%
Total Fire	12,412	12,338	0.6%	16,500	75.2%	16,218	76.1%
Total Public Safety							
Salaries & Overtime	\$26,302	\$27,987	-6.0%	\$35,157	74.8%	\$37,544	74.5%

Police overtime is over budget as a result of unbudgeted vacancies for leave due to injuries or leave benefits as well as higher than expected requests for services which were subsequently reimbursed. This fiscal year, the Department initiated improved monitoring of overtime resulting in a 53.8 percent lower than prior year. However, the Department expects overtime to exceed budget through the remainder of the fiscal year. In anticipation of potential FY 2022 budget reductions, positions have been held vacant requiring increased usage of overtime to cover needed service delivery. In addition higher than historical workers' compensation cases has required increase overtime for backfill needs as well. On a combined basis, salaries and overtime are 74.4 percent of budget through the third quarter of the fiscal year. The Department's net overtime cost is \$0.34 million after deducting the reimbursements and salary savings due to vacancies, analysis is included in Attachment B.

Fire overtime is 21.1 percent higher than FY 2020 and 71.3 percent of the adjusted budget primarily due to strike team deployment to multiple California wildfires (August Complex, Glass, Fire, CSU, North Complex, Creek Fire and others). Over \$1.0 million in reimbursement was recognized for these events in the mid-year budget; \$0.3 million was received through March 31st. In addition, the Fire Department has deployed staff to support hospitals overwhelmed by COVID-19 and to assist in vaccination clinics. Fire salaries is 76.1 percent of Adjusted Budget is partially attributable to the extension of the Fire Department's FY 2021 staff reduction plan to March 2021. Fire has successfully vacated all required positions through attrition as of this report however, the budget was not adjusted for this extension and therefore a technical adjustment will be brought forward at year end to appropriate funds for these additional costs. On a combined basis, salaries and overtime are 75.2 percent of the budget through the end of the third quarter of the fiscal year. The Department's net overtime cost is \$1.7 million after deducting the reimbursements and salary savings due to vacancies, analysis is included in Attachment B.

Golf Course Operations

In response to Council inquiries, staff has provided a summary of golf course operations. The following table highlights the City’s golf course revenue and expenditure for the third quarter compared to the same quarter in prior year. Each quarter’s revenue is expressed as a percentage of the Adjusted Budget for each year.

Table 4: Third Quarter Golf Course Financials
(000's)

	3rd Quarter Actuals			Adjusted Budget			
	FY 2021	FY2020	% change	FY 2021	%	FY2020	%
Revenues	\$3,221	\$2,255	42.8%	\$3,832	84.1%	\$2,531	89.1%
Expenditures							
Operating Expenses	363	361	0.6%	334	108.7%	503	71.8%
Contract Services	2,073	1,872	10.7%	2,824	73.4%	2,749	68.1%
Debt Expenses	207	203	2.0%	374	55.3%	370	54.9%
Total Expenditure	\$2,643	\$2,436	8.5%	\$3,532	74.8%	\$3,622	67.3%
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$578	(\$181)		\$300	192.7%	(\$1,091)	

As of the end of the third quarter golf course revenues were up 42.8 percent, or \$0.97 million over the same period a year ago and represent 84.1 percent of the FY 2021 adjusted budget and is offset by increased water usage cost and an increase in golf management cost, as per the City’s contract with the golf course operator, OB Sports. The third quarter ended with an excess of revenues over expenditures of \$0.6 million.

The FY 2021 revised outlook is expected to reflect an even larger revenue difference between fiscal years due to closure of the golf course in March, April, and May of the prior year during the County’s shelter-in-place order. Upon re-opening during the COVID-19 pandemic, the demand to play rounds of golf soared high resulting in revenues above the FY 2021 Adjusted Budget. Staff forecasts a \$4.5million in revenue for FY 2021 in comparison to the \$3.8 million Adjusted Budget. Overall, including forecasted increases in water irrigation costs due to dryer months and cost increases for the City’s operator, it is expected that year-end net excess of revenues over expenditures for the golf course will be approximately \$0.7 million. Any revenue achieved in excess of the Adjusted Budget is shared with the golf course operator at a split of 80 percent to the City and 20 percent to the operator.

Enterprise Funds

Although the focus of this report is General Fund activity, staff also reviewed Enterprise Fund and Other Fund activity and trends. Overall, these fund types are trending as expected and no significant changes in estimates are needed are this time. Below are summaries of activity in the Enterprise Fund as of the quarter ended March 31, 2021.

Water Fund decreased \$1.2 million, or 12.14 percent, from prior year due increase in operating expenses. The Purchase of Utilities increased \$0.6 million or 4 percent in current year

attributable to 4 percent higher consumption. Other expense categories also increased during the year including engineering, operations and maintenance, rent and depreciation expenses.

Electric Fund decreased \$10.8 million, or 60.25 percent, from prior year due to overall decrease in revenues and increase in expenses. The Sale to Customers decreased \$7.0 million due to lower consumption partially offset by \$4.3 million increased of Other Non-Operating Revenue, such as Renewable Energy Credit Sales and Carbon Allowance Revenue. The expenses increased through the 3rd quarter by \$8.1 million due to increase in electric supply purchases costs as a result of low hydroelectric supply, increase in administrative expenses and increase in spending on electric vehicle programs.

Fiber Optics Fund decreased \$0.14 million, or 12.34 percent, from prior year due to overall decrease in revenues resulting from lower number of customers caused by the ongoing pandemic.

Gas Fund decreased \$0.76 million, or 15.22 percent, from prior year due to decrease in revenues as a result of lower consumption and increase in operating expenses.

Wastewater Collection Fund decreased \$0.84 million, or 52.82 percent, from prior year due to overall decrease in revenues as a result of lower capacity fees and increase in operating expenses such as administrative and general expenses, and depreciation expenses.

Wastewater Treatment Fund decreased \$2.3 million, or 43.73 percent from prior year due to the decrease in State Revolving Fund Loan cost reimbursement for the Dewatering & Loadout Facility Project. The project was completed and closed in June 2020.

Refuse Fund increased \$2.8 million, or 175.02 percent, from prior year due to decrease in operating expenses resulting from deferred of reimbursement of costs of waste collection vehicles partially offset by the decrease in revenues for commercial and industrial customers as a result of the ongoing pandemic.

Storm Drain Fund increased \$0.46 million, or 21.33 percent from prior year due to 2.5 percent rate increase and partially offset by the decrease in operating costs.

Airport Fund increased \$0.15 million or 39.61 percent from prior year due to increase in tie down and hanger fees.

RESOURCE IMPACT

As of the end of the third quarter, the General Fund Budget Stabilization Reserve totals \$35.8 million, or 18.2 percent of the Adopted Budget. This is slightly below the City Council's targeted level of \$36.3 million, or \$0.6 million, below the 18.5 percent target. As noted above, staff expect the General Fund to end with a surplus in FY 2021, increasing the BSR levels. This assumption has been reviewed as part of the FY 2022 Proposed Budget process, and the

current recommended strategy allocated \$2.5 million of the BSR for use in FY 2022 for the delivery of services. This is expected to leave the BSR at approximately 17 percent, slightly below targeted levels. As noted above, staff is optimistic that the sign of reopening and increased economic activity will have a positive impact on year-end revenues which would assist in bringing the BSR back to target levels of 18.5 percent.

The City Council's COVID-19 Council Reserve, totaling \$744,000, is maintained separate from the BSR. As of the publication of this report, the City Council will consider use of this reserve to support the City's Rent Forgiveness Program on June 7, 2021 ([CMR 12234](#)) consistent with its prior direction as part of the FY 2021 Mid-Year Budget Review.

STAKEHOLDER ENGAGEMENT

Administrative Services Department staff have coordinated with all departments city-wide, the City Manager's Office, stakeholders, the County of Santa Clara, and the City's sales tax consultant, as appropriate, to consider elements to include in the City's revenue and expense estimates that are discussed and recommended in this report.

ENVIRONMENTAL REVIEW

This is not a project under Section 21065 for purposes of the California Environmental Quality Act (CEQA).

Attachments:

- Attachment A: FY 2021 Third Quarter Financial Report
- Attachment B: Public Safety Overtime Analysis Q3 2021

ATTACHMENT A
CITY OF PALO ALTO
GENERAL FUND THIRD QUARTER FINANCIAL REPORT
FISCAL YEAR ENDING JUNE 30, 2021
(in thousands)

Categories	BUDGET		ACTUALS (as of 03/31/2021)			
	Adopted Budget	Adjusted Budget	Pre Encumbr	Encumbr	Actual	% of Adj Budget*
Revenues & Other Sources						
Sales Tax	20,500	25,030	-	-	16,378	65%
Property Tax	52,000	53,173	-	-	32,709	62%
Transient Occupancy Tax	14,900	4,830	-	-	2,500	52%
Documentary Transfer Tax	4,700	6,875	-	-	6,689	97%
Utility Users Tax	15,100	14,080	-	-	10,797	77%
Motor Vehicle Tax, Penalties & Fines	1,925	392	-	-	599	153%
Charges for Services	25,984	24,414	-	-	18,009	74%
Permits & Licenses	7,770	8,366	-	-	4,384	52%
Return on Investment	1,100	1,100	-	-	823	75%
Rental Income	15,949	15,331	-	-	9,548	62%
From Other Agencies	2,448	4,580	-	-	1,773	39%
Charges To Other Funds	11,992	11,992	-	-	9,038	75%
Other Revenues	674	666	-	-	507	76%
Total Revenues	175,042	170,830	-	-	113,755	67%
Operating Transfers-In	21,359	21,251	-	-	15,938	75%
Encumbrances and Reappropriation		7,568	-	-	-	-
Contribution from Development Services Reserves	500	500	-	-	-	-
Total Sources of Funds	196,901	200,148	-	-	129,692	68%
Expenditures & Other Uses						
City Attorney	3,485	3,744	92	441	2,340	77%
City Auditor	828	981	40	244	513	81%
City Clerk	1,245	1,293	47	79	780	70%
City Council	419	509	21	110	220	69%
City Manager	3,161	3,562	10	201	2,579	78%
Administrative Services	8,362	8,338	22	210	5,578	70%
Community Services	28,362	28,786	123	3,359	18,929	78%
Fire	33,607	34,735	69	498	26,178	77%
Human Resources	3,554	3,622	0	99	2,648	76%
Library	8,421	8,655	0	216	6,250	75%
Office of Emergency Services	1,356	1,718	135	204	947	75%
Office of Transportation	1,904	2,139	0	143	1,479	76%
Planning and Development Services	17,386	19,611	154	2,041	11,338	69%
Police	40,376	40,547	52	460	30,242	76%
Public Works	18,397	19,984	640	2,366	12,656	78%
Non-Departmental	8,237	8,752	93	47	2,690	32%
Total Expenditures	179,100	186,977	1,497	10,716	125,367	74%
Operating Transfers-Out	4,334	4,271	-	-	3,220	75%
Transfer to Infrastructure	13,467	9,001	-	-	6,751	75%
Total Use of Funds	196,901	200,249	1,497	10,716	135,338	74%
Net Change to BSR	0	(101)				
Budget Amendments in the General Fund Authorized by Council thru 3/31/2021						
FY 2020 Reappropriations to FY 2021: CMR 11526 (10/5/20)		0				
Small Business Grant Program: CMR 11602 (10/19/20)		0				
Institute of Museum & Library Services Grant: CMR 11676 (10/19/20)		0				
Private Development Studies: CMR 11662 (11/9/20)		0				
Urban Forest Master Plan: CMR 11700(12/7/20)		0				
Automatic Public Toilets Contract: CMR 11843 (2/1/21)		(101)				
Mid-Year Budget Review: CMR 11872 (3/1/21)		0				
Total Budget Amendments Authorized by Council		(101)				
FY 2020 Additional Ending Fund Balance: CMR 11880 (1/11/21)		2,826				
BSR Balance	33,045	35,770				
BSR % of Adopted Total Use of Funds	16.8%	18.2%				

Public Safety Departments
Overtime Analysis for Fiscal Years 2019 through 2021

	2019	2020	Q3 2021
POLICE DEPARTMENT			
Overtime Expense			
Adopted Budget (A)	\$1,776,500	\$1,842,231	\$944,186
Modified Budget	1,812,931	1,842,231	944,186
Net Overtime Cost - see below	185,811	441,197	339,258
Variance to Budget	<u>1,627,120</u>	<u>1,401,034</u>	<u>604,928</u>
Overtime Net Cost			
Actual Expense	<u>\$2,604,366</u>	<u>\$2,566,590</u>	<u>\$1,027,516</u>
Less Reimbursements			
California OES/FEMA (Strike Teams)	36,431	-	-
Stanford Communications	91,001	110,177	52,472
Utilities Communications Reimbursement	46,158	54,086	27,054
Local Agencies (B)	12,172	9,329	1,756
Police Service Fees	125,025	205,126	231,817
Total Reimbursements	<u>310,787</u>	<u>378,717</u>	<u>313,099</u>
Less Department Vacancies (A)	<u>2,107,768</u>	<u>1,746,677</u>	<u>375,159</u>
Net Overtime Cost	<u>\$185,811</u>	<u>\$441,197</u>	<u>\$339,258</u>
Department Vacancies (number of days)	7,538	6,192	1,136
Workers' Compensation Cases	24	30	14
Department Disabilities (number of days)	217	700	1007
FIRE DEPARTMENT			
Overtime Expense			
Adopted Budget (C)	\$1,911,761	\$1,672,872	\$1,931,121
Modified Budget (D)	2,093,761	2,086,872	2,971,460
Net Overtime Cost - see below	2,403,254	1,831,059	1,666,245
Variance to Budget	<u>(\$309,493)</u>	<u>255,813</u>	<u>1,305,215</u>
Overtime Net Cost			
Actual Expense	<u>\$3,047,510</u>	<u>\$2,018,548</u>	<u>\$2,118,431</u>
Less Reimbursements			
California OES/FEMA (Strike Teams)	182,000	114,000	304,000
Total Reimbursements	<u>182,000</u>	<u>114,000</u>	<u>304,000</u>
Less Department Vacancies (C)	<u>462,256</u>	<u>73,489</u>	<u>148,186</u>
Net Overtime Cost	<u>\$2,403,254</u>	<u>\$1,831,059</u>	<u>\$1,666,245</u>
Department Vacancies (number of days)	1,229	173	669
Workers' Compensation Cases	26	33	14
Department Disabilities (number of days)	343	227	387

NOTES:

- (A) The FY 2021 Police Department budget was reduced by the equivalent of 11.0 Police Officers (position "freezes") and \$900,000 in overtime.
- (B) Includes Animal Control Services contract with Los Altos and Los Altos Hills.
- (C) The FY 2021 Fire Department budget was reduced by the equivalent of 8.0 sworn positions (position "freezes"). The overtime budget was increased over the prior year by approximately \$200,000 to extend the cross-staffing of Medic 61 one year.
- (D) The FY 2021 Modified Budget includes overtime adjustments recommended as part of the FY 2021 Mid-Year review for Strike Team reimbursements (\$1,040,339)