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From: Rice, Danille
Sent: Friday, March 20, 2020 5:32 PM
To: Council, City; Council Agenda Email
Cc: ORG - Clerk's Office; Executive Leadership Team
Subject: Council Agenda Consent Questions for March 23: Item 2, 3, 5, 5A



Council Question Response

Dear Mayor and Council Members:

On behalf of City Manager Ed Shikada, please find below the staff responses to inquiries made by Vice Mayor DuBois and Council Member Tanaka in regard to the March 23, 2020 Council Meeting agenda.

- Item 2: Approval of Contract with Serco, Inc. for RPP Parking Enforcement
Item 3: Two-Year Renewal of Oracle Technical Support Services
Item 5: Budget Amendment Ordinance for Planning & Development Services
Item 5A: FY 2021 Proposed Operating and Capital Budget Preparation

Item 3: Two-Year Renewal of Oracle Technical Support Services (Questions from Council Member Tanaka)

1. Staff mentioned that these services have been used in the past, how have these services provided positive impacts and how effective are they?

We leverage Oracle databases for our ERP, GIS, and Utilities applications, all of which support critical applications for the city. The support services help ensure these applications continue to function effectively.

2. How likely are the contingency funds going to be used and how was the 10 percent decided?

This is a standard percentage that would be used for any additional services if needed. There is no expectation at this time to use the contingency; this authorization provides some flexibility to address unanticipated circumstances.

3. In the report, it said, "staff has determined the costs to be reasonable", how did the staff determine those exact costs and what are the premises for "reasonable"? Please elaborate.

We request quotes from multiple vendors, and this gives staff an understanding of market pricing for services such as this.

Additionally, Council Member Tanaka asked the below Consent Questions for Items 2 and 5.

Given the immense economic issues where the City will be required to make tough choices (e.g. helping people losing their jobs), does it really make sense to do #2 or #5 at this very moment?

Item 2: Approval of Contract with Serco, Inc. for RPP Parking Enforcement

Deferral or not proceeding with this contract would only be appropriate if the City Council is considering reduction or elimination of the RPP program.

Item 5: Budget Amendment Ordinance for Planning & Development Services

This item is a no-cost budget adjustment to reflect actual revenues, and as such has no financial impact.

Item 5A: FY 2021 Proposed Operating and Capital Budget Preparation
(Questions from Council Member Tanaka)

- 1. The business impact of COVID-19 has been immediate and dramatic. The S&P500 has fallen about 30%, while our stores, hotels, and restaurants are almost completely shut down, and yet the plan is that “the budget will effectively be a carryover budget”? This seems like a rather large disconnect from what is happening. Please explain.**
- 2. With such a dramatic impact on the city, what was the rationale to have this critical item as a last-minute consent item? I am only seeing this a couple of days before the meeting and I am very concerned about the lack of transparency.**
- 3. Many of our businesses will be failing and many of our residents will face or are already facing severe economic hardships, yet the plan is that the budget “includes the progression through years of CPI in contract services that have increases built into them, updated labor costs per our negotiated agreements“. Shouldn’t the plan be to at least go back and re-negotiate these increases to help balance the budget?**
- 4. While we will know more over the course of the subsequent fiscal year, we know right now some of the assumptions of the FY2020 budget are absolutely wrong:**
 - “Sales Tax is projected to increase by 9.9% (from \$31.2 million to \$34.3 million),**
 - Property Taxes are anticipated to increase by 7.3% (from \$45.3 million to \$48.6 million), and**

- **Transient Occupancy Tax (TOT) is expected to increase by 17.0% (from \$25.0 million to \$29.3 million). These FY 2020 estimates for the first time include estimates from the passage of Measure E in November 2018 which increased the TOT tax rate from 14% to 15.5%. “**

Not only will we not get these revenue increases, but we already know these revenue sources will be dramatically lower. Why not use those more realistic estimations for the 2021 budget? Why carryover these obviously wrong inflated numbers from FY2020?

Staff Response to Item 5A (Questions 1-4) Above:

Staff's proposed plan to complete a simplified proposed budget for FY 2021 is similar in the common practice of a two-year budget cycle which is outlined in the City's municipal code sections 2.28.015 and 2.28.20. As per the code, on or about May 15th the City Manager must release their proposed budgets. Currently, this proposed plan for minimizing the FY 2021 budget to an essentials only budget, does not affect the normal annual process for review. Barring circumstances beyond our control, the plan would proceed as follows, 1) transmittal of these documents by the end of April, 2) review of the proposed budgets with the Finance Committee in May, 3) holding a public hearing and formal adoption by the City Council in June. Per the City's Charter, the City Council must adopt a budget for each fiscal year. As the budget process proceeds, and after if necessary, staff will provide updated recommendations based on circumstances as are apparent at that time and the City Council can provide direction to the staff as well.

With the very limited capacity of the organization, currently focused on responding to the current health emergency, the difference from prior years is setting the expectation that the City Manager's proposed operating and capital budgets will not advance any discretionary proposals and will not include the normal write-ups and workload measure reporting. It is expected that these sections will be included in the adopted budget document produced later in the year.

Although this FY 2021 Proposed Budget is not expected to reflect a recession scenario, it is expected to include discussion of how past recessions have impacted the City's financials to assist both the Council and the public in understanding the magnitude and potential implications on services. This will aid future budget discussions as the financial implications of the current emergency comes into clearer focus. With the very uncertain future of our economy and the significant financial repercussions of the current emergency (COVID 19), staff is acutely aware of the need and implications of what a potential recession scenario may look like here in the City of Palo Alto as well as the response and implications of the COVID 19 emergency operations as well.

As the situation unfolds, staff is monitoring and tracking revenues and expenses to the extent data and information is available. Staff expects that as data becomes available and the financial implications come into clearer focus, the City Council and Finance Committee will be provided updates based on the information at that time. It is expected that in the May Finance Committee meetings, that staff will provide updated recommendations based on circumstances and address economic implications apparent at that time.

Item 5A: 5A: FY 2021 Proposed Operating and Capital Budget Preparation
(Questions from Vice Mayor DuBois)

1. If council pulls this item can we hear it on Monday?

Yes, assuming earlier items proceed as scheduled.

2. If the Finance Committee and Council decide that FY2021 should be a reduced budget from FR 2020, can staff put a FY2021 budget together in time?

Yes, the City Council can provide direction to staff on the FY 2021 budget. It should be noted, however, that the adopted budget may include adjustments and strategies that would require implementation over the course of the coming fiscal year.

Thank you.



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