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CITY OF PALO ALTO

CITY COUNCIL REVIEW

PRELIMINARY FIRST QUARTER FY 2022 FINANCIAL STATUS

City Council, Item #5

October 25, 2021

www.cityofpaloalto.org/budget

OVERVIEW

- Improvement in the local economic outlook, similar to national trends
- The City has diligently managed through the pandemic, early indicators reflect discussion and deliberations on the City's ability to restore day-to-day services and advance the priority work initiatives identified by Council
- Overall, major General Fund tax revenues are projected to exceed the FY 2022 Adopted Budget
- Resources are necessary to continue our organization's outstanding services and forward-looking projects, current resources levels are insufficient but will take time
  - 4.0 position additions, +
- This action is one of many iterations in the constant financial management, staff expect to return in early 2022 for further follow-up and updates

PRELIMINARY Q1 FINANCIAL REPORT OVERVIEW

A. Status of the organization and administrative areas impacting the timeline of transition and delivery of services

B. Update on the preliminary FY 2021 Year-end results and preliminary Q1 FY 2022 financial status

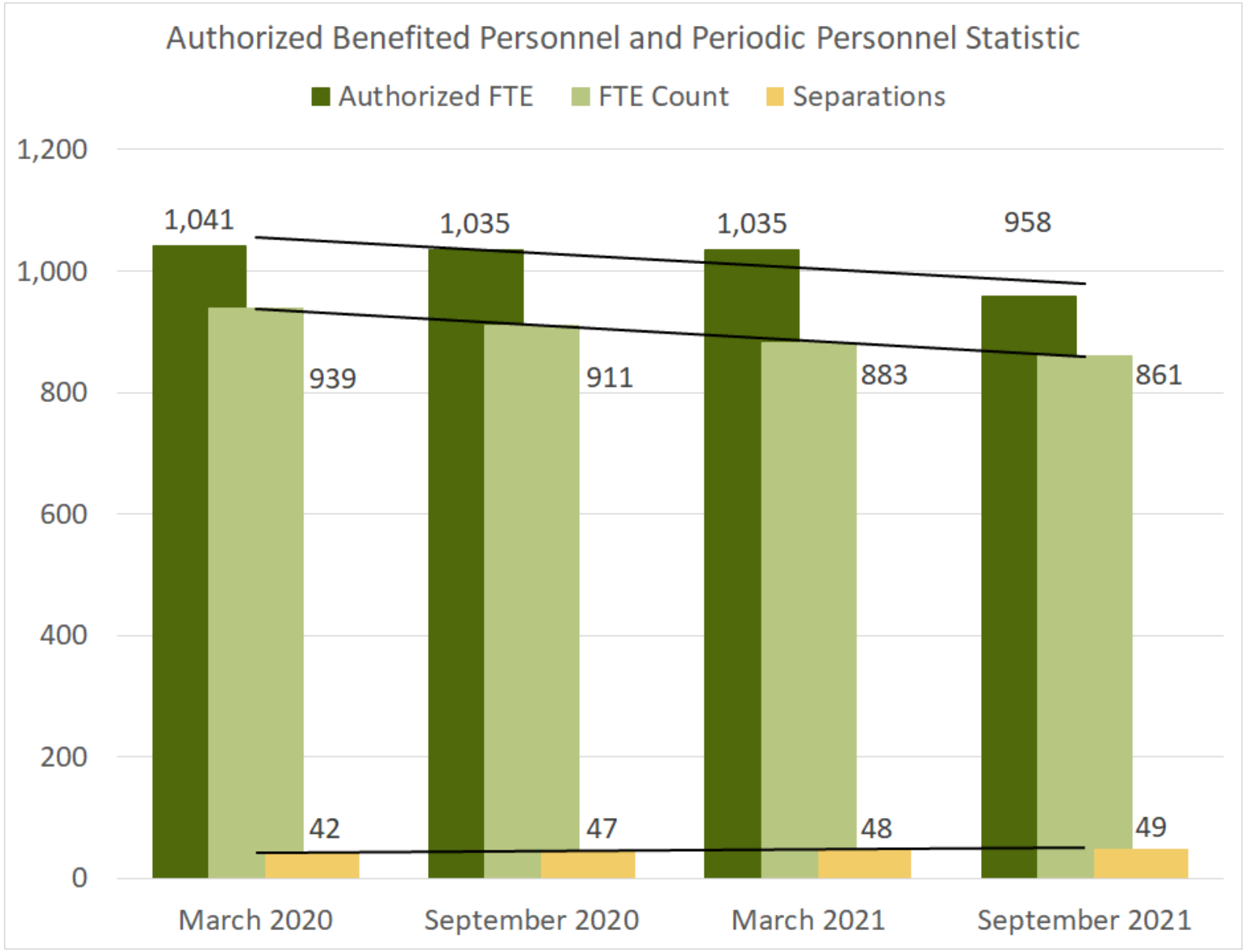
C. Current service delivery and challenges as the City continues to manage through impacts from the pandemic

D. Adjustments to the FY 2022 budget to align with Council direction subsequent to the adoption of the budget

E. Review of next steps, including when Council will consider additional staff recommendations on the budget

AUTHORIZED STAFFING CHART

- Authorized staffing levels reduced 7%
- Staff capacity to deliver services reduced by 11% compared to pre-pandemic levels
- ~100 full-time vacancies (10% vacancy rate)
- Competitive labor market
- Focus must also be placed on retaining our current talented workforce



RECRUITMENT PROCESS FLOW CHART

Request to Fill Position

(high priority 1-2 wks, standard up to 2mo)

Recruitment Plan and Posting

(1 mo)

Application Screening

(1 mo)

Interviews

(1 mo)

References/Job Offer/ Screening

(1 mo)

Onboarding!

A high-priority recruitment will take approx. 3-4 months to fill.

A request today will result in a new staff member February/March 2022

A. CHALLENGES IMPACTING THE ORGANIZATION (CONT'D.)

- **Supply Chain Delays**
  - Major areas of impact include Public Works, Utilities, and City warehouse operations, as well as replacement of fleet vehicles and equipment
  - Staff proactively looking ahead for daily supplies and major project needs to account for the current uncertainties
- **Procurement Process**
  - Complex and/or multi-year purchases, that require a formal solicitation, at present take an average of 8-9 months to complete
  - Significant staff turnover and the resulting loss of institutional knowledge has slowed the procurement cycle time

PROCUREMENT PROCESS FLOW CHART

Request for formal solicitation purchase & 'bid read' package

(1-3 mo)

Public Posting of RFP & Evaluation of responses

(2-3 mo)

Contract Development & Negotiations

(2-3 mo)

Staff Report Drafted & Council Agenda

(1-2 mo)

Council Approval & Services Begin

A public request for proposal (RFP) will take approx. 8-9 months to complete

For a contract award through Council by June 30, 2022, a request needs to begin today.

B. PRELIMINARY FY 2021 YEAR-END RESULTS – GENERAL FUND

- General Fund Budget Stabilization Reserve (BSR)
  - 18.5% level for FY 2022 Adopted Budget is $38.7 million
  - BSR projected at $42.4 million or **$3.7 million above the 18.5% target**
    - Primarily due to higher than projected revenues, and some expense savings
  - Projection accounts for a recommended reallocation of excess Educational Revenue Augmentation Fund (ERAF) distributions previously reserved for resolved ERAF litigation recommended to the Utilities Transfer Litigation Reserve

Staff is actively working with the City's outside auditors for the review and compilation of the FY 2021 Annual Comprehensive Financial Report (ACFR) to be considered in November/December 2021.

B. PRELIMINARY Q1 FY 2022 STATUS - GENERAL FUND REVENUE

Revenue Category	FY21 Adjusted Budget	FY21 Preliminary Actuals	FY22 Adopted Budget	FY21 Bgt - FY22 Bgt (% chg)	FY22 Trend vs Budget
Property Tax	$53.2 M	$56.6 M	$51.2 M	-3.7 %	
Sales Tax	$25.0 M	$29.1 M	$28.2 M	12.6 %	
Transient Occupancy Tax	$5.1 M	$5.2 M	$8.4 M	74.5 %	
Utility User Tax	$14.1 M	$14.6 M	$14.4 M	2.1 %	
Documentary Transfer Tax	$6.9 M	$10.6 M	$7.1 M	3.8 %	
Charges for Services, Licenses, & Permits	$32.8 M	$32.4 M	$32.3 M	-1.5 %	
Other Taxes, Fines, & Return on Investments	$1.5 M	$1.7 M	$2.3 M	53.2 %	
All Other Revenues (transfers, charges to other funds/agencies, etc.)	$53.7 M	$50.7 M	$62.5 M	Various	

B. PRELIMINARY Q1 FY 2022 STATUS – OTHER FUNDS

- Enterprise Funds reported a total net position of $804.0 million, an increase of $23.0 million (2.9%) from Q1 FY 2021
  - Revenues and expenses for utilities trending close to budget with the exception of reduced Water consumption based on increased conservation efforts
- Internal Service Funds
  - Workers' Compensation claims costs are trending slightly lower, $0.6 million compared to $0.9 million in FY 2021
  - General Liability claims costs are trending down; however, costs in other areas, such as umbrella excess insurance and property loss are increasing
  - Fleet management prioritizing and pausing vehicle replacements per two-year reduction in replacement activities approved by Council in FY 2021 Adopted

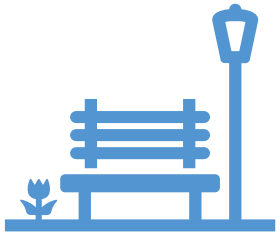
C. STATUS OF SERVICE DELIVERY BY DEPARTMENT

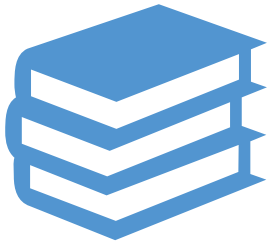
- Staff managed diligently through the pandemic reducing resources to manage financial constraints while striving to maintain high quality services for the community
- Staff are struggling to meet day-to-day service requirements with the current constrained resources and preparing for the continued recovery of the economy
    - Work on priorities that involve high profile, cross functional projects competing with operational tasks
- Actions recommended in this report add support for important and engaging projects; however, it will take time to realize the benefit of increased capacity

C. STATUS OF SERVICE DELIVERY BY DEPARTMENT (CONT'D.)

Neighborhood, Community and Library Services

- CSD has resumed most programs and services with some modification
- Due to challenges with hiring the Teen Center at Mitchell Park Community Center remains closed and Middle School Athletics have reduced capacity
- All libraries open with restricted hours, and full reopening will be completed once vacant positions are filled
- Staff deployed to provide in person services at all libraries has resulted in a significant decrease in the number of events and programs available





C. STATUS OF SERVICE DELIVERY BY DEPARTMENT (CONT'D.)

Public Safety

- Fire Department testing new deployment model to review statistics for effectiveness
- Increasing injuries require more mandatory overtime putting a strain on crews
- City awarded SAFER grant to provide funding for 5.0 sworn fire positions
- All Police customer facing services that were temporarily halted have resumed
- Retention and recruiting of police officers critical issue, currently 10 vacancies

C. STATUS OF SERVICE DELIVERY BY DEPARTMENT (CONT'D.)

Planning and Transportation Services

- Building applications and permit activity levels increased from the prior year, but unsure if driven by new pace of development or backlog of rebounding activity
- Building inspection wait times range between 3 to 14 days versus optimal 1 to 3 days as supplemental contract support is unavailable for scaling up
- PDS has considerably more work than can be sustained as new Council-initiatives are assigned while continuing to address routine tasks

- Residential Preferential Parking (RPP) program enforcement resumed on October 1
- Safe Routes to School staff responding to safety complaints for all modes of travel
- City awarded a $2M Innovative Transit Grant for a pilot on-demand transit service

C. STATUS OF SERVICE DELIVERY BY DEPARTMENT (CONT'D.)

Infrastructure and Environment

- Public Works seeing high volume of staff vacancies and high level of turn over, 34 vacancies across all funds
  - Services most affected are streets, sidewalks, and storm drains in-house operations
- Vehicle procurement challenges are stemming from supply chain issues

- Utilities high vacancies anticipated and mitigated with capital work programmed according to staffing levels and contract funding, where possible
- Total delinquent balance greater than 90 days for utility bills approximately $2.1 million, factored in FY 2022 budget

C. STATUS OF SERVICE DELIVERY BY DEPARTMENT (CONT'D.)

Internal Services/Strategic Support

- Attorney's Office challenges filling a key in-house position and is supplementing in-house staff with outside consultant services, where possible
- Clerk's Office recruitments are currently underway and staff focusing on long-term projects to identify operational efficiencies

- ASD has significant vacancies or new staffing in financial and procurement operations which is straining staff's ability to balance annual processes with additional activities

- Human Resources prioritizing recruiting for essential positions citywide and providing updated COVID-19 guidance to align with changing public health conditions
  - Contract for recruitment services is forthcoming

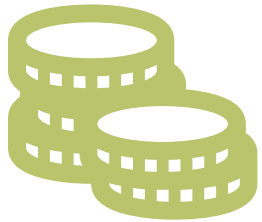
D. ADJUSTMENTS TO THE BUDGET – GENERAL FUND

Council High Priority Project Resources (~$1.0 M in additional funding)

- $550,000 for Housing Support Operations
- $250,000 for Ballot Measure Contracts and Legal Support
- $150,000 for Economic Development and Coordination (additional resources expecting at conclusion of RFP process)

Administrative/Strategic Support ($410,000 additional funding)

- $125,000 for GIS Software Support (Technology Fund)
- $120,000 for Public Safety Communications Management
- $100,000 for City Hall Lobby Support
- $65,000 for Development Center Front Desk Staffing



D. ADJUSTMENTS TO THE BUDGET – GENERAL FUND (CONT'D.)

All Action in the General Fund are recommended to be funded by reserves, previously set aside by the City Council OR additional revenues

Reserve	FY 2022 Budget	Remaining $'s
Reserve: Administrative Support	$300,000	$175,000
Reserve: FY 2022 City Council Budget Uncertainty	$475,000	$0
Council Contingent Account	$100,000	$95,000
Reserve: Strategic Investments (remaining funding expected to be allocated for Economic Development contract services)	$750,000	$275,000
Reserve: Transition Costs ($200,000 expected to be allocated for recruitment contractual services)	$1.1M	$515,000

D. ADJUSTMENTS TO THE BUDGET – OTHER FUNDS

Internal Service Funds technical adjustments to complete transactions for **$4.3 M in supplemental contributions** towards liabilities

- *General Benefit Fund* - one-time retirement savings of $2.9 M contributed to the Section 115 Pension Trust Fund
- *Retiree Healthcare Fund* - corrective action for the $1.4 M prefunding payment to the California Employers' Retiree Benefit Trust (CERBT) Fund

Special Revenue Funds

- *Stanford Research Park/El Camino Real Traffic Impact Fund* – Reimbursement to Santa Clara County for work on Mill Road at Hanover Street and El Camino Real

D. ADJ. TO TABLE OF ORGANIZATION

- **Add 4.00 positions**, increase staffing in the General Fund to 510.80 FTE (960.00 FTE Citywide)
- Amend UMPAPA salary schedule for Utility Safety Officer

NOTE: Recommended restoration of 5.0 Firefighter positions in alignment with the award of the SAFER grant scheduled for November 1, 2021 Council consideration. When included, **addition of 9.0 positions** from FY 2022 Adopted staffing

Position Change	Operational Program
2.00 Assistant to the City Manager	positions to add resources for City Council priorities such as housing support initiatives and economic development
1.00 Administrative Associate III	position to restore front desk reception staffing at the Development Center
1.00 Public Safety Communications Officer	position to restore management resources for dispatch staff and operations

SUMMARY OF FINANCIAL STATUS

- Overall, the City Council's conservative financial planning during the COVID-19 pandemic has placed the organization to recognize the positive economic recovery and continue to take steps to reinvest in the services to the community
- Financial actions in this report do NOT allocate all identified funding:
  - excess BSR funding of $3.7 million remains
  - potential major tax revenues projected to exceed the FY 2022 budgeted levels, current estimates reflect ~$5 - 6 million above budget levels
- Staff continues to work through challenges in maintaining current service levels due to recruitment & retention of the workforce, supply chain, and procurement challenges

Next Steps

- *NOVEMBER/DECEMBER 2021:*
  - FY 2021 Council Referrals review with Finance Committee (Finance Committee)
  - FY 2021 Annual Comprehensive Financial Report and FY 2021 Year End Budget Adjustments (Finance Committee)
  - Final FY 2022 Q1 Financial Report (Finance Committee)
  - FY 2023-2032 Long Range Financial Forecast (Finance Committee)
- *JANUARY/FEBRUARY 2022:*
  - City Council review of prior month Finance Committee Reports
    - Specifically for FY 2023-2032, update on CalPERS deliberations on actuarial assumptions
  - FY 2022 Mid-Year Budget Review and Preliminary FY 2022 Q2 Financial Status
- *MAY/JUNE 2022:*
  - FY 2023 Budget Deliberations and City Council action
  - FY 2022 Year-End Projections and Financial Status

DRAFT POTENTIAL MOTION FOR COUNCIL CONSIDERATION

1) Approve a Budget Amendment Ordinance for Fiscal Year 2022 in various funds, as identified in Attachment A (requires 2/3 super majority approval, or 5 affirmative votes);
2) Approve an amendment to the Utilities Management and Professional Association of Palo Alto (UMPAPA) Salary Schedule to increase the Utility Safety Officer classification salary in alignment with market rates in Attachment B;
3) Approve amendments to the FY 2022 Table of Organization in Attachment C consistent with the budget amendments in Attachment A; and
4) Review and accept this preliminary financial status report for the first quarter of FY 2022
5) Direct staff to further develop recommendations in specific areas and return to the City Council for action [recommended timeframe, FY 2022 Mid-Year Budget Review]