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<u>Vacancy Analysis</u>

The current vacancy rate is approximately 13.5% in the General Fund, excluding public safety. This preliminary vacancy rate is point in time and does not consider actions currently in progress for recruitments, promotions, and other staffing shifts. Vacancy savings from public safety positions are typically exhausted by uses such as backfill, hire ahead programs, and overtime. To better align with the status of vacancies, this forecast increases the vacancy estimate from previously assumed rate of 3% to 5% in all years. This results in additional savings of approximately $2 million annually, or a projected $5 million in total vacancy savings each year. This additional funding fully forecasts the savings the City has seen in recent years of $1.7 million as shown in Table 1.

Consistent with past practice, the vacancy assumption is lower than the actual vacancy rate to allow departmental use of those savings for other staffing strategies, such as filling staffing gaps by contracting for professional services, hiring ahead to allow overlap and smooth transitions, piloting new technologies to increase efficiency in the absence of staff, and supporting a summer internship program. For example, vacancy savings have been used to hire on-call inspectors and planners on a limited-term basis to meet changing demands. Additionally, these savings have bridged changes in employee compensation when labor terms are completed outside of the regular budget cycle, and they support professional recruitment services for hard to fill positions. Lastly, these savings give flexibility to start or expand projects and programs during the fiscal year, ahead of the formal budget process. A recent example is the Planning and Development Services Department's use of vacancy savings to hire consultancy services to advance work related to the North Ventura Coordinated Area Plan (NVCAP). This approach facilitates continuity of the project while the department continues efforts to fill staffing vacancies in the Long-Range Planning division.

Table 1 provides a historical summary of budget to actuals variance in the Salary and Benefits category for General Fund departments. The budget includes the budgeted vacancy factor assumption, therefore this savings is what has been achieved beyond planned levels. The table includes the annual vacancy rate and the percentage difference from budgeted funding levels. As shown below, the vacancy savings from the previous year have varied from -$1.7 million to +$1.7 million over the last five years from the budgeted vacancy assumption, reflecting a variance of less than 1.5% as compared to the budgeted.

TABLE 1: Historical General Fund Vacancy Savings ($'s in Millions)

	2019	2020**	2021**	2022	2023

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Total General Fund Vacancy Savings	$1.3M	$1.3M	-$1.7M	$1.6M	$1.7M
Annual Vacancy Rate	12%	12%	15%	12%	13%
General Fund Adjusted Budget*	$123.3M	$134.7M	124.1M	$134.3M	$148.4M
Variance to Budget	1.1%	1.0%	-1.4%	1.2%	1.2%

* The annual budget reflects s*alaries and benefits net of the forecaste*d *vacancy factor each year*.
** FY 2020 and FY 2021 are anomal*y* years as they were significantly impacted by adjustments made due to the COVID-19 pandemic where a number of factors are impacting these rates including but not limited to a hiring freeze as well as eventual position reductions citywide.

Economic Recovery Advisory Report

During the LRFF review, the Finance Committee raised questions regarding the processes to develop LRFF assumptions and variability in actual results. As a follow up to this discussion, this report includes references to an audit completed by the Office of the City Auditor (OCA) in April 2022 to review the City's long-term financial planning models and inputs (CMR 13915[1]). The purpose of this audit was to offer recommendations for improvement, identify and evaluate key revenue source categories that present long term risk to the City's financial sustainability and perform scenario analysis. The OCA conducted analysis of major revenue sources, including historical trends, the distribution of revenue by type, identification of major payors and their geographic locations, historical relationships between economic factors and revenue, sensitivity analysis based on relevant drivers, and a comparison of per-capita revenues by type to those of similar cities. The analysis also involved evaluating economic factors affecting each revenue source and assessing the use of relevant factors for predictive purposes. The OCA results indicated that the City's was able to forecast revenues at no more than a 9% difference from original estimates over a five-year period, from FY 2016 to FY 2020. Further, the results indicated that the City has a robust process for forecasting and uses reliable information for assumptions. Overall, the OCA determined that the City's long-term financial planning models and inputs align with the OCA's considerations and best practices.

Historical Grant Funding and Funding from Other Agencies

From FY 2019 through FY 2023, various federal, state, local, and other agencies allocated funds for programs and initiatives across the General Fund and the Capital Improvement Fund. The City's practice is to recommend allocation of these funds after formal agreements are in place with the granting agency or jurisdiction. In addition, since these funds are designated for specific needs, staff strives to use these funding sources first in order to maximize resources.

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[1] City Council, April 11, 2022; Staff Report # 13915, https://portal.laserfiche.com/Portal/DocView.aspx?id=59425&repo=r-704298fc&searchid=4fe0b40a-9941-44aa-8e0d-6479fb037f48

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Operating - General Fund

	2019	**2020**	**2021**	**2022**	**2023**
Funding by Fiscal Year (in Millions)	$0.8	$0.8	$1.1	$8.8	$12.1

Notably, the Federal Transportation Agency (FTA) contributed to transportation-related projects along with the Santa Clara County Measure B Transportation Improvement Program, and Stanford University supporting the PA Link program. The Institute of Museum and Library Services (IMLS) and Pacific Library Partnership (PLP) supported library partnerships and initiatives and Federal Health and Human Services (HHS) funding was appropriated for mental health services. The funding landscape also encompassed grants for housing and planning awarded by the Metropolitan Transportation Commission (MTC) and California Senate Bill 2 (CA SB2), COVID-19 relief through CARES and American Rescue Plan Act (ARPA) funds, fire fighter staffing funding via Staffing for Adequate Fire and Emergency Response (SAFER), and investments in safety equipment through the Santa Clara County Office of Emergency Services (SCC OES). Significant sources of funding in each year are as follows:

- 2019: FTA and PLP
- 2020: FTA, SCC OES, CA SB2, and IMLS
- 2021: CARES Act and IMLS
- 2022: ARPA, SAFER, and MTC
- 2023: ARPA, Measure B, Federal HHS, SAFER, MTC, and Stanford (via transit revenue sharing)

Capital Improvement Fund

External revenues supporting capital improvement projects fall into three broad categories: local/regional grants (including Measure B), state grants, and federal grants. The table below summarizes the amounts, sources, and uses of these revenues by fiscal year from FY 2019-FY 2023. The amounts in each fiscal year, which total $50.5 million, do not include reappropriations.

	2019	**2020**	**2021**	**2022**	**2023**
Funding by Fiscal Year (in Millions)	$12.4	$4.3	$12.6	$4.0	$17.0

Details of funding sources and capital projects supported are discussed below.

- 2019: Local/regional grants comprised $8.4M
    - $7M supporting the Highway 101 pedestrian/bicycle overpass
    - $1.4M of Measure B supporting transportation projects
  - State grants of $3M for the Newell Road/San Francisquito Creek bridge replacement

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- o $1M of federal grants supported street maintenance
- 2020: Local/regional grants comprised $3.4M
    - $2M supporting the Highway 101 pedestrian/bicycle overpass
    - $1.4M of Measure B supporting transportation projects.
  - o $0.5M of federal grants supported Churchill Avenue/Alma Street railroad crossing safety improvements
  - o $0.4M of state grants supported street maintenance
- 2021: State grants comprised $5.1M
    - $4.6M supporting the Newell Road/San Francisquito Creek bridge replacement
    - $0.5M supporting street maintenance
  - o   Federal funding comprised $4.3M
    - $4.0M for Churchill Avenue/Alma Street railroad crossing safety improvements,
    - $0.3M was given in support of JMZ renovation.
  - o   Local/regional grants comprised $3.3M
    - $1.5M went to the Highway 101 pedestrian/bicycle overpass
    - $1.3M of Measure B for transportation projects and street maintenance
    - 0.5M supported Safe Routes to School and JMZ renovation
- 2022: Local/regional grants comprised $2.6M
    - $2M of Measure B supporting transportation projects and street maintenance
    - $0.6M of other grants supporting the Highway 101 pedestrian/bicycle overpass and the Civic Center electrical upgrade & EV charger installation
  - o $1M of state grants supported the Newell Road/San Francisquito Creek bridge replacement and street maintenance
  - o $0.3M of federal grants supported JMZ renovation
- 2023: State grants comprised $13.3M
    - $12.5M for the Newell Road/San Francisquito Creek bridge replacement,
    - $0.5M for street maintenance
    - $0.3M for Boulware Park improvements and the Charleston/Arastradero Corridor
  - o   Local/regional grants comprised $4.8M,
    - $2.5M supported Roth Building rehabilitation
    - $1.3M of Measure B supported transportation projects.

Turning to currently budgeted revenues in the Capital Improvement Fund, the table below shows how Measure K, the City of Palo Alto's business tax, and Measure B, a Santa Clara sales tax that benefits transportation projects, are currently planned to be allocated across capital

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improvement projects based on the 2024-2028 Capital Improvement Plan (CIP). These allocations may change based on staff recommendations and Council direction during the FY 2025 budget and 2025-2029 CIP development cycle.

	2024	2025	2026	2027	2028
Measure K - City of Palo Alto Business Tax	**$0.75**	**$1.5**	**$3.0**	**$3.0**	**$3.0**
PL-24000 - Meadow Dr./ Charleston Rd. Rail Grade Separation and Safety Improvements	$0.43	$0.75	$2.0	$2.0	$2.0
PL-24001 - Churchill Avenue Rail Grade Separation and Safety Improvements	$0.32	$0.75	$1.0	$1.0	$1.0
Measure B - Santa Clara County Sales Tax	**$10.5**	**$7.8**	**$27.3**	**$27.3**	**$20.3**
PL-05030 - Traffic Signal and Intelligent Transportation Systems	$0.6	$0.3	$0.3	$0.3	$0.3
PL-12000 - Transportation and Parking Improvements	$0.5	-	-	-	-
PL-17001 - Railroad Grade Separation and Safety Improvements	$1.9	$1.0	$2.0	$2.0	$1.0
PL-24000 - Meadow Dr./Charleston Rd. Rail Grade Separation and Safety Improvements	$4.5	$4.5	$15.0	$15.0	$15.0
PL-24001 - Churchill Avenue Rail Grade Separation and Safety Improvements	$3.0	$2.0	$10.0	$10.0	$4.0

Human Services Resource Allocation Process (HSRAP)

As part of the LRFF, staff provided additional details to facilitate the City Council's review of a referral to consider pegging HSRAP budget allocations to a benchmark, such as a percentage of General Fund budgeted expenditures. Staff confirmed that funding levels in prior years were not tied to a percentage of the General Fund budgeted expenditures. The Policy and Services Committee's previous review (CMR 7289[2]) presented four options for augmenting HSRAP funding, but none were approved for recommendation to the City Council. Instead, funding has been adjusted based on the Consumer Price Index (CPI) as funds were available in the General Fund. As part of the LRFF review, the Finance Committee elected to continue the discussion on this referral in February 2024 with any recommended changes forwarded to the City Council for consideration as part of the FY 2025 budget process. The status of the referral has been updated from 'complete' to 'in progress', as indicated in the status update completed on December 5, 2023 (CMR 2307-1794[3]).

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[2] Policy and Services Committee, November 29, 2016; Staff Report # 7289, https://www.cityofpaloalto.org/files/assets/public/v/1/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2016/id-7289-hsrap.pdf
[3] Finance Committee, December 5, 2023; Staff Report # 2307-1794,

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