

CITY COUNCIL

FY 2025 MID-YEAR BUDGET REVIEW

City Council, Item #9

FEBRUARY 24, 2025

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MID-YEAR BUDGET REVIEW OVERVIEW

- Expenses tracking 15.6% higher than FY 2024, but within budgeted levels at 44.8%
- In alignment with the FY 2026-2035 Long-Range Financial Forecast (LRFF), overall General Fund revenue is in-line with the budget, but adjustments are recommended to align major tax categories, especially sales tax decline.
- Citywide vacancy level at 11.5% compared to 13% in FY 2024
- Recommendations for urgent/high priority needs, revenue supported program activities, and technical adjustments
 - Net addition of 1.0 FTE
 - Address staffing at Fire Station 4; fund repairs at the golf course; and increase customer service staffing at the Palo Alto Junior Museum and Zoo (JMZ)
- Reserve one-time funds to address near term projected deficits identified in the LRFF

RECOMMENDED FIRE STATION 4 STAFFING

Near-Term Recommendation

- Adds fire engine to current ambulance at Fire Station 4
- Adds one additional person, on overtime, to three shifts
- Cross-staffing model will staff both the fire engine and the ambulance, consistent with pre-COVID staffing at Fire Station 4
- Puts one of PAFD's two reserve engines into service
- Timeline of 30-60 days while longer-term staffing and funding decisions continue



Longer-Term Plan

- Staffing strategies presented to the Finance Committee in Fall 2024 will be reviewed in April 2025 and recommendations incorporated into the FY 2026 budget process
- Purchase a fire engine to maintain City's fleet

FY 2025 MID-YEAR GENERAL FUND ACTIONS

General Fund Revenue and Expense Adjustments	Net Revenue/(Cost)
Operating Revenue Adjustments Utility Equity Transfer FY24 True-Up (\$0.9M) & Paramedic Transport Revenue (\$0.6M)	\$1.5M
Utility Equity Transfer Case (Net-Neutral Action) (\$3.1M for third round of settlement, offset by \$3.1M from Reserve)	\$0.0M
City Council Approved Actions FY24 Excess BSR to Uncertainty Reserve (\$5.9M) and Capital Improvement Fund (\$3.0M)	(\$8.9M)
Operating Expense Adjustments Public Safety Services (\$0.7M); Electric Sales to the City (\$0.4M); Community Services (\$0.1M); Purchasing Staff Reclassification (\$0.1M savings)	(\$1.1M)
Major Sales Tax Revenue & Investment Earnings (Property Tax, Sales Tax, Utility Users Tax, Transient Occupancy Tax, Documentary Transfer Tax)	(\$0.6M)
Total Adjustments (Net zero FTE change)	(\$9.1M)*

* Use of \$8.9M from BSR represents distribution of FY 2024 fund balance; BSR at 18.4%, \$0.4 M below the 18.5% target

FISCAL YEAR 2025 GENERAL FUND RESERVES STATUS

Year-End BSR Summary (in millions)		Council 18.5% target = \$54.4M Current BSR of \$54.0M at 18.4%
General Fund BSR Balance, January 2025	\$63.1	
<i>FY 2025 Mid-Year Adjustments Net Total</i>	(\$9.1)	
+\$0.9M Operating Revenue partially offset by Major Tax Revenues (\$8.9M) FY 2024 excess to Uncertainty Reserve & Capital Fund (\$1.1M) in Recommended Funding & other technical adjustments		
Projected FY 2025 BSR Balance, June 30, 2025		<u>\$54.0</u>

Uncertainty Reserve (in millions)		2026-2035 LRFF Estimates FY 2026 deficit of \$12.0M FY 2027 deficit of \$7.9M
Uncertainty Reserve Balance	\$6.1	
<i>FY 2025 Mid-Year Adjustments for future deficits</i>	\$5.9	
Projected Uncertainty Reserve Balance, June 30, 2025	<u>\$12.0</u>	

TECHNICAL ADJUSTMENTS – OTHER FUNDS

Enterprise Funds

- *Electric Fund* - Revise budget allocations for electricity usage across City departments
 - Reclassify Contracts Administrator to Senior Buyer

Internal Service Funds

- *General Benefits Fund* - Refund of allocated charges paid from non-General Fund funds in prior years to align with the FY 2025 General Fund refund
- *General Liabilities Fund* - Supplemental funding for property loss insurance premiums

Special Revenue Funds

- *University Avenue & California Avenue Parking Funds* - Enhanced cleaning services
- *Gas Tax Fund* - Reduced funding for Street Maintenance capital project (PE-86070)

NEXT STEPS

March - April

UAC & Finance Committee

- Utility Financial Plans and FY 2026 Rate Recommendations (Electric, Fiber, Gas, Refuse, Stormwater, Wastewater, Water)

June

- FY 2025 3rd Quarter Fiscal Analysis Report
- Adopt FY 2026 Operating & Capital Budgets, Utility Rates, and Municipal Fees



March



April



May



June

March-April

Finance Committee

- PDS Fee Study
- Citywide Municipal Fee Study
- Fire Services (follow-up from Fall 2024)

May

- FY 2026 Proposed Operating and Capital Budgets Published
- FY 2026 Proposed Budget Review, including Utility Rates, Municipal Fees, and Five-Year Capital Improvement Plan

Staff Work: Development and production of FY 2026 Proposed Budgets and Municipal Fee Adjustments

RECOMMENDED ACTION

Staff recommends that the City Council:

- Approve amendments to the Fiscal Year 2025 Budget Appropriation for various funds and various capital projects, as identified in Attachment A, Exhibit 1 and 2 (requires a supermajority, 2/3 approval);
- Approve amendments to the FY 2025 Table of Organization consistent with the budget amendments in Attachment A, adding 1.00 FTE Senior Buyer and 1.00 FTE Program Assistant I and eliminating 1.00 FTE Contract Administrator; and
- Authorize an overstrength 1.00 FTE Fire Captain position.



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