

Assumptions Not Included in Forecast

It should be noted that this forecast does not include several potential impacts to the FY 2026-2035 LRFF that are outlined below. These items are known projects or areas of investment that are priorities but have not been fully developed in terms of costs and timelines. This is not intended to be a comprehensive list nor in any priority order.

Project Homekey: Homekey Palo Alto is a modular interim housing shelter for unhoused individuals and families codeveloped by the City of Palo Alto and LifeMoves. This LRFF includes the City's committed investment of \$7.0 million in operating expenses (\$1.0 million annually for seven years) to fund Homekey Palo Alto. The City's costs for this project could fluctuate throughout the ten-year period, but some of those costs could be funded by business tax revenue for affordable housing and homeless services that has not been fully allocated. Upon the completion of the 7 years, ongoing funding remains to be determined.

Housing Growth Impacts: On August 20, 2024, the City's FY 2023-31 Housing Element¹ was certified, outlining the condition of the City's current housing and future needs of its residents through citywide housing goals, objectives, and policies. The City is required to ensure adequate planning for its "fair share" of affordable and market rate housing, and must demonstrate a strategy for removing barriers to increase housing production and counter well-documented housing shortage. The City's housing target for the eight-year planning period (January 31, 2023 to January 31, 2031) is defined by its RHNA allocation which assigns an additional 6,086 total units into four income categories. The financial implications of this housing growth would increase costs for land acquisition, planning and design, and construction, with offset by new revenues such as sales tax and other economic benefits derived from more affordable housing. The Housing Element² and the associated Environmental Impact Report (EIR)³ provide more detail; however, such financial impacts, especially to the General Fund, have yet to be determined and incorporated into the LRFF.

Geng Road Safe Parking Program: The Geng Road program began in early 2021 as a place for households dwelling in their vehicles to park their vehicles in a designated off-street parking lot. The City launched the program in partnership with Santa Clara County to offer recreational vehicle (RV) dwellers a safe place to park, case management, and assistance with finding permanent homes. On August 19, 2024, City Council approved the site expansion at 2000 Geng

¹ City of Palo Alto FY 2023-31 Housing Element, <https://paloaltohousingelement.com/wp-content/uploads/2024/08/Palo-Alto-Housing-Element.pdf>

² City of Palo Alto FY 2023-31 Housing Element, <https://paloaltohousingelement.com/wp-content/uploads/2024/08/Palo-Alto-Housing-Element.pdf>

³ Addendum to the 2030 Comprehensive Plan Environmental Impact Report, <https://files.ceganet.opr.ca.gov/80033-5/attachment/XqcKmj04NCYoJsEb-sTj8ondOwUj0KbDwiMk56gQ1DCexjgecgNZzQ5LYmJyKBi2EBHmZ65ks5lb4s00>

Road to increase the number of safe parking spaces by 10 (CMR 2407-3274⁴). Staff is working to secure funding for this expansion through the California Department of Housing and Community Development's (HCD) Permanent Local Housing Allocation Program (PLHA). Even if granted, PLHA funding is not expected to fully fund the expansion, and any balance of the costs may be funded by business tax revenue for affordable housing and homeless services that has not yet been fully allocated, or other sources as may be identified during the budget process.

Sustainability and Climate Action Plan (S/CAP): In early 2020, the City launched an update of the Sustainability and Climate Action Plan (S/CAP) Framework to determine the goals and key actions needed to meet its sustainability goals, including the goal of reducing greenhouse gas (GHG) emissions to 80 percent below 1990 levels by 2030 (the "80x30" goal). Investments have been made across various City funds related to S/CAP including: a new Grid Modernization for Electrification capital project (EL-24000), realignment of staff to manage infrastructure improvement projects; scaling existing successful energy efficiency programs; performing and analyzing research in alternative energy sources, sustainable water supplies, carbon sequestration options; and increasing incentives for voluntary electrification programs. The S/CAP Three-Year Work Plan for 2023–2025, approved by Council in Spring 2023, provided a roadmap for these efforts, and the City has accounted for known capital projects and programmatic needs in its forecasts. However, there are uncertainties related to external factors that could impact the scope and scale of work needed to achieve the City's long-term sustainability goals. These unknowns are not fully reflected in this forecast.

Significant Code and Ordinance Updates: Updates to several significant programs, codes and ordinances are expected to be necessary in the near future. Some of these updates include: Seismic Inventory Ordinance and Program Development, Historic Building Survey and Ordinance Development, Zoning Code Updates, and the development of the 2040 Comprehensive Plan, the successor plan to the 2030 Comprehensive Plan. While some costs associated with zoning code updates and the preparation of the 2040 Comprehensive Plan were included in the forecast, additional resources may be required depending on future Council direction and the extent and pace of implementation efforts.

Fee and Organizational Studies: The Planning and Development Services (PDS) Department is in the process of finalizing a fee study which is tentatively scheduled for Finance Committee in February 2025. At the same time, the City is conducting a Citywide Municipal Fee Study and Cost Allocation Plan, with plans to implement its recommendations in FY 2026. Periodically completing fee studies with an outside consultant is a best practice to ensure the City's fees align with its cost recovery policies. Recently the Park, Community Center, and Library Development Impact Fees for residential development were converted from a per dwelling unit basis to a per square foot basis, aligning with AB 602 requirements for a more equitable distribution of fees based on

⁴ City Council, August 19, 2024; Agenda Item #10; Staff Report #2407-3274, <https://portal.laserfiche.com/Portal/DocView.aspx?id=88920&repo=r-704298fc&searchid=1196faea-adb3-49fd-9006-dfb863754685>

development size. Additional impact fee modifications are anticipated, with a staff report providing further details expected in Spring.

Labor Negotiations: As of the timing of this report, all labor agreements for full-time employees are scheduled to expire by June 2025 except for the Service Employees International Union (SEIU) agreement, which expires January 2025. Consistent with Council direction in previous LRFF's, a general 2% assumption is included for all employees starting in either January or July 2025 for all years of the forecast since no MOA's would be in effect at that time; this is not as a commitment to future negotiations and is for forecasting purposes. Additionally, this forecast includes a level of reserve for potential changes in employee compensation in future agreements for competitive wages and other terms of employment. Actual funding needs may differ, depending on outcomes of future labor negotiations. Additional information on salary and benefit assumptions and reserves for future agreements is included in Attachment D.

Grade Separation: The grade separation project consists of four at-grade crossings along the Caltrain corridor in the City of Palo Alto located at Palo Alto Avenue, Churchill Avenue, Meadow Drive, and Charleston Road. As part of the FY 2024 Capital budget, the Council approved two capital projects to separate them, specifying the funding sources and costs associated with Churchill Avenue (PL-24001) and Meadow Drive and Charleston Road (PL-24000) which are being designed together. The Palo Alto Avenue project is currently on hold. In June 2024, City Council authorized staff to advance the project into Preliminary Engineering and Environmental Documentation (PE&ED) Phase (CMR 2404-2861⁵) for the three crossings at Churchill Avenue Meadow drive, and Charleston Road. The phase will lead to the development of 35% plans, renderings, and cost estimates as well as completion of CEQA and NEPA documentation to obtain necessary environmental clearances.

Currently, staff is working on developing a three-party cooperative agreement between the City, Valley Transportation Authority (VTA) and the Peninsula Corridor Joints Power Board (PCJPB) or also known as Caltrain to allocate \$14.0 million from Santa Clara County 2016 Measure B Caltrain Grade Separation funding toward PE&ED phase. The 2016 Measure B program tax revenue amounts to a total of \$700 million in 2017 dollars for all at-grade crossings in Santa Clara County, and the City anticipates an allocation of 50% of this funding. The VTA is currently programming these funds in two-year increments. As Grade Separation 2016 Measure B funding requires matching local funds as a result, additional funding sources will need to be identified to perform this work in upcoming years (FY 2025-FY 2033). Additional resources will need to be explored to plan and fund these grade separations, including City staff pursuing additional funding through grant opportunities as they become available and other financing mechanisms.

⁵ City Council, June 17, 2024; Staff Report #2404-2861,
<https://portal.laserfiche.com/Portal/DocView.aspx?id=73967&repo=r-704298fc&searchid=948efea6-f77f-4463-a371-dabd04cd097d>

Parks Master Plan: The Parks, Trails, Natural Open Space and Recreation Master Plan⁶ was adopted in 2017; and presents a long-term vision for the system. Potential funding mechanisms have been identified for several high-priority projects and programs, however, a strategy to fund implementation of the entire plan has not been completed. As such, this forecast does not yet contemplate the necessary investments to fully execute this plan.

City-owned Assets Operated by Non-profit Organizations: This Forecast does not include any additional capital or operating investments for the Avenidas Senior Center, the Ventura Childcare Center, nor the Sea Scout Building. As costs around potential capital or operating investments for these assets solidify, staff will return to City Council to address them as appropriate. The Roth Building Rehabilitation Phase 1 capital project (PF-23001) is proceeding under a funding strategy outlined in the Tenant Work Letter and included in the LRFF; however, if costs for rehabilitating the facility further increase, additional sources of funding would need to be identified. Additionally, the City's newly approved community center at 445 Bryant Street will operate with part-time use by La Comida for a senior nutrition program, alongside potential programming and shared uses coordinated by the Community Services Department. While La Comida's rental terms are being defined, future revenue opportunities from shared programming or facility rentals remain uncertain.

Cubberley Community Center Redevelopment: On October 7, 2024, the City Council (CMR 2409-3500⁷) approved the MOU with PAUSD for Cubberley Site purchase and lease. The LRFF includes the revised lease financial terms and maintains the Real Estate Investment Reserve of \$1 million annually which will fund the critical professional service contracts (i.e. master plan, community outreach, polling, etc.) in the next 24 months, and also serve as a placeholder for future real estate investment appropriations. However, the LRFF does not reflect any General Obligation bond cashflow as that is yet to be determined and hopefully will have an insignificant net impact on the General Fund. The LRFF does not factor in other costs such as future Cubberley operating costs and/or repairs, as these fiscal impacts will be informed in the upcoming 24 months with the development of the proposed operational and financial models.

Loans for Special Projects: From time to time the City's General Fund will assist other City operations with modest cash flow loans to bridge fiscal years. For example, the City provided over \$3 million in loans to the Airport Fund as it worked to secure significant grant funding from the Federal Aviation Administration (FAA) for capital improvement costs. As of FY 2020, the Airport Fund began paying back the loan to the General Fund. Additions and other initiatives funded in other funds may need financial support from the General Fund to ensure they are fully implemented. In FY 2023 the Residential Preferential Parking (RPP) Fund received a \$0.4 million General Fund loan to remain solvent while continuing operations, given the sustained drop in parking demand during the pandemic. A similar loan for \$50,000 to the Residential Preferential

⁶The Parks, Trails, Natural Open Space and Recreation Master Plan, 2017;
<https://www.cityofpaloalto.org/files/assets/public/public-works/palo-alto-parks-master-plan.pdf>

⁷ City Council, October 7, 2024; Agenda Item #AA1; Staff Report #2409-3500,
<https://portal.laserfiche.com/Portal/DocView.aspx?id=98620&repo=r-704298fc&searchid=d8e93928-24cc-47b6-b45b-978951b272c4>

Parking (RPP) Fund and \$450,000 to the California Avenue Parking Fund were approved as part of the FY 2024 budget. As parking continues to be impacted by effects from the Covid-19 pandemic and remote/hybrid work, additional loans from the General Fund of \$2.0 million annually to the parking funds are assumed in this forecast. This LRFF also assumes repayment revenue to the General Fund from previous parking loans including \$0.4 million (RPP) in FY 2033, \$500,000 (RPP and California Avenue Parking Fund) in FY 2034, and \$2.0 million (RPP, California Avenue Parking Fund, and University Avenue Parking Fund) in FY 2035. Staff will continue to review costs in the parking funds and revise funding needs and evaluate support as a loan or subsidy from the General Fund as part of the development of the FY 2026 budget.

Legislative Updates: Various actions at the state and federal level that could impact the City of Palo Alto have not been incorporated into this forecast due to the changing context and uncertainty of the quantitative impacts of potential legislative changes. As the potential impacts of various legislative initiatives are clarified, appropriate adjustments will be identified and brought forward as part of future budget development cycles.

Aging or Noncompliant Infrastructure: The City maintains indoor and outdoor facilities, many of which have been identified in the City's ADA transition plan and by the Infrastructure Blue Ribbon Commission as requiring capital project work to bring them up to full ADA compliance and/or sufficient conditions. Facilities of concern include Cubberley Community Center, Foothills Park Restrooms, and Lucie Stern Community Theatre restrooms. Staff continues the program work needed in this area as part of the Americans with Disabilities Act Compliance capital project (PF-93009); however, the entire scope of work needed in this area exceeds current resources.

General Liability Umbrella Excess Premiums: The City's General Liability Program provides funding to cover various insurance policies for City-owned equipment and machinery. The City is self-insured for the first \$1.0 million in losses per occurrence and participates in a Joint Powers Authority for coverage up to \$55 million per occurrence. These expenses are allocated to citywide departments. General Liability Umbrella Excess Premiums are anticipated to increase in future years due to significant national events and natural disasters such as claim costs for Hurricane Ian. Staff will bring forward adjustments for these costs as part of future budget cycles as they become available.

Fire and Ambulance Service Expansion: On November 19, 2024, the Finance Committee reviewed and discussed fire and ambulance service expansion options (CMR 2406-3310). Staff continues to analyze these services, and any funding, appropriation and labor negotiation will be guided by future City Council direction, and as such not incorporated into the LRFF at this time.

Fire Training Center: As part of the FY 2023 Adopted Capital Budget the City Council approved the Fire Training Facility Replacement capital project (FD-24000) to identify an appropriate site and construct a new fire training facility in Palo Alto. Funding was only appropriated for the feasibility study portion of the project in FY 2024, and additional resources will need to be appropriated in future budget cycles based on the results of the study. In addition, the Fire

Department is also evaluating opportunities to partner with other local jurisdictions for training needs, instead of building a permanent facility in Palo Alto. Staff from Public Works and Fire Departments are working on a scope of work to study the facility needs and potential locations for the center and plan on engaging a consultant in early 2025.

Limited Term Programs: There are several programs currently in progress that are funded on a limited term basis per Council approval. If these programs are recommended to continue through the ten-year forecast period additional resources would be needed.

- The Psychiatric Emergency Response Team (PERT) program in the Police Department pairs a police officer in plain clothes and a mental health clinician to respond to calls for mental health emergencies. In FY 2024, PERT funds were unspent due to the inability to source and supply a clinician. The funds were returned to the Stanford University Medical Center (SUMC) Fund and recommended to be used in the future to support the PERT program when the County can provide a clinician. The PERT program is recommended to be supported with SUMC funding through FY 2028.
- PA Link, the on-demand transit service, is continuing its pilot program with grant funding from the Transportation Fund for Clean Air (TFCA) and contributions from the Stanford Research Project (SRP) in conjunction with City funding in FY 2025. Staff is looking for new funding sources including grant funding and potential strategic partnerships with companies. With the continuation of the SRP cost sharing agreement and current fare structure in FY 2026, it is estimated that an additional \$0.4 million in funding is required to fully fund the program in FY 2026.

Vehicle Fleet Electrification: Currently the City's policy is to consider electric vehicles and then other alternative fuel vehicles when replacing existing vehicles. Transitioning the vehicle fleet to full Electric Vehicles (EVs) is part of the City's sustainability goals. It has been estimated that at least \$6.0 million across all funds will be needed annually (\$2.4 million above the FY 2025 budget) in order to replace all City vehicles with EVs.

Green Storm Infrastructure (GSI) Maintenance: The City is subject to the requirements of the Municipal Regional Stormwater National Pollutant Discharge Elimination System Permit in the San Francisco Bay Area (Order R2-2015-0049,) also known as the Municipal Regional Permit (MRP). The MRP applies to 79 municipalities and flood control agencies that discharge stormwater into the San Francisco Bay. MRP Provision C.3 requires "Regulated Projects," defined as new development and redevelopment projects that exceed certain impervious surface size thresholds, to mitigate stormwater quality impacts by incorporating site design, pollution control measures, and stormwater treatment measures--typically known as green stormwater infrastructure (GSI). Section C.3.j.ii.(2) also requires that the City, by June 30, 2027, construct GSI that treats 3.92 acres of impervious surface (based on a required ratio of 3 acres/50,000 residents). Moreover, the City is required to integrate GSI into Capital Improvement Program projects when possible. Consequently, the City expects to have significantly more GSI and associated maintenance in the coming years, the cost of which is still being quantified.