



# FY 2026 – FY 2035 LONG RANGE FINANCIAL FORECAST

Finance Committee Item #2

**DECEMBER 3, 2024**

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# OVERVIEW

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- Forecast the economy remains weak in 2025, returning to growth trend in 2026
  - Stagnation, uncertainty and potential volatility at Federal level
- Expense projections based on current approved service levels
  - Maintain funding for long-term liabilities and 18.5% BSR
- LRFF is fairly consistent with FY 2025 Adopted Budget
  - Multi-year budget balancing strategy
  - One-time funding continues to be used for near-term fiscal stability
  - Continued strategic planning and fiscal discipline

# Fiscal Year 2026 - 2035 Base Case Forecast

## BASE CASE

	Actual 2023	Actual 2024	Adopted 2025	Projected 2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Total Revenue	\$254,799	\$278,231	\$287,554	\$287,554	298,600	\$313,314	\$326,039	\$339,349	\$354,834	\$369,351	\$383,252	\$397,871	\$413,399	\$429,068
BSR Contribution (One-Time)	-	-	\$3,247	\$3,247	-	-	-	-	-	-	-	-	-	-
Reappropriated Funds (One-Time)	-	-	\$16,093	\$16,093	9,200	-	-	-	-	-	-	-	-	-
Total Source of Funds	\$254,799	\$278,231	\$306,893	\$306,893	\$307,800	\$313,314	\$326,039	\$339,349	\$354,834	\$369,351	\$383,252	\$397,871	\$413,399	\$429,068
Year over Year increase (revenue only)					3.8%	4.9%	4.1%	4.1%	4.6%	4.1%	3.8%	3.8%	3.9%	3.8%
Total Expenditures	243,695	281,062	306,893	306,893	319,788	321,171	332,558	344,995	352,870	360,763	368,429	377,258	386,903	403,667
Total Use of Funds	\$243,695	\$281,062	\$306,893	\$306,893	\$319,788	\$321,171	\$332,558	\$344,995	\$352,870	\$360,763	\$368,429	\$377,258	\$386,903	\$403,667
Year over Year increase					4.2%	0.4%	3.5%	3.7%	2.3%	2.2%	2.1%	2.4%	2.6%	4.3%
Net One-Time Surplus/(Gap)	\$11,104	(\$2,831)	\$0	\$0	(\$11,988)	(\$7,857)	(\$6,519)	(\$5,646)	\$1,964	\$8,589	\$14,824	\$20,612	\$26,495	\$25,401
Cumulative Net Operating Margin (One-Time)														\$65,874
Net Operating Margin					(\$11,988)	\$4,131	\$1,339	\$872	\$7,610	\$6,625	\$6,235	\$5,789	\$5,883	(\$1,095)
Cumulative Net Operating Margin														\$25,401

Net Operating Margin assumes that the annual shortfalls are solved with ongoing solutions and annual surpluses are spent for ongoing expenditures

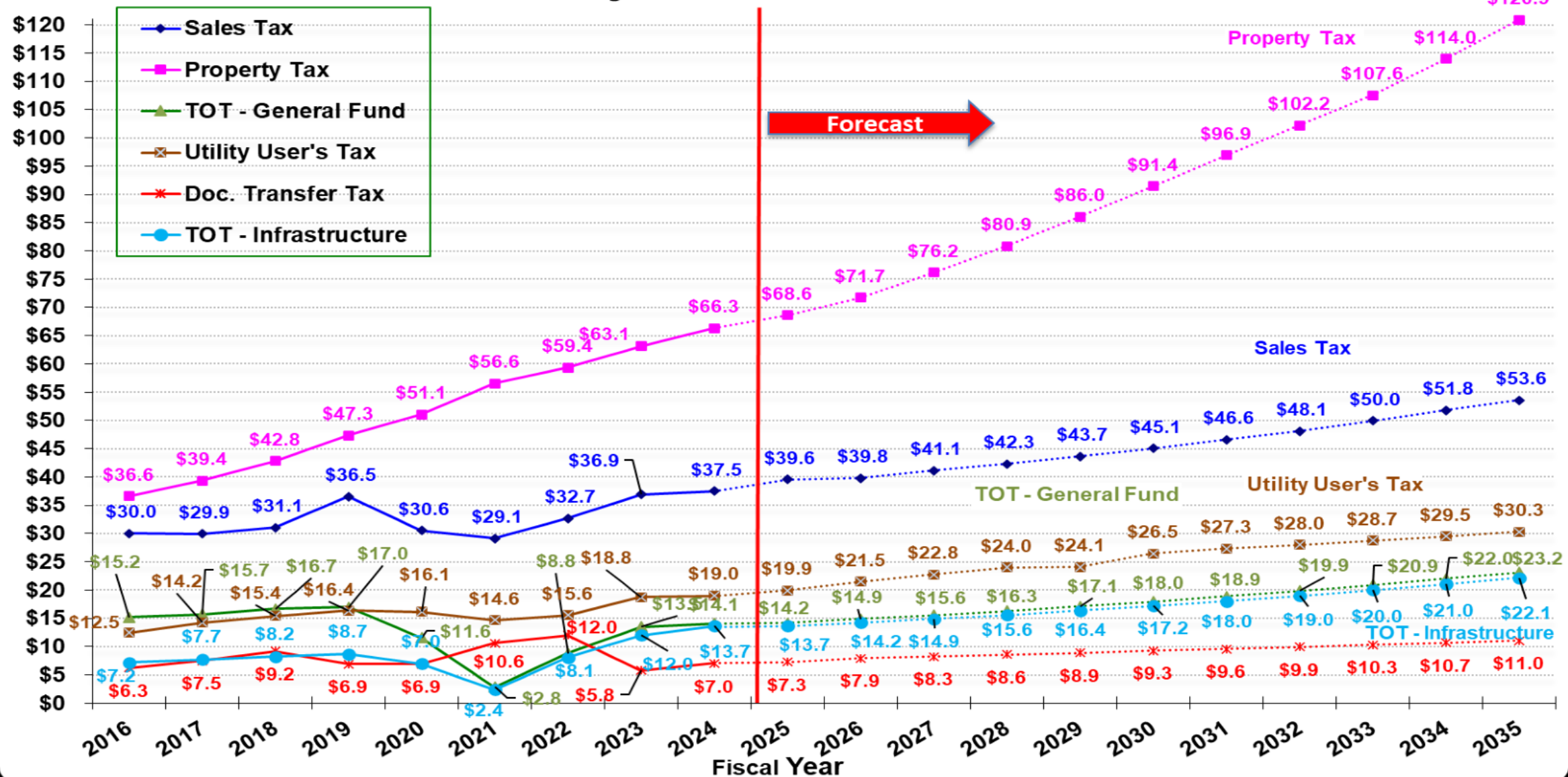
- **FY 2026 projected shortfall of \$12.0 million, previously anticipated at \$11.0 million**
  - Uncertainty Reserve of a recommended \$12M offsets projected FY 2026 shortfall
- **Annual Shortfall in FY 2027-2029 range from \$7.9M to 5.6M**
- Budgeted revenues projected to support expenditures starting in FY 2030



# MAJOR TAX REVENUE PROJECTIONS

Millions

## Major General Fund Revenues



## Budget Stabilization Reserve (BSR) Summary

BSR Balance June 30, 2024*	\$63.3 Million
Transfer to Infrastructure Reserve	-\$3.0 Million
Transfer to Budget Uncertainty Reserve	-\$5.9 Million
Total Transfer to Reserves	-\$8.9 million

Projected FY 2025 BSR Level June 30, 2025 (18.5% Target Level)	\$54.4 Million
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Recommended Budget Uncertainty Reserve	\$12.0 Million
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\* After FY 2025 approved adjustments to balance FY 2025 (\$2.6 million).

## POLICY & STRATEGY:

- Maintaining FY 2025 BSR at 18.5% target level
- Multi-year strategy to balance anticipated shortfalls

## RECOMMENDATION:

- \$3.0M to Infrastructure Reserve and \$5.9M to Budget Uncertainty Reserve

## APPROPRIATION ACTION:

- FY 2025 Mid-Year Review (February 2025)

# ALT SCENARIO A: ECONOMICALLY SENSITIVE REVENUE IN FY26

## ALTERNATIVE SCENARIO: RECESSION (1% Loss of Economically Sensitive Revenue in FY 2026)

	Actual 2023	Actual 2024	Adopted 2025	Projected 2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Total Revenue	\$254,799	\$278,231	\$287,554	\$287,554	296,297	310,914	323,534	336,745	352,109	366,516	380,316	394,823	410,228	425,785
BSR Contribution (One-Time)	-	-	\$3,247	\$3,247	-	-	-	-	-	-	-	-	-	-
Reappropriated Funds (One-Time)	-	-	\$16,093	\$16,093	9,200	-	-	-	-	-	-	-	-	-
Total Source of Funds	\$254,799	\$278,231	\$306,893	\$306,893	\$305,497	\$310,914	\$323,534	\$336,745	\$352,109	\$366,516	\$380,316	\$394,823	\$410,228	\$425,785
Year over Year increase (revenue only)					3.0%	4.9%	4.1%	4.1%	4.6%	4.1%	3.8%	3.8%	3.9%	3.8%
Total Expenditures	243,695	281,062	306,893	306,893	319,788	321,169	332,555	344,992	352,868	360,760	368,426	377,255	386,900	403,664
Total Use of Funds	\$243,695	\$281,062	\$306,893	\$306,893	\$319,788	\$321,169	\$332,555	\$344,992	\$352,868	\$360,760	\$368,426	\$377,255	\$386,900	\$403,664
Year over Year increase					4.2%	0.4%	3.5%	3.7%	2.3%	2.2%	2.1%	2.4%	2.6%	4.3%
Net One-Time Surplus/(Gap)	\$11,104	(\$2,831)	\$0	\$0	(\$14,292)	(\$10,255)	(\$9,021)	(\$8,247)	(\$759)	\$5,757	\$11,890	\$17,567	\$23,328	\$22,121
Cumulative Net Operating Margin (One-Time)														\$38,088
Net Operating Margin					(\$14,292)	\$4,036	\$1,234	\$774	\$7,488	\$6,516	\$6,133	\$5,678	\$5,761	(\$1,207)
Cumulative Net Operating Margin														\$22,121

Net Operating Margin assumes that the annual shortfalls are solved with ongoing solutions and annual surpluses are spent for ongoing expenditures

- Models the impact of a 1% loss in economically sensitive revenue categories starting in FY 2026
  - Major Taxes, Charges for Services, and Permits and Licenses
- Revenues decrease by \$2.3M in FY 2026** and increase projected shortfalls
  - Gap of \$14.3M in FY 2026
  - Gaps of \$10.2M to \$0.8M in FY 2027 – FY 2030

# ALT SCENARIO B: COMPENSATION ADJUSTMENT IN FY26

## ALTERNATIVE SCENARIO: ONE-TIME COMPENSATION ADJUSTMENT (ADDITIONAL 1%) in FY 2026

	Actual 2023	Actual 2024	Adopted 2025	Projected 2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Total Revenue	\$254,799	\$278,231	\$287,554	\$287,554	298,600	\$313,314	\$326,039	\$339,349	\$354,834	\$369,351	\$383,252	\$397,871	\$413,399	\$429,068
BSR Contribution (One-Time)	-	-	\$3,247	\$3,247	-	-	-	-	-	-	-	-	-	-
Reappropriated Funds (One-Time)	-	-	\$16,093	\$16,093	9,200	-	-	-	-	-	-	-	-	-
Total Source of Funds	\$254,799	\$278,231	\$306,893	\$306,893	\$307,800	\$313,314	\$326,039	\$339,349	\$354,834	\$369,351	\$383,252	\$397,871	\$413,399	\$429,068
Year over Year increase (revenue only)					3.8%	4.9%	4.1%	4.1%	4.6%	4.1%	3.8%	3.8%	3.9%	3.8%
Total Expenditures	243,695	281,062	306,893	306,893	320,878	322,305	333,725	346,198	354,097	362,014	369,705	378,560	388,231	405,021
Total Use of Funds	\$243,695	\$281,062	\$306,893	\$306,893	\$320,878	\$322,305	\$333,725	\$346,198	\$354,097	\$362,014	\$369,705	\$378,560	\$388,231	\$405,021
Year over Year increase					4.6%	0.4%	3.5%	3.7%	2.3%	2.2%	2.1%	2.4%	2.6%	4.3%
Net One-Time Surplus/(Gap)	\$11,104	(\$2,831)	\$0	\$0	(\$13,078)	(\$8,991)	(\$7,686)	(\$6,849)	\$737	\$7,338	\$13,547	\$19,311	\$25,168	\$24,046
Cumulative Net Operating Margin (One-Time)														\$53,542
Net Operating Margin					(\$13,078)	\$4,087	\$1,305	\$837	\$7,586	\$6,601	\$6,210	\$5,763	\$5,857	(\$1,121)
Cumulative Net Operating Margin														\$24,046

Net Operating Margin assumes that the annual shortfalls are solved with ongoing solutions and annual surpluses are spent for ongoing expenditures

- Models the impact of a 1% compensation adjustment once negotiated agreements sunset
  - Maintains 5% Vacancy Factor
  - Increases reserve for potential changes to future labor costs and benefit rate variability
- Expenses increase by \$1.1M in FY 2026** and increase projected shortfalls
  - Gap of \$13.1M in FY 2026
  - Gaps of \$9.0M to \$6.8M in FY 2027 – FY 2029

# FY 2026 BUDGET DEVELOPMENT GUIDELINES (Attachment A)

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- Develop a structurally balanced budget to maintain fiscal sustainability
- Examine appropriate use of surpluses
- Review resource allocation for City Council's identified priorities
- Focus on business process redesign and explore alternative service delivery models
- Explore expansion of existing revenue sources or the addition of new revenue sources
- Continue to prioritize proactively funding long term liabilities



## ASSUMPTIONS NOT INCLUDED IN FORECAST (Attachment E)

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List is not comprehensive nor in any priority order

- Labor Negotiations (contracts expire in Jan/Jun 2025); LRFF includes an estimated reserve for changes in vacancy rates, labor and benefit variability, and inflation
- Housing Growth Impacts
- Cubberley Community Center Redevelopment
- Fire and Ambulance Service Expansion
- Parks Master Plan
- Railroad Grade Separation
- Vehicle Fleet Electrification

# CONCLUSION AND NEXT STEPS

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- 2026-2035 LRFF is fairly consistent with FY 2025 Adopted Budget
  - Economic stagnation and potential volatility
  - Focus on investing in key areas of priority or urgent needs
  - Uncertainty Reserve and one-time surpluses are critical to manage the near-term fiscal stability and investments in priority initiatives
  - Strategic planning and fiscal discipline needed to solve estimated shortfalls in subsequent years of the forecast
  - Policy planning tool that informs the budget process.

## Next Steps Annual Budget Process

- *Jan 2025:* Council review LRFF
- *Feb 2025:* FY 2025 Mid-Year Budget
- *May 2025:* FY 2026 Proposed Budget

## RECOMMENDED ACTION

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Staff recommends that the Finance Committee:

*Review and recommend that the City Council accept the Fiscal Year 2026 – 2035 Long Range Financial Forecast Base Case and the FY 2026 Budget Development Guidelines (Attachment A).*

*Direct staff to use this forecast as a starting point for the FY 2026 budget process.*



CITY OF  
**PALO  
ALTO**

**Paul Harper**

*Budget Manager*

[Paul.Harper@CityofPaloAlto.org](mailto:Paul.Harper@CityofPaloAlto.org)

**Kitty Dandan**

*Budget Manager*

[Kitty.Dandan@CityofPaloAlto.org](mailto:Kitty.Dandan@CityofPaloAlto.org)