

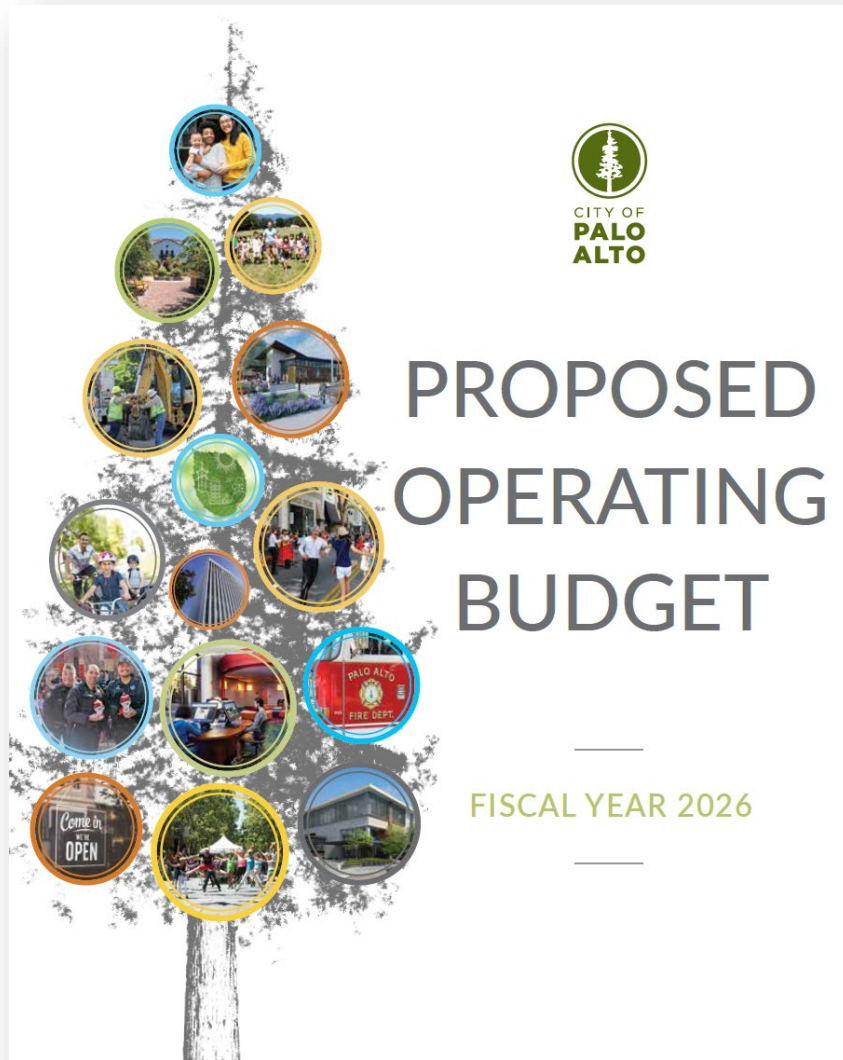


FY 2026 PROPOSED OPERATING AND CAPITAL BUDGETS

May 5, 2025

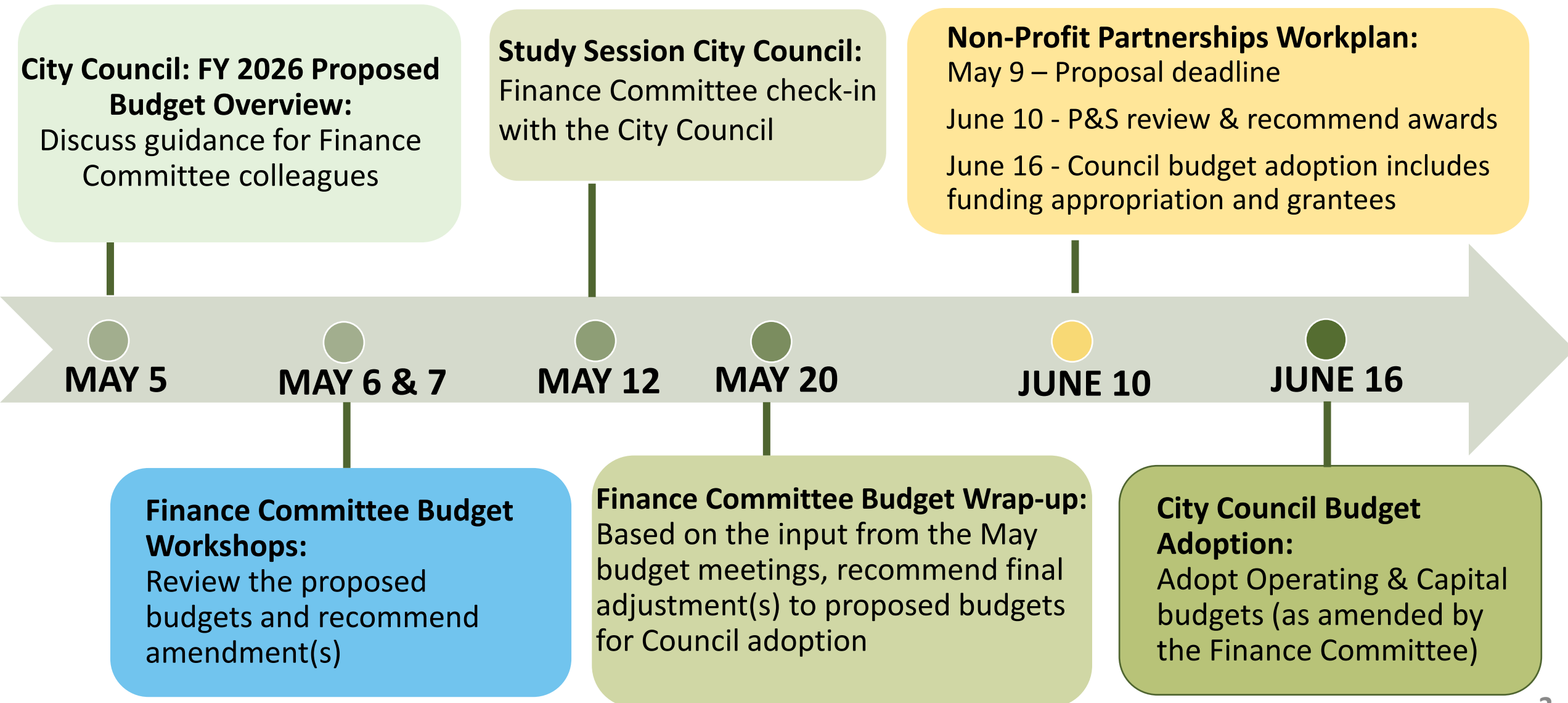
www.paloalto.gov/budget

AGENDA OVERVIEW



- Budget Conversations & Calendar
- City Vision & Council Priorities
- Economic Outlook & Budget Highlights
- Citywide Budget Overview
- General Fund Budget Overview
- Capital Budget and 5-Year Capital Improvement Program
- Utility Funds
- Finance Committee & Community Conversations

BUDGET CONVERSATIONS & CALENDAR



CITY VISION AND COUNCIL PRIORITIES

Vision

The government of the City of Palo Alto exists to promote and sustain a superior quality of life in Palo Alto. In partnership with our community, our goal is to deliver cost-effective services in a personal, responsive and innovative manner.

2025 COUNCIL PRIORITIES



Implementing Housing Strategies for Social and Economic Balance



Climate Action & Adaptation, and Natural Environment Protection



Economic Development & Retail Vibrancy



Public Safety, Wellness & Belonging



ECONOMIC OUTLOOK

- Economic uncertainty, stagnation
- Tariff, inflation, supply chain disruptions
- Federal administration

FY 2026 BUDGET

- Conservative approach
- Balanced budget
- Strong fiscal management to preserve valued & innovative services
- Raise revenues through updated rates and fees
- Strategic preparation for range of economic conditions.

PROPOSED BUDGET OVERVIEW

- Operating budget totals \$1.0 billion (\$312.5 million in General Fund)
- Capital budget totals \$316.2 million in FY 2026 and \$1.18 billion over the five-year Capital Improvement Program (CIP)
- Second year of two-year strategy using one-time funds to balance FY 2026 shortfall with Uncertainty Reserve.
- Limited service investments and Council Priorities continue valued and innovative services, especially support public safety and utilities.



Use of one-time funding

- \$12.0M Uncertainty Reserve recommended to:
 - Offset FY 2026 deficit and fully appropriates the balance.
 - Maintain Budget Stabilization Reserve (BSR) at \$54.0M or 17.3%, within 15% to 20% range, and below 18.5% target by \$3.8M.



Labor Agreements: The SEIU new contract is effective March 2025 to December 2027. All other labor agreements expire in June 2025, and negotiations are underway.



Capital Investments: Base transfer to Capital Improvement Fund (\$18.3M in FY26)(Total \$32.6M: Base \$17.2M, Interest \$1.1M, TOT \$14.3M) resume pre-pandemic levels as planned starting with the 2023-27 CIP



City's Pension & Other Post-Employment Benefits (OPEB): Proactive funding of long-term liabilities (pension and retiree medical) to accelerate funding target, reduce cost and liability, and enhance fiscal stability.

CAUTIOUS ASSUMPTIONS

REVENUES

- Cautious assumptions
- Property Tax
- Sales Tax
- TOT
- UUT
- Charges for Service (updated)

EXPENDITURES

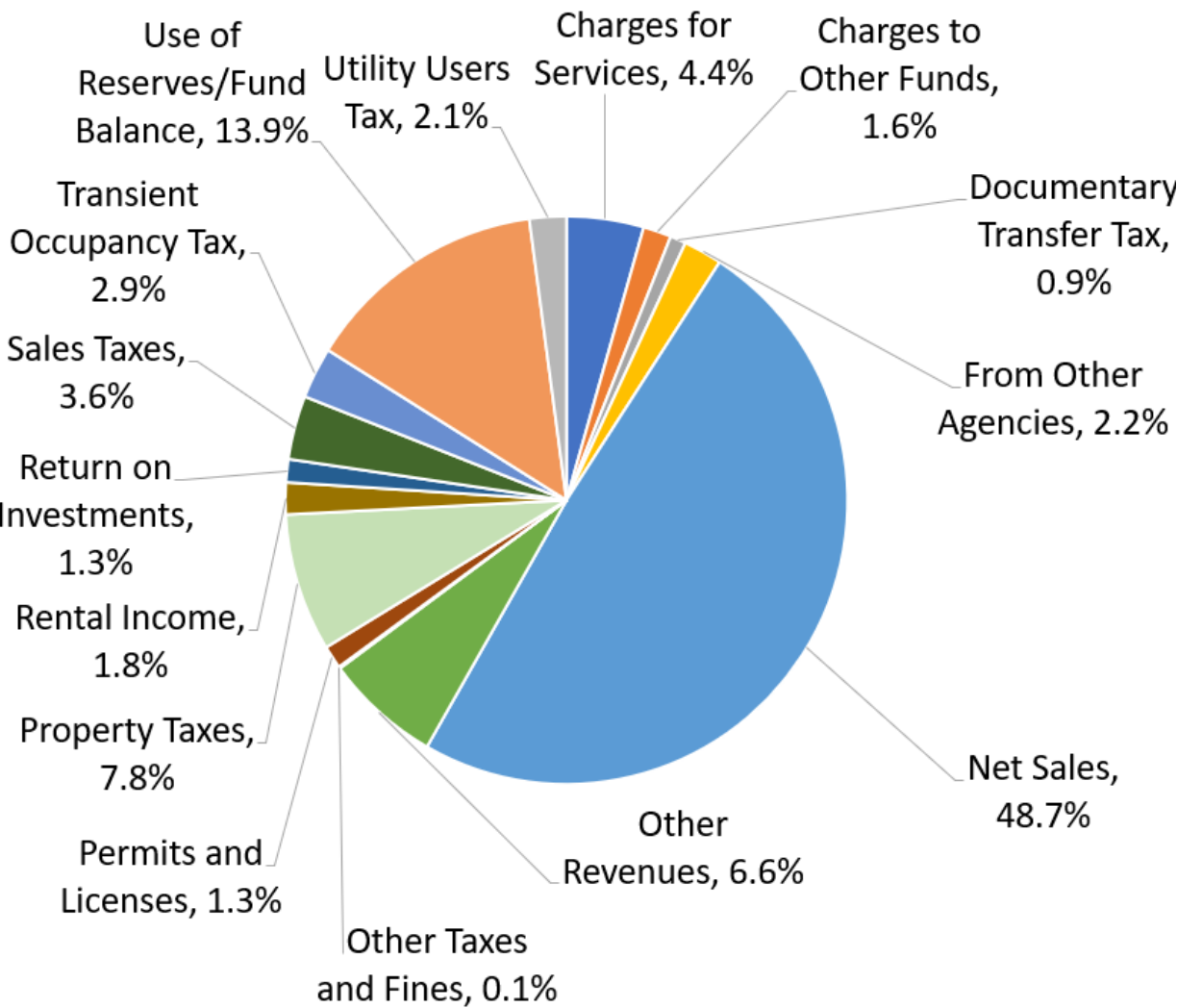
- Maintain vacancy assumption at 5%
- Limited investments in services & Council priorities

RISK MITIGATION

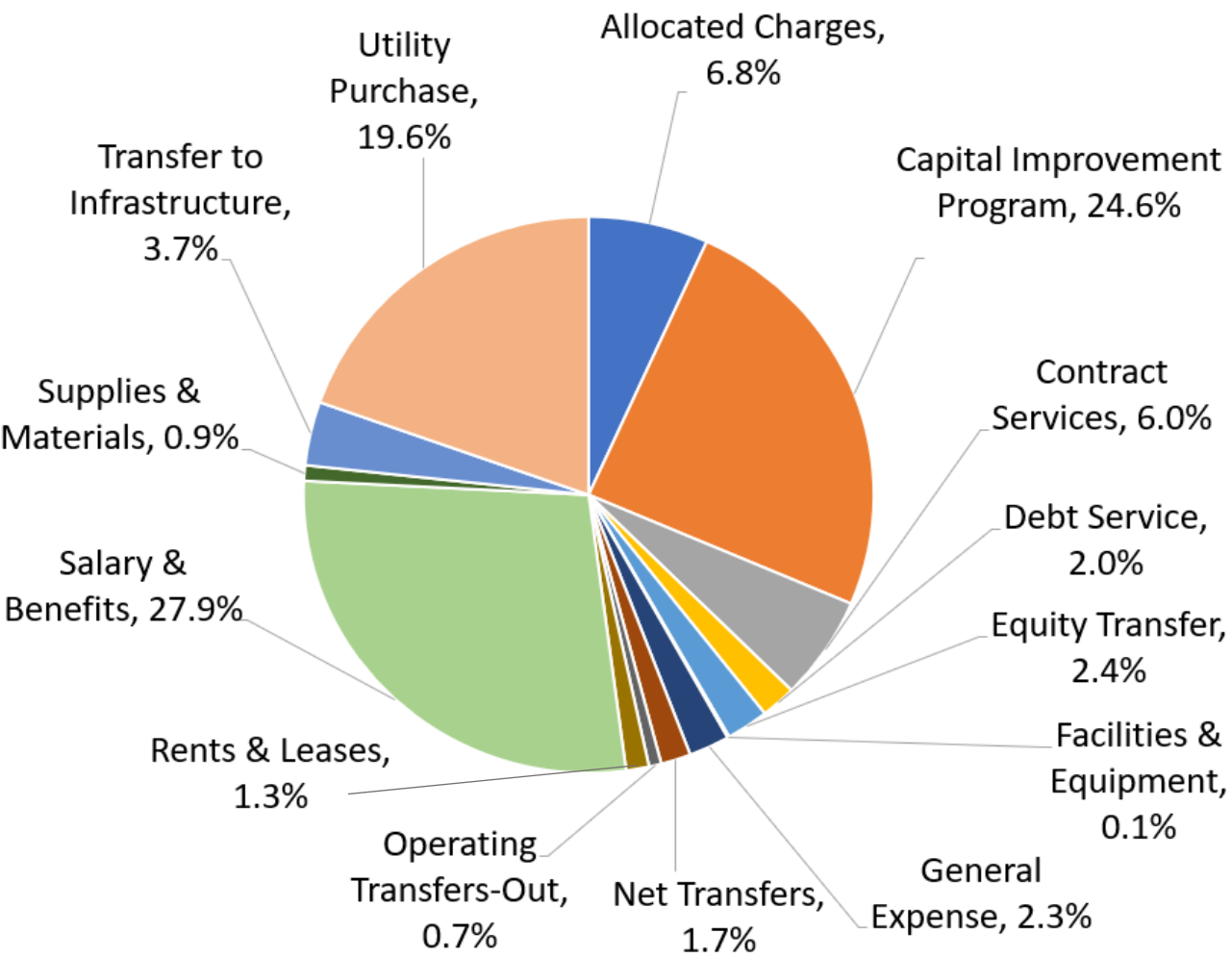
- Budget Stabilization Reserve
- Prefund Liabilities
- Infrastructure Investments

ALL FUNDS SOURCES & EXPENSES

FY 2026 Sources \$1.0 Billion



FY 2026 Expenses \$1.0 Billion



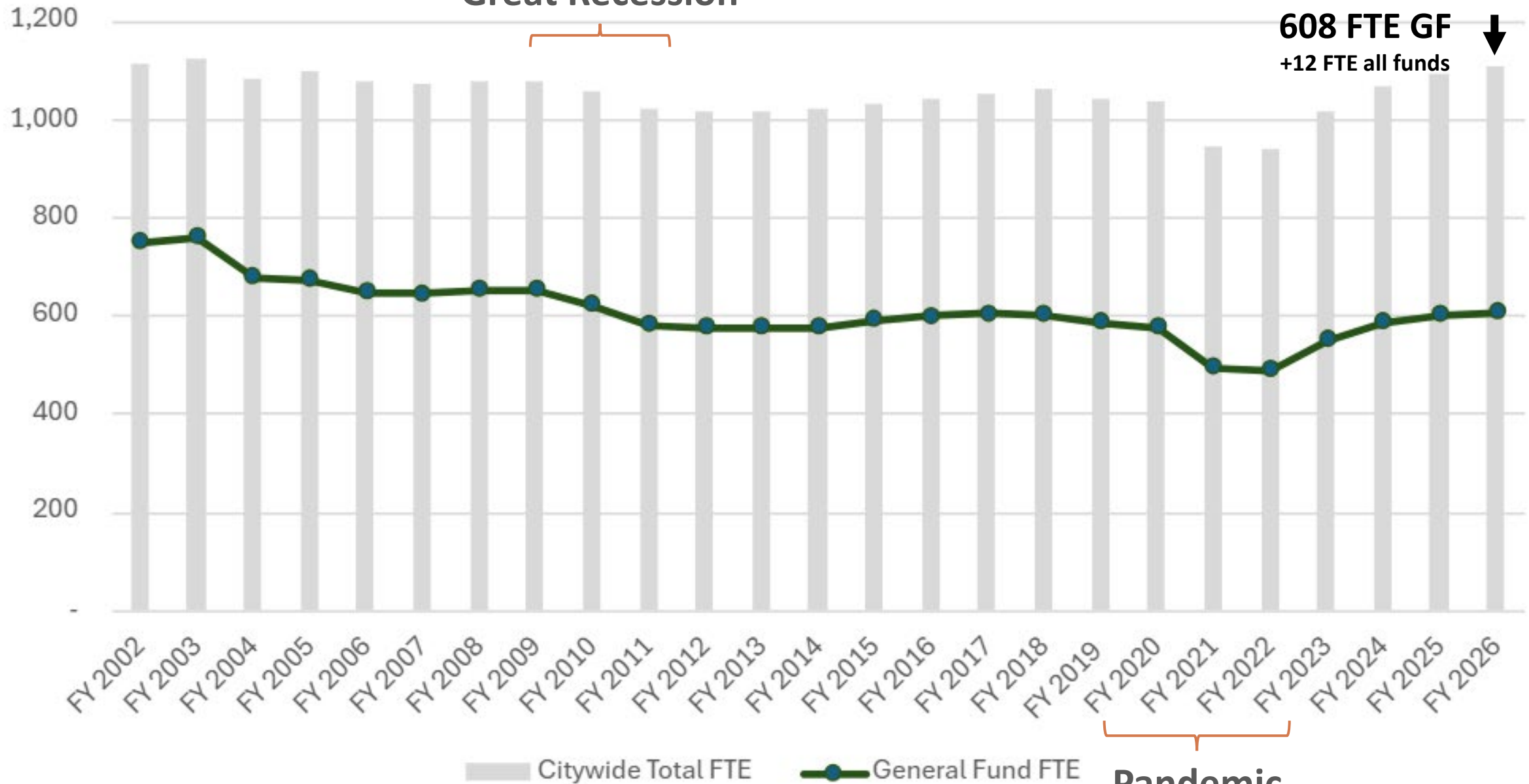
HISTORICAL FULL-TIME STAFFING COMPARISON

Great Recession

1,104 FTE Citywide

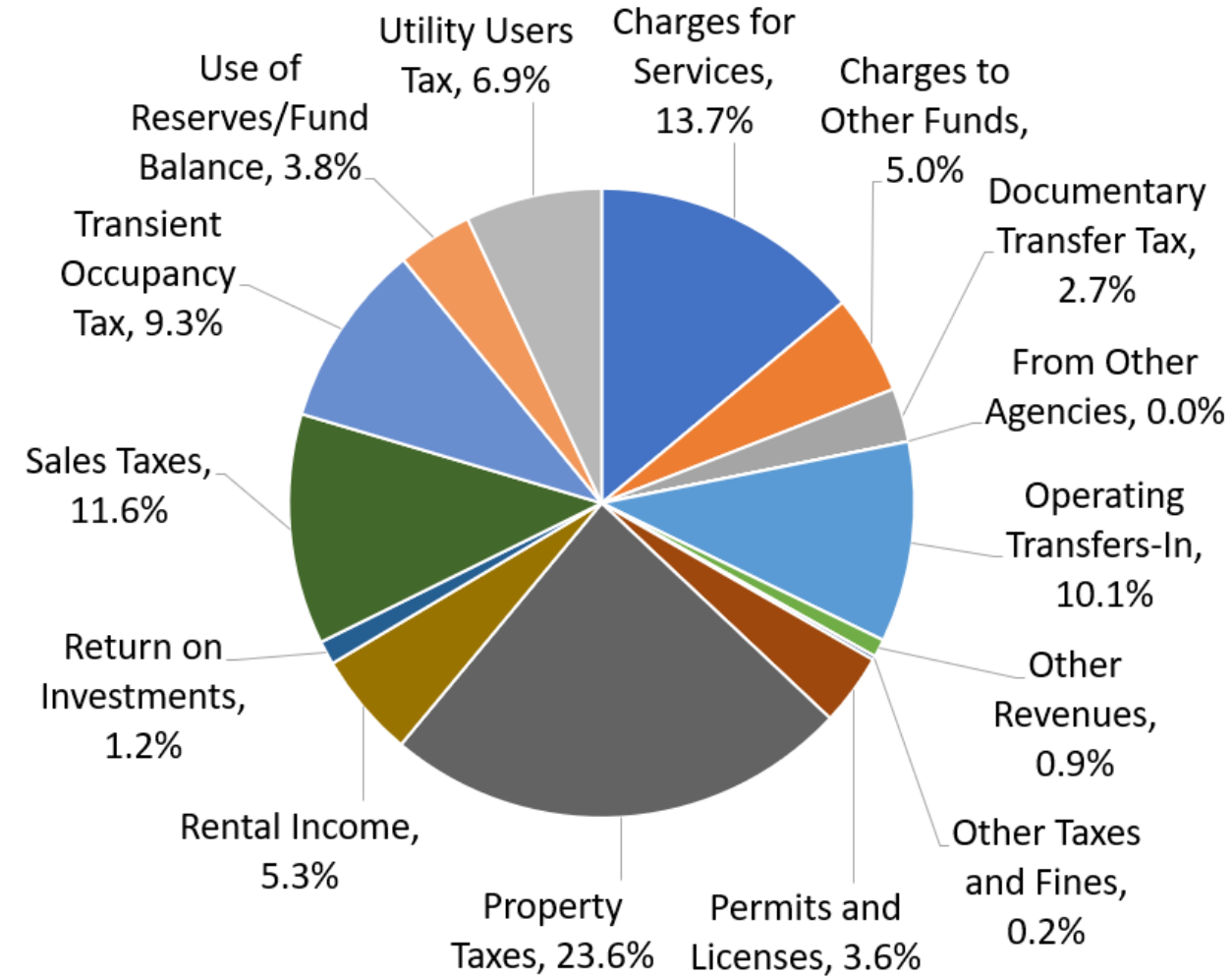
608 FTE GF

+12 FTE all funds

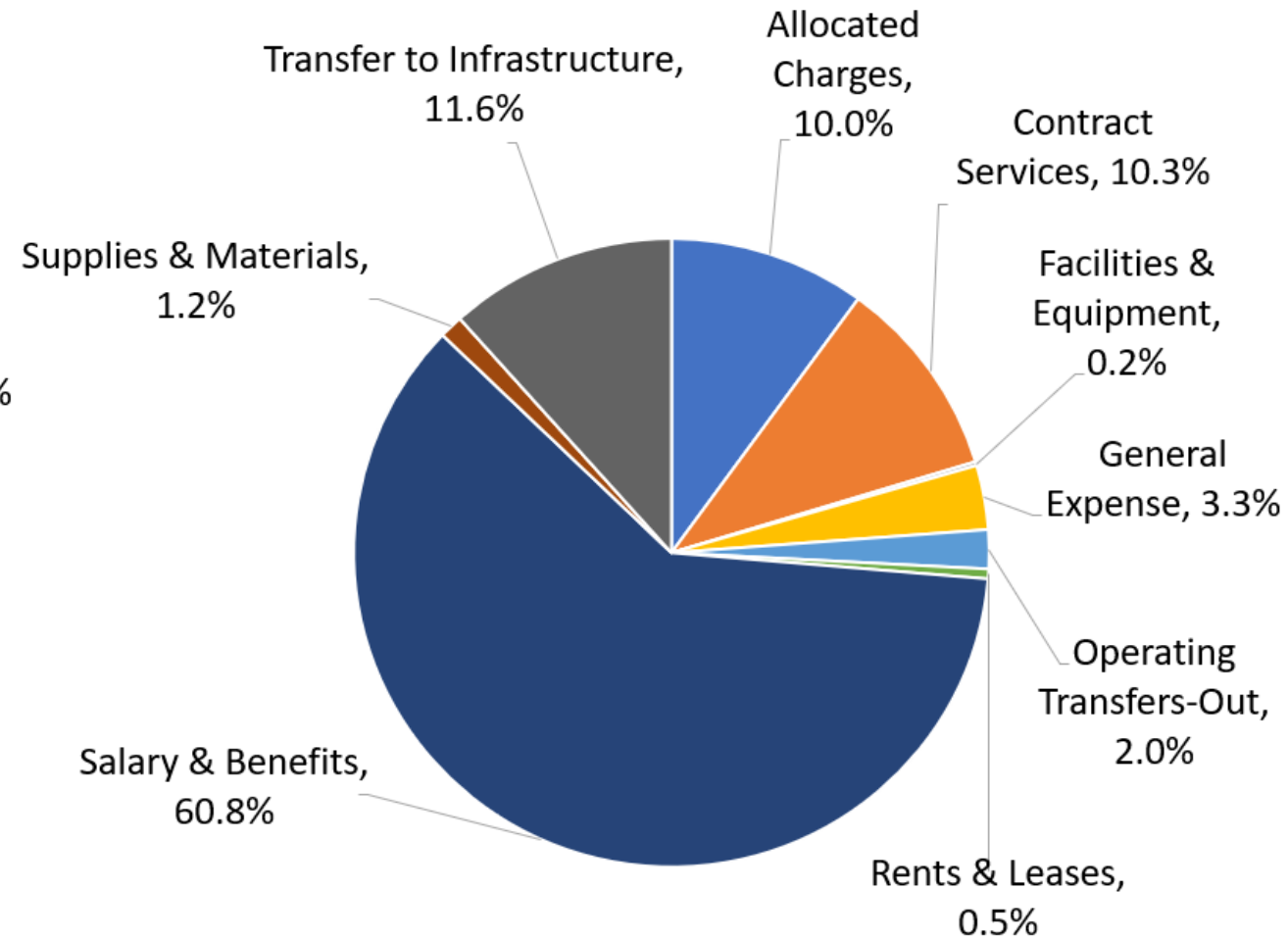


GENERAL FUND SOURCES & EXPENSES

FY 2026 GF Revenues \$312.5 Million



FY 2026 GF Expenditures \$312.5M



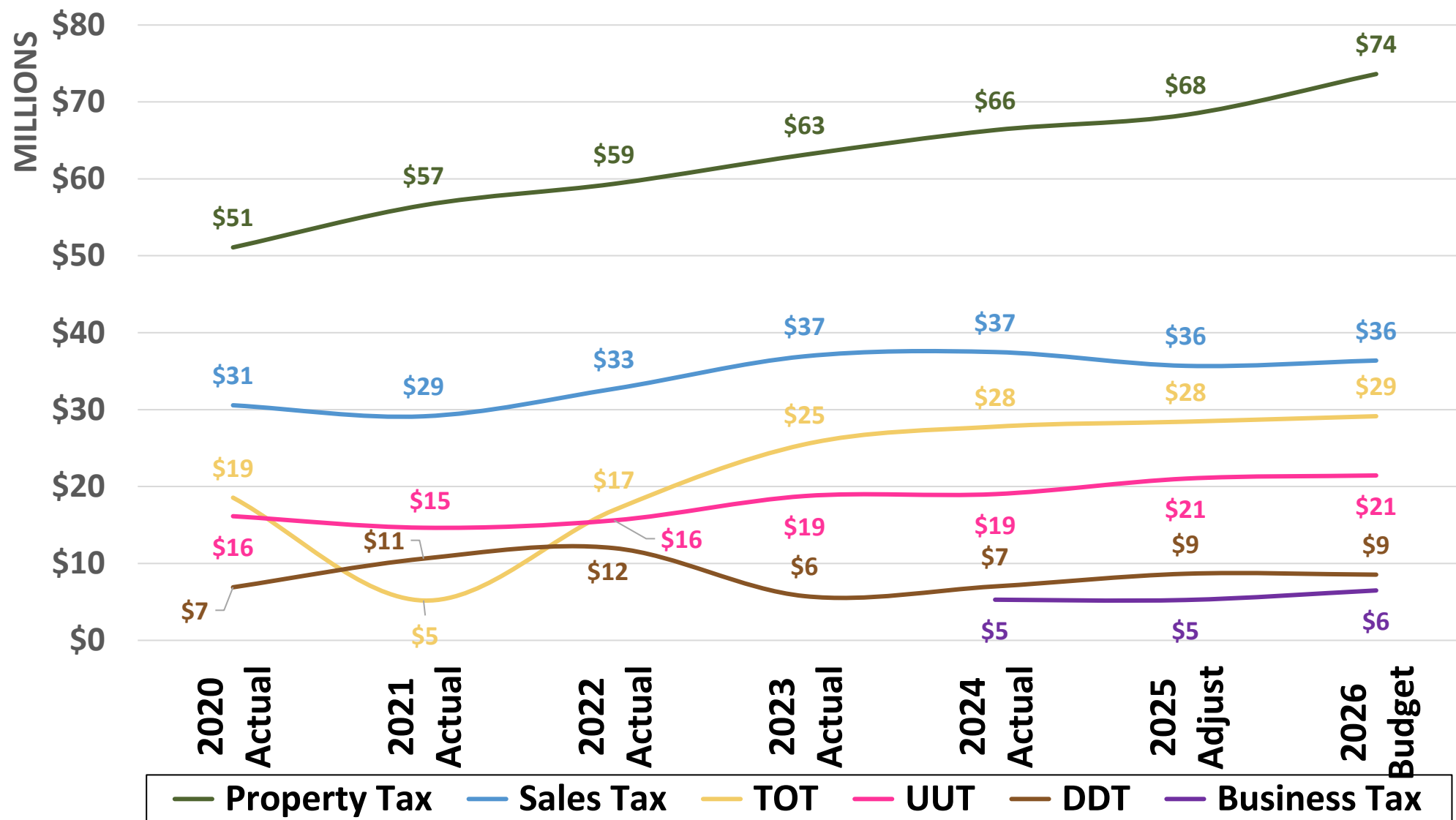
MULTI-YEAR GENERAL FUND BALANCING

(\$ in millions)	FY 2025	FY 2026	FY 2027
Use of Uncertainty Reserve	(\$6.1)	(\$12.0)	\$0
<i>Use of BSR and DSD Reserve*</i>	<i>(\$2.6)</i>	<i>\$0</i>	<i>\$0</i>
Net Operating Margin	\$0	\$0	(\$9.6)

* \$2.6M from BSR to increase Uncertainty Reserve to offset anticipated FY26 shortfall.

- Measured approach to ongoing costs with limited one-time surpluses
- Preserve valued and innovative services to the community.
- Risk mitigation strategies (17.3% budget stabilization reserve in FY26 and prefund liabilities)
- Reflects economic stagnation as outlined in the FY 2026-2035 Long Range Financial Forecast.
- Current actions to control costs, anticipate FY 2024 savings to partially offset FY 2027 shortfall.

GENERAL FUND REVENUES – MAJOR TAXES





- FY26 Proposed Budget reduces \$95.3M (8.5%) from prior year – primarily due to CIP completed projects.
- Adds 12.25 full-time equivalent (or 1.1% increase) staff supporting high-quality services and Council Priorities.



FY 2026 PROPOSED BUDGET INVESTMENTS

Public Safety CSA

- Upstaffing Fire Engine 64 at Fire Station #4 with cross-staffing, brings firefighting capacity from 5 to 6 stations.
- Enhancing organizational resilience – add Police recruit hire ahead, uses SUMC funding for Psychiatric Emergency Response Team (PERT).
- Funding police and fire equipment and vehicles.

Community & Library Services CSA

- Continued extended hours & days for library branches and programming
- Resources for Art Center rentals, Public Art Program, children & teen programs, therapeutic recreation resources and summer camps.



FY 2026 PROPOSED BUDGET INVESTMENTS

Planning, Transportation & Infrastructure CSA

- Enhance University Ave & California Ave pressure washing and cleaning services. Limited funding to continue PA Link.
- Investments in development center staffing to support economic recovery efforts, housing for social and economic balance, and support Council priorities.
- Resources for traffic control, RWQCP System operations and maintenance , gas and water infrastructure maintenance, watershed protection and crossbore program phase 4.



FY 2025 PROPOSED BUDGET INVESTMENTS

Internal Support & Administration CSA

- Proactive funding of long-term liabilities.
- Funding the adopted labor agreements and support negotiations underway.
- Reserving funds for real property investments.
- Supporting organizational resilience with talent recruitment, employee childcare pilot program (carryforward), BayPass Commuter Program for employee benefit and transportation, and resources to support information technology, enterprise services and financing.
- Leadership and support from the City Manager's Office for implementation of Council Priority projects



Investments Funded by Business Tax – Measure K

FY 2026 Proposed Business Tax Revenue and Programmed Expenses

	Transport & Rail Crossing	Housing	Public Safety	Admin.	Total Funding
Revenue	\$2.0M	\$2.0M	\$2.0M	\$0.5M	\$6.5M
Expenses (programmed)	-\$1.9M	-\$1.9M	-\$2.0M	-\$0.5M	-\$6.3M
Net Available	\$0.1M	\$0.1M	\$0	\$0	\$0.2M

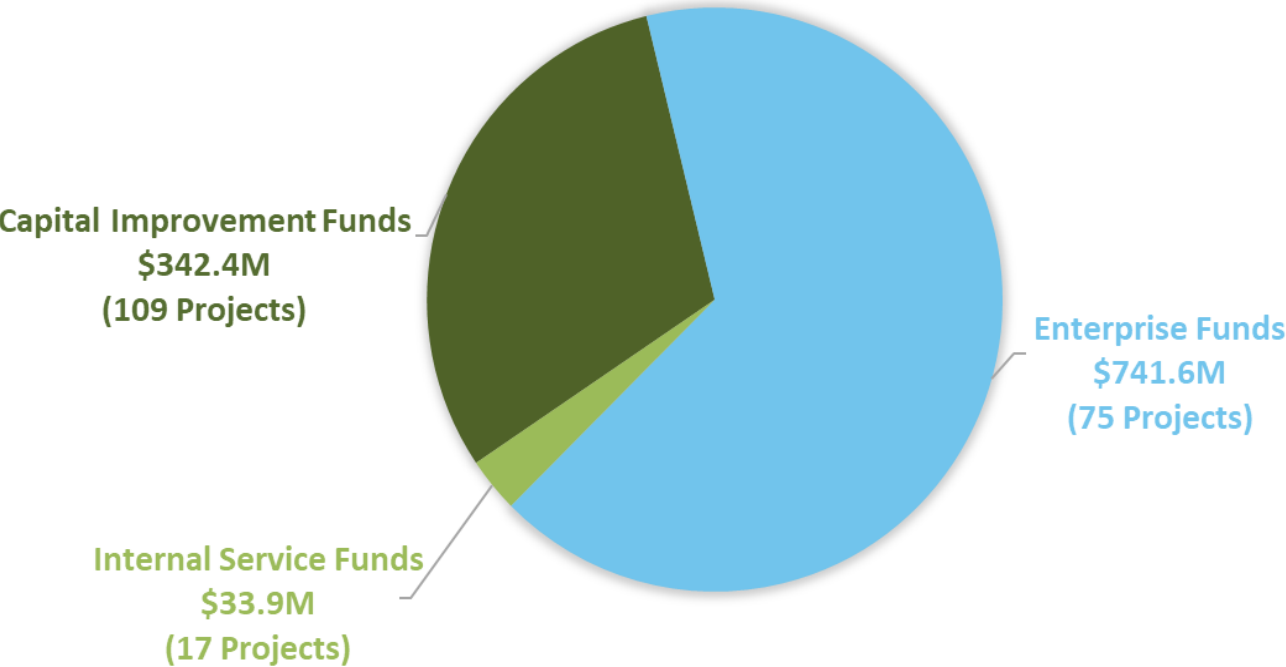
Projected Cumulative Business Tax Reserves

	Transport & Rail Crossing	Housing	Public Safety	Admin.	Total Funding
Net Available	\$1.0M	\$1.2M	\$0	\$0	\$2.2M

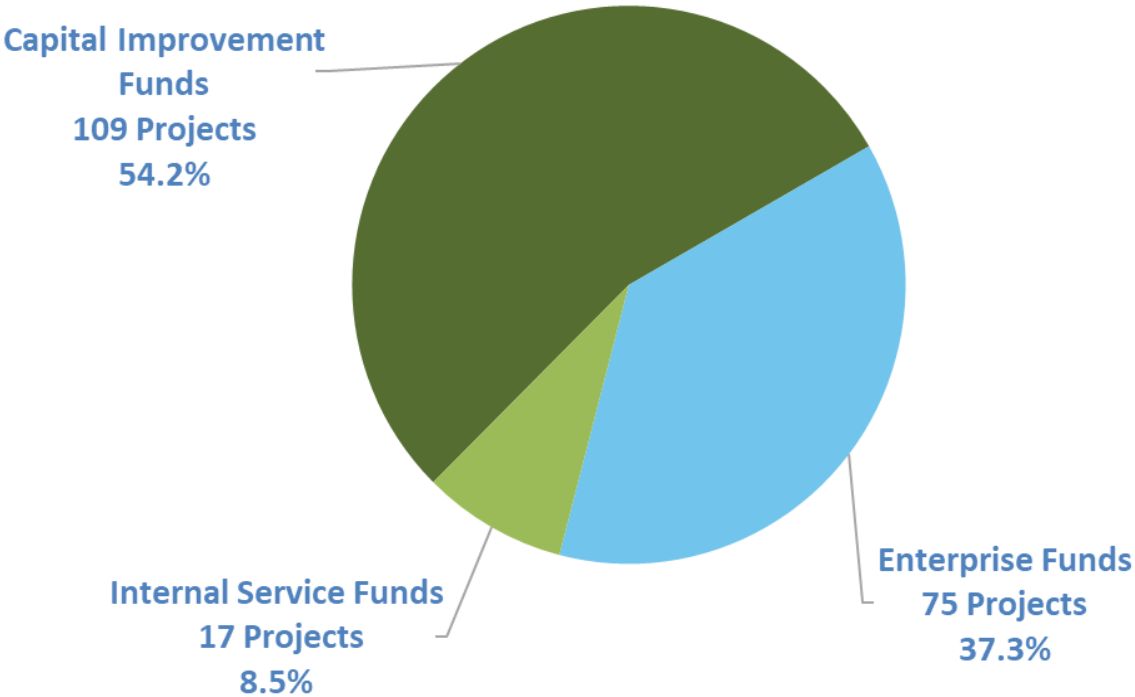
- Builds on investments from FY 2024 & FY 2025 in alignment with Measure K Priority Spending
- Grade separation, safety improvements, and bike & ped. transportation plan
- Project Homekey, San Antonio Coordinated Area Plan, Geng Road Safe Parking
- Public Safety services appropriated in adopted budget, additional staffing for dispatch, traffic team, fire engine at FS2, and recruitment & retention through competitive labor agreements
- Annual administration including outreach, renewals, compliance review and collections

CAPITAL IMPROVEMENT PROGRAM (CIP) – OVERVIEW 5-YR PLAN

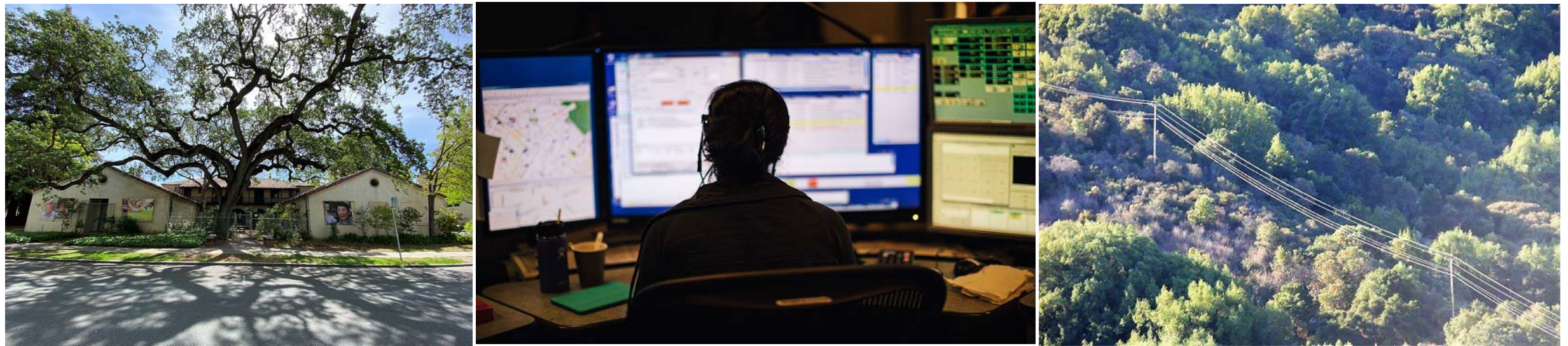
2026-2030 CIP PLANNED FUNDING
BY FUND TYPE (\$1.1 BILLION)



2026-2030 CIP PLANNED PROJECTS BY
FUND TYPE (201 PROJECTS)



CAPITAL IMPROVEMENT PROGRAM (CIP) – OVERVIEW 5-YR PLAN



To be completed in FY 26: Roth Building Phase I, Computer Aided Dispatch Upgrade, and Foothills Rebuild Fire Mitigation



5-Year CIP: Churchill Ave./Alma St. Railroad Crossing Safety Improvements, Ramona St. Streetscape Update, Library Furniture Replacements, Center Drive Capacity Upgrades, and RWQCP Outfall Line Construction

OTHER FUNDS

Additional actions included in the Proposed Budget address non-General Fund activities including but not limited to:

- Parking Funds (General Fund support)
- Enterprise Funds, rate changes to the right

*** Without climate credit**

**** 4/15/2025 FC Review of Climate Credit:**

One-time flat \$73.20 credit to residential G-1 customers only. The total cost is about \$1.6M from the Cap-and-Trade Reserve, enough to fund whole home electrification incentives for about 182 homes.

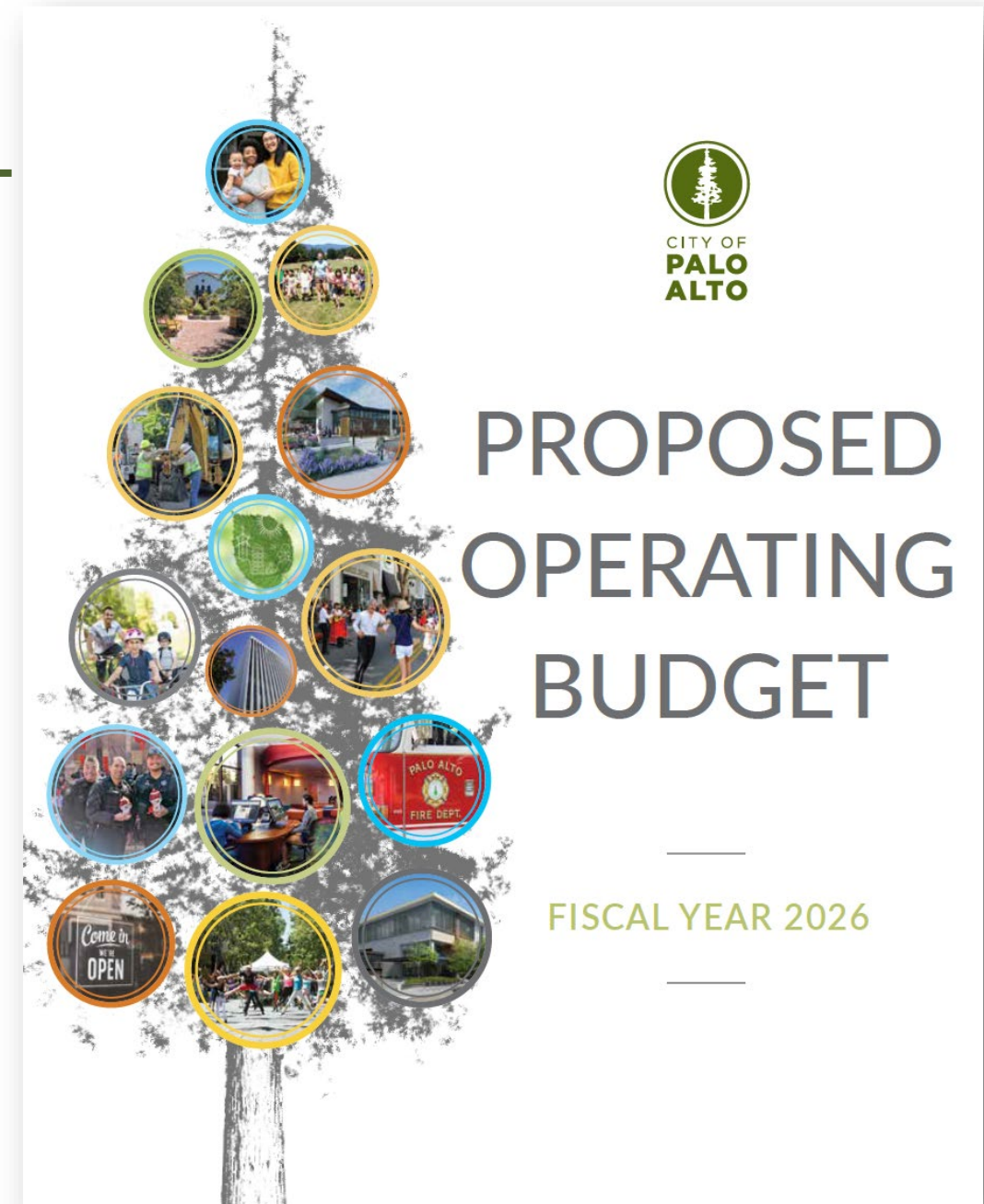
	FY 2025 Adopted	FY 2026 Proposed	FY 2026 Proposed w/Gas Credit
Electric	9.0%	6.%	6.%
Gas	12.5%	22% *	13% **
Water	9.5%	10%	10%
Wastewater	15.0%	20%	20%
Fiber	2.6%	2.4%	2.4%
Refuse	0%	0%	0%
Storm Drain	2.6%	2.4%	2.4%
Monthly Bill Change	9% \$34.50	11% \$44.70	9% \$38.40

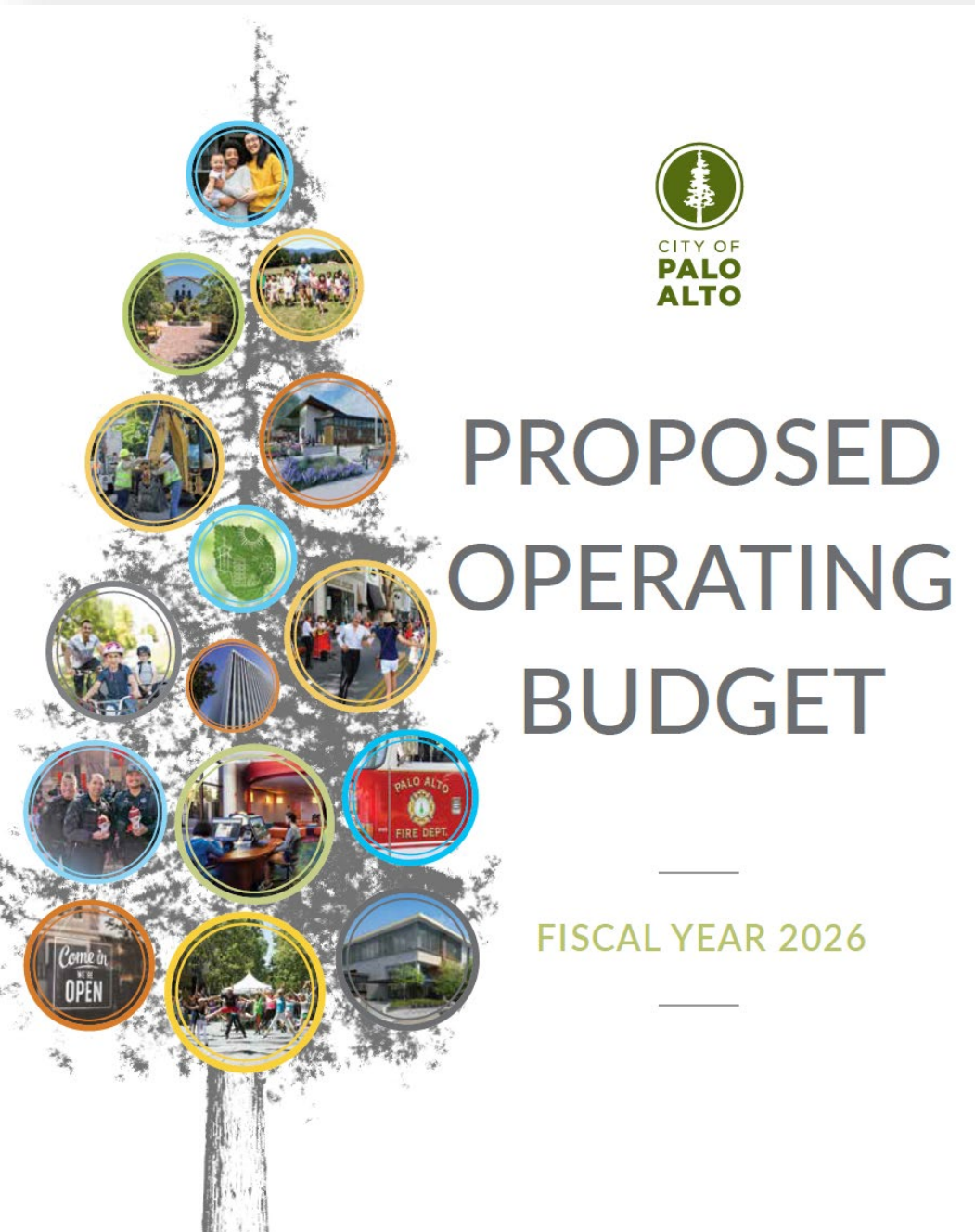
JOIN THE BUDGET CONVERSATION

The community is encouraged to join the budget conversations:

- **Finance Committee Budget Hearings:**
May 6 at 9:00 A.M.
May 7 at 9:00 A.M.
May 20 at 1:00 P.M. – Wrap-up
- **City Council Budget Discussion:**
May 12 at 5:30 P.M.
- **City Council Budget Adoption:**
June 16 at 5:30 P.M.

All meeting details listed at <https://www.paloalto.gov/budget>





COUNCIL DISCUSSION

- Provide general guidance to Finance Committee colleagues for their upcoming detailed work reviewing the budget documents
- Clarify understanding of budget process, materials, and the City Council and Finance Committee roles

Budget and meeting details listed at *All meeting details listed at*
<https://www.paloalto.gov/budget>