

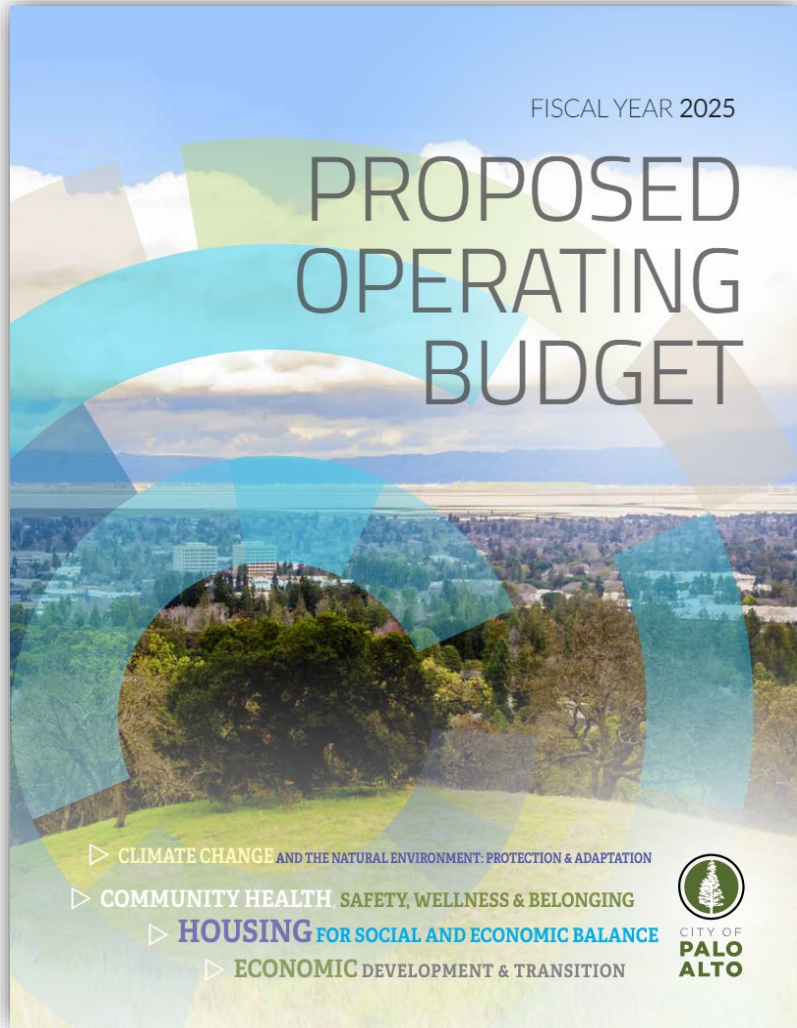


FY 2025 PROPOSED OPERATING AND CAPITAL BUDGETS & 2025-2029 CAPITAL IMPROVEMENT PLAN

MAY 6, 2024

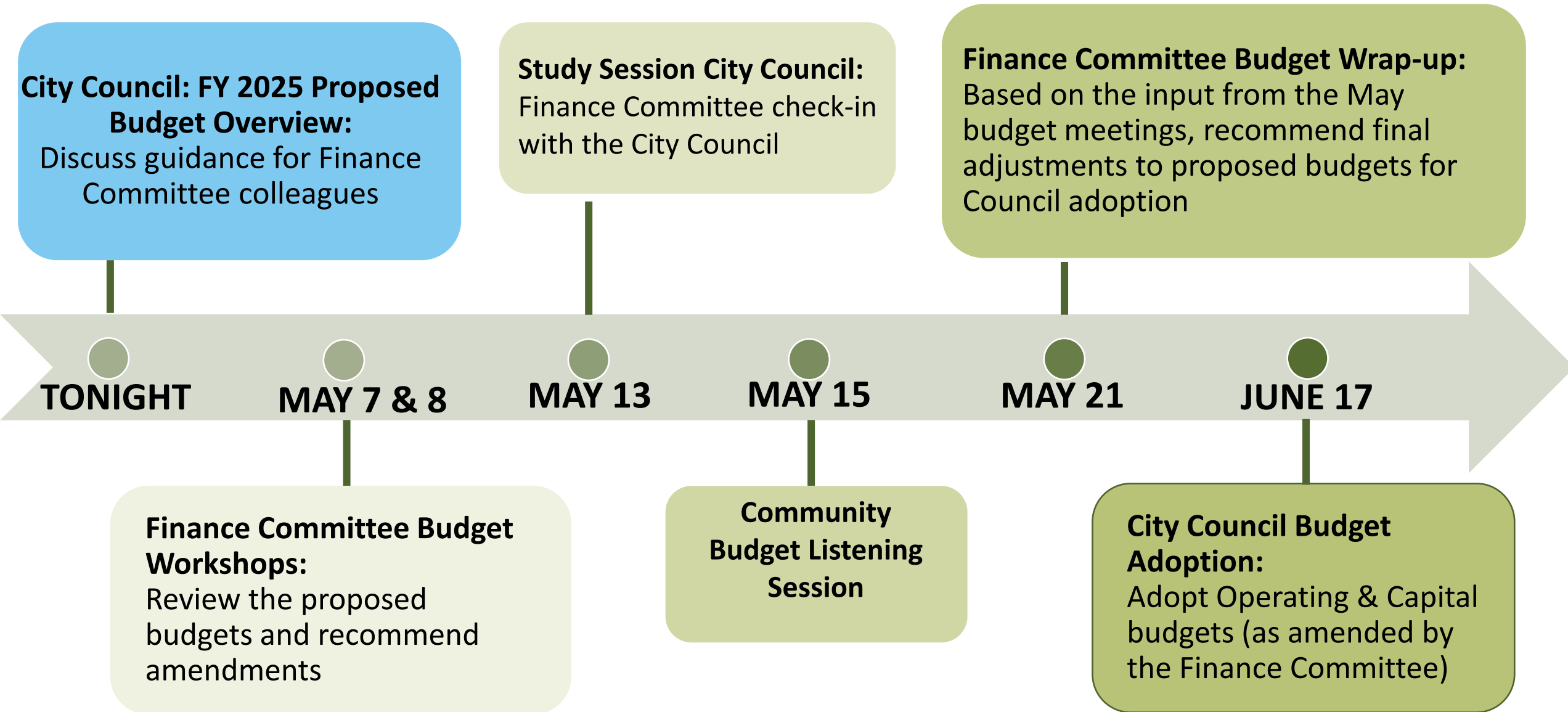
www.cityofpaloalto.org/budget

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.

2024 COUNCIL PRIORITIES



Housing for Social & Economic Balance



Climate Change & Natural Environment-
Protection & Adaptation



Economic Development & Transition



Community Health, Safety, Wellness &
Belonging

ECONOMIC OUTLOOK

- Economic uncertainty
- Plateauing inflation
- High interest rate
- Supply chain disruptions
- Tight labor market
- Global conditions
- Tempered to stagnant growth

PATH FORWARD

- Cautious optimism with positive assumptions
- Funding investments while balancing fiscal stability & risks
- Enhancing organizational resilience
- Delivering innovative services

PROPOSED BUDGET OVERVIEW

- Operating budget totals \$1.03 billion (\$303.5 million in General Fund)
- Capital budget totals \$359.7 million in FY 2025 and \$1.6 billion over the five-year Capital Improvement Program (CIP)
- Two-year balancing strategy using one-time funds to resolve (\$6.9M) shortfall in FY 2025. Partially solve projected deficit of (\$9.7M) in FY 2026 to bring it to (\$5.0M)
- Service investments and Council Priorities supported by additional 20 FTEs, all funds
- Measure K and L funding continues for critical services



Use of one-time funding

- \$9.6M Uncertainty Reserve recommended to:
 - Offset shortfall in FY 2025 (\$6.9M) and partially offset FY 2026 (\$4.7M)
 - \$5.0M deficit remains in FY 2026
 - Maintain a 18.8% BSR (\$1.0M above 18.5% target), down from 20% in FY 2024



Labor Agreements: terms for wages, benefits, and other terms and conditions of employment, through FY 2025 (Jan. 2025 for SEIU)



Capital Investments: Base transfer to Capital Improvement Fund (\$13.7M in FY25) to reach pre-pandemic levels by FY26 (\$16.7M) 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 OPTIMISM & POSITIVE ASSUMPTIONS

REVENUES

- Positive assumptions
- Sales Tax
- Property Tax
- TOT
- Document Deed Transfer

EXPENDITURES

- Increased vacancy assumption from 3% to 5%
- Significant investments in services & Council priorities

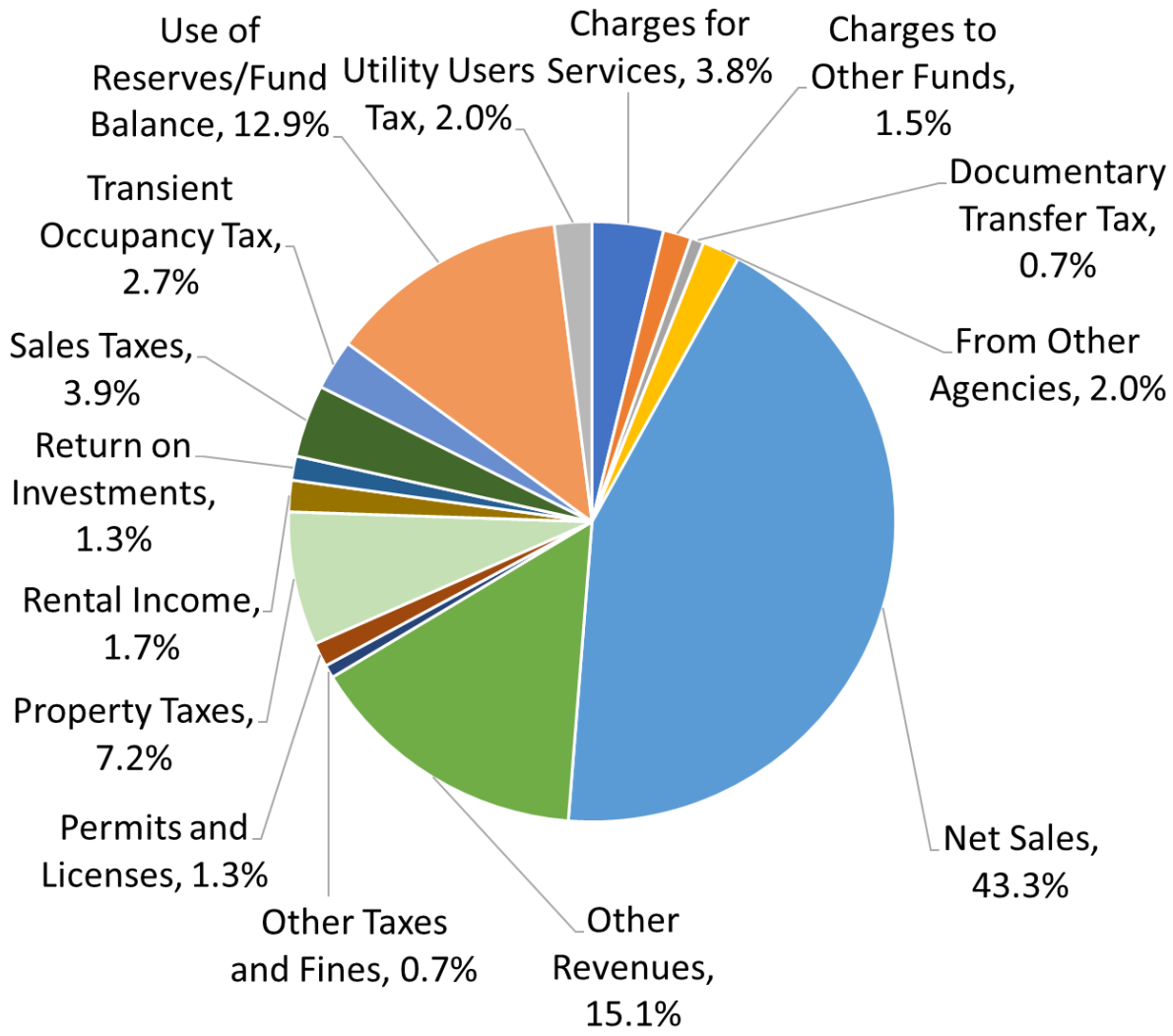
RISK MITIGATION

- Budget Stabilization Reserve at 18.8%, down from 20%
- Prefund Liabilities
- Infrastructure Investments Catch-up, Keep-up

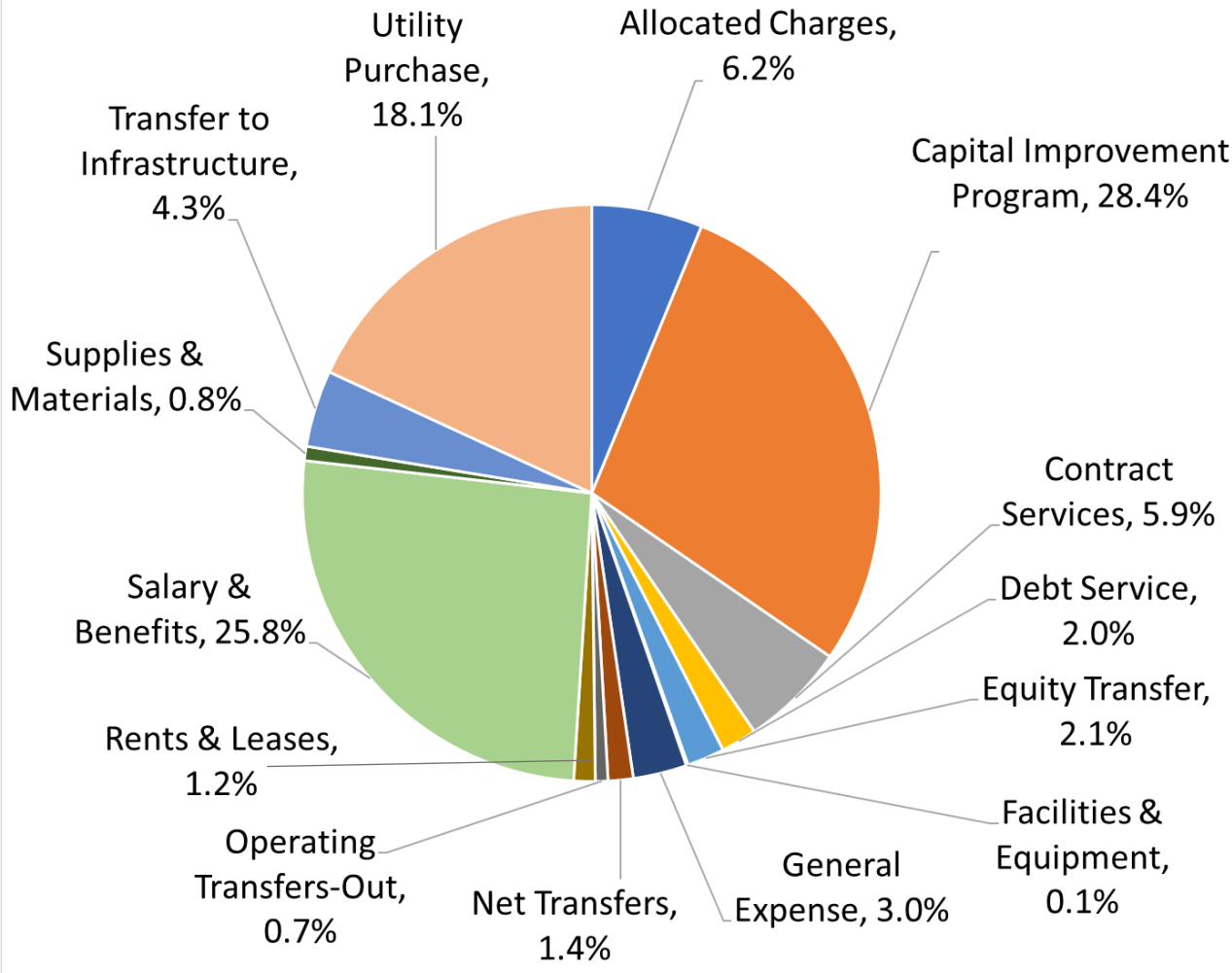
ALL FUNDS SOURCES & EXPENSES



FY 2025 Sources \$1.03 Billion



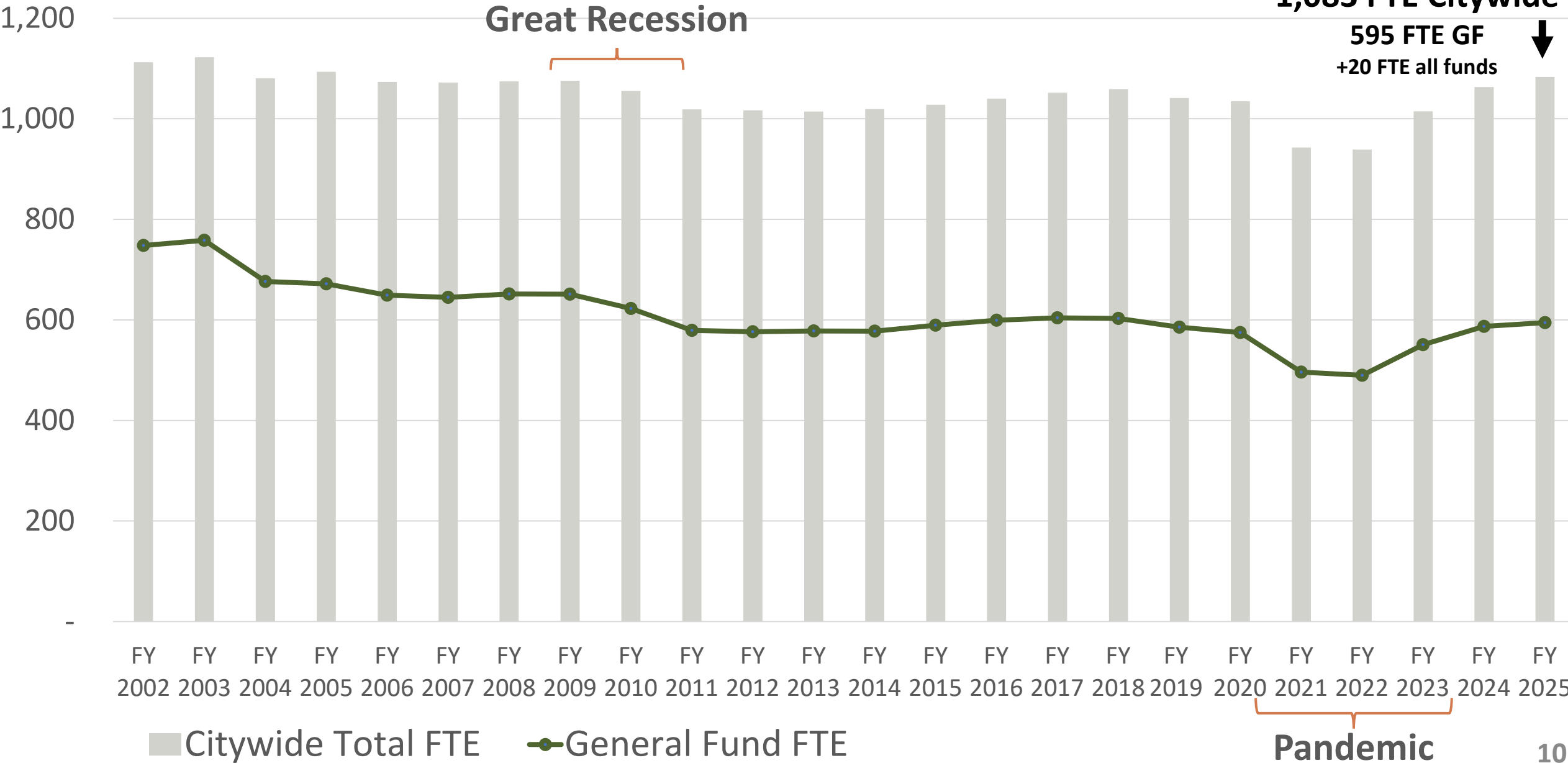
FY 2025 Expenses \$1.03 Billion



HISTORICAL FULL-TIME STAFFING COMPARISON

1,083 FTE Citywide

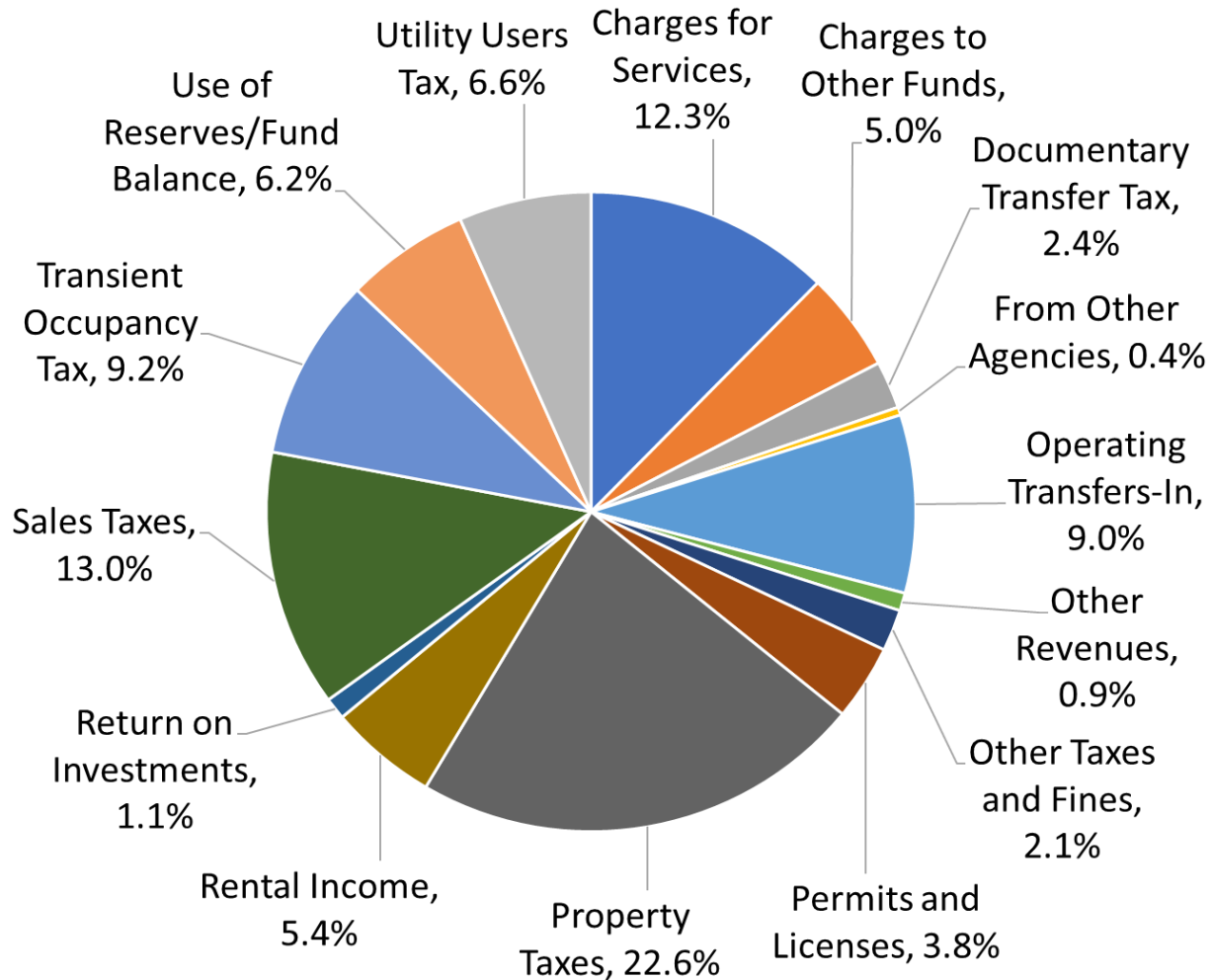
595 FTE GF
+20 FTE all funds



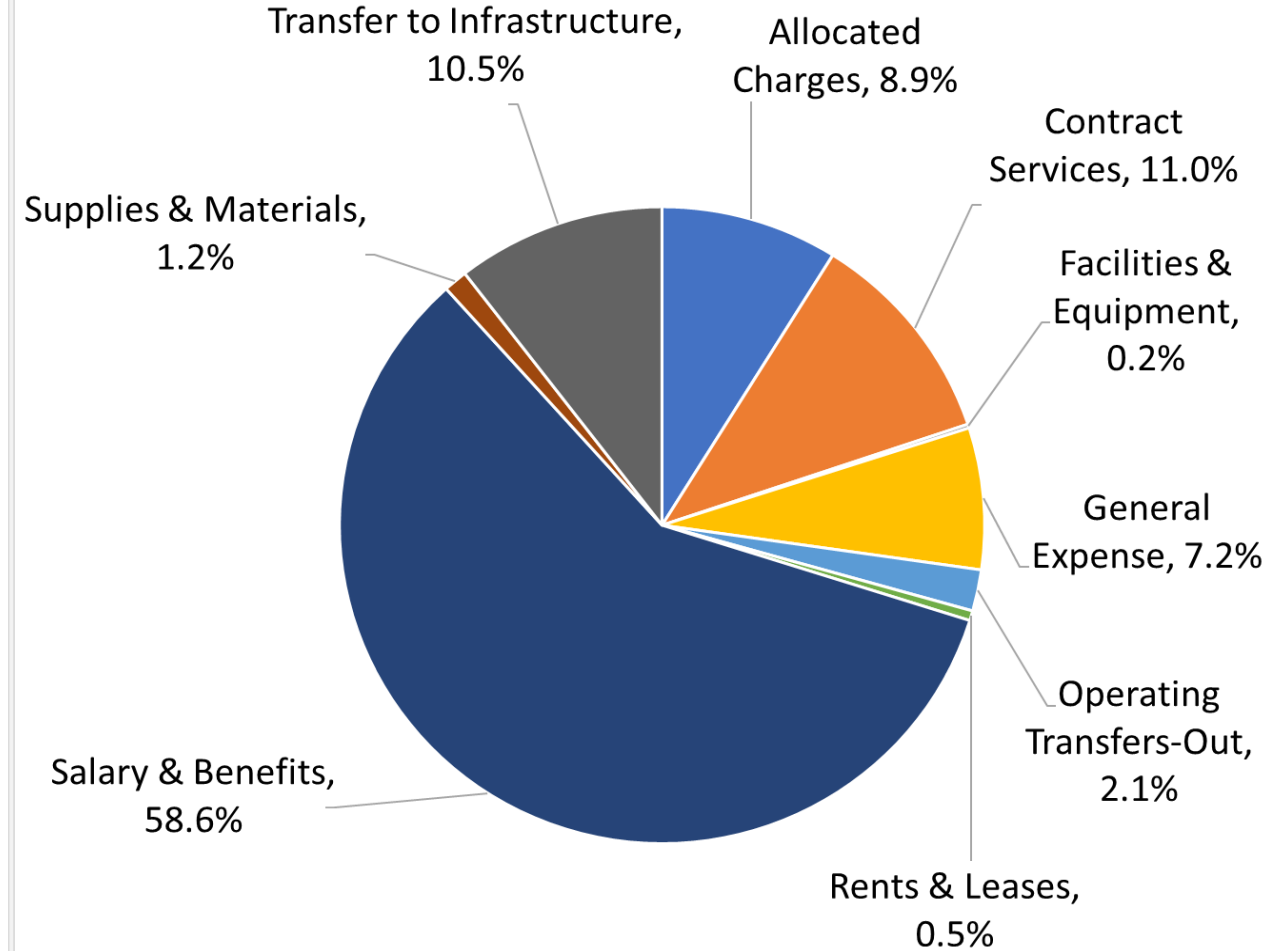
Pandemic

GENERAL FUND SOURCES & EXPENSES

FY 2025 GF Revenues \$303.5 Million



FY 2025 GF Expenditures \$303.5M



MULTI-YEAR GENERAL FUND BALANCING

(\$ in millions)	FY 2024	FY 2025	FY 2026
Use of Uncertainty Reserve*	(\$4.4)	(\$6.9)	(\$4.7)
<i>Use of BSR and DSD Reserve</i>	<i>(\$5.5)</i>	<i>(\$2.7)</i>	<i>\$0</i>
Net Operating Margin	\$0	\$0	(\$5.0)

* Total use of the \$16M Uncertainty Reserve, increased from \$14M with \$2M from BSR in FY25.

- Measured approach to ongoing costs to limit one-time surpluses from exacerbating future deficits
- The importance of stability for the organization and community remains core.
- Risk mitigation strategies (18.8% budget stabilization reserve in FY25 and prefund liabilities)
- Reflects economic stagnation as outlined in the FY 2025-2034 Long Range Financial Forecast.



2024 COUNCIL PRIORITIES



Housing for Social & Economic Balance



Climate Change & Natural Environment-
Protection & Adaptation



Economic Development & Transition



Community Health, Safety, Wellness &
Belonging

The Proposed Budget
adds \$9.1M services with
20 full-time staff supporting
high-quality services &
Council Priorities.



FY 2025 PROPOSED BUDGET INVESTMENTS

Public Safety CSA

- Upstaffing Fire Engine 62 at Fire Station #2 to full-service, brings firefighting capacity from 4 to 5 stations.
- Enhancing organizational resilience – add Police Lieutenant, delete CSO, reclass Property & Evidence Technicians and realign Fire Prevention.
- Funding police and fire equipment and vehicles.

Community & Library Services CSA

- Continued extended hours & days for library branches and programming
- Resources for overnight warming locations (OWL), summer concert series, adult and special interest classes, and the Arts Center



FY 2025 PROPOSED BUDGET INVESTMENTS

Planning, Transportation & Infrastructure CSA

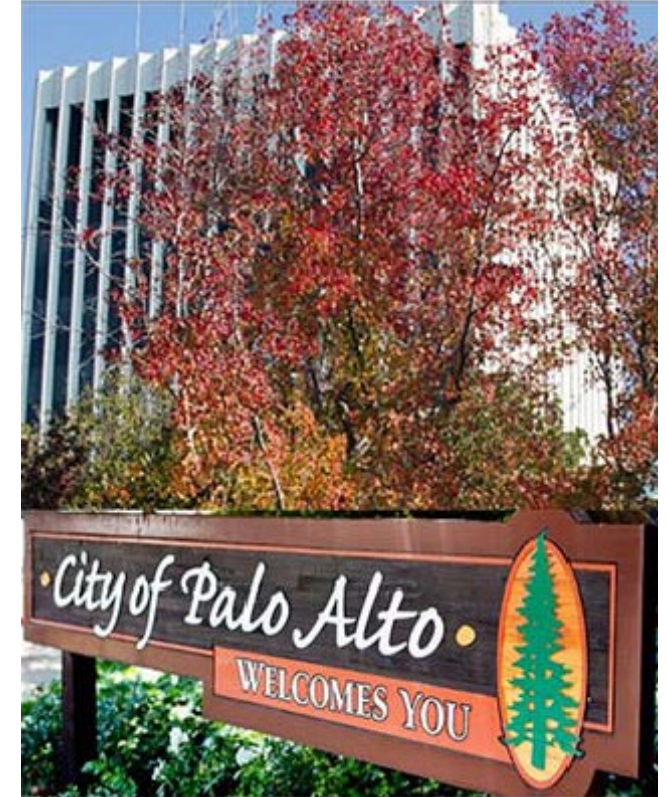
- Supplemental funding to continue Palo Alto Link.
- Investments in development center staffing to support economic recovery efforts, housing for social and economic balance, and Safe Routes to School.
- Resources for sustainability climate action plan (S/CAP) programming, and community awareness and climate implementation outreach.
- Resources to support capital investments, water cross connection control program, advanced metering infrastructure (AMI) meter project, and electric grid modernization.



FY 2025 PROPOSED BUDGET INVESTMENTS




Internal Support & Administration CSA

- Proactive funding of long-term liabilities.
- Funding the adopted labor agreements.
- Reserving funds for property investments within the City.
- Supporting organizational resilience with recruitment manager to augment talent recruitment and acquisition, employee childcare pilot program (year 2), management fellow, grants administration, and information technology staffing.
- Leadership and support from the City Manager's Office for implementation of Council Priority projects



Investments Funded by Business Tax Revenue

Builds on investments from FY 2024 in alignment with Measure K Priority Spending

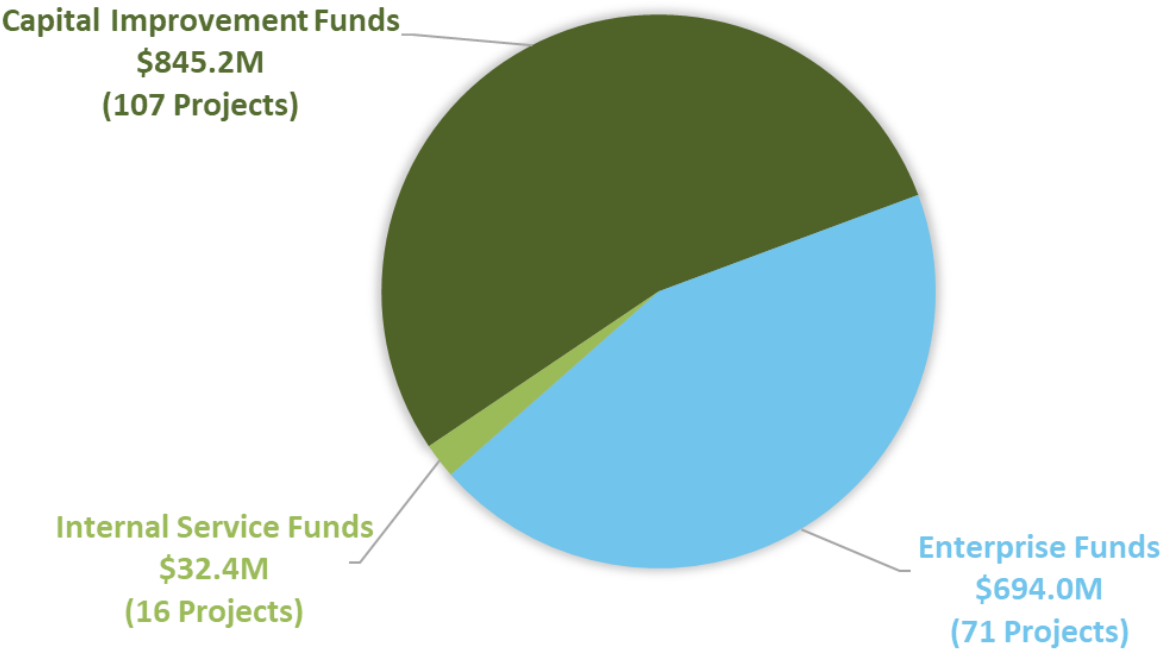
MEASURE K	 New/Enhanced Public Safety Services	 Train Crossing Safety (Transportation, Caltrain railroad grade separation)	 Affordable Housing/ Unhoused Services			
	↓	↓	↓			
	FY 2024	\$0.8M	\$0.8M	\$0.6M **	<i>Admin</i>	<i>Total</i>
	FY 2025	\$1.5M	\$1.5M	\$1.5M	\$0.4M	\$2.5M
	FY 2026*	\$3.0M	\$3.0M	\$1.7M**	\$0.3M	\$4.8M
				\$0.4M	\$8.1M	

*Planned based on current revenue estimates

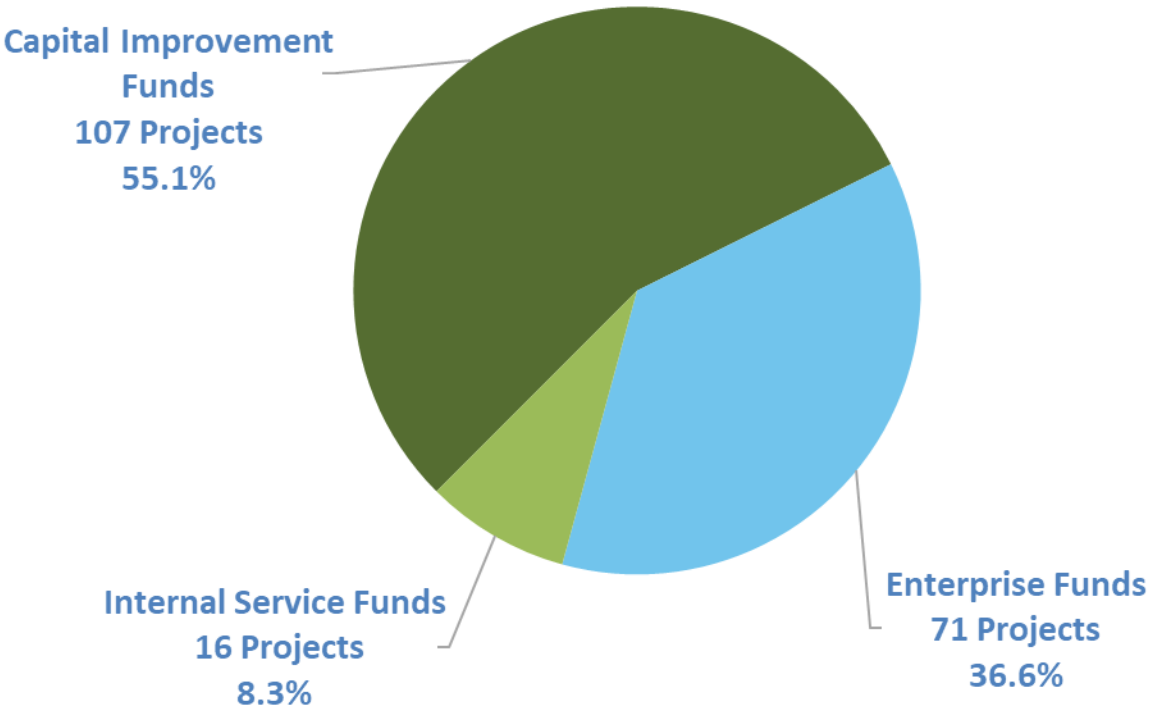
** Remaining funds to be appropriated for eligible expenses

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

2025-2029 CIP PLANNED FUNDING
BY FUND TYPE (\$1.6 BILLION)



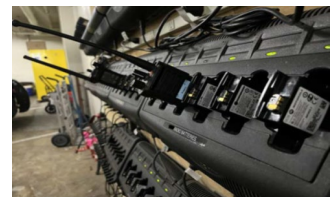
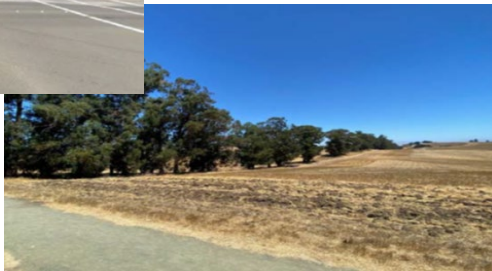
2025-2029 CIP PLANNED PROJECTS BY
FUND TYPE (194 PROJECTS)



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



To be completed in FY 25: Automated Parking Guidance System, Public Safety Building and Homekey Palo Alto



5-Year CIP: Charleston/Alma Rail Crossing Safety Imp., Eucalyptus Tree Removal, Childrens Theatre Lighting, Fire Equip., Citywide Radio replacement

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

*On April 24, 2024, the Finance Committee recommended a revision to lower the Proposed Water rate change. The FY 2025 Proposed Budget assumed 10%, adjustments will be brought forward.

	FY 2024 Adopted	FY 2025 Proposed
Electric	-5.0%	9.0%
Gas	8.0%	9.0%
Water*	5.0%	9% to 9.5%
Wastewater	9.0%	15.0%
Fiber	4.9%	2.6%
Refuse	0%	0%
Storm Drain	4.9%	2.6%
User Tax	2.8%	9.4%

Residential bill is estimated to increase \$31.46 - \$31.98/month

JOIN THE BUDGET CONVERSATION

The community is encouraged to join the budget conversations:

- **Finance Committee Budget Hearings:**
May 7 at 9:00 A.M.
May 8 at 9:00 A.M.
May 21 at 1:00 P.M. – Wrap-up
- **Community Informational Session:**
Learn about the City's proposed budget
May 15 at 6:00 P.M.
- **City Council Budget Adoption:**
June 17 at 5:30 P.M.

All meeting details listed at www.cityofpaloalto.org/budget

JOIN THE BUDGET CONVERSATION FISCAL YEAR 2025

Proposed Fiscal Year 2024-2025 **Operating and Capital budgets** were released at the end of **April**. Join the budget conversations this **May and June**. Share your City service priorities and input throughout the budget process.

COMMUNITY ENGAGEMENT KEY DATES : THE CITY OF PALO ALTO

- April 25 - Budget Publication
- May 6 - City Council – FY 2025 Proposed Budget Study Session
- May 7 - Finance Committee – Budget Hearing #1 - 9:00 a.m.
- May 8 - Finance Committee – Budget Hearing #2 - 9:00 a.m.
- May 13 - City Council – FY 2025 Proposed Budget Study Session
- May 15 - Community – Virtual Community Informational Session - 6 p.m.
- May 21 - Finance Committee – Budget Wrap-up, 1 p.m.
- June 17 - City Council – Budget Adoption



For details go to www.cityofpaloalto.org/budget



FISCAL YEAR 2025

PROPOSED OPERATING BUDGET

▷ CLIMATE CHANGE AND THE NATURAL ENVIRONMENT: PROTECTION & ADAPTATION

▷ COMMUNITY HEALTH, SAFETY, WELLNESS & BELONGING

▷ HOUSING FOR SOCIAL AND ECONOMIC BALANCE

▷ ECONOMIC DEVELOPMENT & TRANSITION



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 www.cityofpaloalto.org/budget