

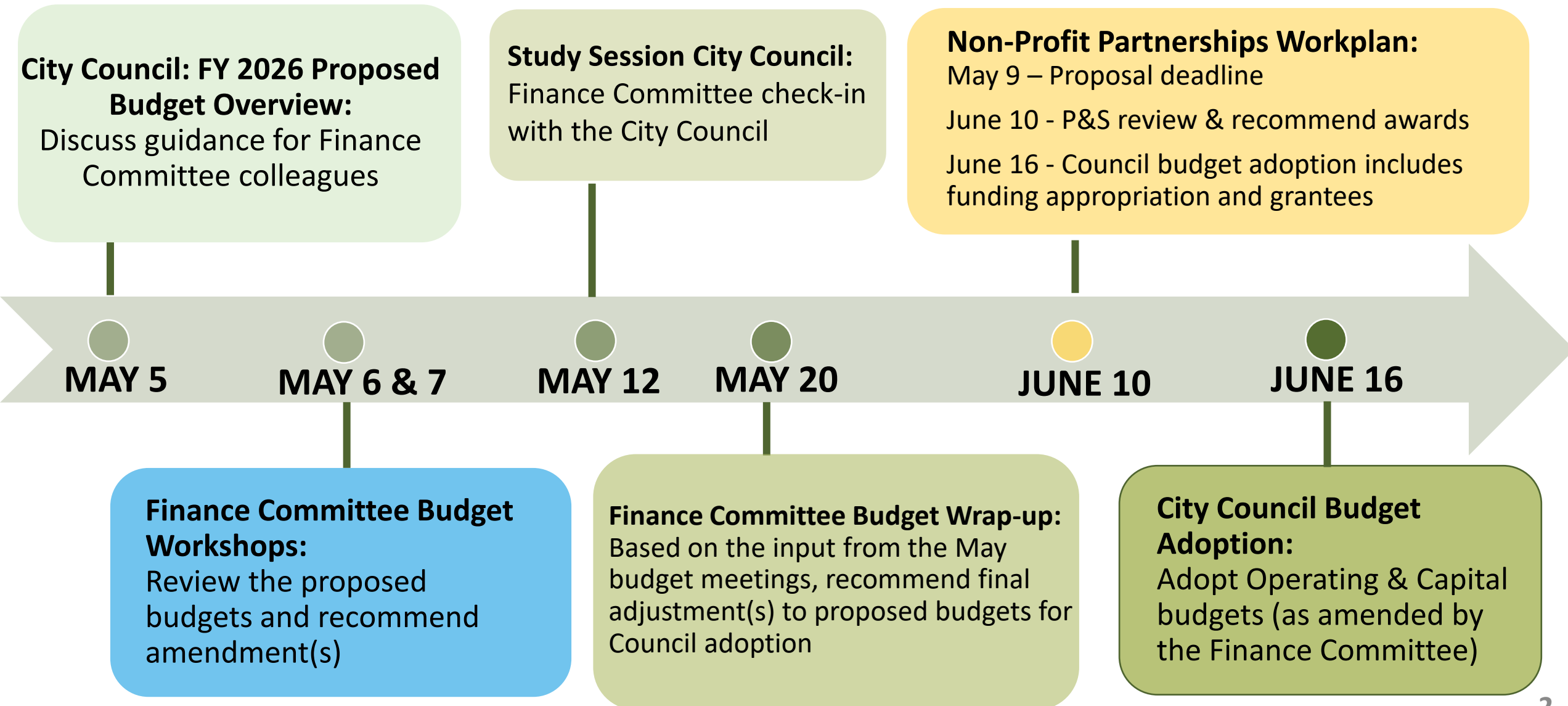


FY 2026 PROPOSED OPERATING AND CAPITAL BUDGETS

May 6, 2025

www.paloalto.gov/budget

BUDGET CONVERSATIONS & CALENDAR

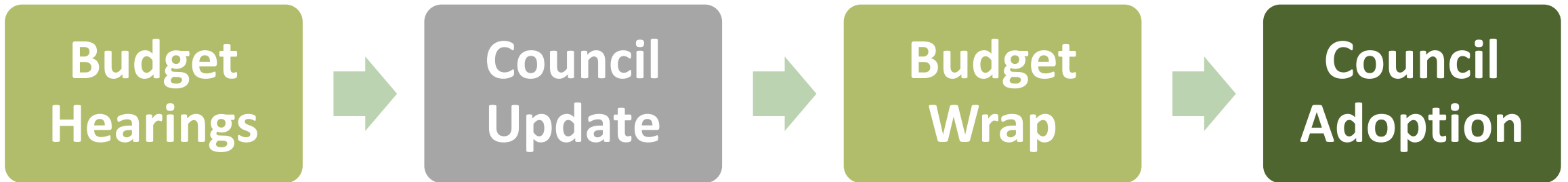


NEW INFORMATION (AS OF MAY 6th 9AM)

- [Open Budget Web App](#) updated to include FY 2026 Proposed Budget
- At-Places Memorandum
 - Issued May 6th to provide general information (i.e. vacancies, capital project reappropriations, and contract expenses)
- Staff Presentations
 - Today (May 6th) linked to agendas (www.paloalto.gov/budget) and
 - May 7th presentations will be posted prior to 9AM Tuesday

BUDGET HEARING GUIDELINES

- Meeting proceedings organized by agenda item:
 - Combined presentation from departments by City service area (CSA)
 - Highlight budgetary information and areas of focus
 - Finance Committee discussion with a 5-minute timer for Councilmember comments and questions
- Recommended Motions:
 - “Tentative Approval of *[insert item]*”: **majority vote**
 - Recommend to be placed in the “parking lot”: **majority vote**
 - Request additional information/staff follow up: **majority vote**



- Used as a running list of items Committee approves adjusting, items for further discussion (parking lot), and recommended use of funds available.
- Status reviewed at the end of each day
- Will inform the basis of the discussions with Finance Committee at budget wrap

FY 2026 BUDGET PROCESS

		FY 2026 GF (cost)/savings or rev	Dept
Date	Finance Committee Adjustments to Budget*		
	<i>Subtotal Use (Expense) :</i>	\$ -	
	<i>Potential Funds Remaining (deficit) / surplus :</i>	\$ -	

Date	Parking Lot Items	Amount (cost)/source	Ongoing	Dept
	<i>Subtotal Uses (Expense)</i>	\$ -	\$ -	
	<i>Potential Funds Remaining (deficit) / surplus</i>	\$ -	\$ -	

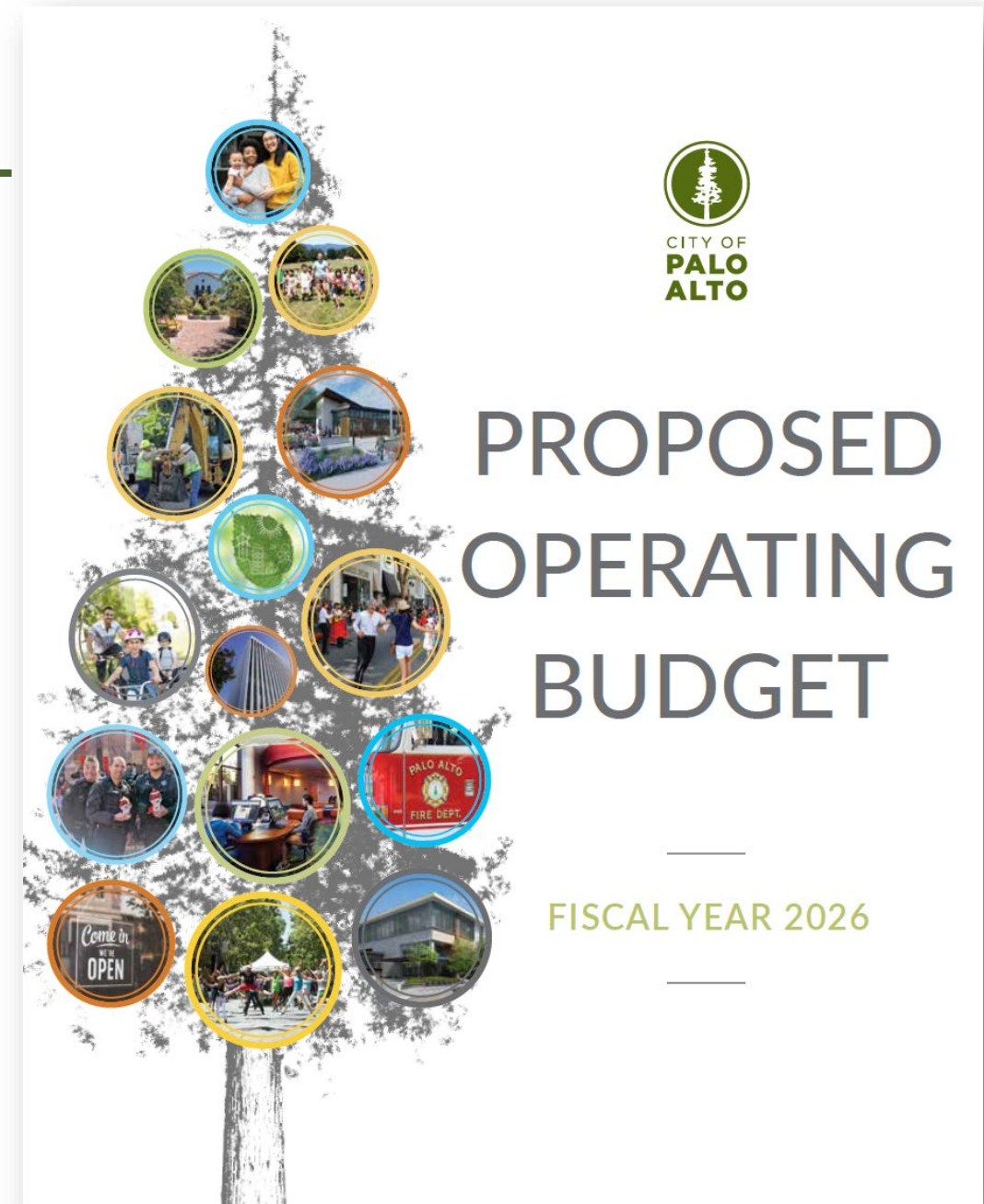
Date	FY 2026 Council Contingency	
		\$ 125,000
	Remaining:	\$ 125,000

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>





OVERVIEW

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

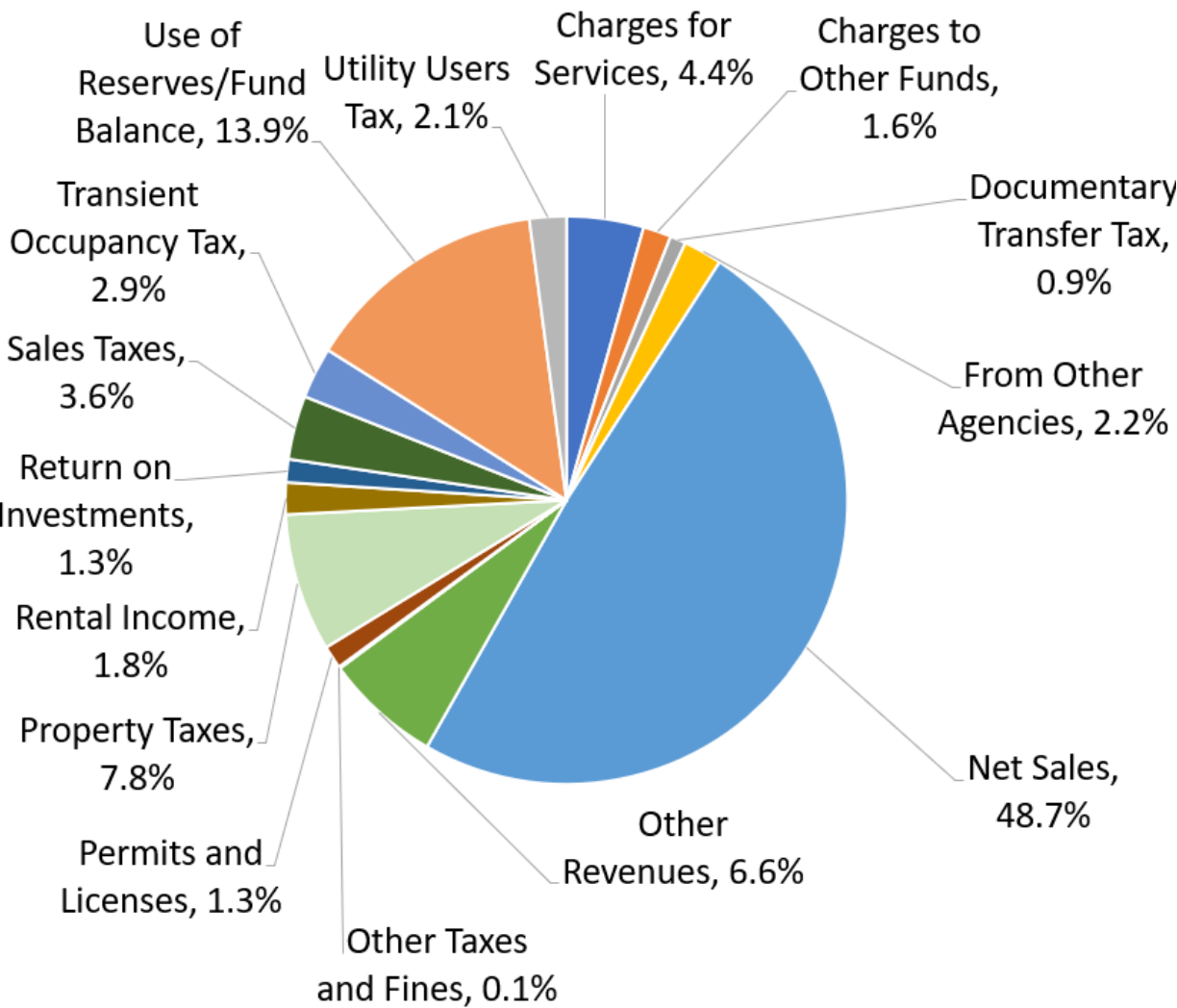
- Maintain vacancy assumption at 5%
- Limited investments in services & Council priorities

RISK MITIGATION

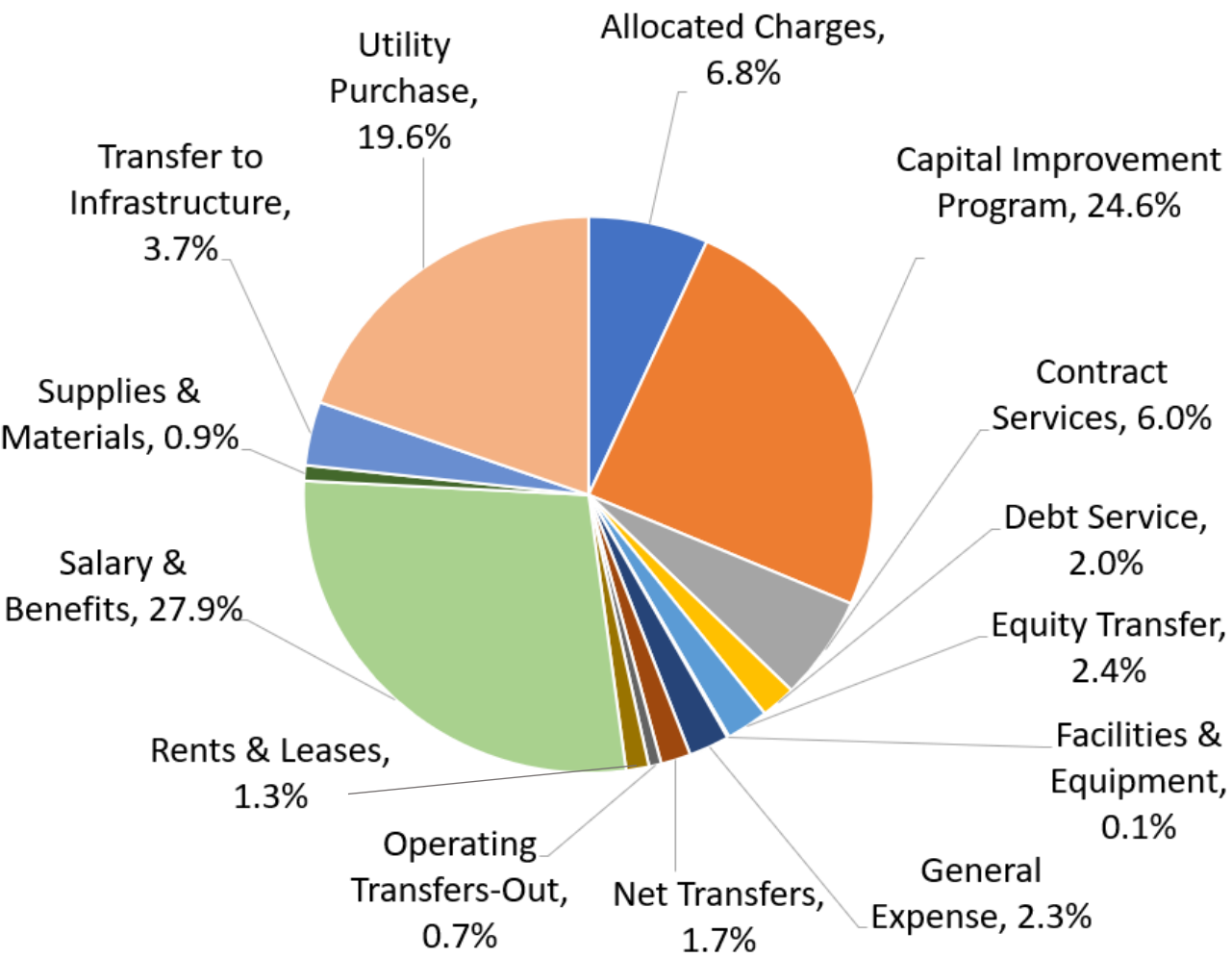
- Budget Stabilization Reserve
- Prefund Liabilities
- Infrastructure Investments

ALL FUNDS SOURCES & EXPENSES

FY 2026 Sources \$1.0 Billion



FY 2026 Expenses \$1.0 Billion



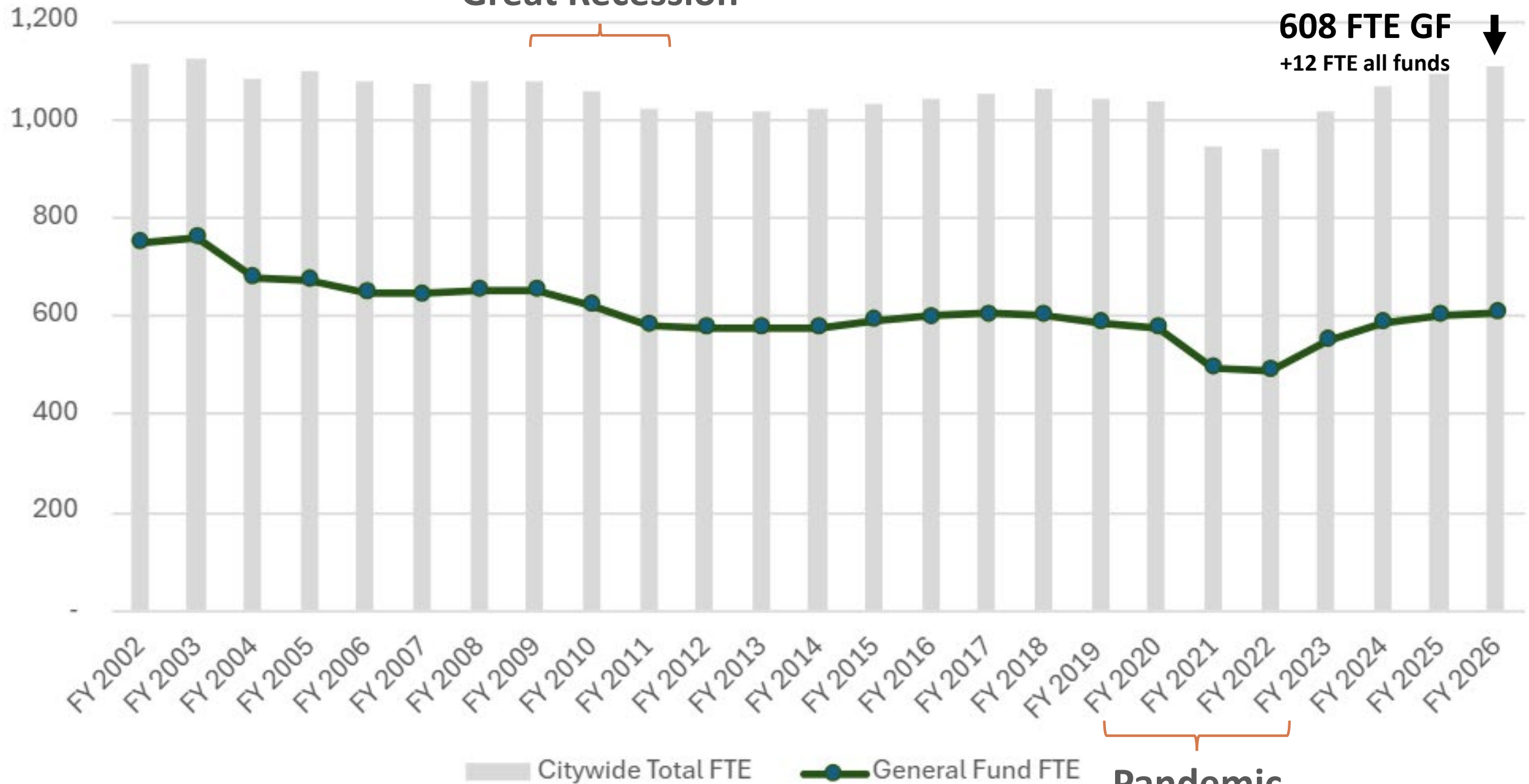
HISTORICAL FULL-TIME STAFFING COMPARISON

Great Recession

1,104 FTE Citywide

608 FTE GF

+12 FTE all funds

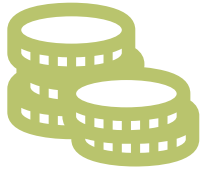


FULL-TIME STAFFING AND VACANCIES

Full-Time Position Changes	General Fund	Enterprise Funds	Other Funds	Total
FY 2025 Adopted Budget	602.57	391.43	98.10	1,092.1
FY 2025 Approved Adjustments	-	1.00	-	1.00
FY 2025 Modified Budget	602.57	392.43	98.10	1,093.10
FY 2026 Increase	6.60	4.55	2.10	13.25
FY 2026 Decrease	-	(0.50)	(0.50)	(1.00)
FY 2026 Reallocation	(1.20)	0.40	(0.20)	(1.00)
FY 2026 Proposed Budget	607.97	396.88	99.50	1,104.35
<i>Net Difference: FY 25 Adopted to FY 26 Proposed</i>	<i>5.40</i>	<i>5.45</i>	<i>1.40</i>	<i>12.25</i>

**10.1% adjusted vacancy rate all funds,
9.3% in the General Fund (including Public Safety)**

Supplemental Contributions to Section 115 Trust Funds



Pension Trust

- FY 2026: \$14.2 million (\$9.0 million General Fund)
- Through FY 2025 \$87.5 million contributed
- July 2023 funded status: 64%

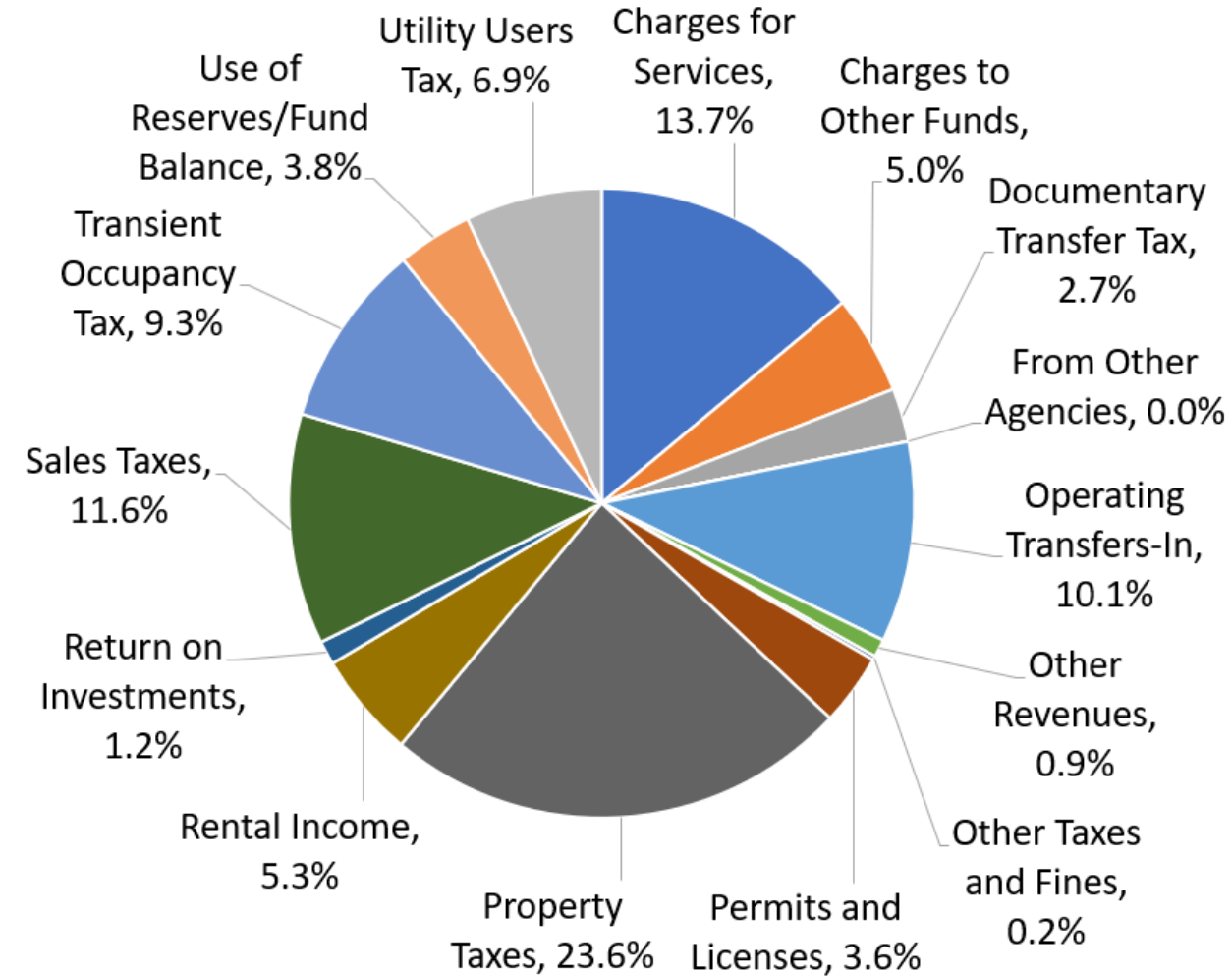


Other Post-Employment Benefit (OPEB) Trust

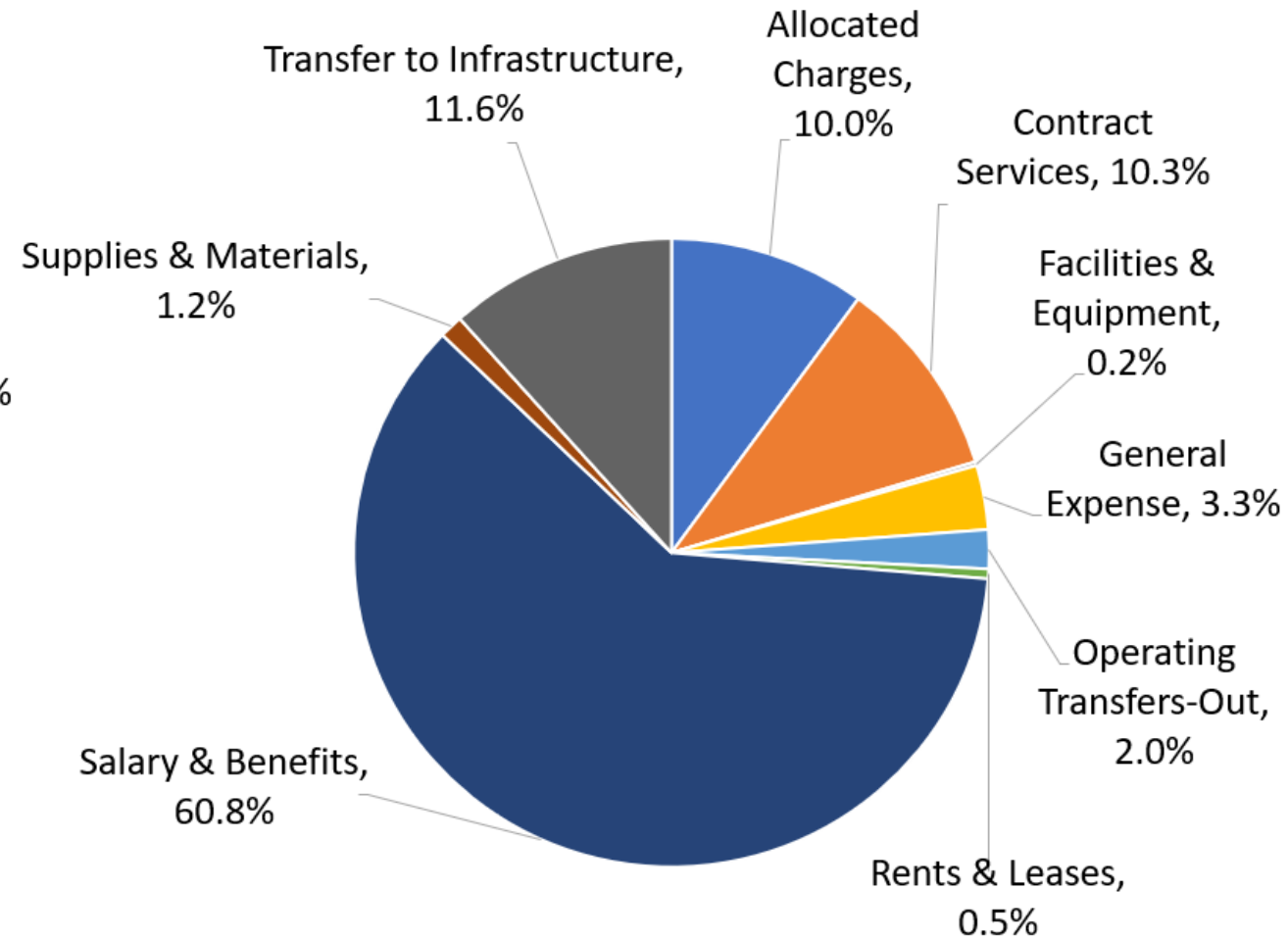
- FY 2026: \$6.1 million (\$3.8 million General Fund)
- Through FY 2025 \$17.4 million contributed
- July 2023 funded status: 56%

GENERAL FUND SOURCES & EXPENSES

FY 2026 GF Revenues \$312.5 Million



FY 2026 GF Expenditures \$312.5M



FY 2026 GENERAL FUND BALANCING



(\$ in millions)

FY 2024

FY 2025

FY 2026

FY 2027

Forecasted (Deficit)/Surplus

(\$9.8)

(\$6.8)

(\$12.0)

(\$9.6)

*Use of
Reserves*

Use of Uncertainty Reserve

\$4.4

\$3.5

\$12.0

-

Use of Budget Stabilization Reserve

\$4.4

\$2.6

-

-

Use of DSD Reserve

\$1.0

\$0.7

-

-

Proposed (Deficit)/Surplus

\$0

\$0

\$0

(\$9.6)

*Ending
Reserve
Balances*

Uncertainty Reserve

\$9.6

\$12.0

-

-

DSD Reserve

\$2.8

\$3.1

\$3.1

\$3.1

**BUDGET STABILIZATION
RESERVE**

\$57.0

\$54.0

\$54.0

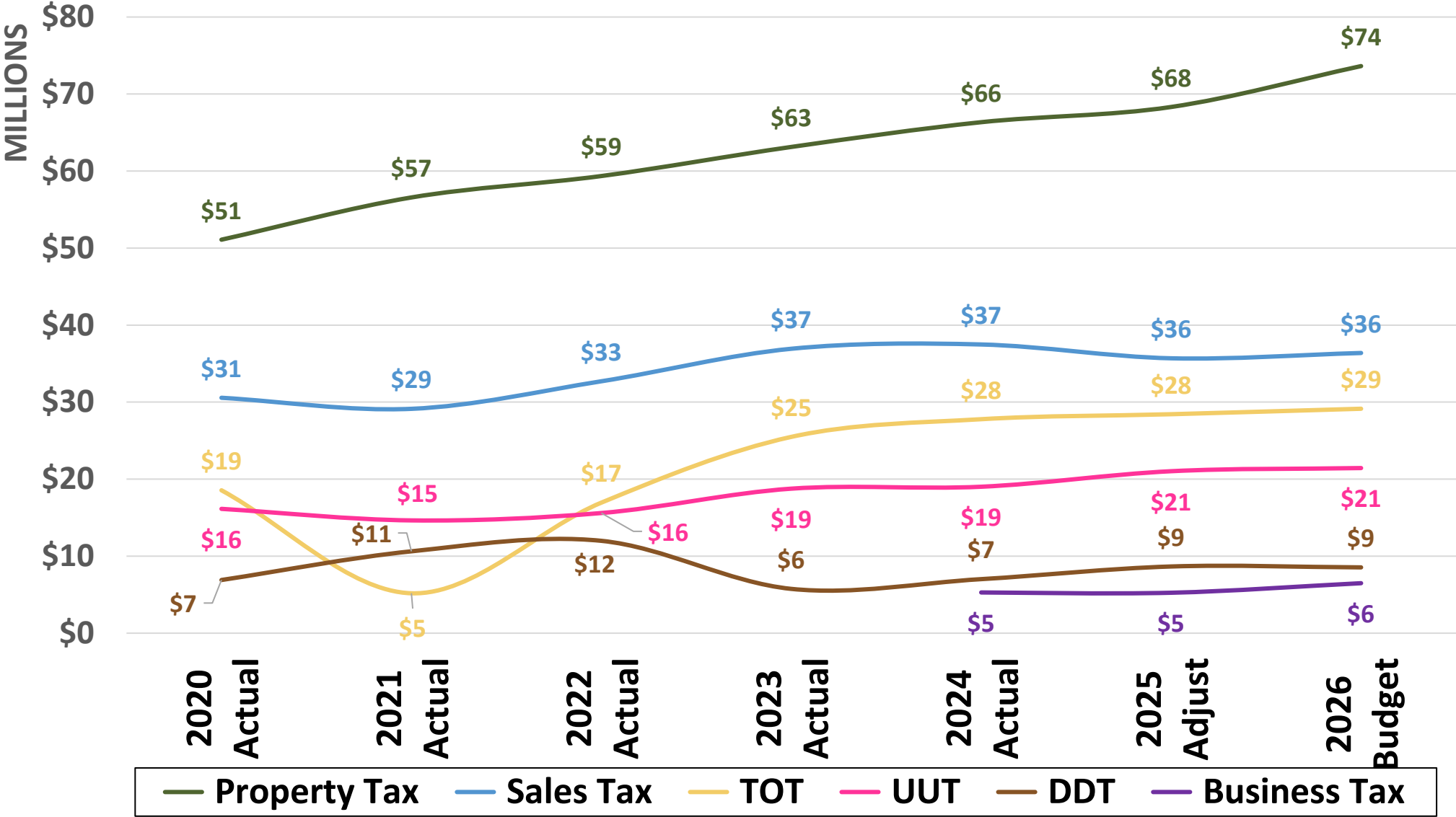
\$54.0

MAJOR TAX REVENUE

	2022	2023	2024	FY 2025	2025	2026		
	Actuals	Actuals	Actuals	Adopted	Midyear	Proposed	\$ Chg	\$ Chg
Sales Tax	32,705	36,926	37,482	39,577	35,588	36,377	789	2.2%
Property Tax	59,353	63,129	66,344	68,623	68,319	73,627	5,308	7.8%
Transient Occupancy Tax	16,946	25,485	27,781	27,857	28,344	29,139	795	2.8%
General Purpose	8,828	13,471	14,115	14,188	14,467	14,874	407	2.8%
Infrastructure	8,118	12,014	13,667	13,669	13,877	14,265	388	2.8%
Documentary Transfer Tax	11,990	5,751	7,016	7,260	8,550	8,542	(8)	-0.1%
Utility Users Tax	15,599	18,763	19,013	19,943	21,489	21,437	(52)	-0.2%
Business Tax	0	0	5,286	4,763	5,250	6,488	1,238	23.6%
Total Taxes	136,593	150,054	162,922	168,023	167,540	175,610	8,070	4.8%

- General Fund Taxes comprise \$175.6M or 56.2% of total General Fund revenues
- Positive assumption of overall 4.8% increase in this source category
- Estimated increases: Property Tax +7.8%, Business Tax +24%, Sales Tax +2.2%, TOT +2.8%

GENERAL FUND REVENUES – MAJOR TAXES



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 sep. & safety improvements, 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.

Gas Equity Transfer Funding (Measure L)

FY 2026 PROPOSED BUDGET

- Measure L (Nov. 2022) affirms transfer to the General Fund of up to 18% of annual gross gas retail revenue based on actuals from 2 years prior (FY26 Budget based on FY24 Actuals)
- FY 2026 proposed transfer at full 18% rate or \$9.7M, decrease of \$1.2M or 11.0% from FY 2025
- FY 2025 transfer approved at 14.5% or \$10.9M, based on FY23 gross gas retail revenue that had a spike compared to other years
- Funding may be used to support general city services such as roads; parks; libraries; climate change reduction; police, fire, emergency medical, and 9-1-1 response.

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

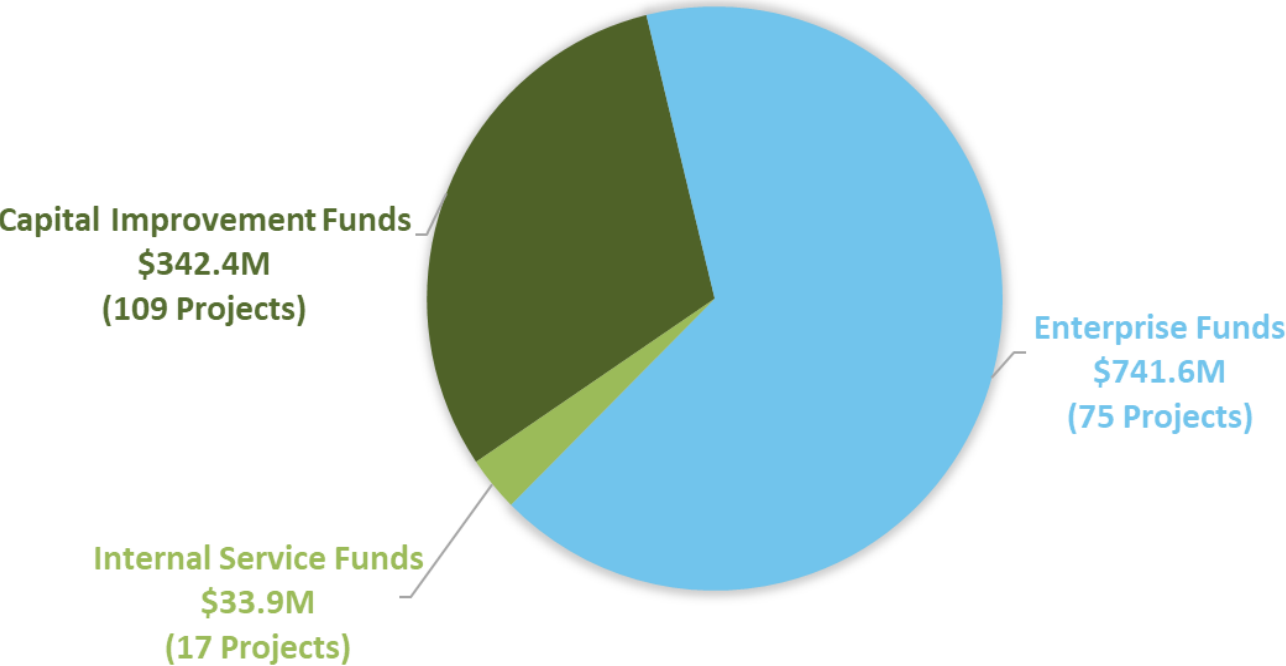
- Proactive funding of long-term liabilities.
- Funding the adopted labor agreements and support negotiations underway.
- Reserving funds for real property investments.
- Supporting organizational resilience with talent recruitment, employee childcare pilot program (carryforward), BayPass Commuter Program 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



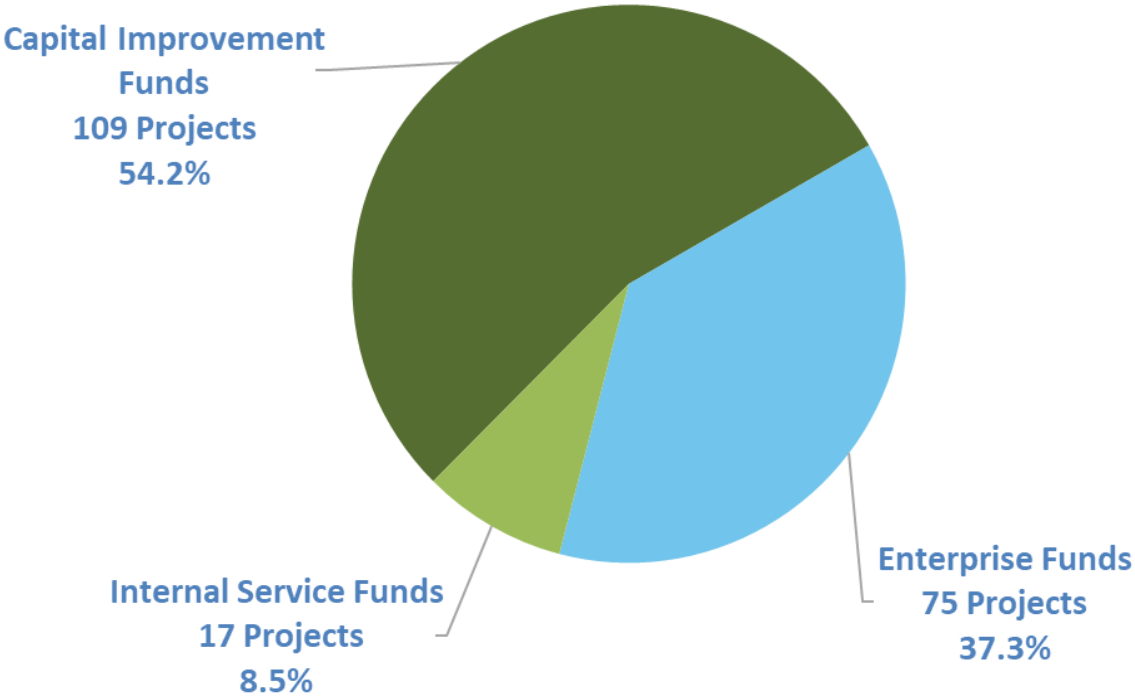
CAPITAL IMPROVEMENT PROGRAM (CIP) – OVERVIEW 5-YR PLAN



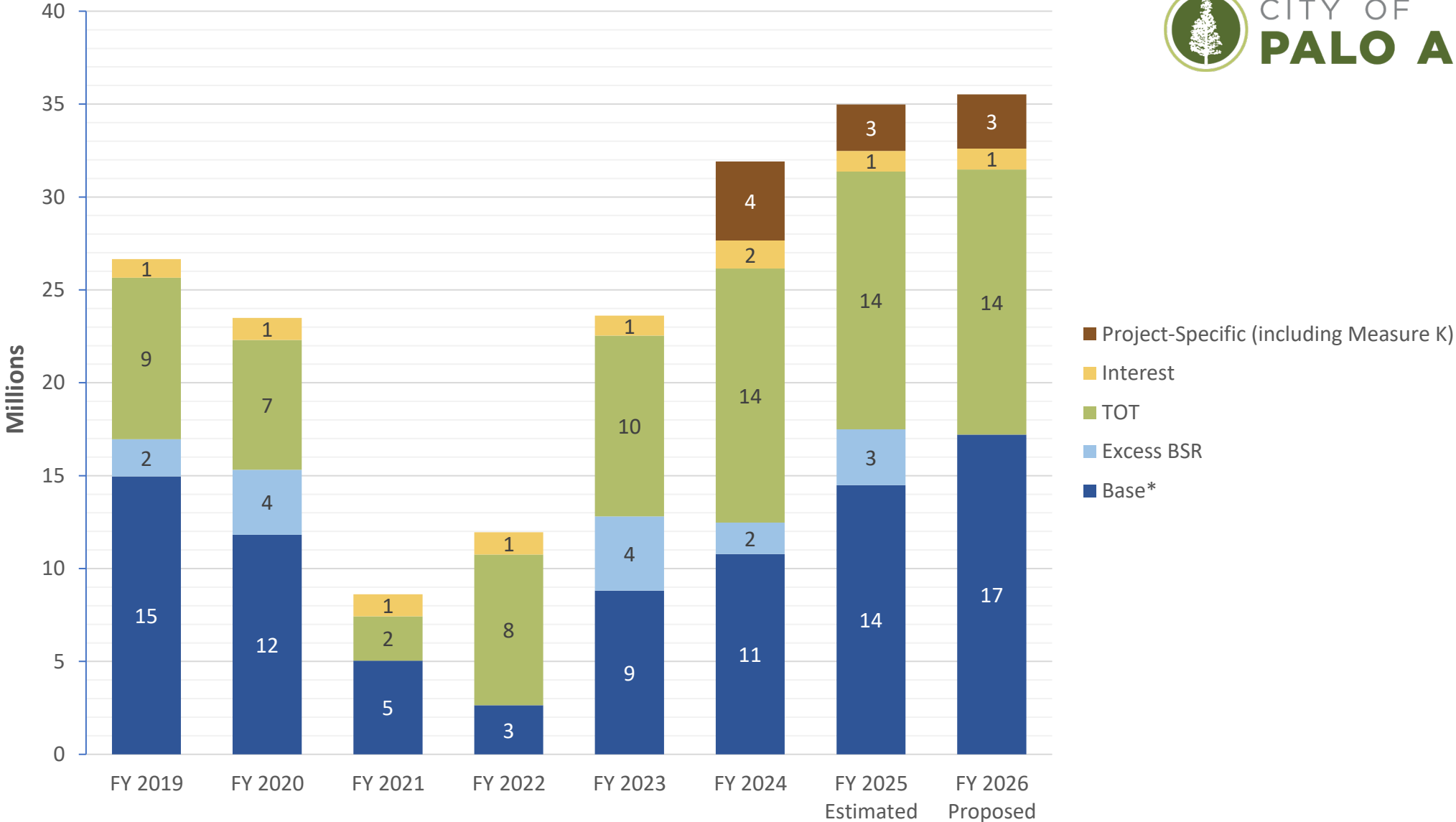
2026-2030 CIP PLANNED FUNDING
BY FUND TYPE (\$1.1 BILLION)



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



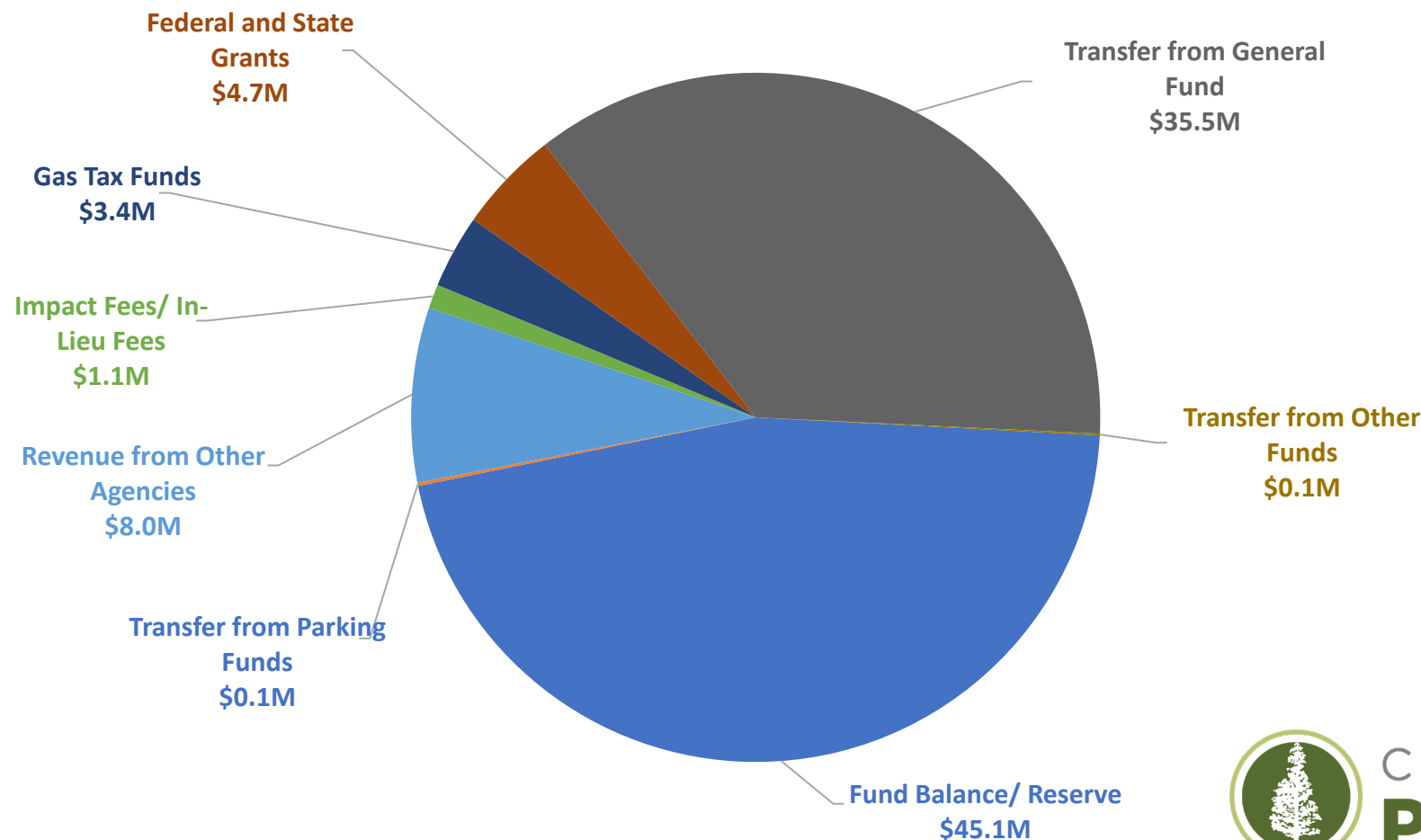
GENERAL FUND INVESTMENT IN CAPITAL IMPROVEMENT FUND



*Prior to FY 2024, \$1 M of Utility Users Tax (UUT) benefitting streets and sidewalks capital projects were part of the Base transfer. Since FY 2024, that funding has been transferred directly to the streets and sidewalks projects and is part of the Project-Specific category of transfers rather than the Base category.

2026 CAPITAL IMPRVT FUND REVENUES BY SOURCE: \$117.5 MILLION

2026 CAPITAL IMPROVEMENT FUND REVENUES BY SOURCE
\$98.1 MILLION





Conclude
