



CITY OF  
**PALO  
ALTO**

## City Council Staff Report

**From: City Manager**

**Report Type: CONSENT CALENDAR**

**Lead Department: Administrative Services**

**Meeting Date: October 21, 2024**

Report #:2405-3061

### **TITLE**

Approval of FY 2024 Reappropriation Requests to FY 2025; CEQA Status: Not a Project

### **RECOMMENDATION**

Staff recommends that the City Council amend the Fiscal Year 2025 Budget Appropriation for various funds as identified in Attachment A, and various capital projects as identified in Attachment B and Attachment C (requires 2/3 approval).

### **EXECUTIVE SUMMARY**

As a part of the fiscal year-end process, staff reviews the City's unencumbered and unspent appropriations of the fiscal year just ended (FY 2024), along with the City's spending plans. Encumbered amounts are contractual obligations (for example, commitments made through purchase orders), which are carried forward from one fiscal year to the next without the need for Council approval. Each year there are important projects that carry over or unable to encumber funds in the year that just ended. The reappropriation process allows staff to bring forward funding recommendations to City Council to continue these projects into the next fiscal year (FY 2025) without impacting funding programmed for services in FY 2025.

In limited instances, staff recommends appropriation actions for the technical clean-up of projects in the current fiscal year. In FY 2025, staff is recommending to appropriate additional funding for the New Public Safety Building capital project (PE-15000) to adjust for higher than anticipated salary and benefits costs and fund the contractual construction costs through certificate of occupancy. Additionally, staff is recommending to reduce the Electric Customer Connections capital project (EL-89028) from \$5.8 million to \$3.4 million. The adjustment accounts for an over encumbrance of transformer purchases to the project, which are being reassigned to the Grid Modernization for Electrification capital project (EL-24000) to better align funding with planned work in FY 2025. Staff also recommends revising the New Downtown Parking Garage project (PE-15007) funding sources schedule and expenditure schedule to reflect additional transfers of \$10.1 million from the University Avenue Parking In Lieu Fund in FY 2025. This revision reflects the City Council direction from December 2023 to resume work on the project,

recognizing FY 2024 year-end fund balances and increases the total project budget to \$17.3 million.

## **BACKGROUND**

On September 22, 2014, the City Council approved a recommendation to amend Chapter 2.28, Section 2.28.090 of the Municipal Code, reducing the previous two-step reappropriations process (preliminary and final reappropriation authorization) to one step as long as the Administrative Services Department (ASD) Director/Chief Financial Officer (CFO) certifies that sufficient unencumbered and unexpended funds are available in the Fiscal Year that just ended (FY 2024) to be carried forward to the subsequent Fiscal Year (FY 2025).

Additionally, the City Council amended the Municipal Code to eliminate the provision allowing for the automatic reappropriation of capital project funds. Since capital projects may still be delayed or deferred for various reasons, there remains a need to reappropriate funds for capital projects in some instances. This reappropriation is completed through a review of the status of projects as part of the annual budget process and is built into the annual adopted budget. As FY 2024 has closed and staff has processed necessary accounting transactions, unexpended and unencumbered funds for each capital project have been reviewed a final time. Based on that review, staff recommends capital dollars remaining for some projects in various funds through FY 2024 be reappropriated to FY 2025. Also, as part of this review, staff found that some reappropriations earlier in the year resulted in excessive funding for certain projects in FY 2025. Therefore, this staff report recommends reversing a portion of those previously authorized reappropriations to address these situations.

## **ANALYSIS**

Attachment A identifies those operating budget requests that staff recommends for approval, while Attachment B lists recommended capital project requests. Attachment C includes technical clean-up actions to align project budgets with intended funding levels. With the submission of this report for City Council consideration, the ASD Director/CFO certifies sufficient unencumbered and unexpended funds are available from FY 2024 to be reappropriated to FY 2025. To support the continuity of business for these ongoing projects and initiatives, this report is being brought forward prior to the FY 2024 Annual Comprehensive Financial Report (ACFR), scheduled to be considered by the Finance Committee in December.

### **Operating Budget Reappropriations**

The projects recommended for budget reappropriations are outlined in more detail in Attachment A and can generally be grouped into the following categories:

- **Funding for Citywide Council Priorities:** Items in this category are related to citywide priority needs previously identified by the Council, as part of the FY 2024 priority setting

in January 2024, that could not be completed in FY 2024 and funding is recommended to be reappropriated to FY 2025 to complete the work. Examples of projects in this category include: Reliance & Resiliency Strategic Plan (\$0.6 million), Seismic Ordinance Update (\$0.3 million), Labor Negotiations (\$0.3 million), Advancing Racial Equity (\$0.2 million), and Sustainability and Climate Action Plan (S/CAP) Studies (\$0.1 million).

- **Timing and Workload Delays:** Projects in this category were delayed due to competing workload demands, appropriation of funds late in the fiscal year, or other unanticipated delays. Examples of projects in this category include: Information Technology Professional Services Contracts and Software Application Maintenance (\$1.0 million), Tree Trimming (\$0.4 million), Airplane Noise Reduction Study (\$75,000), Foothill Fire Management Funds (\$50,000), and San Antonio Coordinated Area Plan Development (\$47,000).
- **Multi-year Funding Agreements:** Projects in this category include approved donations, grants, loans, and other funding agreements that are anticipated to continue in the coming year. Examples in this category include: Organized Retail Theft Grant (\$4.9 million), Mental Health Services Grant (\$0.7 million), Information Technology Fees for Planning and Development Services Technology Replacement (\$0.1 million), and Direct Cost Recovery Projects in the Planning and Development Services Department (\$0.1 million).
- **Think Fund Teen Services Programs (formerly Bryant Street Garage Teen Program):** In 2001, the City Council voted to lease commercial space at the Bryant Street garage located at 455 Bryant Street. Since this site was formerly the location of the Bryant Street Teen Center, a stipulation in the lease required that 75% of the rental revenues would be used to fund programs specifically for Palo Alto youth and teens. Teen Services programs include, but are not limited to: Think Fund grants, ClickPA website, Teen Arts Council, MakeX, Art Center, Think Fund Gala, and the Buoyancy Teen Festival. The unspent balance of \$0.2 million is recommended to be reappropriated to FY 2025 to ensure resources are available to continue providing quality teen services to the community and develop a long-term approach to maintain delivery of these services.
- **Management Training Program:** The Management Training Program provides \$1,000 per eligible employee under the terms outlined in the MGMT and PAPMA labor agreements. The purpose of this program is to provide employees with resources to improve and supplement their job and professional skills. In total, \$0.3 million in unused funding is requested to be reappropriated to FY 2025 for various training programs, including: ethics, civics and citizen engagement, leadership and management, budget, finance, procurement, interpersonal communication, presentation skills, business writing, time

management, project management, change management, online-based education, and safety and security.

### Operating Reappropriations Previously Approved

#### *FY 2025 Adopted Operating Budget*

As part of the FY 2025 Budget review process, early reappropriation of anticipated savings in the General Fund in FY 2024 was recommended and approved by the Council to fund actions in FY 2025. The total approved amount of \$16.1 million is available to be spent in FY 2025 consisted of the \$9.6 million Uncertainty Reserve, \$6.2 million Utility Transfer Litigation Reserve, \$0.2 million for the City Employee Childcare program, and \$0.1 million for Overnight Warming Locations (OWL) and \$40,000 for the Human Services Resource Allocation Process (HSRAP) Reserve.

The Uncertainty Reserve was established as part of the FY 2023 Mid-Year Review to proactively set aside funding for anticipated future deficits. The funding remaining in the Uncertainty Reserve in FY 2024 (\$9.6 million) was reappropriated to FY 2025 as part of the budget process and \$6.1 million was used to balance FY 2025. As part of the FY 2025 Adopted Budget, \$2.6 million was added to the Uncertainty Reserve from the General Fund Budget Stabilization Reserve (BSR) leaving \$6.1 million for future needs.

The Utility Transfer Litigation Reserve was established in FY 2022 to set aside funding for financial impacts from the lawsuit, *Green v. City of Palo Alto* (Santa Clara Superior Court, Case No. 1-16-CV-300760). Settlement payments from the City are scheduled from FY 2024 through FY 2026, so \$6.2 million was reappropriated to fund settlement payments of \$3.1 million in FY 2025. The remaining \$3.1 million will be reappropriated to FY 2026 as part of the FY 2026 Adopted Budget to complete settlement payments. Funding reserved for \$3.4 million of the total settlement was estimated to be paid in FY 2024; however, this payment was unable to be made before the end of the fiscal year. The funding is recommended to be reappropriated from FY 2024 to FY 2025 as part of this report for a total reappropriation of \$9.6 million to complete settlement payments in FY 2025 and FY 2026, see Attachment A for more information.

The City Employee Childcare Program provides funding for a childcare subsidy program for qualified City of Palo Alto employees. Services provided in this program include, but are not limited to childcare or after school care using a Palo Alto childcare provider. This action reappropriates the remaining balance of \$240,000 from the first year of this pilot program to continue for a second year as a way to increase employee engagement, long-term retention, and reduce turnover.

The remaining balance of \$56,000 was reappropriated to FY 2025 to extend the Overnight Warming Location (OWL) pilot program from FY 2024. The OWL is activated as a response to life-threatening weather conditions that functions as an overnight shelter for unhoused individuals

when the County declares an Inclement Weather Alert based on predefined thresholds of cold or rain.

As part of the FY 2015 Adopted Budget, the City Council established a one-time reserve of \$50,000 for HSRAP funding requests. In FY 2019, \$10,000 was allocated to Heart and Home Collaborative, a non-profit organization that provides shelter and services to unhoused women in Palo Alto. No additional funds were allocated from this reserve in FY 2024, so the remaining balance of \$40,000 was reappropriated to FY 2025.

### Capital Budget Reappropriations

As discussed in the Background section of this report, starting with the Fiscal Year 2016 capital budget, all capital project reappropriations require City Council approval. The FY 2025 Adopted Budget included \$228.7 million in reappropriated expenditure funds, partially offset by \$89.5 million in reappropriated revenue, across all City funds based on estimates of anticipated spending and revenue collections in FY 2024. Since the adoption of the capital budget, some adjustments and refinements to project reappropriations are required since FY 2024 year-end actuals and projects costs have been updated to reflect actual experience. These primarily reflect either increases or decreases to assumed reappropriations in the FY 2025 Adopted Budget:

- Additional reappropriations are recommended when project expenditures originally anticipated to occur before the end of FY 2024 will now instead occur in FY 2025. Similarly, revenue anticipated to be collected in FY 2024 will be reappropriated to FY 2025 to align with actual collections.
- Downward adjustments to reappropriations are recommended when expenses are no longer anticipated to occur in FY 2025 and funding was previously reappropriated in the budget document to FY 2025. If expenses were realized in FY 2024, an adjustment to reduce the budgeted reappropriation is needed as the activity no longer needs funding in FY 2025. The downward reappropriation of revenue is treated similarly; an adjustment to reduce the reappropriated revenue is needed to align collections in the appropriate fiscal year.

Table 1 summarizes the recommended capital project adjustments by fund as detailed in Attachment B. These Fiscal Year 2025 adjustment amounts represent the final step in the City Council-approved change to the reappropriation process. There are sufficient expenditure savings in Fiscal Year 2024 to support all recommended adjustments.

**Table 1: Year-End Capital Project Reappropriation Summary – By Fund**

<b>Fund</b>	<b>Number of Projects</b>	<b>Recommended Expense Reappropriation Adjustment</b>	<b>Recommended Revenue Reappropriation Adjustment</b>
Capital Improvement Fund	58	\$17,447,326	\$16,593,122
Cubberley Infrastructure Fund	3	\$19,280	\$1,552,600
Airport Fund	4	(\$358,800)	\$104,726
Electric Fund	12	\$12,049,303	\$10,000,000
Fiber Optics Fund	2	\$2,753,787	-
Gas Fund	4	(\$53,970)	-
Stormwater Management Fund	6	\$310,273	\$1,377,399
Wastewater Collection Fund	1	\$9,241	-
Wastewater Treatment Fund	8	(\$41,732,774)	\$126,323,353
Water Fund	6	(\$1,715,167)	-
Vehicle Replacement and Maintenance Fund	3	(\$522,989)	-
<b>Total All Funds</b>	<b>107</b>	<b>(\$11,794,489)</b>	<b>\$155,951,200</b>

The active review of all project reappropriations results in a reduced level of reappropriated funding from one year to the next, compared to the process of automatically reappropriating unspent capital funding, and better reflects the needs of the various capital projects and of the overall program. In total, \$216.9 million will be reappropriated for capital projects, offset by \$245.5 million in revenue for the projects. It should be noted 81% of the total recommended revenue reappropriation adjustment amount of \$156.0 million comes from the Wastewater Treatment Fund because there is substantial lag time in reimbursement of funds from the State Revolving Fund (SRF) loans that support Wastewater Treatment projects.

#### Technical Clean-up Actions

As detailed in Attachment C, due to higher-than-budgeted salaries and benefits costs in prior years, the remaining funds in the New Public Safety Building capital project (PE-15001) are insufficient to cover the awarded design and construction contract cost of \$115.6 million (Report #11752).<sup>1</sup> This action will increase the project's appropriation by \$0.9 million in FY 2025 for a total project budget of \$119.5 million to fund the design and construction costs through certification of occupation.

<sup>1</sup> City Council, February 21, 2021, <https://portal.laserfiche.com/Portal/DocView.aspx?id=97913&repo=r-704298fc&searchid=1e24f083-17bc-458e-9430-13a64214fd39>

Staff is also recommending reducing the Electric Customer Connections capital project (EL-89028) from \$5.8 million to \$3.4 million. In May 2024, City Council approved increasing the City Manager's authority to purchase electric transformers from \$2 million up to \$4 million annually from prequalified vendors.<sup>2</sup> The latest round of transformer purchases in FY 2024 were incorrectly allocated to EL-89028 and carried forward into FY 2025. This corrective action will reassign the transformers to the Grid Modernization for Electrification project (EL-24000) to better align funding with planned work in FY 2025.

Finally, staff recommends revising the New Downtown Parking Garage project (PE-15007) funding sources schedule and expenditure schedule to reflect additional transfers of \$10.1 million from the University Avenue Parking In Lieu Fund in FY 2025. This revision reflects the City Council direction from December 2023<sup>3</sup> to resume work on the project and trues-up the allocation of Parking In-Lieu funding with the fund balance at FY 2024 year end increasing the total project budget to \$17.3 million.

### **FISCAL/RESOURCE IMPACT**

All projects, programs, and corresponding funding contained within this report were previously approved by the City Council for FY 2024. This report simply realigns funding between fiscal years to align with the status of projects and programs. The ASD Director/CFO certified that sufficient funds exist in FY 2024 for the recommended Fiscal Year 2025 Operating Budget adjustments (Attachment A), and Capital Budget adjustments (Attachment B). For Operating reappropriations, staff recommends expense reappropriations of \$6.0 million in the General Fund, \$4.9 million in Special Revenue Funds, \$0.6 million in Enterprise Funds, and \$1.1 million in Internal Service Funds. Staff also recommends revenue reappropriations of \$1.1 million in the General Fund and \$5.0 million in Special Revenue Funds.

For capital projects, in addition to the amounts reappropriated as part of the FY 2025 Adopted Capital Budget, staff recommends \$17.5 million in expenses be reappropriated to FY 2025 in the Capital Improvement Funds, offset by \$18.1 million in revenue reappropriations. Also recommended is reduction of \$28.7 million in expenses reappropriated in various Enterprise Funds with an increase of \$137.8 million in revenue mostly due to projects in the Wastewater Treatment Fund awaiting reimbursement for State Revolving Fund loans. Lastly, a reduction of \$0.5 million in expenditures is recommended in the Internal Service Funds. The cumulative reappropriation, including amounts approved in the FY 2025 Adopted Capital Budget, will be \$82.1 million in expenses, partially offset by \$35.0 million in revenue in the Capital Improvement

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<sup>2</sup> City Council, May 6, 2024, Staff Report #2403-2755,  
<https://portal.laserfiche.com/Portal/DocView.aspx?id=72022&repo=r-704298fc&searchid=4afca37d-ded1-4416-9967-b55976218192>

<sup>3</sup> City Council December 11, 2023, Staff Report #2309-2043,  
<https://portal.laserfiche.com/Portal/DocView.aspx?id=69368&repo=r-704298fc&searchid=f327adbe-24ef-464f-964a-88235ffd4948>

Fund projects; \$126.5 million in expenses offset by \$210.4 million in revenue in the Enterprise Fund projects; and \$8.3 million in expenses in the Internal Service Fund projects. The results of the reappropriations will have a net zero impact to the total projects' budgets over the life of the projects.

Three technical clean-up actions are recommended to adjust the funding appropriation for two capital projects. The New Public Safety Building capital project (PE-15001) will be increased by \$0.9 million to fund construction costs through certificate of occupancy and address higher-than-budgeted salaries and benefits costs in prior years. The Electric Customer Connections (EL-89028) funding will be reduced by \$2.4 million to reallocate the latest round of electrical transformers incorrectly encumbered onto this project but intended for the Grid Modernization for Electrification project (EL-24000) in FY 2025. The New Downtown Parking Garage capital project (PE-15007) funding sources schedule and expenditure schedule is being revised to reflect additional transfers from the University Avenue Parking In Lieu Fund of \$10.1 million, to true-up the allocation of Parking In-Lieu funding with the fund balance at FY 2024 year end, for design and construction work expected during the five-year CIP period.

#### **STAKEHOLDER ENGAGEMENT**

Review and reconciliation of the funding available for both the Operating reappropriations and the reappropriations for individual Capital projects was coordinated between ASD divisions of the Office of Management and Budget and Accounting, as well as with the departments requesting the reappropriated funds.

#### **ENVIRONMENTAL REVIEW**

The action recommended is not a project for the purposes of the California Environmental Quality Act.

#### **ATTACHMENTS**

Attachment A: FY 2024 to FY 2025 Operating Reappropriation Requests

Attachment B: FY 2024 to FY 2025 Capital Reappropriation Requests

Attachment C: Capital Improvement Plan FY 2025 Technical Clean-up Actions

#### **APPROVED BY:**

Lauren Lai, Administrative Services Director