COUNCIL MEETING
2/6/2023
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8

CITY OF PALO ALTO

FY 2024 – FY 2033 LONG RANGE FINANCIAL FORECAST

City Council Item #8

February 6, 2023

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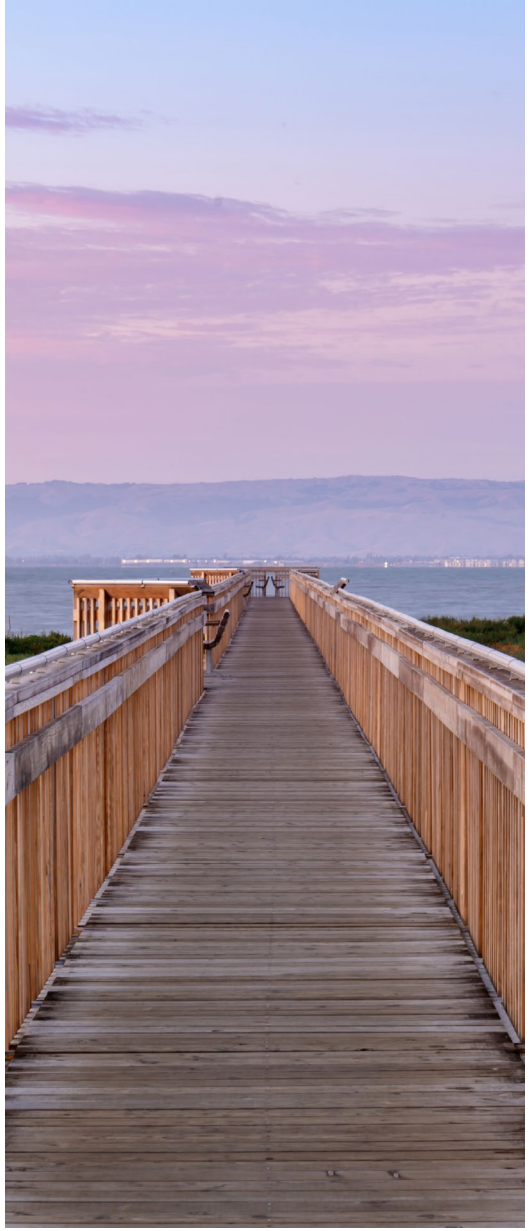

OVERVIEW

- Stagnant economic growth assumed for major tax revenues
- 2022 voter approved measures K & L (new business tax and natural gas transfer respectively
  - Measure L: IS assumed in the Base Case
  - Measure K: IS NOT assumed in Base Case, alt scenario provided
- Expense projections based on current approved service levels
  - FY 2023 Adopted 2-year service reinvestment funded ongoing
  - Costs for recent labor contracts included in revised forecast
- December 6th Finance Committee Highlights
  - Economic Development
  - Major Projects/Council Priorities
  - Labor Costing and Staffing Analysis

FISCAL YEAR 2024 - 2028 REVISED FORECAST

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- Mild 18-month stagnant growth beginning in FY 2023
- Voter Approval of Measure L (natural gas transfer)
  - Includes revenue and continuation of 2-year service restorations in FY 2023 Adopted
- Revised forecast reflects current estimates including recent labor contracts

	Actual 2022	Adopted 2023	Projected 2023	2024	2025	2026	2027	2028
Total Revenue	**$238,735**	**$237,751**	**$238 - 244M**	**$251,177**	**$261,671**	**$272,065**	**$282,203**	**$290,671**
BSR Contribution (One-Time)	**-**	**$9,670**	**$9,670**	**-**	**-**	**-**	**-**	**-**
Total Source of Funds	**$238,735**	**$247,421**	**$247 - 253M**	**$251,177**	**$261,671**	**$272,065**	**$282,203**	**$290,671**
Year over Year increase (revenue only)				***5.6%***	***4.2%***	***4.0%***	***3.7%***	***3.0%***
Total Expenditures	**$197,963**	**$247,421**	**$248,721**	**$251,715**	**$267,500**	**$277,159**	**$283,240**	**$290,359**
Total Use of Funds	**$197,963**	**$247,421**	**$248,721**	**$251,715**	**$267,500**	**$277,159**	**$283,240**	**$290,359**
Year over Year increase				***1.7%***	***6.3%***	***3.6%***	***2.2%***	***2.5%***
Net One-Time Surplus/(Gap)	**$40,772**	**($0)**	**$0 - 4.7M**	**($537)**	**($5,829)**	**($5,094)**	**($1,037)**	**$312**
Cumulative Net Operating Margin (One-Time)					**$0**	**$0**	**$0**	**$625**
Net Operating Margin				**($537)**	**($5,292)**	**$736**	**$4,057**	**$1,349**

FISCAL YEAR 2023 BUDGET STABILIZATION RESERVE STATUS

Year-End BSR Summary (in millions)	
General Fund BSR Balance, June 30, 2022	**$72,835**
FY 2023 Approved Adjustments	
FY 2023 Adopted Budget & FY 2023 Service Reinvestments (yr2)	($12,872)
Council Approved Items (Downtown Streets Team, Reappropriations)	($267)
Subtotal: BSR Balance, After Approved Adjustments	**$59,696**
FY 2023 Additional Adjustments (FY 2023 Mid-Year)	($14,000)
$5M to Economic Uncertainty Reserve (plan for forecasted deficits)	
$5M to Pension Trust Fund (per Council Policy)	
$4M to Infrastructure Reserve (IR) (per Council Policy)	
Projected FY 2022 BSR Level, (June 30, 2023)	**$45,796**

FY 2022 General Fund ended with a surplus, as expected in FY 2023 Adopted Budget

- $59.8 M, a surplus of $14.2M compared to the Council 18.5 percent target ($45.6M)

ASSUMPTIONS NOT INCLUDED IN FORECAST

- Service reinvestment to pre-pandemic levels
- Capital Infrastructure: Parks Master Plan, Animal Shelter Rebuild, Railroad Grade Separation, Fire Training Center
- Voter approved Measure K (new business tax) revenue or investments in three priority areas
- Labor contract terms beginning in FY 2026
- Cubberley Community Center Concept Plan and Gym Repair
- Operating changes: non-profit agreements, fee studies, code/ordinance changes, legislative updates, ADA compliance
- Resources for Council Priority Items: Sustainability and Climate Action Plan (S/CAP), Project Homekey, Advancing Racial Equity, Permanent Parklet Program

PRELIMINARY FY 2024 UTILITY RATE FORECAST

- Utilities Advisory Commission (UAC) to review rates, followed by Finance Committee (March – May), and City Council (June)
- FY 2024 rates will be effective July 1, 2023
- Staff actively evaluating recent storm impacts on rate projections (incld. Hydro Rate Adjuster)

UTILITY	FY 2024	FY 2025-FY 2028
Electric	-1% to 1%	3% to 8% annually
Gas	-14% to 12%	5% to 9% annually
Refuse	3%	0% to 3%
Stormwater	4.9%	Based on annual CPI
Water	7% to 14%	3% to 4% annually
Wastewater	5% to 9%	8% to 9% annually

BUDGET DEVELOPMENT GUIDELINES

CITY OF PALO ALTO

- Guide development and recommended adjustments for annual budget processes
- Provide flexibility to address changing economic situations
- Ensure consistent methodologies to maintain balanced fiscal strategies year over year
- Align with Council Values as recommended by Policy & Services Committee

FY 2024 Budget Development Guidelines

1) Develop a structurally balanced budget that brings ongoing revenues and expenses into alignment. Develop a plan for any structural imbalance to ensure that the City maintains fiscal sustainability over the short, medium, and long-term.

2) Allocate one-time resources for one-time needs rather than committing one-time resources to ongoing services. Examine appropriate uses of revenue surpluses that exceed forecasted levels such as planning for recession needs, restoration needs, and strategic investments.

3) Ensure appropriate resource allocation for City Council's existing priorities.

4) Focus on business process redesign to enhance quality, flexibility, and cost-effectiveness of service delivery (include examining opportunities to streamline, simplify, reorganize, and reallocate resources to avoid duplication of effort).

5) Explore alternative service delivery models (such as partnerships with non-profits or other public/private sector groups) to minimize overlap, maximize cost share, and effectively use resources.

6) Continue to thoroughly analyze non-personnel/equipment/other costs, such as contract services, for cost savings opportunities or realignment with current needs.

7) Explore the expansion of existing revenue sources or the addition of new revenue sources, including the alignment of existing charges for services and the opportunity to establish new fees, when appropriate.

8) Continue to analyze and prioritize resource augmentations, seeking to offset augmentations with reductions elsewhere for net-zero impacts to the budget whenever possible; however, ensuring when resource augmentations are added, it is in alignment with one-time and ongoing forecasted sources.

9) Continue to prioritize proactively funding long term liabilities including but not limited to debt obligations, pension obligations, and capital infrastructure in accordance with City policies as approved by Council.

CONCLUSION

- Revenue trends indicate continued recovery from the pandemic
  - Signs of headwinds present opportunity for a recession
  - Strong financial discipline aids in managing the uncertain outlook
  - Alternative scenarios help plan for variability in assumptions
  - Measure L enables continued services from FY 2023
  - To manage the near- and long-term fiscal sustainability and new investments Measure K and one-time surpluses are needed
  - FY 2023 Mid-Year Budget:
  - Focus on balancing the economic risks with service needs; maintain stability in services over the next few years
  - Invest in priority areas as identified by Council and/or meet service needs

NEXT STEPS

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January City Council

- FY 2024-33 Long Range Financial Forecast (LRFF)
- FY 2022 Annual Comprehensive Financial Report (ACFR)

March - April
UAC & Finance Committee

- Utility Financial Plans and FY 2024 Rate Recommendation (Gas, Electric, Water, Wastewater, Refuse, Storm Drain, Fiber)

June

- FY 2023 3rd Quarter Fiscal Analysis Report
- Adopt FY 2024 Operating & Capital Budgets, utility rates, and municipal fees

January **February** **March** **April** **May** **June**

February City Council

- FY 2023 Mid-Year Budget Review and 2nd Quarter Fiscal Analysis Report

May

- FY 2024 Proposed Operating and Capital Budgets Published
- FY 2024 Proposed Budget Review, including Utility Rates, Municipal Fees, and Five-Year Capital Improvement Plan

Staff Work: *Development and production of FY 2024 Proposed Budgets*

RECOMMENDED ACTION

Staff recommends that the City Council:

1. Direct staff to use this revised Base Case forecast as the starting point for the FY 2024 budget process.

2. Approve the Revised Fiscal Year 2024 – 2033 Long Range Financial Forecast and the FY 2024 Budget Development Guidelines (Attachment B).

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