



CITY COUNCIL REVIEW

FY 2024 – 2033 LONG RANGE FINANCIAL FORECAST & FY 2023 MID-YEAR BUDGET REVIEW

City Council, Items # AA2 and # 8

FEBRUARY 13, 2023

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FY 2024–2033 LRFF & FY 2023 MID-YEAR COMPARISON

	FY 2022 Actual	2023 Adopted	2023 Projected	2024	2025	2026	2027	2028
LRFF Net One-Time Surplus/(Gap)	\$40.8M	(\$9.7M)	(\$10.0M)	(\$0.5M)	(\$5.8M)	(\$5.1M)	(\$1.0M)	\$0.3M
2023 Mid Year Net One-Time Surplus/(Gap)	\$40.8M	(\$9.7M)	(\$21.7M)	(\$3.3M)	(\$8.3M)	(\$6.1M)	(\$2.0M)	(\$0.7M)

Use of Budget Stabilization Reserve	-	\$9.7M	\$21.7M
Estimated BSR Balance	\$72.8M	\$63.8M	\$51.8M
BSR Percentage of Budget	29.4%	25.8%	21.9%

Changes in assumptions from 2024-2033 LRFF to FY 2023 Mid-Year:

- Measure K (business tax); \$9.6M revenue phased-in by FY26 for three priority areas
- FY 2023 Midyear General Fund Actions; \$11.7M net costs (\$2.6M ongoing)
- Annual BSR draw to cover one-time gaps

FY 2023 Mid-Year still does NOT include:

- Unfunded “Known Unknown” items; full list on packet pages 450 to 456
- Use of \$14M Uncertainty to mitigate annual BSR draw
- Additional service augmentations proposed by departments for FY 2024 and beyond

FISCAL YEAR 2023 BUDGET STABILIZATION RESERVE STATUS

Year-End BSR Summary (in millions)

General Fund BSR Balance, June 30, 2022	\$72,835
<i>FY 2023 Approved Adjustments</i>	
FY 2023 Adopted Budget	(\$9,072)
Council Approved Items (Downtown Streets Team, Reappropriations)	(\$267)
<i>Subtotal: BSR Balance, After Approved Adjustments</i>	\$63,496
<i>FY 2023 Mid-Year Adjustments</i>	(\$11,686)
+\$8.6M Reserve/Program Savings	
+\$6M Increased Major Tax Revenue Estimates	
\$14M to Economic Uncertainty Reserve (plan for forecasted deficits)	
\$5M to Pension Trust Fund (per Council Policy)	
\$4M to Infrastructure Reserve (IR) (per Council Policy)	
\$2.2M to Other Technical Adjustments	
\$1.1M to Service Reinvestments	
Projected FY 2023 BSR Balance, June 30, 2023	<u>\$51,810</u>

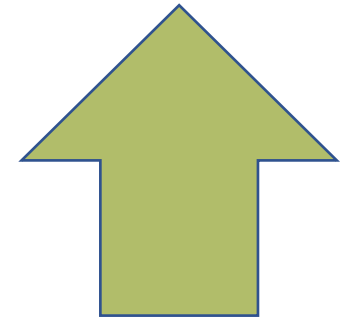
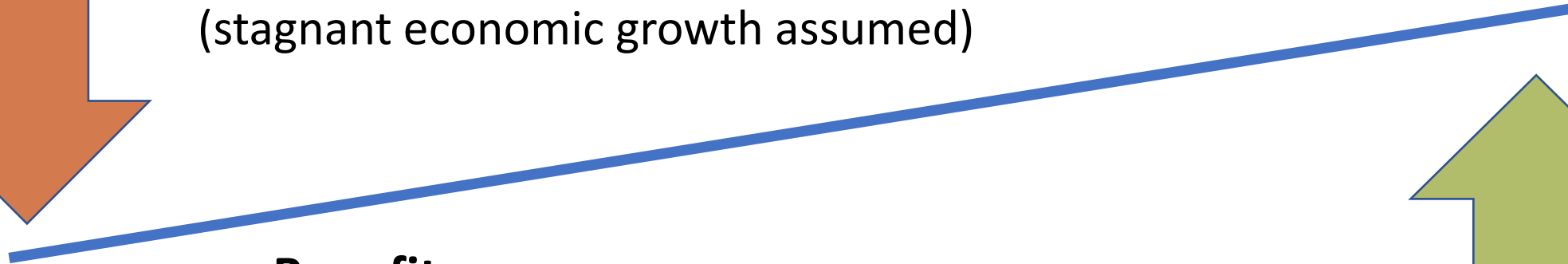
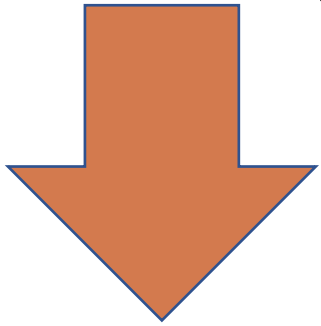
FY 2022 General Fund ended with surplus, as outlined in the FY 2023 Adopted Budget

- Council 18.5% target is \$45.6M
- FY 2023 currently projecting a \$6.2M surplus with a BSR of \$51.8M (20.9%)

BUDGET BALANCING RISKS AND BENEFITS

Risks:

- Unresolved gap in FY26 and FY27 (\$7M)
- New labor agreements end in FY25 (2% growth assumed)
- Recession like prior cycles
(stagnant economic growth assumed)



Benefits:

- Measured revenue estimates
- New revenue from Measure K (business tax, FY 2025 first year)
- Healthy fund balances; e.g. Retiree Benefit Trusts and BSR
- \$14M reserve ensures stability through est. FY24 & FY25 deficits

HIGH LEVEL TAKE AWAYS FROM LRFF

- Revenue trends indicate continued recovery from the pandemic
 - Signs of headwinds present opportunity for a recession
 - Measure L supports continued services from FY23
 - Measure K (not included in forecast) and one-time surplus funds support fiscal stability
- Looking Forward:
 - Continued strong financial discipline aids in managing the uncertain outlook
 - Balance financial risks with service needs; maintain stability over the next few years for the community and organization
 - Invest in priority areas as identified by Council and/or meet service needs

FY 2023 MIDYEAR REINVESTMENTS

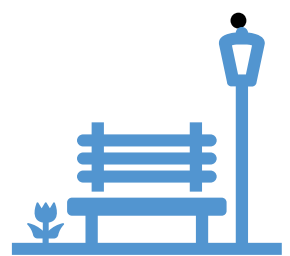
Neighborhood, Community and Library Services (Net Cost \$0.4M and 3.68 FTE)

- Community Services

- 1.00 Division Manager of Parks, Open Space & Golf
- Junior Museum and Zoo (JMZ) organizational study
- Weekend trash pick-up, Team Sheep (compensation for pool closure), overnight warming shelter, adult ceramics classes, and community grant to teachers

- Library

- Staffing reorganization (net 2.73 FTE) to support additional programs and services; reflects recommendations in organizational assessment
- Library collections



FY 2023 MIDYEAR REINVESTMENTS (CONT'D.)

Public Safety (Net Cost \$0.4M and 1.00 FTE)

- Fire
 - Firefighter Academy and Personal Protective Equipment for 16.00 new hires; \$1.5M of overtime costs offset with vacancy savings
- Police
 - 1.00 Court Liaison Officer in Records Division



FY 2023 MIDYEAR REINVESTMENTS (CONT'D.)

Planning and Transportation Services (Net Cost \$0.2M and 2.00 FTE)



- Office of Transportation
 - Management Analyst reclassification to Senior Management Analyst
- Planning and Development Services
 - 2.00 Senior Planners in Long-Range Planning
 - Administrative Associate II reclassification to Administrative Associate III
 - Funding for senior level building inspection and plan review staffing



FY 2023 MIDYEAR REINVESTMENTS (CONT'D.)

Internal Services/Strategic Support (ALL Funds: Net Cost \$0.4M and 1.00 FTE)

- Attorney's Office
 - Outside counsel for Roth Building rehabilitation
- Clerk's Office
 - Staff training for technical and leadership planning
- Information Technology
 - 1.00 Senior Technologist for Citywide technology project management
 - Citywide cybersecurity initiatives



FY 2023 MIDYEAR GENERAL FUND TECHNICAL ADJUSTMENTS

Technical Adjustments

Net Revenue/(Cost)

Major Sales Tax Revenue

\$6,000

Consolidate Reserves and Program Savings

2023 Service Reinvestments, Utility Transfer Litigation, Transition Costs,
Administrative Support, COVID-19, Rent Forgiveness, Advancing Racial Equity

\$8,600

Operating Adjustments

Legal Services, Public Safety Revenue, Golf Course Revenue, Flood Response,
Equity Transfer, Electric and Gas Commodity Purchase

(\$2,200)

City Council Approved Actions

FY22 Excess BSR to Pension Trust (\$5M) and Capital Improvement Fund (\$4M)

(\$9,000)

Budget Uncertainty Reserve

Increase from \$5M to \$14M to offset losses in FY 2024 and FY 2025

(\$14,000)

Total Technical Adjustments (Net Cost, no FTE)

\$(10,600)

NEXT STEPS

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:

FY 2024 – 2023 Long Range Financial Forecast (Item # AA2)

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).

FY 2023 Midyear Budget (Item # 8)

1. Amendments to the Fiscal Year 2023 Budget Appropriation for various funds and various capital projects, as identified in Attachment A and Attachment A, Exhibit 1 and 2 (requires a supermajority, 2/3 approval); and
2. Amend the FY 2023 Table of Organization in Attachment B consistent with the budget amendments in Attachment A, adding 5.25 full time and 2.43 part time FTE positions.



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