



City Council Staff Report

From: City Manager

Report Type: ACTION ITEMS

Lead Department: Administrative Services

Meeting Date: June 19, 2023

Report #:2303-1162

TITLE

PUBLIC HEARING: Adoption of the Budget Ordinance for Fiscal Year 2024, Including the Operating and Capital Budgets, Table of Organization, and Municipal Fee Schedule; Acceptance of Updates to the Capital Improvement Plan, and Acceptance of Updates to the Salary Schedule for the Management and Professionals Group; CEQA Status – Not a Project

RECOMMENDATION

The Finance Committee and Staff recommends that the City Council:

1. Adopt the Fiscal Year 2024 Budget Ordinance (Attachment A), which includes:
 - a. City Manager's Fiscal Year 2024 Proposed Operating and Capital Budgets, previously distributed at the May 1 City Council Meeting (Attachment A, Exhibit 1)
 - b. Amendments to the City Manager's Fiscal Year 2024 Proposed Operating Budget (Attachment A, Exhibit 2)
 - c. Amendments to the City Manager's Fiscal Year 2024 Proposed Capital Budget (Attachment A, Exhibit 3)
 - d. Fiscal Year 2024 City Table of Organization (Attachment A, Exhibit 4); and
 - e. Fiscal Year 2024 Municipal Fee Changes (Attachment A, Exhibit 5)
2. Accept the Fiscal Year 2024 – 2028 Capital Improvement Plan
3. Adopt the amended salary schedule for the Management, Professionals and Confidential Group (Attachment B)
4. Potentially provide direction to staff on Finance Committee requested referrals for additional staff work.

EXECUTIVE SUMMARY

This memorandum provides all necessary documents and transactions for the City Council adoption of the Fiscal Year (FY) 2024 Operating Budget, Capital Budget, and Municipal Fee schedule effective July 1, 2024, unless otherwise regulated. This action reflects two months of public dialogue by the Council and Finance Committee and provides a summary of all changes to the City Manager's FY 2024 Proposed Budget received by the Council on May 1, 2023. The necessary supporting documents for formal adoption by the City Council include the FY 2024 Budget Ordinance and the Table of Organization, and salary schedule adjustments.

On May 30th, the Finance Committee (CMR 2304-1325¹) unanimously recommended the full Council adopt the FY 2024 budget inclusive of the 'Final Recommended Changes' section of this memorandum, and detailed by fund and department in Attachment A Exhibits 2 through 5. An updated salary schedule for the Management, Professionals and Confidential Group is included in Attachment B to align with the recommendations in attachment A.

The FY 2024 Adopted Budget will be \$1.0 billion including the FY 2024 capital budget of \$355.3 million and \$1.2 billion over the 2024-2028 five-year Capital Improvement Plan (CIP). This is an increase of approximately \$40.1 million over the proposed budget, mainly due to reappropriation of funding for continuing capital projects as well as funding added for Council Priorities as part of the budget review by the Finance Committee and Council. This budget recommends citywide staffing levels to increase by 45.25 full-time equivalent positions (FTE) from the FY 2023 adopted level for a total authorized staffing of 1,063.10 FTE in FY 2024. This is a net increase of 10.50 FTE from the proposed budget to address Council Priorities and associated administrative support.

FY 2024 Review Process: Segmentation of Certain Stanford-related Matters

The California Political Reform Act (PRA) requires City officials to recuse themselves from matters where it is foreseeable that the City's decisions may have a material impact on a person or entity that is a "financial interest" to that official, and allows the City to segment multi-part items, such as the City's budget, so that the parts of the item requiring a recusal are separated from the remaining parts of the item. This year, Council Member Veenker, who provides legal services to Stanford University on life sciences patent matters, will be recused from certain Stanford-related elements of the budget. Those elements are listed in Attachment C. Council must consider and resolve the Attachment C items first. Once these items have been resolved, Council Member Veenker will rejoin and the Council will review and approve the remaining sections of the FY 2024 Operating and Capital Budgets and the Municipal Fee Schedule.

Not included in this staff report is the approval of the FY 2024 Appropriations (GANN) Limit that is required under Article XIII B to the California State Constitution, as amended by proposition 98 in 1988 and Proposition 111 in 1990. The GANN Limit calculation is transmitted separately for City Council consideration on June 19, 2023 (CMR 2304-1355). The appropriation calculation can be found on the City's website² under the FY 2024 Budget Process section.

Links to the meetings with the Finance Committee and the City Council, as well as the memoranda, presentations, and additional information provided for discuss can be found on the City's website under the FY 2024 Budget Process section.

BACKGROUND

Per the Municipal Code, the City Manager is charged with proposing a budget that provides a clear and complete financial plan for all City activities proposed for the coming budget cycle, or fiscal year. The FY 2024 Proposed Operating and Capital Budgets were released April 28, 2023 and transmitted to the City Council on May 1, 2023. These documents represent the planned expenditures and revenues for FY 2024 for the various fund types that constitute the City's Budget: General Fund, Capital Fund, Enterprise

¹ 5/30/2023 Finance Committee, Agenda Item #1,

<https://portal.laserfiche.com/Portal/DocView.aspx?id=66127&repo=r-704298fc>

² City Budget, <https://www.cityofpaloalto.org/Departments/Administrative-Services/City-Budget>

Funds, Internal Service Funds, Special Revenue Funds, and Debt Service Funds. The budget documents contain an overview section with descriptions of each of these fund types and detailed information of the revenues and expenses for each fund as well as for each individual department.

The FY 2024 Proposed Operating and Capital Budgets were presented to the City Council in a study session on May 1, 2023. This study session provided an overview of the budget for review and discussion, including Citywide budget strategies, assumptions used in budget development, and a summary of service investments. As part of this discussion, the City Council provided guidance to the Finance Committee for their review of the budget documents during hearings on May 5, 9, and 30. The Finance Committee review of operating and capital budgets is structured around public hearings conducted prior to the City Council adoption to complete a detailed review of the budget documents and to incorporate opportunities for community input into the decision-making process. These meeting proceedings are organized by service area and include department presentations to highlight areas of emphasis for their respective department and fund(s). Department by department, the Finance Committee reviews individual budget sections for tentative approval of the budget, potential amendments, and requests for additional information to aid in their review. At the conclusion of these hearings (Budget Wrap-up), the Finance Committee is ultimately tasked to provide recommendations to amend the Proposed Operating and Capital Budgets and Municipal Fee Schedule for City Council consideration. These amendments, and additional information recommended for City Council review, are included in this adoption memorandum.

In addition to the regular schedule, an additional study session on May 22 was held to check-in with the City Council for their feedback before the final budget wrap meeting on May 30. At the study session, the City Council reviewed the status of budget deliberations, including Finance Committee tentative recommendations to add 20+ City Council priority projects that remained unfunded in the FY 2024 Proposed Operating Budget. These projects were outlined in the FY 2024 Proposed Budget Transmittal Letter to advance City Council priorities identified for 2023: Economic Recovery & Transition, Climate Change & Natural Environment, Housing for Social & Economic Balance, and Community Health & Safety. A complete list of City Council priority projects, including Finance Committee recommendation status, is included in the May 22 staff report (CMR 2305-1453, Attachment A³). Additionally, the City Council reviewed Finance Committee recommendations to add revenue sources to offset the additional costs, including proactively recognizing remaining estimated FY 2023 surplus (tax revenues, vacancy savings, and unspent Homekey operating funds) and unallocated FY 2024 Measure K (business tax) funds for housing and homeless services. These surplus funds would therefore no longer be available for transfer to the Infrastructure Reserve or the proactive pension contributions.

Overall, Finance Committee recommendations tentatively added \$9.0 million in revenues and \$7.8 million in expenses, exceeding the \$2.25 million City Council Priority Reserve established in the proposed budget for this purpose. The City Council, during its review on May 22nd provided the feedback that the Finance Committee reduce tentative adjustments by \$1.0 million. The changes recommended by the Finance Committee to address these savings are provided in this document and include reducing or deferring several City Council priority projects based on factors such as staff capacity, expected timelines to implement, and urgency of need. In addition, several recommendations are included to add administrative staff to support the increased level of services recommended in the FY 2024 Budget. All

³ 5/22/2023 City Council, Agenda Item #AA1,
<https://portal.laserfiche.com/Portal/DocView.aspx?id=66060&repo=r-704298fc>

projects recommended for deferral will be considered for investment as part of the FY 2024 Midyear Budget Review process.

A comprehensive list of meeting materials issued during Finance Committee budget hearings is available on the City website:

<https://www.cityofpaloalto.org/Departments/Administrative-Services/City-Budget>.

DISCUSSION

The report is organized by the following sections:

- *Background and Discussion:* Summary of FY 2024 budget process and overall balancing strategies organized by fund type, including funding of Council Priorities and Objectives.
- *FY 2024 Final Recommended Changes:* A summary of final direction given by the Finance Committee on May 30 and additional recommended technical and staff adjustments organized by fund type.
- *Table of Organization:* A summary of additional changes to the Table of Organization because of adjustments made to the proposed budget that was released on May 1, 2023.
- *Municipal Fee Schedule:* A summary of the changes in the Review and Recommendations to Council on the FY 2023 Municipal Fee Schedule Amendments for Incorporation in the FY 2024 Proposed Budget (CMR 2304-1386⁴).
- *FY 2024 Utility Rate Changes:* A brief overview of the rate changes reviewed by the Utilities Advisory Commission and Finance Committee and the final decision the City Council will make on June 19, 2023 (CMR 2302-0939)⁵; each of these rate changes are included in the FY 2024 budget assumptions.
- *Review of Referral Items from the Finance Committee:* This report details a list of areas that the Finance Committee recommends for additional staff work because of discussions from the FY 2024 budget hearings. These are areas identified for deeper analysis or alternative funding strategies to be explored over the course of the next fiscal year.
- *Attachments:* Attached to this report are several documents as outlined and referenced throughout the recommendation language and the report. In addition, links to all the materials presented throughout the budget process to the City Council such as staff reports, At Places Memorandums, presentations made during the budget hearings, and transcripts from City Council Budget Hearings are included.

The FY 2024 Proposed Budget outlined a two-year budget balancing strategy, bringing financial planning through June 30, 2025. This reflects a pivot from the COVID-19 pandemic recovery period to a steadier

⁴ 5/9/2023 Finance Committee, Agenda Item #3, Municipal Fee Schedule Amendments, <https://www.cityofpaloalto.org/files/assets/public/administrative-services/city-budgets/fy-2024-city-budget/proposed/municipal-fee-schedule-amendments-fy24.pdf>

⁵ 6/19/2023 City Council, Agenda Item #28, <https://cityofpaloalto.primegov.com/Portal/Meeting?meetingTemplateId=1170>

state or “new/next normal” and recommends using one-time surplus to bridge near-term shortfalls in FY 2024 and FY 2025 while investing in priority services, infrastructure, and saving for long-term liabilities. In addition, the strategy recommends a measured approach of setting aside a higher BSR reserve and limiting ongoing costs to mitigate the potential for greater future deficits.

The actions recommended in the FY 2024 Proposed Budget, along with the recommended changes from Staff, Finance Committee, and Council through the budget review process will provide enhancements to services across the City to address the 72 objectives identified by the Council to address the priorities for FY 2023. Although City services are not fully returned to pre-pandemic levels in all aspects, rather than simply bouncing back to pre-pandemic services, recommendations in this budget reflect adaptations of service delivery to address changing conditions and community priorities.

Several areas of building and strengthening services include generational investments such as supporting home electrification, transportation safety at railroad grade crossings, and fiber to the premises are ongoing. The voter approved ballot measures solidified funding for critical public safety needs such as 9-1-1 dispatch, police services, fire and emergency medical and hazardous materials response, and community and library services.

One area of support that has been a concern over the past couple years, has been recruitment and retention of staff to provide the programs and services approved by the Council. The FY 2024 Budget supports the City’s commitment to be an Employer of Choice and to enable City departments to effectively retain, recruit, and hire talent. The City has already experienced the reduction in turnover in FY 2023 due to new labor agreements offering the workforce competitive total compensation and benefits. Another key contributor to a high retention rate is the focus on fostering a positive work environment, providing employees resources for training, professional development and growth opportunities. The FY 2024 Budget increases staffing in the Human Resources Department as a strategy to alleviate the recruitment demands, expedite hiring efforts, and focus on other areas of recruitment such as building programs and systems to build and support a pipeline for future applicants.

Throughout the budget review process, addressing the Council priorities and objectives has been a key factor in determining funding appropriation for FY 2024 and ongoing. Attachment D shows all 72 of the objectives identified by the Council and shows which of these objectives are recommended to be assigned financial resources as part of the FY 2024 Budget. Table 1 below, also details the changes recommended by Staff, Finance Committee, and the Council. It should be noted that pursuing the expansive range of services reflected in these priorities will test the City’s institutional capacity.

Overall, the enhancements reflected in this FY 2024 Budget will build and strengthen services throughout the City, support continued workforce recruitment and retention efforts, and advance City Council priority initiatives. While there are continued unknowns and uncertainties ahead, the FY 2024 Budget offers the Council, community, and staff reason for optimism that 2024 will continue progress to address community priorities and continue robust City services that the community expects through balanced financial strategies.

FY 2024 FINAL RECOMMENDED CHANGES

This section reviews amendments to the FY 2024 Proposed Operating and Capital Budgets presented to the City Council on May 1, including final adjustments recommended by the Finance Committee and technical adjustments recommended by staff. A comprehensive list of these adjustments is included in

Attachment A, Exhibit 2 for changes to the FY 2024 Operating Budget, and Attachment A, Exhibit 3 for changes to the FY 2024 Capital Budget. Changes to the Table of Organization are discussed later in this memorandum, and an updated Table of Organization is included in Attachment A Exhibit 4.

OPERATING BUDGET – General Fund

The City's General Fund is recommended to have \$260.6 million in revenues and \$279.1 million in expenses. To balance the budget for FY 2024, one-time funding from the Council appropriated Uncertainty Reserve, the Development Services Reserve, and the Budget Stabilization Reserve will be used to fund service priorities. A total of \$4.2 million in expenditures has been added to FY 2024 proposed funding levels to support Council priority programs that are listed below in Table 1. Additionally, this change includes a technical correction for the transfer to the Capital Improvement Fund, staffing resources for a Junior Museum and Zoo (JMZ) Access Coordinator approved on May 15, 2023 (CMR 2303-1200⁶), and ongoing funding for a contract for Automatic Fire Extinguisher Systems Inspection, Testing, and Repair Services approved on May 15, 2023 (CMR 2303-1078⁷). Further information about these items can be found in the Additional Staff Recommended Adjustments section of this memorandum after Table 1

Overall, this reflects a \$31.7 million, or 12.8 percent, increase compared to the FY 2023 Adopted Budget. This includes an increase from the FY 2024 Proposed Budget of 10.50 FTE full-time staff (12.90 FTE in the General Fund and –2.40 FTE in Capital Funds) and 1.71 FTE part-time staff (3.79 FTE in the General Fund), resulting in an overall workforce of 1,063.10 full-time positions (586.06 FTE in the General Fund) and 99.62 FTE part-time positions (75.77 FTE in the General Fund).

Uncertainty Reserve

As part of the FY 2024 Proposed Budget, Staff recommended using \$3.9 million of the \$14 million Uncertainty Reserve, leaving \$10.1 million in the Uncertainty Reserve for anticipated needs in FY 2025. The \$10.1 million remaining in the Uncertainty Reserve is recommended to fund the projected deficit in FY 2025 (\$7.3 million), maintain the BSR around 20% of the FY 2025 General Fund Expense budget (\$1.7 million), and potentially fund items that were deferred from the FY 2024 budget to the FY 2024 Mid-Year Review (\$1.1 million)

Budget Stabilization Reserve

This FY 2024 Adopted Budget uses the Budget Stabilization Reserve to fund the \$3.4 million deficit in FY 2024 resulting from the recommended adjustments outlined in this memorandum.

The FY 2024 Adopted Budget assumes a FY 2023 Year-End BSR of \$57.7 million, this is above the \$52.9 million assumed in the FY 2024 Proposed Budget. The Finance Committee recommends additional savings be recognized in FY 2023 in order to fund service priorities in FY 2024. These increases include \$2.5 million in major tax revenue, \$1.5 million in vacancy savings, and \$1.0 million in Homekey Operations savings.

⁶ 5/15/2023 City Council, Agenda Item #9, <https://portal.laserfiche.com/Portal/DocView.aspx?id=65989&repo=r-704298fc>

⁷ 5/15/2023 City Council, Agenda Item #4, <https://portal.laserfiche.com/Portal/DocView.aspx?id=65984&repo=r-704298fc>

The net impact from FY 2024 recommended actions reduces the BSR level by \$3.4 million, resulting in a projected FY 2024 year-end balance of \$54.3 million. At proposed expense levels of \$269.0 million, after adjusting for the \$10.1 million remaining in the Uncertainty Reserve, this BSR level is at 20.2%, at the top of the Council’s recommended range of 15-20% of General Fund Expenditures. As noted in the proposed budget, a BSR at the higher end of the target range is recommended as one tool to support the continued economic uncertainty. (Exclusion of the Uncertainty Reserve for the two-year funding strategy and has been done to avoid unintentional inflation of the BSR.)

Development Services Reserve Funding (DSRF)

The DSRF is intended to bridge unforeseen budget shortfalls and fund one-time expenses that build long term capacity associated with the 100% cost recovery operations of the Development Center. Additionally, this fund includes a balance for prior year works in progress in which fees have been paid upfront for services that are expected to be completed in the subsequent fiscal year(s). The DSRF is used to offset eligible expenses in this report for permitting and inspection work. This combined with cumulative actions in the FY 2024 budget will bring this reserve’s remaining balance to approximately \$0.8 million.

Finance Committee Recommended Adjustments

Throughout budget hearings in May, the Finance Committee engaged in several meetings to review proposed budget documents and recommend tentative adjustments. Table 1 provides an overview of these adjustments at various touchpoints in the budget process, including:

- 1) tentative adjustments presented to the City Council at the May 22 study session;
- 2) changes identified on May 30 (budget wrap-up) to address City Council’s recommendation to reduce adjustments by \$1.0 million and defer to the FY 2024 Mid-Year Budget Review; and
- 3) final adjustments for budget adoption, as adjusted for changes at budget wrap-up.

TABLE 1: FY 2024 General Fund Recommended Adjustments

Dept	Description	Adjustments: 5/22 Study Session	Changes: 5/30 Budget Wrap	Adjustments: 6/19 Adopted
NON	Beginning Balance – City Council Priorities Reserve	\$2,250,000	\$-	\$2,250,000
NON	Measure K Housing and Homeless Services	750,000	(200,000)	550,000
NON	FY23 Surplus Major Tax Revenues	2,500,000	-	2,500,000
NON	FY23 Vacancy Savings (\$1-2M)	1,500,000	-	1,500,000
NON	FY23 & FY24 Homekey Operations Savings	2,000,000	-	2,000,000
	Subtotal Sources (Revenue)	\$9,000,000	\$(200,000)	\$8,800,000
ECONOMIC RECOVERY & TRANSITION (ERT)				
CMO	T2: Economic Development Assistant	(145,000)	-	(145,000)
OOT	T2: Car Free Streets	(250,000)	-	(250,000)
	Subtotal ERT	(395,000)	-	(395,000)
CLIMATE CHANGE & THE NATURAL ENVIRONMENT (CC&NE)				
OOT	T2: Transportation Modes and Staffing	(185,000)	-	(185,000)
PDS	T2: Bird Safe Glass/Wildlife Protection	(75,000)	-	(75,000)

Dept	Description	Adjustments: 5/22 Study Session	Changes: 5/30 Budget Wrap	Adjustments: 6/19 Adopted
PWD	T2: Full Electric Vehicle Fleet Replacement (50%)	(400,000)	400,000	-
PWD UTL	T2: Sustainability & Climate Action Plan (S/CAP) Studies (inc. Electric Vehicle and Reliability/Resiliency Strategic Plans)	(600,000)	-	(600,000)
PWD UTL	T2: Sea Level Rise and Adaptation Plan	(200,000)	200,000	-
	<i>Subtotal CC&NE</i>	<i>(1,460,000)</i>	<i>600,000</i>	<i>(860,000)</i>
HOUSING FOR SOCIAL & ECONOMIC BALANCE (HS&EB)				
CMO	T2: LifeMoves Construction Homekey Facilities (PE- 24005) ⁸	(2,500,000)	-	(2,500,000)
CMO	T2: Unhoused Residence Services	(100,000)	100,000	-
PDS	T2: Regulate Short-term Rentals	(100,000)	100,000	-
PDS	T2: San Antonio Coordinated Area Plan (CAP)	(50,000)	-	(50,000)
PDS	T2: Downtown Housing Plan	-	(500,000)	(500,000)
	<i>Subtotal HS&EB</i>	<i>(2,750,000)</i>	<i>(300,000)</i>	<i>(3,050,000)</i>
COMMUNITY HEALTH & SAFETY (CH&S)				
CSD	T2: Youth Mental Health Programs	(200,000)	200,000	-
CSD	T2: Eucalyptus Tree Removal	(400,000)	400,000	-
CSD	T2: Therapeutics Recreation Program	(90,000)	-	(90,000)
LIB	T2: Library Hours	(145,000)	-	(145,000)
PDS	T2: Seismic Upgrade (additional funding)	(75,000)	-	(75,000)
POL	T2: Public Safety Dispatcher Staffing	(267,000)	-	(267,000)
PWD	T2: Airport Noise Reduction	(100,000)	25,000	(75,000)
	<i>Subtotal CH&S</i>	<i>(1,277,000)</i>	<i>625,000</i>	<i>(652,000)</i>
ENHANCE SERVICES AND NON-TIER 2				
CSD	T2: Art Center Visitor Services and Exhibit Installation	(113,000)	(11,000)	(124,000)
CSD	Cubberley Facility Maintenance and Upkeep	(900,000)	370,000	(530,000)
CSD	T2: HSRAP (reflects HRC max requested funding, ongoing costs contingent on potential referral)	(150,000)	-	(150,000)
CSD	Funding for United Nations Association Film Festival (UNAFF)	-	(25,000)	(25,000)
FIR	T2: Fire Utility Task Vehicle	(67,000)	-	(67,000)

⁸ Additional details on use of these project funds to reinstate project elements previously removed to achieve cost reduction goals, can be found in staff report 2304-1267, 6/12/2023 City Council, Agenda Item #14, <https://portal.laserfiche.com/Portal/DocView.aspx?id=66154&repo=r-704298fc&searchid=d0d79092-dbd5-4149-96a6-4b95bcb844b5>

Dept	Description	Adjustments: 5/22 Study Session	Changes: 5/30 Budget Wrap	Adjustments: 6/19 Adopted
PDS	T2: Permitting and Inspections Operations	(115,000)	-	(115,000)
PDS	T2: Zoning Code Update (3 years at \$1.5M)	(500,000)	500,000	-
NON	Neighbors Abroad	(20,000)	-	(20,000)
OOT	Palo Alto Transportation Management Authority (PATMA) Citywide Expansion	(25,000)	-	(25,000)
ASD	Purchasing Support (1.00 FTE Contract Administrator)	-	(200,000)	(200,000)
ATT	Legal Support (1.00 FTE Assistant City Attorney or outside counsel resources)	-	(290,000)	(290,000)
HRD	Recruitment Support (1.00 Sr. HR Admin & Two 0.48 FTE Management Specialists)	-	(190,000)	(190,000)
NON	Delayed Hiring for T2 Proposals (4 months)	-	185,000	185,000
	<i>Subtotal Enhance Services & Non-Tier 2</i>	<i>(1,890,000)</i>	<i>339,000</i>	<i>(1,551,000)</i>
	Subtotal Uses (Expense)	(\$7,772,000)	\$1,264,000	(\$6,508,000)
	Sources – Uses (Deficit)/Surplus	\$1,228,000	\$1,064,000*	\$2,292,000

* This reflects the feedback from the Council on May 22nd to reduce the budget adjustments by \$1M with the consideration of these deferrals as part of the FY 2024 Mid-Year Budget review.

A summary of Finance Committee changes identified at budget wrap-up, including the \$1.0 million net reduction recommended by the City Council, is as follows:

- Align Measure K revenue with deferred projects: Unhoused Resident Services (\$100,000) and Short-term Rentals Regulation (\$100,000)
- Reallocate \$500,000 from Zoning Code Updates to the Downtown Housing Plan
- Recommend alternative Community Services proposal for visitor and art installation staffing at the Art Center provided at the May 22 meeting (\$11,000); previous recommendation added funding for one but not both services
- Reduce funding for airplane noise by 25% (\$25,000)
- Reallocate facilities maintenance costs from the Cubberley Infrastructure Fund to the General Fund, reducing the initial reallocation from \$900,000 to \$530,000. Staff recommends further revisions to increase the amount shifted to \$623,000, as discussed below
- Defer the following projects: Full Electric Fleet Vehicle Replacement (\$400,000), Sea Level Rise and Adaptation (\$200,000), Youth Mental Health Programs (\$200,000), and Eucalyptus Tree Removal (\$400,000)
- Add funding for the United Nations Association Film Festival (UNAFF) (\$25,000)
- Add staffing and resources for administrative support of the additional projects and programs: purchasing (\$200,000), legal (\$290,000), and recruiting (\$190,000)
- Recognize savings for expected delays to hire Tier 2 staff (\$185,000)

All deferred projects will be considered for investment as part of the FY 2024 Midyear Budget process.

Additional Recommended Adjustments

In addition to Finance Committee recommended adjustments, staff has included recommendations to adjust several items requiring technical corrections to align the budget with anticipated activity levels and changes that occurred following the release of the FY 2024 budget.

Junior Museum and Zoo (JMZ) Access Coordinator Staffing

Consistent with CMR 2303-1200⁹, which was approved by Council on May 15, 2023, this action adds one Staff Specialist (0.48 FTE) position in the JMZ. The Access Coordinator will identify surrounding communities that have cultural or economic barriers to utilizing the services of the Museum. This position will forge new, and strengthen existing, relationships with the purpose of developing strategies to increase the number of people that utilize the museum's services. Funding for the position will be provided to the City by the Friends of the JMZ for two years.

Cubberley Facility Maintenance and Upkeep

The Cubberley Fund has approximately \$900,000 in operating and maintenance costs in FY 2024, including salary and benefits for custodial and maintenance staff, maintenance contracts, landscaping services, and supplies and materials. In initial hearings, the Finance Committee tentatively recommended to reallocate the full \$900,000 from the Cubberley Infrastructure Fund to the General Fund. As discussed in budget hearings, the reallocation intends to preserve funding in the Cubberley Property Infrastructure Fund for capital and facility upkeep-related expenditures at the Cubberley Property and shift ongoing operating costs for custodial, landscaping, and routine maintenance to the General Fund.

At the May 30 (budget wrap-up) meeting, and based on revised costing analysis, staff recommended reducing the initial Finance Committee action by \$370,000, from \$900,000 to \$530,000. With this change, costs for custodial staffing and landscaping services would be shifted from the Cubberley Fund to the General Fund. As part of follow-up for budget adoption, the Finance Committee recommended further adjustments to shift more costs to the General Fund. Staff recommends including shifting costs for routine maintenance contracts, increasing the total shift from the Cubberley Fund to the General Fund by \$93,000, from \$530,000 to \$623,000. Additional information relating to the Cubberley Fund can be found in the at-places memo issued on May 9 and study session on May 22.

Transfer to Capital Improvement Fund

A technical adjustment is needed to correctly categorize funding transferred to the Capital Improvement Fund for Transient Occupancy Tax (TOT) Revenue designated for capital improvements. As part of the FY 2024 Proposed Budget, a transfer to the Capital Improvement Fund of \$0.5 million was incorrectly categorized as a transfer to the General Fund. This action corrects this and increases the transfer to the Capital Improvement Fund by \$0.5 million from \$11.9 million to \$12.4 million. The transfer was categorized correctly in the Capital Improvement Fund, so this only changes expenses in the General Fund.

⁹ 5/15/2023 City Council, <https://portal.laserfiche.com/Portal/DocView.aspx?id=65989&repo=r-704298fc>

Automatic Fire Extinguisher Systems Inspection, Testing, and Repair Services

Consistent with CMR 2303-1078¹⁰, which was approved by Council on May 15, 2023, this action adds ongoing annual funding in the Public Works Department in the amount of \$95,825 annually for a three-year General Services contract with Johnson Controls Fire Protection to provide automatic fire extinguishing systems inspection, testing, and repair services.

Business Tax Support and Administration

Consistent with CMR 2304-1337, presented to Council on June 19, 2023, this net-neutral action recognizes and appropriates funding for Business Tax Support and Administration. Funding will be used for both contract services for business tax consulting as well as staff resources to administer the business tax program. In FY 2024 overstrength positions will be used to support the program and determine the appropriate position classifications needed. Staffing adjustments to the Table of Organization will be formalized in a subsequent budget process. Measure K revenue will be recognized and appropriated to fund administration of collection and reporting of the business tax revenue.

Homeless Outreach Funding

Consistent with CMR 2305-1588, presented to Council on June 19, 2023, this action increases funding for homeless outreach services to unhoused individuals for a two-year period. Services will include regular street outreach to locate and engage with unhoused individuals where they are in the Palo Alto area, to build trust, increase awareness of services and resources, improve neighbor relations, act as a resource to local businesses, and, when feasible, connect them with support services including shelter, housing, government benefits, mental health, substance abuse treatment, or employment training among other needs. Additionally, a small portion of the outreach team's time will be spent on Stanford University land as part of a revenue agreement between Stanford and the City. Revenue from the Permanent Local Housing Allocation (PLHA) and Stanford University will offset the costs associated with these services.

OPERATING BUDGET – Enterprise Funds

Airport Fund – Reclassification of Facilities Technician to Airport Specialist II

This action reclassifies 2.50 FTE Facilities Technician to 2.50 FTE Airport Specialist II. It is recommended by staff to align the classification title with the most recent updates in Service Employees International Union (SEIU) agreement (CMR 2301-0719¹¹). There are no cost implications to this adjustment.

Electric Fund – Northern California Power Agency (NCPA) Revenue Adjustment

This technical action removes revenue estimates of \$24 million in the Electric Fund from the Northern California Power Agency (NCPA) in FY 2024, as it relates to the litigation of the Central Valley Project Improvement Act (CVPIA) operated by the U.S. Bureau of Reclamation. Staff expects to receive this payment prior to FY 2023 year-end; therefore, the revenue estimate in FY 2024 is no longer needed.

¹⁰ 5/15/2023 City Council, Agenda Item #4 <https://portal.laserfiche.com/Portal/DocView.aspx?id=65984&repo=r-704298fc>

¹¹ 2/6/2023 City Council, Agenda Item #5, <https://portal.laserfiche.com/Portal/DocView.aspx?id=61648&repo=r-704298fc>

Electric, Gas, and Water Funds – Sustainability and Climate Action Plan (S/CAP) Staffing Plan Alignment

Staff recommends a realignment of staffing to oversee the S/CAP staffing resources to better support this Council priority and the upcoming three-year workplan. Recently, the Council approved the addition of two staff positions, 1.0 Senior Engineer and 1.0 Principal Resource Planner in the Public Works and Utility Departments. Staff recommends the elimination of these positions offset by the addition of 1.0 Assistant Director Sustainability and Climate Action position and 1.0 Engineer position in the Public Works Department. This will consolidate and unify resources between these departments. There is no impact to the General Fund as this staffing is funded by various utility funds and the add/delete of these positions is cost neutral in FY 2024. This action includes a new job classification for the Assistant Director Sustainability and Climate Action position. A revised salary schedule for the Management, Professional and Confidential group is included in this report to recognize this change (Attachment B).

OPERATING BUDGET – Other Funds

Community Development Block Grant (CDBG) Fund – FY 2024 Annual Action Plan

Consistent with City Council approval on May 1, 2023 (CMR 2302-0980¹²), staff has included corresponding adjustments in the FY 2024 budget to include the Community Development Block Grant (CDBG) program funding allocation for the FY 2024 Annual Action Plan. These actions include CDBG Fund recognition of revenue comprised of Housing and Urban Development (HUD) funding and program income and appropriation of commensurate expenses to be allocated to non-profit organizations per recommendations by the Human Relations Commission (HRC). Further information about this program can be found in CMR 2302-0980.

Gas Tax Fund – Gas Tax Revenue Reduction

This action is a technical update to decrease Gas Tax revenue estimates for Palo Alto based on the California Department of Finance's May 2023 updates for estimated Highway Users Tax Account (HUTA) and Road Maintenance and Rehabilitation Account (RMRA) taxes for FY 2024. This also decreases the transfer to the Streets Maintenance capital project (PE-86070), which is discussed below in the Capital Budget section of this report.

General Benefits Fund – Healthcare and Pension Pass-through Expenses

This net neutral action increases the estimate for charges to other funds by \$1.4 million due to staffing increases in the FY 2024 Proposed Budget and as recommended by Finance Committee and City Council as part of the FY 2024 Adopted Budget. During budget hearings, the Finance Committee and City Council recommended significant adjustments to the FY 2024 Proposed Budget to restore staffing in service areas such as Community, Library, Public Safety, and Planning, and the administrative staff necessary to support these functions. The General Benefits Fund acts as a pass-through for pension and healthcare costs; therefore, staff recommends this technical action to increase expenditures correspondingly, keeping the fund in alignment with staffing levels.

¹² 5/1/2023 City Council, Agenda Item #10, <https://portal.laserfiche.com/Portal/DocView.aspx?id=65933&repo=r-704298fc>

CAPITAL BUDGET

The City's Capital Improvement Plan reflects a \$355.3 million FY 2024 budget, and a \$1.2 billion plan over the five-year CIP (FY 2024-FY 2028). Of this, the Capital Improvement Fund FY 2024 budget reflects expected expense of \$133.1 million and \$440.6 million over the five-year CIP.

Capital Reappropriations

The Municipal Code requires City Council authorization to reappropriate funds for capital projects from one fiscal year to the next. The FY 2024 budget process continues this procedure, and the FY 2024 Proposed Capital Budget included approximately \$127.8 million in reappropriated funds for project expenditures across all funds. In the time since the FY 2024 Proposed Budget, Staff refined the FY 2023 estimated project activity levels and provided further updates to increase the reappropriations by \$36.1 million, to \$163.9 million across all funds. The additional reappropriation adjustments are summarized in Attachment A, Exhibit 3.

Other Capital Project Adjustments

In addition to the reappropriations from FY 2023 to FY 2024, several capital projects need to be adjusted based on updated information that became available after the release of the FY 2024 Proposed Capital Budget or as a result of actions recommended in this memorandum. These adjustments, including two new capital projects in the Capital Improvement Fund and the Electric Fund, are discussed below and summarized in Attachment A, Exhibit 2.

Capital Improvement Fund

- **NEW PROJECT - Mitchell Park Library Repair (PE-24006)** – A vehicular accident in January 2023 damaged the Mitchell Park Library building. Due to the extent of the damages, a new capital project is recommended to hire a structural consultant to review the impact zone and structural impact, a design consultant to prepare construction drawings to repair the building, and award a construction contract to perform the repairs. Full expenses are not known at this time, and \$250,000 is only an estimate to start the assessment of the damage and initial design work. Staff will update the project budget once structural assessment and design are completed, and coordinate with insurance to ensure all expenses are reimbursed.
- **Street Maintenance (PE-86070)** – The budget has been reduced by \$132,987 annually to align with the California Department of Finance's May 2023 updates for estimated 2023-24 Gas Tax Revenue. Gas Tax revenue can fluctuate; this reduction is not anticipated to impact work planned in this project over the 2024-2028 Capital Improvement Plan.

Fiber Fund

- **Fiber Optics Network System Rebuild (FO-16000)** – A technical correction that increases the budget by \$0.4 million to \$13.0 million in FY 2024 is recommended to align funding with Council's approval of the total \$26 million for the dark fiber rebuild project.
- **Fiber-to-the-Premises (FO-24000)** – Funding in the amount of \$8.0 million is recommended to be reallocated from FY 2024 to FY 2025, leaving \$12.0 million in FY 2024 to align funding with the most updated project timeline.

Gas Fund

- **Gas Equipment and Tools (GS-13002)** – A technical correction is recommended to increase the budget by \$50,000 to \$100,000 annually to align funding with Council’s approval of the FY 2024 Gas Financial Plan and ensure timely replacement of aging equipment.

Vehicle Replacement & Maintenance Fund

- **Scheduled Vehicle and Equipment Replacement - Fiscal Year 2024 (VR-24000)** – The budget is recommended to be increased by \$80,000 to support the Fire Department’s purchase of a Utility Task Vehicle (UTV) designed for off-road rescue in areas that would otherwise only be accessible by foot.

TABLE OF ORGANIZATION

During budget hearings and in subsequent City Council meetings, the Finance Committee and City Council recommended staffing adjustments. A more detailed description of these actions is included in Attachment A, Exhibit 2, and an updated Table of Organization is included in Attachment A, Exhibit 4:

- Add 1.00 Contracts Administrator to the Administrative Services Department
- Add 1.00 Senior Human Resources Administrator to the Human Resources Department
- Add 1.00 Senior Librarian to the Library Department
- Add 1.00 Administrative Assistant to the City Manager’s Office
- Add 2.00 Public Safety Dispatcher to the Police Department
- Add 1.00 Assistant City Attorney to the Office of the City Attorney
- Add 1.00 Senior Plan Check Engineer to the Planning and Development Services Department
- Add 1.00 Senior Planner to the Office of Transportation
- Add 0.75 FTE Coordinator Recreation Programs to the Community Services Department
- Add 0.75 FTE Program Assistant I to the Community Services Department
- Add/delete: add 1.00 Assistant Director Sustainability and Climate Action and 1.00 Engineer to the Public Works Department, offset by the deletion of 1.00 Principal Utilities Program Manager and 1.00 Senior Engineer
- Reclassification of 2.50 FTE Facilities Technician to 2.50 FTE Airport Specialist II in the Public Works Department

MUNICIPAL FEE SCHEDULE

On May 9, 2023, the Finance Committee reviewed the FY 2024 Proposed Municipal Fee Schedule and recommended approval as outlined in CMR 2304-1386¹³. Attachment A, Exhibit 5 provides a summary of all recommended changes including new fees, fees to be deleted, and fees changing by a factor other than the general rate of increase (GRI) as reviewed by the City Council on May 9, 2023.

¹³ 5/9/2023 Finance Committee, Agenda Item #3, Municipal Fee Schedule Amendments, <https://www.cityofpaloalto.org/files/assets/public/administrative-services/city-budgets/fy-2024-city-budget/proposed/municipal-fee-schedule-amendments-fy24.pdf>

SUMMARY OF FISCAL YEAR 2024 RATE CHANGES (no action needed)

An overview of the rate changes was reviewed and approved by the Utilities Advisory Commission (UAC) and Finance Committee in April 2023. These rate changes are included in the FY 2024 budget assumptions. This section references those changes for informational purposes only; a separate report recommending final rate changes will be considered by the City Council on June 19, 2023 (CMR 2302-0939¹⁴).

- -5.0% rate change for Electric (recommended by UAC and Finance Committee);
- 4.9% CPI increase for Fiber (recommended by UAC and Finance Committee);
- 8.0% rate increase for Gas (recommended by UAC and Finance Committee);
- 0.0% rate change for Refuse;
- 4.9% CPI increase for Stormwater (recommended by UAC and Finance Committee);
- 9.0% rate change for Wastewater (recommended by UAC and Finance Committee); and
- 5.0% rate change for Water (recommended by UAC and Finance Committee)

The size and timing of rate adjustments are impacted by current and future revenue requirements to purchase commodities, provide customer service, plan for and invest in capital infrastructure, and maintain adequate reserve levels.

The Finance Committee tentatively approved the rate changes listed above including the -5.0% decrease for Electric rates due to receipt of the Bureau of Reclamation (CVPIA) Litigation Revenue; the 4.9% CPI increase for Fiber customers on the EDF-1 rate in accordance with the original dark fiber leasing agreement; the 8.0% increase for Gas to cover the substantial increases in Capital costs and to support regular main replacement; 4.9% CPI increase for Stormwater, consistent with the 2017 Storm Water Management Fee ballot measure, to keep fund revenues consistent with inflationary cost increases and to provide sufficient funds for planned Stormwater Management capital and operating expenditures; the 9.0% increase for Wastewater Collection due to increasing Capital costs in Wastewater Collection and at the Regional Water Quality Control Plant; and the 5.0% increase for Water, which consists of a 2.0% distribution increase and a 9.7% commodity cost pass-through increase from the San Francisco Public Utilities Commission (SFPUC).

REVIEW OF REFERRAL ITEMS FROM THE FINANCE COMMITTEE

During the Budget Hearings, certain items were approved that require a longer timeline to return to the City Council and are recommended to be placed in the “long-term parking lot.” The list below is reflective of the final referral items from the Budget Hearings that the City Council has directed staff to follow-up with additional work throughout FY 2024.

1. *Human Services Resource Allocation Process (HSRAP) Funding*
Consider pegging HSRAP budget allocations to a benchmark, such as percentage of General Fund budgeted expenditures.

¹⁴ 6/19/2023 City Council, <https://cityofpaloalto.primegov.com/Portal/Meeting?meetingTemplateId=1170>

2. *Eucalyptus Tree Removal Study*

Refer to the City's Stanford ad-hoc committee for discussions with Stanford on mitigation of fire risk to the City, University, and surrounding areas.

RESOURCE IMPACT

This report summarizes and seeks the City Council approval of the FY 2024 Operating and Capital Budgets, the supporting fee schedules, and table of organization in order to support the projections and appropriations included.

The approval of the City Manager's FY 2024 Capital and Operating Budget, as recommended to be amended in this report, would result in a projected General Fund Budget Stabilization Reserve of \$54.3 million. At proposed expense levels of \$269.0 million, after adjusting for the \$10.1 million remaining in the Uncertainty Reserve, this BSR level is at 20.2%, slightly above the top of the Council's recommended range of 15-20% of General Fund Expenditures. Exclusion of the Uncertainty Reserve for the two-year funding strategy and has been done to avoid unintentional inflation of the BSR. The projected changes to the fund balance for all other funds including Enterprise Funds, Internal Services Funds, Special Revenue Funds, and Capital Funds are outlined in Attachment A and accompanying exhibits and impacts to fund balance summarized as follows:

Table 2: Resource Impact (Non-General Funds with Fund Balance Change)

<i>Fund Type</i>	<i>Fund Name</i>	<i>Fund Balance Change</i>
<i>Capital</i>	Capital Improvement Fund	-\$10.6M
	Cubberley Infrastructure Fund	-\$0.2M
<i>Enterprise</i>	Electric Fund	-\$28.8M
	Fiber Optic Fund	+\$7.6M
	Gas Fund	-\$8.6M
	Stormwater Management Fund	-\$0.5M
	Wastewater Treatment Fund	-\$3.3M
	Water Fund	+\$0.6M
<i>Internal Service</i>	Technology Fund	-\$26k
	Vehicle Replacement Fund	+\$23k
<i>Special Revenue</i>	Community Impact Fee Fund	-\$1.7M
	Community Development Block Grant	-\$0.3M
	Library Impact Fee Fund	-\$0.3M
	Parks Impact Fee Fund	-\$0.4M
	Stanford University Medical Center Fund	-\$2.0M
	University Avenue Parking Permit Fund	+\$25k

STAKEHOLDER ENGAGEMENT

The budget process is structured around public hearings conducted before City Council adoption to complete a detailed review of the budget documents and incorporate opportunities for community input in the decision-making process. The community was encouraged to engage with the budget process through scheduled public meetings with the Finance Committee and City Council, a community informational session with City staff, and direct emails to the City Manager and City Council.

Additionally, the City maintains a dedicated webpage for meeting materials and other budget information at www.cityofpaloalto.org/budget.

ENVIRONMENTAL REVIEW

Adoption of the City budget and associated actions is not a project under California Environmental Quality Act (CEQA) Guidelines Section 15378(b)(5) (organizational or administrative activities that will not result in direct or indirect physical changes in the environment).

Attachments:

- Attachment A – FY 2024 Budget Adoption Ordinance
- Attachment A, Exhibit 1 – City Manager's Fiscal Year 2024 Proposed Operating & Capital Budgets & Municipal Fee
- Attachment A, Exhibit 2 and 3 – Amendments to the City Manager's Fiscal Year 2024 Proposed Operating and Capital Budgets
- Attachment A, Exhibit 4 – Table of Organization
- Attachment A, Exhibit 5 – Fiscal Year 2024 Municipal Fee Changes
- Attachment B – Revised Salary Schedule for the Management and Professionals Group
- Attachment C – Relevant Stanford Programs and Services