



City Council Agenda Report

Meeting Date:

Initiated By:

Prepared By:

Approved By:

Subject:

COUNCIL PRIORITY AREA

- Business Communities
- Circulation Safety and Efficiency
- Environmental Sustainability
- Housing
- Neighborhood Safety Infrastructure
- General Government

RECOMMENDATION

Staff recommends the City Council adopt the following items:

1. City of Los Altos Resolution No. 2024-XX Financial Policy
2. City of Los Altos Resolution No. 2024-XX FY24-25 Appropriations Limit
3. City of Los Altos Resolution No. 2024-XX FY24-25 Fee Schedule
4. City of Los Altos Resolution No. 2024-XX FY24-25 Salary Schedule
5. City of Los Altos Resolution No. 2024-XX FY24-25 Utility User Tax
6. City of Los Altos Resolution No. 2024-XX FY24-25 Transient Occupancy Tax
7. City of Los Altos Resolution No. 2024-XX FY24-25 Operating Budget
8. City of Los Altos Resolution No. 2024-XX FY25-29 Capital Improvement and Major Maintenance Program

POLICY QUESTION(S) FOR COUNCIL CONSIDERATION

Does the Fiscal Year 24/25 Budget and Capital Improvement and Major Maintenance Program (CIMMP) meet the priorities as established in the City Council Strategic Goals?

FISCAL IMPACT

Adoption of the attached resolutions will establish appropriations limits, fees, salaries, utility user tax, transient occupancy tax, the operating budget, and the capital improvement and major maintenance program from the 2024/25 Fiscal Year.

ENVIRONMENTAL REVIEW

These resolutions are exempt from environmental review pursuant to Section 15061(b)(3) of the State Guidelines implementing the California Environmental Quality Act of 1970, as amended.

PREVIOUS COUNCIL CONSIDERATION

The City Council considers adoption of these resolutions at least annually.

DISCUSSION/ANALYSIS

The City Council will consider the attached resolutions which will approve the Financial Policy, the Appropriations Limit, the FY24-25 Fee Schedule, the FY24-25 Salary Schedule, FY24-25 Utility User Tax, FY24-25 Transient Occupancy Tax, FY24-25 Operating Budget, and FY24-28 Capital Improvement and Major Maintenance Program that allows the City to continue operations in the new fiscal year.

The proposed Fiscal Year 24-25 Operating Budget is once again presented as an annual budget, as opposed to budgets prior to the 23-24 Operating Budget, which were biennial. This change was made to allow the budget to reflect the Council Priorities as they are established annually in January. The operating budget, along with the 5-year 2025-29 Capital Improvement and Major Maintenance Plan (CIMMP) were again completed as part of a zero-based budget where the Executive Team met twice weekly over the course of several months in preparation for budget adoption. Every proposed expenditure was presented to the Executive Team to verify that the expenditure was necessary and financially-prudent. Additionally, the operating budget and CIMMP are intended to be the implementation of the City Council Strategic Goals, most recently established in January of 2024.

The City's mission is to be a sustainable, vibrant, and inclusive community in which to live, work, visit, and play. The City Council Strategic Goals highlight those areas identified by the Council for emphasis and focus. The City Council will accomplish these goals by engaging the community and making decisions which are equitable, sustainable and fiscally prudent. The City Council will ensure that appropriate resources are allocated to maintain Los Altos as a great place to live and work, including providing a work culture and environment that supports recruitment and retention of exceptional employees to provide City services and maintenance and improvement of the City's assets.

Business Communities

The city of Los Altos will support the different business communities, including implementing specific projects and/or elements of the Housing Element and Downtown Vision Plan, and launching initiatives to bolster the business communities.

Circulation Safety and Efficiency

The city of Los Altos will continue implementing the City's policies as expressed in the Complete Streets Master Plan and other plans which support improving circulation safety and efficiencies, with an emphasis on improving Safe Routes to Schools.

Environmental Sustainability

The city of Los Altos will be a leader in environmental sustainability through education, incentives and adaptation initiatives, and practices identified in the City's Climate Action and Adaptation Plan.

Housing

The city of Los Altos will implement the Housing Element, programs, and policies to facilitate, incentivize and administer the availability of housing that is safe, diverse and affordable for all income levels to meet the needs of the Community and seek to increase and protect its green space.

Neighborhood Safety Infrastructure

The city of Los Altos will conduct a public safety facilities condition assessment on the condition of the police station and the two firehouses and based on the public safety needs of the community, develop a plan to replace, repair and/or rehabilitate the City's public safety infrastructure.

For highlighted areas where the proposed operating budget and CIMMP implement the City Council's strategic goals, please see attachment #1 to this report.

Transfer to Internal Service Funds, Emergency & Operating Reserve, and Unreserved Fund Balance.

Overarching to each of the City Council strategic goals is to ensure appropriate resources are allocated to maintain Los Altos as a great place to love and work. To this end, Staff is recommending additional funds be included in the PERS Reserve fund, as well as the newly established Facility Maintenance Fund and Fleet Vehicle Fund.

Included in the year end of the current fiscal year (23/24) and proposed operating budget (24/25), Staff is proposing additional funding to the CalPERS Reserve (PERS Reserve Fund) to continue making Additional Discretionary Payments (ADP) to CalPERS in addition to the annual payment and the Unfunded Accrued Liability (UAL) payment. In Fiscal Year 2022/23 and Fiscal Year 2023/24 the City Council authorized ADPs of \$5M and \$1M respectively. Staff is proposing to fund the PERS Reserve at \$5.5M through a \$5M transfer in the current budget at year end, and \$500k in the proposed budget. Similar to past years, transfer the payment to CalPERS at year end, after all other obligations have been met.

The proposed changes to the year-end current fiscal year budget and the proposed budget funds an additional \$2M be transferred to the Facility Maintenance Fund, bringing the total reserve funding to \$3M, and additional funding of \$500,000 to the Fleet Fund, bringing the total funding to \$1.5M.

Finally, the proposed budget will maintain the Emergency & Operating Reserve at 20% of proposed expenditures in the General Fund.

After all transfers from the General Fund and maintenance of the Emergency & Operating Reserve of 20%, the proposed budget includes an unreserved fund balance of approximately \$16M. The unreserved fund balance is the result of a general fund surplus of approximately \$10M to close the FY22/23 budget and a projected actual surplus of approximately \$11M to close the current fiscal year. Please note, the surpluses have been calculated prior to transfers to the internal funds identified in this section of the report.

General Fund Revenues

Total General Fund Revenue in the proposed budget is \$57.5M, an increase of 5% over the projected actual General Fund Revenues in the current fiscal year (\$54.4M). Property taxes account for 62% of revenues (\$35.9M), Sales Tax account for 6% (\$3.57M), the Utilities User Tax (UUT) also accounts for approximately 6% of revenues (\$3.57M), and the Community Development Fees account for almost 9% of revenues (\$5M). All other categories of General Fund Revenue (Other Taxes, Franchise Fees, Recreation Fees, Intergovernmental, Grants and Donations, Interest Income, and Miscellaneous Revenue combine for the remaining 17% of revenues.

For specific information on General Fund Revenues, please see attachment #2 of this report.

General Fund Expenditures

Total General Fund Expenditures in the proposed budget are \$54.8M. This is an increase of 6.4% over the adopted FY23/24 budget. Increases largely reflect greater costs in personnel salaries and benefits, insurance costs, CalPERS payments (including regular payment and unfunded accrued liability payment), non-profit and civic contribution through grants and contracts, and increases to contracts for service.

The greatest total increase is realized in Public Safety, which saw mandatory contract increases in the Fire Contract of \$463,050 (\$9.2M to \$9.7M), Animal Control \$134,000(\$190k to \$324k), and Crossing Guard Contract \$551,000 (up from \$290k in 2019). These contracts alone account for mandatory expenditure increases of \$655,050 in the proposed 24/25 General Fund Budget.

Administrative Services has a proposed increase of expenditures from \$4.6M (Projected Actual) to \$6.1M proposed, based on increases to staffing levels in Finance, Human Resources, and Information Technology, as well as the expectation that the Finance Department will have less turnover which will result in reduced vacancy savings.

Total Revenues of Expenditures proposed an operating surplus of \$2.7M for the coming budget year.

For specific information on General Fund Expenditures, please see attachment #2 of this report.

Sewer Fund Summary:

Total Revenues for the Sewer Fund are projected to be \$10.2M. The Unrestricted Fund Balance, after investments, capital outlays, and transfers is expected to increase to \$9M from \$8.2M. However, additional expenses are expected in the Sewer Fund as the joint wastewater treatment plant, operated by Palo Alto, is expected to pursue a line of credit of up to \$31M to address cash flow shortfalls. Each of the partner agencies is expected to participate in the interest payments for the line of credit, but the annual amount is not known at this time.

For specific information on Enterprise Fund Summaries, please see attachment #3 of this report.

FY25-29 Capital Improvement and Major Maintenance Program

The City of Los Altos prepares the Capital Budget as part of the Operating Budget, which appropriates funds for specific programs and projects and is reviewed annually to enable the City Council to reassess projects in the program.

A capital project typically involves the purchase or construction of major fixed assets such as land, buildings, and any permanent improvement including additions, replacements, and major alterations having a long-life expectancy. Additionally, capital projects may apply to: 1) expenditures that take place over two or more years and require continuing appropriations beyond a single fiscal year; 2) systematic acquisitions over an extended period of time, or 3) scheduled replacement of specific elements of physical assets. Generally, only those items costing \$10,000 or more are considered as capital projects.

In FY23-24, the City began to identify projects in the Major Maintenance Program. Those projects mainly apply to: 1) upgrading and maintaining buildings & transportation corridors at current, competitive standards; 2) addressing code and safety issues, mechanical, electrical, and plumbing systems, exterior and structural shortcomings, cosmetics, and immediate landscape issues; 3) dollars needed to extend the life of whatever is being corrected for the cycle of life designated for the building (typically ten years).

All Capital Improvement projects are nonrecurring capital expenditures, and all Major Maintenance Projects are recurring expenditures. In FY24-25, the City plans to appropriate \$21.1 million for Capital Improvement and Major Maintenance Program, of this amount \$6.8M are transfers into the CIMPP including \$3.53M from the General Fund.

The CIMPP coverages projects in the below categories with more detailed project listings in the program resolution:

- Civic Facilities-Buildings
- Civic Facilities-Parks and Trails
- Community Development
- Downtown Development
- Equipment & Vehicles
- Infrastructure
- Studies
- Technology
- Transportation-Pedestrian/Bicycle Safety
- Transportation-Streets/Roadways
- Wastewater Systems

For specific information on CIMPP projects, please see attachment #4 of this report.

ATTACHMENTS

1. Council Priorities Budget Detail
2. Draft Fiscal Year 24/25 Budget General Fund and Enterprise Funds Summary
3. Draft Fiscal Year 24/29 CIMPP Detail
4. City of Los Altos Resolution No. 2024-XX Financial Policy
5. City of Los Altos Resolution No. 2024-XX FY24-25 Appropriations Limit
6. City of Los Altos Resolution No. 2024-XX FY24-25 Fee Schedule

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10. City of Los Altos Resolution No. 2024-XX FY24-25 Operating Budget
11. City of Los Altos Resolution No. 2024-XX FY24-28 Capital Improvement and Major Maintenance Program