[redacted]

Subject: FW: Trend analysis for total salaries
Attachments: Salary detail - FY 2015 - FY 2020.pdf

From: Phil Koen <pkoen@monteropartners.com>
Sent: Tuesday, May 4, 2021 9:02 AM
To: Ron Dickel <[redacted]>; Kyle Park <[redacted]>; Matthew Hudes <[redacted]>; Laurel Prevetti <[redacted]>; Arn Andrews <[redacted]>
Cc: jvannada[redacted]; Lee Fagot <[redacted]>
Subject: Trend analysis for total salaries

Hello Laurel and members of the Finance Commission,

The attached analysis is incredibly transparent and provides valuable insight into the trend in total salary expense beginning in FY 2015. I would suggest that this schedule be extended to include the most probable estimate for FY 2021 and the current plan for FY 2022. If FY 2021 and FY 2022 are included, this will be the first time the public and the Council has seen a detail historical trend analysis of the elements of total salary expense.

Could the Finance Commission please make a formal request for Staff to extend this analysis to include FY 2021 and FY 2022. As you all know, salary and benefit costs make up 70% of the general fund operational expenses. I would think that having deep insight into this cost category is prudent.

Thank you.

Phil Koen

ATTACHMENT 1

opportunity for volunteer work. However, some communities do have volunteer programs designed around defensible space chipping days.

Operating Budget

Based on recent historical salary increases, how much should salary increases be in 2022, and the five-year forecast?

Combined GF & ISF Fund Salaries							
	2014_15	**2015_16**	**2016_17**	**2017_18**	**2018_19**	**2019_20**	**Grand Total**
Salaries-Total	$15,324,291	$15,416,095	$15,758,451	$16,921,167	$ 17,942,181	$19,254,973	$100,617,158
Salaries-Temp	$ 867,364	$ 869,152	$ 913,362	$ 811,194	$ 648,097	$ 881,908	$ 4,991,077
Salaries-OT	$ 436,917	$ 415,372	$ 545,427	$ 583,001	$ 707,046	$ 708,955	$ 3,396,718
Benefits-Total	$ 6,526,096	$ 7,224,479	$ 9,470,413	$ 8,238,405	$ 8,861,044	$ 8,861,044	$ 49,181,481
Benefits-PERS	$ 3,362,328	$ 3,818,073	$ 6,088,841	$ 4,739,853	$ 5,282,681	$ 5,282,681	$ 28,574,457
Grand Total	**$26,516,996**	**$27,743,171**	**$32,776,494**	**$31,293,620**	**$ 33,441,049**	**$34,989,561**	**$186,760,891**
Adjustments for Temporary & OT Salaries							
Salaries	$15,324,291	$15,416,095	$15,758,451	$16,921,167	$ 17,942,181	$19,254,973	
Less:Temp Salaries	(867,364)	(869,152)	(913,362)	(811,194)	(648,097)	(881,908)	
OT Salaries	(436,917)	(415,372)	(545,427)	(583,001)	(707,046)	(708,955)	
	$14,020,010	$14,131,571	$14,299,662	$15,526,972	$ 16,587,038	$17,664,110	
Year Over Year % Change							
Based Upon Actuals		0.80%	1.19%	8.58%	6.83%	6.49%	
			Total Change FY 14/15 to FY 19/20			$ 3,644,100	
			Total % Change			**25.99%**	
			Annual Change Unadjusted			**5.20%**	
			Total Change FY 14/15 to FY 19/20			$ 3,644,100	
			Less One-Time Equity Adjustments				
			FY 18/19 & 19/20			$ (2,139,183)	
			Total Adjusted Change			$ 1,504,917	
			Total Five Year % Change Adjusted			**10.73%**	
			Annual Change Adjusted For One=Time Equity			**2.15%**	

Historical actual salary increase (excluding adjustments for total temporary salaries and total overtime for FY 2018/19 and FY 2019/20 equity adjustments) averaged 2.15% over a five-year period.

What is the recent 5-year history for open salaried positions? Based on this, how much would future salary forecasts be reduced for 2022 and the 5-year forecast?

On page C-8 GF Salaries and Benefits have risen $2.4M/year on average for the past 3 years but are only projected to increase by $855K in FY21/22 or 2.8%. Is this a realistic estimate?

[redacted]

Subject: FW: Gap in total salary expense
Attachments: Salary detail - FY 2015 - FY 2020.pdf; General Fund rev and expend - FY 2022.pdf; Internal Services Fund - FY 2022 budget.pdf

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From: Phil Koen <pkoen@monteropartners.com>
Sent: Tuesday, May 4, 2021 10:31 AM
To: Laurel Prevetti <[redacted]>; Arn Andrews <[redacted]>
Cc: Ron Dickel <[redacted]>; Kyle Park <[redacted]>; Rob Rennie <[redacted]>; Matthew Hudes <[redacted]>; jvannada[redacted]; Lee Fagot <[redacted]>
Subject: Gap in total salary expense

Hello Laurel and Arn,

I quickly compared the salary detail schedule that was provided to the Finance Commission with the detail revenue and expenditure schedules for the General Fund and Internal Service Fund found in the FY 2022 Operating Plan Financial Summary. As you can see there is a material gap (approximately $7m) in the total salary and benefit costs for FY 2019 and FY 2020 per the Financial Summary schedules and the detail schedule provided to the Finance Commission. Please note that starting in FY 2019 salary and benefit cost are not reported in the ISF.

Can you please explain what cost is not reflected in the Financial Summary schedule that is contained in the detail schedule? Thank you.

Phil Koen

opportunity for volunteer work. However, some communities do have volunteer programs designed around defensible space chipping days.

Operating Budget

Based on recent historical salary increases, how much should salary increases be in 2022, and the five-year forecast?

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TOTAL TOWN
REVENUES AND EXPENDITURES

GENERAL FUND

	2017/18 Actuals	2018/19 Actuals	2019/20 Actuals	2020/21 Estimated	2021/22 Proposed
REVENUES					
Property Tax	$ 12,510,822	$ 13,636,099	$ 14,454,513	$ 14,652,355	$ 15,710,152
VLF Backfill	3,447,584	3,685,247	3,875,914	4,053,000	4,154,320
Sales & Use Tax	7,592,206	8,158,152	7,531,425	7,135,131	8,177,859
Franchise Fees	2,474,814	2,475,916	2,495,792	2,521,970	2,597,630
Transient Occupancy Tax	2,628,927	2,692,043	1,869,685	707,723	920,040
Other Taxes	1,686,251	1,526,894	1,357,080	1,300,000	1,250,000
Licenses & Permits	3,011,309	3,067,994	2,696,457	2,912,257	2,641,779
Intergovernmental	1,010,166	945,191	1,104,075	4,257,997	3,881,836
Town Services	4,630,893	4,640,804	4,447,213	3,900,311	3,860,490
Internal Srvc Reimbursement	-	-	-	-	-
Fines & Forfeitures	676,212	510,266	271,117	102,332	203,450
Interest	244,762	1,689,575	2,266,134	597,371	441,233
Other Sources	3,397,720	7,292,833	1,381,187	1,545,409	720,498
Debt Service Reimbursement	1,914,739	1,909,073	1,905,024	1,908,494	1,899,850
Transfers In	544,836	1,578,911	599,669	609,492	633,352
TOTAL REVENUES	$ 45,771,241	$ 53,808,998	$ 46,255,285	$ 46,203,842	$ 47,092,489
EXPENDITURES					
Salaries & Benefits	$ 23,574,425	$ 26,803,225	$ 28,933,568	$ 30,892,559	$ 31,748,291
Operating Expenditures	9,457,424	11,955,327	13,397,031	14,083,222	8,905,832
Grants & Awards	194,808	248,533	274,249	576,000	541,382
Fixed Assets	-	38,307	138,384	2,365	-
Interest	-	-	-	13,003	-
Internal Service Charges	3,867,445	2,527,470	2,188,211	2,378,580	2,666,807
Capital Projects	-	-	-	-	-
Capital Acquisitions	-	-	-	-	-
Debt Service	1,914,739	1,909,073	1,905,024	1,908,494	1,899,850
Transfers Out	3,484,330	2,785,220	8,053,847	3,401,479	550,000
TOTAL EXPENDITURES	$ 42,493,171	$ 46,267,155	$ 54,890,314	$ 53,255,702	$ 46,312,162
Net Increase (Decrease)	3,278,070	7,541,843	(8,635,029)	(7,051,860)	780,327
Beginning Fund Balance	27,150,613	30,428,683	37,970,526	29,335,497	22,283,637
Ending Fund Balance*	$ 30,428,683	$ 37,970,526	$ 29,335,497	$ 22,283,637	$ 23,063,964

** Year End Fund Balance represents General Fund 111 (Long Term Compensated Absences were accounted in Fund 961 prior to FY 2018/19, Pension Trust Fund 731 was incorporated in FY 2018/19).*

TOTAL TOWN
REVENUES AND EXPENDITURES

INTERNAL SERVICE FUNDS

	2017/18 Actuals	2018/19 Actuals	2019/20 Actuals	2020/21 Estimated	2021/22 Proposed
REVENUES					
Property Tax	$ -	$ -	$ -	$ -	$ -
VLF Backfill	-	-	-	-	-
Sales & Use Tax	-	-	-	-	-
Franchise Fees	-	-	-	-	-
Transient Occupancy Tax	-	-	-	-	-
Other Taxes	31,838	28,390	34,437	40,000	40,000
Licenses & Permits	-	-	-	-	-
Intergovernmental	-	-	-	-	261,382
Town Services	161,595	148,284	115,314	85,000	85,000
Internal Srvc Reimbursement	4,880,836	3,529,840	3,094,669	3,348,173	3,679,055
Fines & Forfeitures	-	-	-	-	-
Interest	5	8	7	-	-
Other Sources	585,934	2,993,443	762,404	519,377	30,000
CIP Proj Reimbursement	-	-	-	-	-
Transfers In	703,371	450,000	1,061,256	-	-
TOTAL REVENUES	$ 6,363,579	$ 7,149,965	$ 5,068,087	$ 3,992,550	$ 4,095,437
EXPENDITURES					
Salaries & Benefits	$ 1,585,148	$ -	$ -	$ -	$ -
Operating Expenditures	3,593,992	3,544,783	3,779,285	4,286,617	4,656,784
Grants & Awards	-	-	-	-	-
Fixed Assets	620,915	601,961	644,366	1,607,593	474,455
Interest	-	-	-	-	-
Internal Service Charges	-	-	-	1,963	-
Capital Projects	-	-	-	-	-
Capital Acquisitions	-	-	-	-	-
Debt Service	-	-	-	-	-
Transfers Out	-	1,390,375	1,367,797	78,298	94,816
TOTAL EXPENDITURES	$ 5,800,055	$ 5,537,119	$ 5,791,448	$ 5,974,471	$ 5,226,055
Net Increase (Decrease)	563,524	1,612,846	(723,361)	(1,981,921)	(1,130,618)
Beginning Fund Balance	6,278,070	6,841,594	8,454,440	7,731,079	5,749,158
Ending Fund Balance	$ 6,841,594	$ 8,454,440	$ 7,731,079	$ 5,749,158	$ 4,618,540

[redacted]

Subject: How Palo Alto is attacking the FY 2022 budget gap
Attachments: Palo Alto Budget Balancing Strategy - FY 2022.pdf

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From: Phil Koen <pkoen@monteropartners.com>
Sent: Thursday, May 6, 2021 8:08 AM
To: Matthew Hudes; Rob Rennie; Ron Dickel; Kyle Park; ricktinsley[redacted]; loreen@huddleston[redacted]; stacey.del [redacted]
Cc: Laurel Prevetti; Arn Andrews; jvannada[redacted]; Lee Fagot; Catherine Somers; Jim Foley; Peter Hertan
Subject: How Palo Alto is attacking the FY 2022 budget gap

Dear Finance Commission members,

At the last FC meeting, there was much discussion about the need to identify strategies that can be implemented to balance the FY 2022 budget. Mr. Andrews stated that FY 2022 budget challenge is largely the result of an "episodic" event and that the Town is "waiting to see if revenues rebound". I have a different view that I would like to share with you.

While it is correct that COVID has certainly negatively impacted the economic stability of the Town, the issue we are facing today is largely because the Town has been approving and implementing "structurally" deficit operating budgets for years. At the highest level, from FY 2016 the Town has been increasing net total government expenses at a rate that far exceeds the growth rate in general tax revenues. The audited Statement of Activities in the FY 2020 CAFR's reported a deficit of $2,720,488 where net total government expenses exceeded total general revenue tax revenues. In FY 2016 there was a surplus of $4,686,885 of total general revenue tax receipts. That is a $7.4m turn around in four years. If we compare net total government spending over the four-year period of FY 2016 to FY 2020, there has been a 58% increase in net total government expenses compared to a 18% increase for total general tax revenues. These are inconvenient facts that unfortunately have gone largely ignored. Our current challenge is historically rooted in an explosive growth in government expenses which has not been matched by the growth in general tax revenues. This is not just the result of "bad luck from COVID", but rather reflects the cumulative impact of spending decisions that the Town Council has made over the past 4 budget cycles.

Sometimes it is helpful to examine what other cities are doing to see how they are attacking the FY 2022 COVID budget challenge. It has been widely reported that the City of Palo Alto has been facing a very difficult economic challenge resulting from COVID. The City just released their FY 2022 budget book, and in the budget, they outlined numerous strategies under consideration to balance FY 2022 budget. I have attached the strategy discussion from the FY 2022 budget for the Finance Commissions review and consideration. To be clear, I am not advocating for or against any of the strategies, rather I am trying to present the Finance Commission additional information which might further inform your discussions and decision-making process.

I would encourage everyone to read the detail discussion regarding salary and benefits because the City discloses key assumptions regarding potential labor group concessions that are under consideration. Among other actions, the City is anticipating that labor groups will agree to a one-year deferral of negotiated wage increases. I am only pointing this out because the Town Manager has been reluctant to discuss any potential actions that could be taken in FY 2022 since the Town is currently meeting and conferring with various labor groups. The fact that the City of Palo Alto is discussing this potential action should give the Finance Commission conviction that this might be possible here, especially since all labor groups in the Town received a pay increase this fiscal year.

I hope this is helpful and will help stimulate ideas that can be applied to the Town's FY 2022 budget challenge.

Phil Koen

BUDGET BALANCING STRATEGY

The FY 2022 Operating Budget of $690 million reflects a 13.6 percent decrease from the FY 2021 Operating Budget of $799 million. The increase primarily reflects the year-over-increase in programmed costs in the Capital Improvement Plan (CIP). CIP expenses budgeted in FY 2021 were $300.0 million; FY 2022 includes programmed expenses of $152.9 million. The General Fund has $205.6 million in budgeted expenses and represents 30.8 percent of the City's total expenditures.

The FY 2022 Proposed Budget reflects a balancing strategy that has prioritized essential services, maintains investments in the City's most critical infrastructure, continues to proactively fund long term obligations against severely impacted resources due to the severity of COVID-19. The proposed budget sets funding aside to address potential impacts of an ongoing lawsuit involving the City's gas and electric rates, Green v. City of Palo Alto (Santa Clara Superior Court, Case No. 1-16-CV-300760). Because either party may appeal an initial decision from the Superior Court, the exact general fund exposure is not yet known. However, based on the Superior Court's decision, it is prudent to plan for an $8 million annual impact to the general fund over the next four years, and an average of $4 million annually thereafter. The City receives revenue of approximately $21 million annually in transfers from the Gas and Electric utilities (approximately $7 million from the Gas enterprise and $14 million from Electric). The proposed budget reduces expenditure of a portion of the Gas transfer in alignment with the Superior Court's interpretation of state law.

This FY 2022 Proposed Budget includes an assumption for potential labor concessions to defer wage increases of full-time staff by one year. Wage increases range from 2.00 to 4.00 percent across the various labor groups and generate potential savings of $2.5 million citywide ($1.6 million in the General Fund). Additional information relating to concessions is included in the Salary section of Attachment B.

CONTINUING FISCAL SUSTAINABILITY ACTIONS

The FY 2022 Proposed Budget significantly impacts services delivery levels, however, this budget ensures that the City continues to proactively pay for long-term liabilities, continues capital investments in our most critical infrastructure, provides resources for the City to successfully adapt from 'shelter in place' to future service delivery models, and establishes funding to ensure those service delivery transitions. In addition, use of ARP Funds has been designated in the General Fund to begin work on focus areas that support the City's long-term, strategic goals.

As a balanced budget, the assumptions contained herein continue to follow conservative proactive fiscal management across all funds and sets aside funds that enable the City to adapt and respond to the public health emergency and economic recovery. Significant progress towards ongoing cost containment over the past several years and the reductions that have been made across the organization have set the foundation through which the City was able to effectively respond to the financial impacts of COVID-19. It shows the continued push to proactively fund liabilities by maintaining the City Council approved additional annual payments to the City's irrevocable IRS Section 115 Pension Trust Fund ("Pension Trust Fund") ($3.1 million General Fund, $5.1 million all funds) and additional payments to the City's OPEB Trust (approximately $2.2 million annually all funds).

Investment in capital infrastructure has been a key priority as well and is funded by approval of two (2) Transient Occupancy Tax rate changes as well as a transfer from the General Fund to the Capital Improvement Fund for the catch-up and keep-up priorities identified by the Infrastructure Blue Ribbon Commission (IBRC). This capital budget continues to prioritize the 2014 Council approved Infrastructure Plan in the General Capital Improvement Fund. In order to accomplish this, some of the larger projects previously planned in the five-year CIP have been pushed out beyond the 2022-2026 timeframe.

This prioritization of fiscal sustainability did not come without impacts. The ability to maintain these financial investments in capital and sustain proactive payments towards long-term liabilities, while funding Council priorities over the years, has resulted in service and staffing reductions and service delivery changes such as the animal shelter transition to a public/private partnership with Pets in Need. The FY 2021 Adopted Budget and this FY 2022 Proposed Budget contain reductions previously approved across all City departments, result in a 9 percent reduction in the City's workforce and impedes the City's ability to maintain pre-pandemic service levels. Additional significant reductions are proposed in this budget and one-time use of ARP Funds has delayed a series of more severe reductions for the short-term.

Staff released the "City Services Guide" in December 2019 to assist in further conversations about the exceptional services provided by the City and the resources necessary to provide them.

You can find the City Services Guide and the appendix here:

City Services Guide:

https://www.cityofpaloalto.org/files/assets/public/administrative-services/city-budgets/fy-2020-city-budget/fy-2020-city-services-guide.pdf

City Service Appendix:

https://www.cityofpaloalto.org/files/assets/public/administrative-services/city-budgets/fy-2020-city-budget/draft-2-fy-2020-citywide-services-inventory.pdf

GENERAL FUND

The FY 2022 Proposed Operating Budget is balanced through aligning reduced available resources that are impacted by COVID-19 with service delivery reductions throughout the organization. Prioritizing essential services and reducing or eliminating discretionary services is reflected in this budget. Notwithstanding the service delivery reductions reflected in this budget, the budget balancing strategy ensures that the City continues to proactively pay for long term liabilities, maintains capital investments in our most critical infrastructure, provides resources for the City to successfully adapt from "shelter in place" to future service delivery models, and establishes funding to ensure those service delivery transitions. The FY 2022 Proposed Budget includes revenues of $205.6 million in the General Fund, representing a 4.4 percent increase over the FY 2021 Adopted Budget of $197.0 million.

The FY 2021 Budget Stabilization Reserve (BSR) is anticipated to be $35.8 million, which is 18.2 percent of General Fund expenses and $0.6 million below the City Council target level of $36.3 million, or 18.5 percent of General Fund expenses. A balanced budget is presented in the FY 2022 Proposed Budget and therefore no drawdown of the BSR is assumed. It is anticipated that the FY 2022 BSR balance will be $35.8 million, or 17.4 percent of General Fund expenses, below the City Council target level of 18.5 percent but within the targeted range of 15 percent to 20 percent.

GENERAL FUND BALANCING STRATEGY

REVENUES

Revenues of $205.6 million in the General Fund represent a more conservative revenue estimate that reflects the severity of the current public health emergency and its impacts on the City's financial situation. On February 8, 2021, the City Council provided direction to staff to assume a $6.8 million General Fund gap which assumes that the COVID-19 shelter-in-place order is lifted by spring/early summer 2021, followed by a moderately paced economic recovery over three to five years. The FY 2022 proposed revenue budget represents an overall $8.6 million increase compared to the FY 2021 Adopted Budget and is driven by $6.3 million in ARPA Funds expected to be received in FY 2022. Excluding ARPA Funds, tax revenue constitutes 55 percent of General Fund resources and therefore fluctuations in this category significantly impact the City's financial outlook. Overall, major tax revenue in the FY 2022 Proposed Budget totals $109.3 million, a 2.0 percent increase compared to $107.2 million in the FY 2021 Adopted Budget. Estimates for the major tax revenues listed below will be refined as additional data and information become available.

- Sales Tax was is projected to increase by 36.8 percent (from $20.5 million to $28.0 million),
- Property Taxes is estimated to decrease by 1.5 percent (from $52.0 million to $51.2 million),
- Transient Occupancy Tax (TOT) is anticipated to decrease by 43 percent (from $14.9 million to $8.4 million)
- Utilities Users Tax is expected to decrease by 4.8 percent (from $15.1 million to $14.4 million), and
- Documentary Transfer Tax estimated to decrease by 51.9 percent (from $4.7 million to $7.1 million).

As of the printing of this document, staff is reviewing revenue results as of the end of March and expects further revisions to TOT and Sales Tax estimates due to less restrictive health guidelines implemented the first quarter of the calendar year. The City will continue to monitor current revenues together with changes in restrictions in social distancing, trends in travel, and vaccine distribution. Although this budget assumes a $2.5 million reduction in the base transfer to the General Fund Capital Fund, funding from other sources, such as Measure B and SB1, are included in this budget to provide resources for Capital Infrastructure. Impacts to these revenues are discussed in the FY 2022 - 2026 Capital Budget. Impacts on external funding sources such as these will be monitored and potentially adjusted as the fiscal year progresses.

EXPENSES

The City's FY 2021 General Fund expense budget is $205.6 million and reflects a 4.4 percent increase compared to the FY 2021 Adopted Budget. As a service-driven organization, salaries and benefits, including the

City's proactive pension funding contributions, represent 61.6 percent of total General Fund expenses. Following staffing costs, the next largest expense in the General Fund is contract services, which is increasing 31.8 percent from $22.0 million to $28.9 million. This category includes a variety of services including legal counsel, staffing for Planning and Development Services, facility maintenance and citywide landscaping. The significant increase in this expense category is driven by the reserve for the potential Utility Transfer litigation impacts. The third largest cost in the General Fund is General Expense, which was previously the fifth largest cost in the General Fund. This expense category increased by 24.6 percent, from $9.1 million to $11.3 million and is driven by a $3.2 million reserve established for ARPA Funds.

The FY 2022 Proposed Budget assumes that the base transfer reduction taken in FY 2021 is not restored and based on financial constraints within the General Fund, the FY 2022 proposed balancing strategy assumes an additional $2.5 million reduction to the base transfer. In addition to this impact, as health and safety guidelines have continued to restrict travel, the TOT revenue transfer to support capital investments has been adjusted downward and this impact has been cushioned by two new hotels opening in 2021. Net TOT revenue allocated towards capital investments totals $5.9 million, a 10.0 percent decrease compared to the FY 2021 Adopted Budget. Cumulatively, for both the base transfer and TOT revenues, support to the Capital Improvement Fund has decreased by $3.0 million, or 27.1 percent in the FY 2022 Proposed Budget compared to the FY 2021 Adopted Budget.

Significant service delivery impacts include but are not limited to closure of neighborhood library branches; decreases in art and theater programs; reduction in planning and transportation consultant support; brown out of Fire Station 2; reduced patrol staffing, elimination of facilities and traffic controller staff; and elimination of administrative, front desk, and office support functions across the organization. The FY 2022 Proposed Budget ensures that the City will focus on maintaining outdoor recreation and open space preserves, providing the highest value to the community for the duration of the COVID-19 pandemic when outdoor options are critical during this time. In response to the surge of visitors at the Foothills Nature Preserve, the Proposed Budget adds staffing at the Nature Preserve to manage increased activity. One-time funding totaling $0.8 million is included in this budget to support long-term strategic goals and the Community Economic Recovery workplan.

The FY 2022 Proposed Budget reflects a 96.00 reduction in full-time equivalent (FTE) positions (84.78 in the General Fund). In addition to these full-time staff reductions, 31.04 part-time FTEs were also reduced in FY 2022. All changes to positions included in the FY 2022 Proposed Budget are discussed in Attachment B of the transmittal letter along with more detail regarding salary and benefit changes.

The General Fund also sets aside funds to assist the community and organization with recovery and restoration efforts related to COVID-19. Details for these reserves can be found in the Non-Departmental section of this book.

ALL FUNDS

In addition to prioritizing essential services, critical infrastructure improvements, and reducing discretionary costs in the General Fund, operations and capital projects in non-General Funds were scrutinized. Revenue estimates contained in this budget here revised to ensure a balanced budget in several funds with economically sensitive revenues. Major activities in non-general funds the FY 2022 Proposed Budget are described below.

Wastewater Treatment Fund

The FY 2022 Proposed Budget includes significant funding for the Regional Water Quality Control Plant seven system improvement capital projects programmed through the FY 2022 - FY 2026 Capital Improvement plan. $30.7 million is budgeted in FY 2022 for these projects, including $10.6 million for Outfall Line Construction and $6.2 million for the Primary Sedimentation Tank Replacement. Through the five-year CIP, expenses of $257.4 million is programmed across the seven projects. It is important to note that approximately 65 percent of expenditures in the Wastewater Treatment Fund are reimbursed by five contributing partner agencies outside of the City of Palo Alto, based on each agency's expected capacity share. Details of these capital projects and expenses can be found in the Wastewater Treatment Fund section of the FY 2022 - FY 2026 Proposed Capital Budget.

Airport Fund

Revenues in the Airport Fund are anticipated to be $3.1 million with corresponding expenses of $3.3 million in FY 2022. The Airport Fund receives most of its funding through grants from the Federal Aviation Administration (FAA) and the City is required to match 10 percent of the award. Over $17 million was received in FY 2021 from the Federal Aviation Administration (FAA) to cover 90 percent of Airport's major construction projects. Staff intends to continue applying for FAA grans for eligible capital improvements projects to ensure a safe and well-maintained airport. In the past, the Airport Fund has received loans from the General Fund, totaling $3.1 million in principal since the City took over operations. The Airport Fund began repayment to the General Fund in FY 2020 in the amount of $272,000 annually for the next fifteen years as part of its commitment to fiscal sustainability and financial viability.

Various Parking Funds

This FY 2022 Proposed Budget includes minimal changes to staffing levels. Similarly, capital improvement investments are relatively low due to the reprioritization of new projects and extension of timelines for existing projects. As a result of the recommended changes in various parking programs, this budget includes significant changes to the Residential Preferential Parking (RPP) program including a transition to License Plate Reader (LPR) enforcement and virtual permitting, a policy change to no longer provide a first permit free to residents (with limited exceptions), as well as other program updates such as the department's work to fix the 'no reparking' signage issue. These programmatic changes are expected to work to allow the RPP to return the subsidy to the General Fund and remain financially solvent. Corresponding Municipal Fee Schedule adjustments are recommended to reflect the policy change to no longer provide the first annual residential parking permit free, although the annual cost of such permits is not recommended to change in FY 2022. Staff expects to return to the City Council for program change reviews and implementation timeframes in the new fiscal year.

Increases to parking permit revenue estimates to reflect the anticipated opening of the new California Avenue parking garage (345 parking spaces) and addition of a residential parking district in Old Palo Alto. Parking permit prices are also recommended to increase by 2.6 percent, consistent with most other fees, with the exception of resident permits which are recommended to remain at $50. A more detailed presentation of the FY 2022 Budget for the University Avenue Parking District Fund and California Avenue Parking District Fund are available at the end of the Special Revenue Funds Overview section.

Stormwater Management Fund

In FY 2022, the Stormwater Management fee is scheduled to increase by 2.5 percent as approved by the voters in 2017 to keep fund revenues consistent with inflationary cost increases and to provide sufficient funds for planned Stormwater Management capital and operating expenditures. The Stormwater Management fee was approved by property owners through a ballot measure in April 2017. The projects and infrastructure component of this fee has a sunset date of June 1, 2032 unless extended through a subsequent ballot measure. This fee provides financial resources for a number of projects and infrastructure components as outlined in the Storm Drain Blue Ribbon Committee's recommendations, which identified 13 Capital Improvement projects. Work on those projects began in FY 2019 and is programmed in the FY 2022 Proposed Capital Budget.

UTILITY RATE CHANGES

In FY 2021, to provide economic relief for residential and commercial customers due to the COVID-19 pandemic, the City Council directed staff to maintain flat rates without compromising the safety and integrity of the utility systems. FY 2022 financial plans for City's utilities are developed to provide sufficient funding to cover increasing expenses for commodities, replenish lower reserves, and to repair and replace the City's aging utility infrastructure. The FY 2022 Proposed Budget assumes the following rate changes:

- 4.7% rate change for Wastewater;
- 0% rate change for Water;
- 2.05% CPI increase for Fiber;
- 0% rate change for Electric;
- 0% rate change for Refuse;
- 2.0% CPI increase for Stormwater;
- 3.0% rate increase for Gas.

SALARIES, BENEFITS, & POSITION SUMMARY

The most significant asset the City has in serving the community is its employees. Local government services are primarily delivered by employees, whether they are police officers, utility linemen, librarians, or planners. Therefore, it should not be surprising that these costs more than 60 percent of the FY 2022 General Fund Budget are attributed to salaries and benefits. In the prior year, the City engaged with various labor groups and successfully negotiated concessions with some of its labor groups to generate cost savings. The FY 2022 Proposed Budget assumes potential labor concession savings totaling $1.6 million in General Fund savings that reduces or postpones negotiated increases and other forms of compensation for one year. As in prior years, the FY 2022 Budget presumes funding for those units consistent with City Council authority.

This budget includes actions to significantly reduce revenue and expense appropriations due to economic uncertainties surrounding the COVID-19 pandemic and also plans for impacts of pending litigation. Per City Council's direction, this budget includes elimination of positions that were frozen in the FY 2021 Adopted Budget; budget proposals for FY 2022 further reduces the City's workforce to balance limited resources. These actions are discussed in detail below and in the individual sections of the budget document where the transactions occur, including the Staffing Tables and Budget Adjustments sections of the respective departments, and the Table of Organization.

POSITION CHANGES

Overall, staffing levels in FY 2022 are reduced by 96 FTE, of which 76.5 FTE of these position reductions are attributed to positions that were frozen in FY 2021 then eliminated as part of the base budget. The table below summarizes the changes in full-time positions and is followed by a more detailed discussion.

Position Changes

FY 2021 Adopted to FY 2022 Proposed Budget

	General Fund	Enterprise Funds	Other Funds*	Total
Fiscal Year 2021 Adopted Budget	**574.43**	**358.74**	**101.68**	**1,034.85**
Fiscal Year 2021 Approved Adjustments	-	-	-	-
Fiscal Year 2021 Modified Budget	**574.43**	**358.74**	**101.68**	**1,034.85**
Fiscal Year 2022 Increase	5.00	8.00	1.00	14.00
Fiscal Year 2022 Position Freeze Elimination**	(63.52)	(5.00)	(7.98)	(76.50)
Fiscal Year 2022 Decrease	(24.60)	(3.10)	(5.80)	(33.50)
Fiscal Year 2022 Reallocation	(1.66)	0.10	1.56	-
Fiscal Year 2022 Proposed Budget	**489.65**	**358.74**	**90.46**	**938.85**
Net Difference	**(84.78)**	**-**	**(11.22)**	**(96.00)**

NOTE: This Table does not include part-time/hourly positions

* Other Funds include Internal Service, Special Revenue, and Capital Improvement Funds.

** Reflects full-time positions that were frozen and defunded in FY 2021 and eliminated in FY 2022.

Position changes recommended in this budget include eliminations, additions, reclassifications, and reallocation/realignment of staff:

Eliminations:

Eliminate 83 full-time and 107 part-time positions (76.50 and 26.18 FTE respectively) as part of City Council direction to eliminate positions that were defunded and frozen in FY 2021 (CMR 11872).

- Eliminate 4.00 positions in the City Auditor Office including 1.00 City Auditor and 3.00 Senior Performance Auditor positions (1.00 allocated to the Utilities Department) as part of the transition of these services from in-house staffing to consultancy services.
- Eliminate 1.00 Administrative Assistant in the Community Services Department as part of reductions to administrative resources and support functions.
- Eliminate 0.65 frozen Junior Museum & Zoo Educator as part of Art Center service reductions (partially reduced as part of FY 2021 freezes, this action fully eliminates the position)
- Eliminate 0.75 Producer Arts/Science Program as part of Cubberley Theater service reductions.
- Eliminate 4.00 Library Specialists and 1.00 Librarian as part of modified Library hours.

- Eliminate 1.00 Associate Planner in the Planning and Development Services as part of current planning service reductions.
- Eliminate 5.00 Police Officers in the Police Department as part of patrol service reductions.
- Eliminate 1.00 Public Safety Program Manager in the Police Department as part of parking services reductions.
- Eliminate 1.00 Equipment Maintenance Service Person in the Public Works Department as part of general and equipment service reductions.
- Eliminate 1.00 Traffic Controller Maintenance II position in the Public Works Department as part of traffic control service reductions.
- Eliminate 1.00 Facilities Technician in the Public Works Department as part of maintenance reductions.
- Eliminate 1.00 Administrative Associate I in the Public Works Department and net-zero realignment of two administrative positions (-0.61 General Fund, -0.39 Other Funds) to reorganize support functions across the department.
- Eliminate 2.00 Senior Technologists and 1.00 Principal Business Analysts in the Information Technology Department as part of operational reductions.
- Reduce two Producer Arts/Science positions by 0.50 as part of Art Center service reductions (from 1.00 to 0.75, and 0.75 to 0.50).
- A net reduction of 23 positions part-time staffing (5.34 FTE) across the organization in the Administrative Services Department (0.48), Community Services Department (4.38), Library Department (0.28), and Public Works Department (0.20).

Additions, reclassifications, and realignments:

- Add 1.0 Buyer in the Administrative Services Department and eliminate 0.50 frozen Administrative Associate II and 0.60 frozen Contracts Administrator to realign staffing with current workloads and succession planning (partially reduced as part of FY 2021 freezes, this action fully eliminates the positions)
- Restore 1.00 frozen Legal Fellow in the City Attorney Office to meet operational needs (partially reduced to 0.50 as part of FY 2021 freezes)
- Restore 1.00 frozen Community Services Manager (Supervising Ranger) to oversee operations at the Foothills Park and Pearson-Arastradero Preserve.
- Restore 1.00 frozen 40-hour Training Captain and eliminate 1.00 Fire Captain.
- Restore 2.00 frozen Human Resources Representatives and 1.00 frozen Human Resources Tech (partially frozen at 0.75 total) and eliminate 0.75 frozen Human Resources Technician to realign staffing resources with recruitment needs.
- Reallocate 1.00 Human Resources Representative from the Human Resources Department to the Utilities Department to act as a dedicated resource for recruitments (2-year term).
- Restore 1.00 frozen Director of Information Technology/CIO and eliminate 1.00 Manager of Information Technology Security to realign resources to meet operational needs.
- Net-zero reallocation of 15 positions in the Office of Transportation to align staffing resources with anticipated projects (-1.15 General Fund, -0.30 Other Funds, +1.45 Capital Fund).
- Restore 1.00 frozen Senior Planner in the Planning and Community Environment Department and eliminate 1.00 Administrative Associate III to realign resources for data operations.

- Add 1.00 Building Inspector Specialist in Development Services to ensure sufficient resources for inspection services (converts a limited one-year term position to permanent).
- Reclassify 1.00 Chemist to 1.00 Senior Chemist at the Waste Water Treatment Control Plant to ensure sufficient resources to comply with updated regulations.
- Restore 5.00 frozen positions in the Utilities Department (1.00 Utilities Chief Operating Officer, 1.00 Assistant Director of Utilities Engineering, 1.00 Utilities Supervisor, 1.00 Substation Electrician , and 1.00 Business Analyst) to address critical staffing needs.
- Reclassify 1.00 Supervising Electrical Project Engineer to 1.00 Senior Electric Engineer in the Public Works Department to realign resources with electrical engineering projects needs.
- Net addition of one 0.48 part-time General Laborer position in Airport operations to ensure sufficient resources for facilities maintenance requests.

Positions that were frozen in FY 2021 and eliminated in this proposed budget are identified with "Freeze" following the job classification title in department sections and the Table of Organization in this document. A more detailed discussion of position freezes is available in the FY 2021 Adopted Budget in the individual department sections.

Additional information about current year staffing eliminations, additions, reclassification, and reorganizations are available in this FY 2022 Proposed Budget in the individual department sections and the Table of Organization.

SALARY & BENEFITS

SALARIES

As of the development of the FY 2022 Proposed Budget, the City is actively engaged with all labor groups to negotiate concessions that will generate cost savings in FY 2022. This budget includes an assumption for potential labor concessions totaling $1.6 million in the General Fund; this does not include $0.9 million of labor concessions in other funds ($2.5 million citywide). This assumes that labor groups will agree to a one-year deferral of negotiated wage increases and does not impact eligibility for merit or step increases. The FY 2022 Proposed Budget includes the following wage deferral assumptions: 2.00 percent in the Management and Profession Group, 2.00 to 4.00 percent in Safety Groups, 2.00 percent in the Utilities Management and Professionals Association (UMPAPA) group, and 2.00 percent in the Service Employee International Union (SEIU) group (upon expiration of the SEIU contract in Dec 2021). In total, $1.6 million in savings has been set aside as a Non-Departmental reduction in the General Fund ($0.9 million in other funds); staff will take action to formalize these savings in the respective department budgets and other funds upon finalized amendments to the individual group Memorandum Of Agreements (MOA's).

PENSION

The City Council has implemented multiple efforts to minimize the growth of pension and other benefit expenses through labor negotiations. These are an important part of the City's overall cost-containment strategies. Past successful steps include:

- Continued employee payment of the CalPERS employee contribution for all bargaining groups.
- Employees contributing an additional amount between 1 percent and 4 percent of the employer portion of CalPERS consistent with current contract terms.

- Employees sharing the cost of health plans with almost all bargaining units receiving a flat-rate medical benefit.
- Implementing a less costly second-tier pension plan, parallel to the state's implementation of a third tier that went into effect January 1, 2013. As expected, new employees are hired into the lower tiers as existing employees retire, thereby lowering the City's overall pension liability.

This budget reflects the required employer pension contributions determined in the CalPERS actuarial valuation as of June 30, 2019 (CMR 11607). The actuarial reports provide an update on the funding status, the results of assumption changes such as rate of return (ROR) which impacts the discount rate assumption, the new fiscal year Actuarial Determined Contribution (ADC) and the projected future ADC as a percentage of payroll. Discussed in more detail below, the contribution rates are highly dependent on the investment returns that CalPERS achieves. Therefore, there are potential significant impacts to the City's pension liability resulting from the COVID-19 pandemic and associated market volatility. Most recently, CalPERS reported a 4.7 percent investment return for fiscal year 2019-20, 2.3 percent below the 7.0 percent target. Actuarial reports are completed two years in arrears therefore impacts from losses or other factors will materialize beginning in the June 30, 2020 valuation which will be included in the FY 2023 budget. The City will continue to work to understand the ramifications and strategize appropriate actions that address long-term pension obligations.

CalPERS has taken a number of steps over the past few years that are intended to mitigate future impacts to cities even as they result in greater near-term costs. In December 2016, the CalPERS board voted to lower the discount rate (used in calculating investment returns) from 7.5 percent to 7.0 percent, phasing in the reduction over three years. This phase-in began in FY 2019 and reached the final phase in FY 2021. The discount rate used by CalPERS to calculate the City's FY 2022 Actuarially Determined Contribution (ADC) was 7.00 percent.

With the June 30, 2019 valuation, CalPERS has adopted a new amortization policy that shifts from a 30-year to 20-year amortization, shortening the period over which actuarial gains and losses are amortized. This policy change applies to the amortization of new UAL bases established on or after June 30, 2019. A new UAL base is created each time there is an increase or decrease in unfunded liability due to plan changes, assumption changes, method changes, or plan experience (including investment gains/losses). Additionally, the 5-year ramp-up and ramp-down policy on UAL bases is revised to include only a ramp-up period for investment gains/losses. Previously this included a ramp-up and ramp-down period for gains/losses (investment and non-investment).

The ADC (also referred to as the blended rate) is provided by CalPERS to estimate the total employer contribution and reflects the combined cost of NC and UAL. The ADC for the Miscellaneous Plan is $35.7 million in FY 2022, an increase of $2.3 million (6.9 percent), from an ADC of $33.4 million in FY 2021. The ADC for the Safety Plan is $19.2 million in FY 2022, an increase of $2.5 million (15.0 percent), from an ADC of $16.7 in FY 2021. The ADC will inform the development of the FY 2022 - FY 2031 Long Range Financial Forecast and FY 2022 Adopted Budget.

Pension Rates by Plan (Fiscal Year) – CalPERS

FY	2020	2021	2022	2023	2024	2025	2026	2027
Miscellaneous (%)	35.6	38.4	41.8	43.0	43.3	43.7	40.6	36.2
Safety (%)	59.4	65.3	69.6	72.3	73.5	74.2	73.8	73.2
Discount Rate (%)	7.25	7.0	7.0	7.0	7.0	7.0	7.0	7.0

As the above table indicates, the CalPERS estimate for City pension costs will continue to increase through FY 2025 and decrease or stabilize in 2026. The decrease and stabilization present in 2026 are attributable to the full amortization of relatively large UAL bases, and the CalPERS assumption that normal costs will decrease as employees in lower-cost Public Employees' Pension Reform Act (PEPRA) plans replace classic plan members.

Each year, if CalPERS meets or exceeds its investment return, the City's Unfunded Accrued Liability would shrink. This is because CalPERS provides, as part of its ADC to cities, not only a Normal Cost (NC), which represents the 'pay-as-you-go' portion and an Unfunded Accrued Liability (UAL) payment calculation which represents the 'catch-up' payment. Thus, if CalPERS investment target is met in a given year, the normal cost would cover the 'pay-as-you-go' portion, and the UAL payment lessens the long-term liability. Thus, if CalPERS investment target is met in a given year, the normal cost would cover the 'pay-as-you-go' portion, and the UAL payment lessens the long-term liability. Conversely, in a year when CalPERS does not meet its investment return, the UAL of the City would grow. It is important to note that CalPERS anticipates a 7.0 return throughout the forecast and does not factor the preliminary 4.7 percent return on investments for the period ending June 30, 2020. If these returns materialize, the losses will likely offset the relief shown in the out-years of the current forecast. Any losses from this period will be realized beginning in the next annual valuation and the FY 2023 Budget.

In order to address this potential gap, the City Council directed that the City of Palo Alto fundamentally change its budgeting practice. Beginning in FY 2020, rather than use the CalPERS ADC (which is the standard practice for calculating pension costs in a given year) the City Council directed that the City use a discount rate of 6.2 percent, effectively decreasing the City's sensitivity to lower CalPERS returns.

This additional normal cost (pay as you go) is included in the FY 2022 budget and will be sent to the City's irrevocable section 115 trust. The FY 2022 budget transmits a total of $5.1 million from all funds ($3.1 million General Fund) to the 115 Pension Trust Fund, managed by PARS. This brings total contributions through FY 2022 to $37.3 million ($24.1 million General Fund) since the trust was created in FY 2017. This funding represents important contributions towards addressing the City's long-term pension liability and will help insulate the City against potential future increases to the UAL. In comparison to the $54.9 million in CalPERS projected pension costs, this additional pay-as-you-go cost of $5.1 million is roughly 9 percent of the

City's annual pension costs. This contribution level is relatively consistent to the prior year level of $5.0 million.

On November 30, 2020, the City Council adopted the Pension Funding Policy (CMR 11722) and represents the culmination of many years of work by the City to proactively address its long-term pension obligations. The Pension Funding Policy sets the following goals and principles:

Funding Goal and Timeframe:

- a target of reaching a 90 percent funded status of the CalPERS determined liability within fifteen years (FY 2036).

Funding Components

pay go' costs also known as Normal Cost of annual pension costs to be funded with a discount rate of 6.2 percent, more conservative than CalPERS rate of 7.0 percent.

Discretion to the City Manager to make additional contributions from excess Budget Stabilization Reserve (BSR) above the City Council approved target BSR level.

Use of Funds:

- City Manager must identify the impacts on the funding goal and timeframe to modify the transmission of contributions to the PARS Trust Fund.
- Any transmission of funds from PARS to CalPERS will require City Council approval.

Reporting:

- Every three years, staff will consult with an actuary to inform the City Council on the progress the City has made towards its goal
- Staff will report to the City Council through the annual budget process on the status of the PARS section 115 pension trust fund, recommended contributions to the PARS fund, and potential transmission of any funds from PARS to CalPERS for the coming fiscal year

Currently the City is on pace to meet or exceed the funding goal of 90% - the Miscellaneous plan is projected to meet in 10 years, and the Safety plan is projected to meet in 14 years - however, this presumes that assumptions used in the actuarial analysis are met. For example, it assumes that mortality rates, salary growth, and investment earnings meet actuarial assumption in the future.

RETIREE HEALTHCARE

Consistent with past practice, this budget assumes the full payment of the Actuarial Determined Contribution (ADC) for not only retiree pension but also healthcare costs. With the payment of the ADC it is assumed that all else being equal, the City will fully pay off its obligations for retiree healthcare costs. The City's outside actuarial consultant (Bartel Associates) performs an actuarial analysis of the City's Other Post-Employment Benefits (OPEB) funding every two years. The most recent report was completed in May 2020 to inform both the FY 2021 and FY 2022 Operating Budgets (CMR 11284). This study captured investment gains for the Retiree Healthcare Trust Fund as of June 30, 2019, lowered the assumed investment returns from 6.75 percent to 6.25 percent in determining annual funding contributions and restated the City's Fiscal Year 2022 annual Actuarial Determined Contribution (ADC).

Retiree Healthcare Annual Required Contributions (by Fiscal Year)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	203
General Fund ($)	10.2	10.5	10.8	11.1	11.5	11.8	12.2	12.6	13.0	13.4	13.
Non-General Fund ($)	5.8	5.9	6.1	6.3	6.5	6.7	6.9	7.1	7.3	7.6	7.8
Total ($)	15.9	16.4	16.9	17.4	18.0	18.5	19.1	19.7	20.3	20.9	21.

The FY 2022 Budget for Retiree Healthcare increased to $16.4 million, representing a 3.1 percent increase from the FY 2021 Adopted Budget of $15.9 million.

Additional information regarding Retiree Healthcare can be found in the Employee Information section of this document.

TIER 2 POTENTIAL REDUCTIONS

General Fund Tier 2 Potential Reductions

As a balanced budget, the assumptions contain therein continues to follow conservative proactive fiscal management across all funds. Use of one-time ARPA Funds help mitigate the most untenable service reductions in order for the City Council to deliberate on potential fiscal strategies. "Tier 2" service reductions are outlined given the continued variability in the fiscal position and assumptions used in development of the FY 2022 Proposed Budget. Should the City be faced with additional economic uncertainties, not gain labor concessions, or should the Council choose to not use the ARPA funds to balance the budget or change current recommended balancing strategies, this list provide a reflection of the additional service impacts that could be implemented. As discussed in the Transmittal Letter, this FY 2022 Proposed Budget recommends strategies for a near term balancing and is not sustainable long term. Potential options include:

- Ballot measure (i.e. business license tax, Utility Transfer, affordable housing)
- Further service level reductions that include elimination of certain services and/or closure or public facilities that will result in a further reduced workforce
- Employee compensation reductions

In light of these circumstances and the significant decisions that must be made by the City Council, staff has included in this attachment a list of additional potential service reductions. Totaling $4.3 million, and an additional 4 percent reduction in workforce represent the severity of the City's fiscal position, should the City Council not pursue a solution to add General Fund resources.

All Net impact to the General Fund figures reflects the additional reduction from the FY 2022 Proposed Budget and are organized by Service Area.

COMMUNITY & LIBRARY SERVICES

1) Arts Center & Teen Programming

(1.94) Hourly FTE | (1.65) Full-Time | ($100,000)

This reduction is in addition to the proposal included in the FY 2022 Proposed Budget outlined on page 195. This further reducing open hours and eliminating all school programs, including Project Look. Reduces operating hours and programming at the Palo Alto Art Center with significant impacts to programs, eliminating school, exhibitions and teen programs, while retaining fee-based studio programs and classes for youth and adults. This builds on the proposed reductions outlined on page 195 which included the elimination of City Support for the Art Center's exhibition program, Cultural Kaleidoscope, teen arts programs, and free Family Day programs. Below is a summary of the additional impacts in this more severe reduction:

- Eliminates two school-based programs, Project Look program and Cultural Kaleidoscope. This varies from the Proposed Budget which includes a restructuring of Project Look, there is no variation in the elimination of Project Kaleidoscope.
- Hours open to the public will be further reduced to a Thursday-Saturday schedule (an additional reduction of one day of service/week). With the elimination of positions in FY 2021, the Art Center reduced its Thursday night and Sunday hours, shifting to a Tuesday-Saturday, 10 a.m. - 5 p.m. schedule. Remaining classes and programs would only be offered Tuesday - Saturday.
- The Palo Alto Art Center will only be open to those participating in fee-based programs. Elimination of non-fee-based programs, school programs, and exhibitions significantly impacts the Foundation's ability to fundraise. Fee based programs that would continue are Children's Fine Art classes and camps and adult studio classes, workshops, and drop-in activities.

2) Special Events Funding

(0.00) Hourly FTE | (0.00) Full-Time | ($40,000)

This action eliminates funding for special events, including large events such as May Fete Parade, Fourth of July Chili Cook Off, and Holiday Tree Lighting. This reduction is in addition to $0.1 million reduction in the FY 2021 Adopted Budget. In addition to these large events, the Community Services Department typically hosts other smaller special events such as the Senior New Year's Eve Brunch and Veterans Day. Most of these events were canceled in FY 2021 or held in a virtual format. These large special events usually draw over 10,000 participants in a typical year. May Fete has only been cancelled twice in since it started in 1924 - once during WWII and again in 2020 during the COVID-19 pandemic.

3) Human Services Administrative Support Staffing

(0.00) Hourly FTE | (1.00) Full-Time | ($123,000)

This action eliminates a benefited position in the Office of Human Services. This position is responsible for assisting the Human Services Manager with various tasks including supporting the Human Relations Commission, posting agendas and minutes, taking meeting minutes, running virtual Commission meetings, communicating with Commissioners; leading the Omega Club for disabled adults; assisting and auditing Human Services Resource Allocation Process (HSRAP) grantees; and administrative duties that support this Office. These duties associated with this position will be absorbed by other existing staff where needed and when possible across the department to assist with critical assignments, resulting in an impact to customer service levels and responsiveness and marketing and outreach. The Omega Club, an activity club for adults with special needs with 9 members currently, would be eliminated. Special community events and workshops previously hosted by the Office of Human Services will likely no longer be supported.

4) Human Services Contracts & HSRAP Reduction

(0.00) Hourly FTE | (0.00) Full-Time | ($246,000)

This action reduces Human Services contracts by 15 percent to Avenidas, Palo Alto Community Child Care, and Project Sentinel, as described below.

- Avenidas, $76,000 reduction: The scope of services in this contract covers the provision of comprehensive services to older adults in the community including information and referral services, case management, counseling, support groups, screening, volunteer opportunities, classes and workshops for older adults that assist physical health and well-being, socialization and lifelong learning, transportation, provision of routine health maintenance provision of services that assist older adults in being able to live safely and independently as a long as possible in their own homes, and establishing partnerships with other local organizations. At this time, it is unknown what areas that Avenidas would have to reduce to respond to any decrease in contract amount.
- Palo Alto Community Child Care (PACCC), $77,000 reduction: The scope of services in this contract covers the administration and management of a childcare subsidy program for approximately 35 low-income children annually enrolled in Palo Alto-based childcare and afterschool programs. Services include all paperwork and processes related to eligibility certification, maintenance of an eligibility list, data tracking and compilation, program revenue and expenditure tracking as well as other subsidy administration services as requested by the City.
- Due to COVID-19 related cohort size restrictions established by the State, PACCC does not have the ability to fully enroll its centers. They are currently operating at approximately 20 percent of their usual capacity. PACCC could decline to continue to operate the subsidy program for the City and there would be a loss of childcare for the children currently receiving care supported by the City.
- Project Sentinel, $10,000 reduction: The scope of services in this contract covers the provision of information, counseling, conciliation, and mediation services for dispute resolution in rental housing, neighborhood, consumers, workplace, person to person, or community disputes for the Palo Alto Mediation Program (PAMP) and provide the same services for the City of Palo Alto Mandatory Response Program (MRP), which is a response to Municipal Code Chapter 9.72 - Mandatory Response to Request for Discussion of Disputes between Landlords and Tenants.
- Most calls received by Project Sentinel are rental housing related, exacerbated by the current COVID-19 pandemic, related to the lack of ability of some tenants to pay rent due to loss in employment income. Local renters have also come to rely on Project Sentinel to help them understand local and state eviction moratorium protections and help them interface with their landlords as needed.
- Human Services Resource Allocation Process (HSRAP) contracts, $82,400 reduction: This action would result in remaining funding of approximately $467,000 to support human service providers. HSRAP is a means of vital support to providers of human services to Palo Alto residents. Key areas of support include basic needs (food, shelter, physical and mental health), services to youth (LGBTQ+, tutoring, mental health, service learning), seniors (including elder abuse), individuals with special needs, and the homeless. There is currently $40,000 in a reserve fund that will be used to offset this reduction.

5) Parks and Open Space Reductions

(0.00) Hourly FTE | (1.00) Full-Time | ($309,000)

This action eliminates 1.00 FTE Recreation Coordinator position in the Parks, Open Space, Golf and Animal Services Division. This position manages the Community Garden program which would either be significantly reduced (for example, vacant plots would not be reassigned and the current waiting list would be suspended), completely dissolved, or transitioned into a fully volunteer-run program. In addition, this position provides administrative support for Parks and Recreation Commission, Open Space, Parks, Golf and

Animal Services Division that would be absorbed by remaining staff in CSD and result in cycle time delays for administrative functions.

This action recognizes savings in parks maintenance through two mechanisms. First, reductions to the external vendor contract by approximately $100,000 (in addition to the $0.3 million reduction in the FY 2021 Adopted Budget) and reassignment of some previously contracted maintenance work to in-house City staff for an additional $98,000 contract value reduction. Maintenance related to safety and health, including trash removal, playground maintenance, and clearing of weeds on pathways and medians where line of sight is impacted, will be prioritized while aesthetic maintenance will be done as resources allow. FY 2022 is Year 4 of a 5-year contract for parks maintenance. The cumulative reduction to the contract from FY 2021 and FY 2022 is 45%.

6) Children's Theatre Closure

(1.21) Hourly FTE | (5.00) Full-Time | ($551,000)

This action would be a further reduction of that included in the FY 2022 Proposed Budget a outlined on page 198 and would close the Children's Theatre to the public, resulting in elimination of performances, classes, and camps and reduction of associated program revenue.

In an average year, Palo Alto Children's Theatre, now in its 89th season, serves more than 60,000 community members with theatrical productions and programs for youth ages 3 through high school. Performing arts education opportunities include onsite classes, camps, and production experiences, and theatre tech training. Several sensory-friendly programs and productions designed in collaboration with the Magical Bridge Foundation will no longer be offered. The Children's Theatre provides theatrical Outreach Productions in schools (grades 3-5) and Dance in Schools classes (grades K-2) in all twelve PAUSD Elementary Schools, exposing over 3,000 students to the performing arts. The Friends of the Palo Alto Children's Theatre provides support by awarding transportation grants to 35 Title I Schools for 3,500+ students to attend student matinee performances, offering free summer camp workshops for under-served families and Ronald McDonald House residents. This reduction leaves a considerable gap in the community as there are no other children's theatres on the peninsula that provide this level of youth involvement, training, and accessibility in and to the performing arts. As this action results in significantly lower usage of this facility, custodial and utilities savings may also be generated.

7) Full Neighborhood Library Closures

(0.00) Hourly FTE | (2.00) Full-Time | ($256,000)

This action eliminates an additional 2.0 FTE and would result in the full closure of the three neighborhood branches (Children's Library, College Terrace, and Downtown) without any available services or collections from those locations. The service reduction in the proposed budget includes material hold or vending machines at the neighborhood branches; this additional reduction does not offer hold or vending machines at the neighborhood branches. Combined this would result in a total of 7.00 FTE full time positions and a 0.28 FTE hourly position. Children's Library, College Terrace, and Downtown will be closed to the public and the materials collections at those branches will be unavailable for holds requests. This reduces public access to physical collections by approximately 25 percent.

The elimination of two Supervising Librarian positions will eliminate program management staffing for programs such as Palo Alto Reads, Book to Action and miscellaneous City projects. General Library programming will also be reduced half compared to FY 2021 levels, a two-third reduction compared to FY 2019 pre-COVID levels. Link+, which allows customers to select books from other library systems to be sent to the Palo Alto Library for pickup, is a heavily requested and utilized service by the community, and it will still be offered to supplement the Library's reduced collection in a targeted manner. Palo Alto Library customers received 10,800 items from other library systems in FY 2019, at an average cost of $15 per book, this represents over $160,000 in value to the community.

PLANNING, TRANSPORTATION & INFRASTRUCTURE

8) Long Range Planning

(0.40) Hourly FTE | (1.00) Full-Time | ($255,000)

This action eliminates 1.0 FTE Principal Planner and 0.4 FTE part-time Management Specialist. This action reduces Department resources to advance long range planning assignments. Staff resources are currently dedicated to the North Ventura Coordinated Area Plan, Housing Element Update, and various land use initiatives and Council priorities. Work on the Housing Work Plan and other Council directed assignments would be delayed until other work is completed, or additional resources added.

9) In-House Sidewalk Program

(0.00) Hourly FTE | (2.86) Full-Time | ($369,000)

This action eliminates 1.00 FTE Cement Finisher, 1.00 FTE Equipment Operator, and 1.00 FTE Cement Finisher Lead position and reallocates positions from the In-House Sidewalk program to Streets Maintenance and Capital Improvement Programs as part of the elimination of the In-House Sidewalk Program.

Public Works is recommending discontinuing the In-House Sidewalk Program that includes routine maintenance and repair through grinding, temporary patching, and replacement of sidewalks. Urgent or emergency services will be performed by the Public Works, Public Services, Streets group, and limited to grinding and temporary patching of specific high priority sections of sidewalks. The replacement of any other sidewalks will be included in the Sidewalk Repairs Capital Project, which will increase the capital program, add to the cycle years, and increase the need for emergency response. In FY 2021, the three position In-House Sidewalk Program team had a vacant Cement Finisher position resulting in the program only handling grinding, temporary patching, and small replacements of less than 80 linear feet.

PUBLIC SAFETY

10) Close Fire Station 2

0.00 Hourly FTE | (4.00) Full-Time | ($329,000)

This action is in addition to those actions outlined on page 214 of the FY 2022 Proposed Budget and eliminates 4.00 full-time sworn positions, removes funding to replace the emergency apparatus at the station, and closes the Fire Station 2 facility. This action builds on the FY 2021 Adopted Budget that approved the elimination of 5.0 positions and temporarily reduced units when firefighters were on leave, rather than staffing units with overtime; reduced incident response resources and staffing; and moved towards a "brown out" flexible staffing model. Fire Station 2 was "browned-out" on evenings during weekdays (10PM to 8AM) and weekends (all hours). When a Fire Station is "browned-out" it is staffed only when all employees show up to work that day. From August 2020 to December 2020, Fire Station 2 was "browned-out" 88 percent of the time; this action will close the facility. Coverage of the citywide 6,500-8,500 annual calls for service will be provided by the City's four remaining fire station units, as well as the Stanford University fire station.

Fire Station 2 is located at 2675 Hanover Street, in the College Terrace neighborhood off Page Mill Road. The Station is equipped with three apparatus that are cross-staffed by three firefighters, including a minimum of one paramedic. Crew workload, measured by the Unit Hour Utilization (UHU), is the amount of time firefighters are on emergency incidents; however, other required activities (including incident report writing, training, administrative duties, etc.) are not factored into the UHU calculation. The National Fire Protection Association (NFPA) states that the recommended maximum allowable time to be committed to an emergency incident is 25 percent. The action will result in the 3-5 remaining units to exceed the NFPA recommended maximum UHU Rate of 25 percent. ICMA recommends the allowable time committed to be 30 percent; this action will result in the 2-3 remaining units to exceed the UHU rate of 30 percent.

Response time is the measure of how long it takes for a unit to arrive on the scene after a 9-1-1 call is received. It is the Department's objective to have an initial responding unit arrive within eight minutes, 90 percent of the time; this response time criteria is in line with fire departments in the Bay Area. It is anticipated that this action will result in increased response times citywide by 11-14 seconds (to eight minutes, thirty-eight seconds) and in the Fire Station 2 response area by approximately 30 seconds (to nine minutes, nineteen seconds).

The services agreement contract with Stanford will require a written notice of changes and any disproportionate impacts on fire protection services for the campus, response times, payment obligations and shared costs. Stanford reimburses the City approximately $6.2 million annually to provide fire services to the University; however, the overall contract and amount of reimbursement will likely need to be adjusted due to overall reduced service levels by the Department. In addition, the reliance on neighboring jurisdictions for mutual aid, such as Mountain View or Menlo Park, will increase by 13-18 percent, and medical transports from Santa Clara County Ambulance will increase by 11-17 percent. Fire Station 8 in Foothills Park will continue to be staffed on high fire danger days. Staff is also looking to staff Station 8 throughout the fire season through cooperative agreements with neighboring fire agencies.

11) Reduce Police Department Detective Staffing

(0.00) Hourly FTE | (4.00) Full-Time | ($639,000)

This action reduces 4.00 FTE Detective positions in Investigations, reducing total Detective staffing from 6.00 to 2.00 positions (67 percent decrease).The Department will prioritize investigation of the most serious crimes against persons, such as homicide, robbery, assaults, hate crimes, sexual assaults, domestic violence, and elder and child abuse, along with sex offender registration tracking. The more prevalent and less consequential crimes against property, such as auto burglary/theft from vehicle, residential or commercial burglary, financial crimes, fraud, organized retail theft, embezzlement, and vandalism will be investigated as staffing allows - including utilizing Patrol officers when possible. This proposed staff reduction is anticipated to impact solve rates for property crime, property crime arrests, public information press releases of arrests, and supplemental rapid response to large-scale incidents such as airplane accidents, missing at-risk citizens, active shooter, barricaded subjects and geo-emergencies, which can overwhelm Patrol resources. The development of a Detective is a minimum of three years following the initial two-year recruiting, hiring and training cycle, thereby creating an extended number of years between re-instatement and implementation of a Detective program.

12) Reduce Records and Evidence Staffing

(0.0)0 Hourly FTE | (3.00) Full-Time FTE | ($332,000)

This action reduces 3.00 FTE in Records and Evidence, reducing staffing from 10.00 to 7.00 FTE. Department will continue to prioritize mandated activities in the Information Management (Records) unit along with processing required documents for criminal matters, including information and cases to the courts and, in parallel, entering data to support all levels of police services. The state mandate pertaining to the public's right to inspect and request copies of any public record require Department staff to make a determination of whether records are available and disclosable, and to provide requestors with a response, as well as reasons thereof, within 10 days of request receipt. While extensions are allowed in some circumstances, failure to adhere to these requirements may result in penalties.

Further staffing reductions in this unit are expected to cause a impacts throughout the organization. The reduced capacity to process data will constrain future field work - which will need to be managed accordingly. Additionally, non-mandated, however, a best practice, of the after-the-fact internal quality review process of emergency medical dispatch (known in the industry as EMD QA), is currently being performed part-time. This process supports the Fire Department and results in improved patient care/outcomes and reduced City exposure, but would be at risk as a result of realigning the Records workload to the staff performing this function (whom also manage the false alarm program as a result of previous reductions). Lastly, non-mandated public lobby hours will be reduced 63 percent to allow staff to focus on the mandated and first priorities. Current open hours will change from Monday through Friday 8AM-5PM, to Tuesday and Wednesday 8AM-1PM, Thursday 12PM-5PM, and closures on Mondays and Fridays.

The Department will prioritize the preservation of evidence and moving physical evidence to the courts - the second priority will be collecting evidence. This 50 percent reduction in staff will have a significant impact on operations, such as reduced capacity to process major crime scenes for evidence in court (thus leaving the task to patrol officers as time permits) and reduced ability to provide evidence training for members of the Crime Scene Investigation Unit. Further, the public may experience delays in the return of found or recovered property to respective owners; delays in submitting evidence to the Santa Clara County Crime Lab, delaying the investigation of major cases; delays in the ability to legally purge evidence kept in storage, in accordance with state law and Department policy, resulting in overcrowding of evidence storage facility and a possible necessity to invest in increased off-site storage; and delays in obtaining court orders to allow for the legal disposal of certain types of property and evidence.

13) Reduce Community Service Officer (CSO) Staffing

(0.00) Hourly FTE | (2.00) Full-Time | ($232,000)

This action reduces 2.00 CSO positions in Parking Enforcement, reducing total CSO staffing from 6.00 to 4.00 FTE. Community Service Officers (CSOs) are non-sworn staff that serve two main functions based on their training. The primary function is Parking Enforcement in timed parking zones, primarily on University and California Avenues, as well as the adjacent city parking garages. The recently added function for two of the six CSOs is supplementing patrol operations, specifically attending to matters that do not require an armed response. Examples include non-criminal vehicle collisions, thefts with no suspect information, and traffic control at larger calls for service. Should the positions be eliminated, it becomes a trade-off between maintaining the non-sworn response or maintaining parking enforcement and the subsequent revenue that sustains the program. Further, this is the unit that serves the City's response to the 72-hour parking ordinance.

CITYWIDE STRATEGIC PLANNING, INTERNAL SUPPORT & ADMINISTRATION

14) Administrative Support Staffing Reduction

0.00 Hourly FTE | (1.00) Full-Time | ($145,000)

This action eliminates 1.0 FTE Administrative Associate III position in the Administrative Services Department (ASD) on an ongoing basis reducing administrative support by a combined 66 percent since FY 2020 levels. This elimination results in a single administrative support position (Administrative Assistant) remaining for the department of over 40 staff and seven divisions. The administrative support function in ASD provides support for invoices, public records act requests, staff reports, departmental safety officer, productions of various documents including the graphics and publication of the annual operating and capital budgets and comprehensive annual financial report, and other adjunct duties to support the daily operations of the Department and inquiries received from the public. Typically, the Department issues between 50 and 80 reports annually to the City's various governing bodies, answers 70 public records requests all specifically from the Department annually, and issues at minimum six public documents in the City Manager's Proposed, Adopted, Operating, Capital, and Municipal Fees documents and Comprehensive Annual Financial Report that the administrative team has handled. A reduction from 3.0 FTE to 1.0 FTE position managing this for the Department will impact technical staff and require technical/professional staff to absorb some duties that may not go away statutorily as well as delays and significant reduction in the timeliness and quality of work submitted by the Department. Staff would prioritize requests and limits the transfer of institutional knowledge and decreases capacity in the department to accomplish administrative tasks. This elimination will result in individual contributors and working managers taking on administrative functions in addition to their standard work which will restrict ASD's ability to take on additional special projects, program analysis, and policy evaluation for the organization. (Ongoing savings: $145,000)

15) Warehouse Staffing Reduction

(0.48) Hourly FTE | (0.00) Full-Time | ($19,000)

This action eliminates a vacant part-time 0.48 FTE Stock Clerk position in the Stores Division of ASD. Historically, this position has been responsible for distributing materials to different libraries for hold pick-ups and shifting collections as well as augmenting staffing at the Municipal Service Center (MSC) warehouse. This additional staffing has been used in cases of injury and workers' compensation while employees recover and for redundancy in staffing for safety precautions onsite; service delivery impacts will result should an injury occur among the warehouse staff after the elimination of this position. As an internal service department, service delivery reductions in ASD impact the entire organization and may result in longer cycle times to provision city functions such as utilities, public works, and others that depend on the stores and warehousing function to perform their work. Specifically, one of the duties impacted would be the route of delivery to various City facilities mail and deliveries, namely the movement of library materials between branch locations. However, should the three neighborhood branches be closed, this too could be reduced due to the closure of these three sites. (Ongoing savings: $19,000)

16) Reduce Human Resources Information System and Training

(0.00) Hourly FTE | (0.50) Full-Time | ($65,000)

This action eliminates the equivalent of 0.50 FTE in the Information System and Employee Relations and Training Divisions in the Human Resources Department. This will result in on-going reduced capacity for the administrative, technical, and analytical support for assigned programs and functions.