



City of Palo Alto

City Council Staff Report

(ID # 11872)

Report Type: Action Items

Meeting Date: 3/1/2021

Summary Title: FY 2021 Mid-Year Budget Review, Rental Assistance and Preliminary Q2 Financial Status Report

Title: Review the FY2021 Mid-Year Budget Review and Approve Budget Amendments in Various Funds; Provide Direction on (a) Potential Rent Forgiveness Programs for City Tenants and (b) Waiver of the Business Registry Certificate and Downtown Business Improvement District Fees

From: City Manager

Lead Department: Administrative Services

RECOMMENDATION

Staff recommends that the City Council review, discuss and act on the following items for consideration:

- 1) Amend the Fiscal Year 2021 Budget Appropriation for various funds and various capital projects, as identified in Attachment A, Exhibits 1 and 2 (requires a super majority, 2/3 approval);
- 2) Review priorities for use of the \$744,000 COVID-19 Council Reserve, set aside during the FY 2021 Adopted Budget and provide direction on usage as appropriate;
- 3) Review capital projects expected to begin construction by fiscal year end;
- 4) Approve the creation of a rent forgiveness program to qualified City tenants (non-profit and/or for-profit) and authorize the City Manager to execute amendments to all leases in accordance with the City Council established program (Attachment B);
- 5) Direct staff to return with the necessary documents to waive the business registration fee (Palo Alto Municipal Code Chapter 4.60) due and payable in calendar year 2021 and the assessments typically levied for the Downtown Business Improvement District (BID) for FY21; and
- 6) Direction to eliminate the equivalent of 83 full-time and 107 part-time positions (76.50 FTE and 26.18 FTE respectively) that were frozen and defunded as part of the FY 2021 Adopted Budget in the upcoming FY 2022 Budget.

EXECUTIVE SUMMARY

Annually, staff brings forward recommendations to adjust the adopted budget as part of the Mid-Year Budget review. Recognizing that discretionary decisions should be made through the annual budget process in May/June, the recommended Mid-Year budget adjustments are typically largely ministerial.

In light of the current pandemic and the impacts of COVID-19, as previously discussed with the City Council, staff have modified this FY 2021 Mid-Year Budget Review to be a more robust, and significant action for City Council review. Significant adjustments are recommended to realign the FY 2021 budget with current projections and proactively address the forecasted shortfall in revenues versus expenses in FY 2022 and beyond, as outlined in the FY 2022- 2031 Long Range Financial Forecast ([CMR 11954](#)). The budget appropriation actions require a super majority approval by the City Council (PAMC 2.28.080(c)(1)).

The City continues to actively manage its finances considering significant uncertainties from the ongoing pandemic and related economic challenges. As the City and the County move through different phases of recovery, the City adapts operations to best support and serve the community. As a result of County Public Health Orders and State Public Health restrictions, these changes impact both the cost of delivering City services and the revenues that pay for them (both taxes and fees). Often, staff continues to find tension in resource availability and demands for extreme flexibility and nimbleness in an environment that requires increased resources to deliver the same quantity of service in modified ways to ensure the safety of the community and employees.

In general, experts have previously believed that we reached the bottom of financial impacts during the second quarter of 2020, when strict shelter-in-place orders restricted movement and commerce other than core essential activities. However, the forewarned second surge that has hit the community in November – January and its impacts remain largely unknown. As predicted, the anticipated wave resulted in similarly severe restrictions, restricting daily activities once again to levels seen during the second quarter of 2020. It is obvious but important to reiterate that there remain several risks and uncertainties, including:

- The pace of vaccination rollout as well as the pace of consumer confidence in the economic recovery, its stability and safety;
- The length of the recovery period and how fast recovery could take; this will significantly impact the City's most sensitive tax bases;
- The structural changes as a result of the societal adaptations due to COVID-19, including impacts to daytime population, whether it be workers, students/faculty/staff at Stanford University, or changes to the City's resident population.

The City continues to be significantly impacted by the recessionary period and continues to be mindful of this in its day to day business and spending in this context. Included in this report are not only adjustments to amend the FY 2021 Adopted Operating and Capital budgets, but also several restrictions including a freeze on hiring, travel, and additional programmatic actions that impact services, City tenants, and businesses.

This report contains: (a) significant adjustments that are recommended to realign the FY 2021 budget with current projections, (b) adaptations to current and new programs referred by the City Council to staff, and (c) a preliminary 2nd Quarter Financial status. This report is organized as follows:

- FY 2021 Mid-Year Budget Adjustments
- Current CIP Projects expected to be brought forward for construction contract award in FY 2021
- A potential rent forgiveness program for City tenants (non-profit and/or for-profit)
- 2021 Business Registry Certificate Program and Downtown Business Improvement District fees continued pause
- Preliminary Q2 Financial Status: Operating Budget & Capital Budget

In these sections adjustments to realign the FY 2021 Adopted Budget are recommended working to strategically adjust revenues and expenses with actual activities and services levels, especially in areas due to vacancies. The balancing strategy works to preserve reserves to the extent possible. Staff has been conservative in these estimates and expects to bring forward a year end budget adjustment report in June with any additional refinements to budgeted levels based on the most current information available.

BACKGROUND

Recognizing that discretionary decisions should be made through the annual budget process in May/June, the recommended Mid-Year budget adjustments are typically largely ministerial. This was confirmed in 2016, as staff and the Finance Committee altered the Mid-Year budget process and turned this report into a status update based on actual financial activities in the prior and current fiscal year and to implement previously approved City Council direction.

This report focuses on recommended changes to the FY 2021 Adopted Budget. Where possible, budget change recommendations are brought forward for City Council consideration as part of the approval of the Mid-Year Budget Report to consolidate requests and streamline changes to budget appropriations. These adjustments are necessary as revenues and expenditures vary from the original budget plan for many reasons, including but not limited to changes in economic factors, project estimates and scope, and City Council policy and direction. The Mid-Year Budget Report reflects adjustments for prior City Council approved direction, clean-up actions based on FY 2020 actual experience or current FY 2021 actual activities.

As a reminder of the recent history of financial impacts, recognizing the severity of the public health emergency and its impacts on the City's financial situation, in Spring 2020 the City Council directed staff to assume a more conservative revenue estimate reflecting a loss of \$39 million in General Fund tax revenues in FY 2021 ([CMR 11315](#)) from previously projected levels for FY 2021 prior to the onset of the pandemic. Actual FY 2020 revenues fell \$16.7 million below prior year levels of \$180.4 million in FY 2019. In prior years, Sales Tax and Transient

Occupancy Taxes (TOT) alone made up nearly 30 percent of the General Fund revenues, both of which continue to see significant declines.

As a result of the City Council's direction, staff returned with service reductions to prioritize essential services and pare back discretionary services in order to align expenses with the lower revenue estimates. More than 60 percent of the City's General Fund budget funds the outstanding workforce delivering the City's services every day and staff and resource reductions were unavoidable. The City's General Fund workforce was reduced by 11.3 percent, as 83 full time staffing positions (76.50 FTE) were frozen and defunded and 107 part-time positions (26.18 FTE) being frozen and defunded as well. This is an 18 percent reduction in force able to deliver services to the community.

Despite these reductions, the adoption of the FY 2021 budget ([CMR 11330](#)) ensured that the City continues to proactively pay for long term liabilities and continues capital investments in its most critical infrastructure. It also provides resources for the City to successfully adapt from 'shelter in place' to future service delivery models and establishes funding to support those service delivery transitions and for this reason, a reserve of \$744,000 was established for the City Council to address ongoing or additional unforeseen impacts from COVID19. These funds are to be allocated based on resource needs related to Community Services, ongoing COVID-19 Response, Public Safety Operations, and Shuttle Systems, or other priorities proposed by staff. This list is a working list that can be adjusted based on needs as recommended by staff and directed by the City Council. This report does not recommend use of these funds; however, they may be a funding source for a potential rent forgiveness program.

Staff has provided regular updates on the City's financial status providing opportunities to review services and identify any changes in priorities. In addition, forecasts for FY 2022 and beyond have been discussed with the City Council to assist in providing a longer outlook beyond June 30, 2021 and begin work on planning for FY 2022 and the continued contraction of available resources. Prior staff reports providing various fiscal updates for Council deliberations are below. This does not include information items that have been distributed for quarterly reporting such as investments.

- October 19, 2020, City Council ([CMR 11596](#)): *Preliminary Q1 Fiscal Year (FY) 2021 Financial Status Discussion and Potential Direction to Staff on Budget Revisions, Staffing Revisions, and Next Steps in Monitoring, Modeling, and Addressing Recovery Planning Approaches*
- November 30, 2020, City Council ([CMR 11790](#), [meeting video](#)): *Study Session on Community and Economic Recovery Strategies and Engagement*
- December 15, 2020, Finance Committee ([CMR 11844](#)): *Review and Recommend That the City Council Accept a Preliminary Forecast for Fiscal Year (FY) 2022 and FY 2022 Budget Development Guidelines*
- December 15, 2020, Finance Committee ([CMR 11750](#)): *First Quarter FY 2021 Financial Report*

- January 25, 2021, City Council ([CMR 11808](#)): *Update on Status of Capital Improvement Fund and Potential Direction on Prioritization of Projects for the FY 2022 Budget and 2022-2026 Capital Improvement Plan*
- February 8, 2021, City Council ([CMR 11954](#)): *Review the Potential Financial Scenarios and Direction to Staff on Development of the Fiscal Year (FY) 2022 Budget, Review and Accept the FY 2022 Budget Development Guidelines, and Review and Accept the FY 2022 - 2031 Long Range Financial Forecast*

As discussed with the City Council on February 8th in reviewing potential financial scenarios, data is gathered and reviewed throughout the fiscal year. This item is intended to be a touch point and continuation of providing new information since the in-depth City Council budget and fiscal discussions held in May and June 2020. This report seeks Council input on several areas of staff work ahead and also outlines next steps and timing for a series of City Council conversations planned to focus on fiscal monitoring, community and economic recovery, and more. Status of the City's financial condition as of the 2nd quarter of FY 2021, based on new information and review of key indicators in the General Fund are discussed and includes reporting for all other funds.

DISCUSSION

Considering the current pandemic and the impacts of COVID-19, as previously discussed with the City Council, staff have modified this FY 2021 Mid-Year Budget Review to be a more robust, and significant action for City Council review. This item serves as a continuation of the many touch points as the City maneuvers through these uncertain times and works to remain agile based on the most current information available. Further strategic work continues aside from the financial reporting discussed above, focused on a Community and Economic Recovery Strategy. Findings and recommended adjustments in this report are based on the data available at the time of reporting and do not reflect true 2nd Quarter financial activity in FY 2021. Final Q2 data will not be available until the end of March 2020.

FY 2021 Mid-Year Budget Adjustments

The following is an overview of the status for the General Fund, Enterprise Funds, and other funds including recommended budget adjustments as they pertain to the City's FY 2021 Operating and Capital Budgets.

Overview of Mid-Year Balancing Strategy

This mid-year report serves to report the preliminary 2nd quarter financial status and also proposes a number of budget adjustments to align revenues with year-to-date activity and estimates. The General Fund net budget shortfall as of mid-year totals \$5.2 million and was driven by revenues impacted by COVID-19, including the City's major tax revenues, department revenues associated with cost-recovery activities, and delays in implementing Fire fee that were part of the balancing strategy in the Adopted Budget. The following table outlines the major drivers of the General Fund mid-year gap along with staff's proposed balancing strategy to offset the collective impact of these activities:

Table 1: General Fund Mid-Year Gap and Balancing Solutions

Items Contributing to Budget Gap	
Department Revenue Alignment due to Economic Impact	\$(4.3) M
Net impact of Major Tax Revenues (decrease in TOT, UUT, offset by increases in Property Tax, Sales Tax, and DTT)	(3.2) M
Deferred Implementation of Fire Fee Revenue	(1.6) M
Delayed Opening of Junior Museum and Zoo	(1.0) M
Service Alignments	(0.1) M
Recognize CARES Act Funding	0.9 M
Reduce Transfer to Capital Fund; align with TOT revenue estimate	4.5 M
Total General Fund Mid-Year Gap	\$(4.8) M
Proposed Balancing Solutions	
Department Service Reductions/Alignments (vacancy savings included)	\$0.9 M
Eliminate Remaining Travel Budget	\$0.3 M
Reduce Management Development Funding from Previous Years	\$0.1 M
Use Department Economically Sensitive Revenue Reserve	\$3.5 M
Total Proposed Balancing Solutions	\$4.8 M

Items Contributing to the Gap

Department Revenue Alignment due to Economic Impact: These adjustments include reductions in parking citation revenue due to discontinuing parking enforcement; aligning ambulance transport revenue to historical trends; and revenue and cost alignments for the Art Center, Recreation, Children's Theatre, and facility rental as a result of continued discontinuation of services due to COVID-19 impacts.

Decrease in Major Tax Revenues and Reduce Transfer to Capital Fund: Overall, it is estimated that major tax revenues will fall \$3.2 million below the FY 2021 Adopted Budget. This reflects the net impact of an approximately \$11 million reduction in Transient Occupancy Tax (TOT) and Utility User Taxes (UUT), partially offset by higher Property Tax, Sales Tax, and Documentary Transfer (DTT) estimates. In alignment with the City Council policy to dedicate a portion of TOT receipts to infrastructure investments, a recommended \$4.5 million reduction in the transfer to the General

Capital Improvement Fund aligns the budgeted expense with current revenue estimates. This adjusted level is consistent with the projections for CIP financial status in the most recent staff reports to the City Council. Additional detail for these adjustments is detailed in this staff report.

Deferred Implementation of Fire Fee Revenue: The FY 2021 Adopted Budget includes \$1.9 million in fee revenue for a First Responder Fee and an Ambulance Subscriptions. Staff has retained a consultant to assist with implementation of the First Responder Fee and is expected to begin reporting to the City Council on this item during FY 2022. Work on the Ambulance Subscription Fee is in progress and has been presented to the Finance Committee in December 2015. The Department is working on a revised report to Council for March/April and anticipates an 80 percent reduction in the revenue estimated from this fee.

Delayed Opening of Junior Museum and Zoo: The continuing community impact of COVID-19 has necessitated the delay of the opening of the new JMZ from March 2021, which results in revenue decreases in ticketed entry and membership sales and cancelled activities due to health order limitations on gatherings. This action also recognizes expense savings from the postponed opening in areas such as staff hiring delays, marketing, accreditation-related activities, and new animal care and transport.

Proposed Balancing Solutions

Department Service Reductions or Alignments: Proposed department service reductions and alignments of program costs total \$0.9 million, of which \$0.5 million are ongoing and are anticipated to be proposed during the FY 2022 budget process. Detail for these reductions can be found in Attachment A. This includes proactive recognition of vacancy savings in Community Services, Public Works, and Administrative Services Departments for position vacancies during FY 2021 that are expected to be brought forward as part of the FY 2022 Proposed Budget.

Eliminate Remaining Travel Budget: Health orders discourage non-essential travel and require mandatory quarantine after long distance travel into Santa Clara County. In addition, professional organizations and other agencies have switched to virtual meetings and conferences. Staff proposes that remaining travel expense budget be eliminated this fiscal year as staff continue to freeze travel.

Reduce Management Development Funding from Previous Years: The Management Training Program provides \$1,000 per eligible employee (MGMT and PAPMA) to provide employees with resources to improve and supplement their job and professional skills. Savings from previous years of \$0.1 million is proposed to be eliminated. The funding allocation for current year remains intact.

Department Economically Sensitive Revenue Reserve: Consistent with the direction given by the City Council on May 4, 2020 ([CMR 11315](#)), the FY 2021 Adopted Budget includes a \$5 million reserve to offset the unknown impact of department economically sensitive cost-recovery activities. The FY 2021 Adopted Budget was developed assuming that shelter-in-place orders would be lifted shortly after December 2020 and normal social and economic activities would resume. It was expected and anticipated that departmental revenues would fall below budgeted levels, it however was unknown exactly where depending on health orders. Therefore, funding was set aside in anticipation of this mid-year adjustment. As departments have revenue operational activity through December and forecast through the end of the fiscal year, \$3.9 million of this reserve is used as a balancing solution.

Other Recommended Adjustment Highlights

In addition to realigning the General Fund, other adjustments are included in this report, generally grouped into four types of transactions:

- **Prior City Council Direction/Clean-up actions:** These technical adjustment requests adjust the current budget levels to align with anticipated year end revenue or expenditure levels and fix inadvertent errors in the adopted budget. “Prior City Council Direction” actions complete the technical budget adjustments in alignment with direction that was approved by the City Council in a separate agenda item. Typically, mid-year adjustments fall in this category.
- **Reimbursements and Grants:** These requests adjust grants, reimbursements, and fee revenue and expenditure estimates to align with current year end projected levels as appropriate. This type of request normally has a net-zero impact.
- **Time-sensitive supplemental funding to reflect pending expenses:** These are requests for additional funding to address critical programs or service delivery needs. These adjustments are being brought forward ahead of the annual budget process because the need either cannot or should not wait until the next fiscal year.

The highlights below in addition of full details of all recommended actions can be found in more detail in Attachment A. Major adjustments include but are not limited to:

Time-sensitive supplemental funding to reflect pending expenses:

- Library Automated Material Handling to purchase hold lockers and lending kiosks from impact fees (\$220,000)

Prior City Council Direction/Clean-up actions:

- Community and Economic Recovery Plan resource allocation, as approved by the City Council on January 25, 2021 ([CMR 11967](#)) Including funding for Fiber to the Home (\$200,000), Workplace facility adaptations (\$500,000), and University Avenue Streetscape Update (\$150,000).
- Recommended transfer of impacts fees for capital investment as outlined in the Annual Status Development Impact Fees FY 2020 report ([CMR 11875](#))

Reimbursements and Grants:

- Public Safety Strike Team Reimbursements: \$1.0 million in revenue for reimbursements that have been confirmed from the State of California, and a corresponding increase to the Fire Department's overtime budget for deployment of public safety personnel on strike teams.
- Local Early Action Plan (LEAP) Grant: \$300,000 This net-neutral action increases appropriations for a reimbursable grant from the California Department of Housing and Community Development (HCD) for technical assistance, preparation and adoption of planning documents, and process improvements to accelerate housing production and facilitate compliance to implement regional housing needs assessment.

FY 2021 Adopted Budget Reductions

In addition to the above mid-year balancing strategies, staff also seeks the City Council's direction to eliminate positions that were frozen and defunded in the FY 2021 Adopted Budget as part of the FY 2022 Proposed Budget. As discussed in the FY 2022 – 2026 Long Range Financial Forecast ([CMR 11954](#)), the Forecast does not assume restoration of these positions and under this assumption the City continues to forecast gaps in future years. Changes approved as part of the FY 2021 Adopted Budget are summarized below and outlined in detail in [CMR 11330](#). This is a significant adjustment to services levels as the FY 2021 \$40 million gap was solved by reductions in services through defunding staffing and a reduction of General Fund investment in capital infrastructure (both base transfer and TOT receipts) by \$18.4 million in FY 2021. Although services are outlined below, the pandemic has restricted activities via health orders and as discussed at the February 8, 2021 City Council meeting, it is likely the community has not felt the full impact of these reductions yet.

Public Safety: FY 2021 adjustments included an increase of \$1.55 million in program revenues and a reduction of \$7.3 million in expenses in the General Fund, including 33.27 full-time and 2.28 part-time staffing freezes. These actions included suspensions of specialized police units such as the traffic enforcement and investigation units to maintain police patrol services and shift the priority of police services to urgent calls, lowering capacity to respond to nonurgent calls. Limited officer training, promotional testing, uniform purchases and eliminated or changed to full cost recovery non-essential programming such as school resource officers. Curtailed dispatch, communication, and emergency preparedness services, as well as emergency incident response and training and work to adopt fees to increase revenue for first responder and ambulance subscription.

Community & Library Services: FY 2021 reductions included \$0.3 million in program revenues and \$4.9 million in expenses in the General Fund, including 16.1 full-time and 21.02 part-time staffing freezes. These actions reduced library hours at all branches, keeping neighborhood libraries (Children's, Downtown, and College Terrace) open three days a week and full-service branches (Mitchell Park and Rinconada) open six days per week. This includes greater cost-recovery through changes in service delivery, charges for services, and/or limiting operating

hours for facilities such as the new Junior Museum and Zoo (JMZ), community centers, open space preserves, the Children's Theatre, and the Art Center. These actions also reduced or eliminated programming such as special events, art exhibits, human services activities, and teen programs.

Planning, Transportation, and Infrastructure: FY 2021 reductions included \$2.1 million in program revenues and \$6.1 million in expense in the General Fund, including 8.25 full-time and 1.44 part-time staffing freezes. Included were actions to reduce administration, code enforcement, front counter support, and inspection services. Understanding that this could delay services to the development community, the building inspection and plan review team was reorganized to minimize the impacts to lead times for inspections, progress on the Energy Reach Code, and the ability to meet next day inspections. The Crosstown and Embarcadero shuttle programs were eliminated, and the delivery of this service redesigned to reduce costs. Additionally, funding for tree trimming and vehicle replacement was reduced for one year and rate changes in various utility enterprise funds were suspended for the coming year(s).

Internal Services & Council Appointed Officers: FY 2021 reductions included \$2.9 million in operating expenses in the General Fund, including 5.9 full-time and 0.96 part time staffing freezes. Internal Services departments include the Information Technology, Human Resources, and Administrative Services Departments as well as the Council and appointed officers (City Manager, City Attorney, City Auditor and City Clerk). Reductions in these areas align with the changes in services, increasing timeframes for assistance and review in areas such as recruitments, procurements, performance reporting, and risk management. Technology solutions will be constrained to only essential contracts and systems and support equipment needs as the majority of our workforce continues to work from home. The City Council, Innovation and Special Events, and Human Recourses contingency accounts were eliminated in FY 2021 on a one-time basis.

Current CIP Projects Expected to be Brought Forward for Construction Contract Award by the end of FY 2021

Below list of General Capital Improvement Fund projects that staff expects to present to the City Council for award of construction contracts before the end of the fiscal year. Projects expected to award in FY 2022 are not included and would be addressed during fiscal year reappropriations.

Recognizing recent Council discussions and interest in reprioritizing projects, this information is provided to keep the City Council informed of project status prior to the full review of capital investments scheduled to be part of the FY 2022 Proposed Capital Budget. This interim step prior to review of the overall CIP allows the Council, should it wish, to redirect staff efforts on these projects.

**Table 2: Capital Projects Expected to be Brought Forward
for Construction Contract Award by the End of FY 2021**

FY 2021 Adjusted Budget	Project Number	Project Title	Project Summary and Status
2,362,282	AC-18001	JMZ Renovation	This project supports the City's contributions to the new JMZ. A contract for fabrication of exhibits is expected to be brought to Council for approval before the end of Fiscal Year 2021.
2,485,231	PE-08001	Rinconada Park Improvements	This project will provide safety, site amenities, playground facilities, irrigation, drainage and ADA accessibility improvements. The planned new restroom has been removed from the scope of work to reduce cost, and a construction contract is expected to be brought to Council for approval before the end of Fiscal Year 2021.
8,046,137	PE-13011	Charleston/Arastradero Corridor Project	This project provides new landscaped median islands, bulb outs, enhanced bike lanes, traffic signal improvements and new street trees for the corridor. A construction contract for the project's third and final phase is expected to be brought to Council for approval before the end of Fiscal Year 2021.
667,056	PE-15020	Civic Center Waterproofing Study and Repairs	This project will repair the expansion joint on King Plaza and replace the waterproof coatings on the inside of the plaza perimeter planter boxes. A construction contract is expected to be brought to Council for approval before the end of Fiscal Year 2021.
950,000	PE-18004	Fire Station 4 Replacement	This project will replace Fire Station #4 at the corner of Middlefield Road and East Meadow Drive. A design contract is expected to be brought to Council for approval in March.
606,314	PE-18016	Civic Center Fire Life Safety Upgrades	This project will assess, update, and replace the Civic Center fire alarm system. The fire alarm panels and associated equipment need an upgrade to meet current code requirements. A construction contract is expected to be brought to Council for approval before the end of Fiscal Year 2021.
314,800	PE-20002	City Facilities Assessment and Record Plan Management System	This project will conduct an assessment of all City facilities, including an electrification assessment in support of the City's "80x30" sustainability goal. A consultant contract is expected to be brought to Council for approval before the end of Fiscal Year 2021.
404,050	PE-21003	Magical Bridge Playground Rubber and Synthetic Turf Resurfacing	This project will replace the rubberized and synthetic turf surfacing in the playground. A construction contract is expected to be brought to Council for approval before the end of Fiscal Year 2021.
11,616,43	PE-86070	Street Maintenance	This project includes the annual resurfacing, micro-

5			seal, crack seal and reconstruction of various city streets. Contracts for the FY 2021 Streets Preventive Maintenance Project and the FY 2021 Street Resurfacing Project are expected to be brought to Council for approval before the end of Fiscal Year 2021.
452,478	PF-01003*	Building Systems Improvement	This project provides electrical, mechanical, plumbing, structural, and security upgrades for City facilities. A construction contract for the Mitchell Park tennis courts lighting upgrade is expected to be approved by the City Manager before the end of Fiscal Year 2021.
6,523,608	PF-16006	Municipal Service Center Lighting, Mechanical, and Electrical Improvements	This project will replace original MSC mechanical, electrical, and lighting systems installed in 1966. A design contract amendment for additional electrical design work is expected to be brought to Council for approval before the end of Fiscal Year 2021.
2,169,800	PF-17000	Municipal Service Center A, B, & C Roof Replacement	This project will replace the existing MSC roofs. A construction contract is expected to be brought to Council for approval before the end of Fiscal Year 2021.
209,000	PG-14000	Ramos Park Improvements	This project includes safety and accessibility improvements, including replacing the existing park playground, benches, drinking fountains, and resurfacing the basketball court playing surface, as well as installing a new restroom (separate and additional restroom funding is provided by the Parks Restroom Installation CIP project). A construction contract is expected to be brought to Council for approval before the end of Fiscal Year 2021.
217,800	PG-14002*	Cameron Park Improvements	This project will upgrade and renovate safety and accessibility features with a primary focus on the park playground. A construction contract is expected to be approved by the City Manager before the end of Fiscal Year 2021.
2,726,860	PL-15002	Downtown Automated Parking Guidance Systems, Access Controls & Revenue Collection Equip.	This project includes design and installation of new automated parking guidance systems. A construction contract is expected to be brought to Council for approval before the end of Fiscal Year 2021.

*projects with contract amounts anticipated to be under the \$250,000 threshold requiring Council approval

Potential Rent Forgiveness Program for City Tenants (Non-Profit and/or For-Profit)

At the October 19, 2020 City Council meeting, staff recommended that the City Council discuss Palo Alto's current fiscal status and provide direction to staff on potential budget actions, including on rental relief for City non-profit and for-profit tenants. City Council requested staff bring back options to provide rental relief for a defined period of time for the City's tenants. This staff report provides a time bounded rent forgiveness program to City tenants with various criteria to meet qualifications.

Staff recommends the City Council approve the creation of a rent forgiveness program to qualified City tenants and authorize the City Manager to execute amendments to all leases in accordance with the City Council established program.

Here are some options of rent forgiveness to consider:

Table 3: Rent Forgiveness Program Options for Consideration

Rent Forgiveness Options to Consider	Estimated Impact Cost	Estimated Impacted Stakeholders	Time Covered
Option A – Rent Forgiveness for All Active Tenants	\$875,000	67 tenants – (For-profits, Non-profits, Small Businesses, Large Businesses)	3 months
Option B – Rent Forgiveness for Active and Non-Operational Tenants	\$751,000	58 tenants – (For-profits, Non-profits, Small Businesses)	3 months
Option C – Rent Forgiveness for Active and Non-Operational Non-Profit Tenants	\$203,000	19 tenants – (Non-Profits)	3 months
Option D – No Rent Forgiveness	\$0	N/A	N/A

Staff recommends Council approve the following qualifications for tenants to participant in this program:

1. The rent forgiveness program is available to those tenants that have satisfied all responsibilities under their existing agreement, have no outstanding delinquencies for any payments due prior to April 1, 2020, and is a current tenant as the date of the application.
2. Tenant must cite section(s) of the County ordinance that restricted tenant's operations.
3. Rent over \$100 per month including operating expenses.
4. Tenants will be required to complete a form describing their impact from the COVID-19 pandemic and provide financial statements demonstrating the amount of reduced business revenue.
5. The business must have had gross revenues of less than \$2.5 million in 2019.

6. The business must provide an income statement demonstrating a decline in gross revenue during 1st half of 2020 of at least 50% from 1st half of 2019.
7. If a qualified tenant paid rent during the forgiveness period instead of deferring, it may qualify for rent credits to be used for rent owed in the following three months after the parties agree to an amendment.
8. Tenants that meet all qualifications will be required to enter into an amendment, subject to City Manager approval.

Full details of this potential forgiveness program can be found in Attachment B.

2022 Business Registry Certificate Program and Downtown Business Improvement District Fees

In FY 2020, due to COVID-19, the Council waived the \$50 Business Registry Certificate Fee (BRC) and the assessment of the Downtown Business Improvement District (BID) ([CMR 11219](#)) for calendar year 2020. Council also approved the reimbursement of business registration fees and BID assessments paid. Reimbursements have totaled \$73,609 for BRC and \$44,710 for BID. Subsequent actions were taken in June to suspend these programs through FY 2021 it was expected that both BRC and BID fees would resume in 2022 (CMR #[11405](#), and #[11358](#)). As we approach the renewal period staff is seeking Council's direction on whether to:

- 1) Waive the BRC and/or BID fees again in 2022; or
- 2) Continue with the collection of fees for both the BRC and BID

Depending on the City Council's direction, staff will return with the necessary actions to implement the direction. To aid the Council this potential direction is some background on these programs and their financial implications.

The **Business Registration Program** requirements in Palo Alto Municipal Code Chapter 4.60 (commonly referred to as the "Business Registry") apply to all businesses located in Palo Alto, with the exception of nonprofits and businesses with less than one full-time equivalent employee, home-based or transitory businesses, a religious organization with no ancillary business on-site, businesses who relocated outside of Palo Alto in the past year, and businesses that are permanently closed. Most exempt businesses need to annually claim their exemption through the application but do not pay the fees. The \$50 business registration fee is for cost recovery purposes and the \$4 certified access specialist (CASp) fee is a State requirement (SB1186 and AB1379) for local jurisdictions to collect a \$4 fee from new or renewal applicants for a local business license or equivalent instrument or permit. This fee is for the purposes of increasing CASp services and compliance with construction-related accessibility requirements in Palo Alto and cannot be waived by the City. The BRC is estimated to generate approximately \$113,000 annually based on collections during 2018 and 2019.

The **Downtown Business Improvement District (BID)** was established to promote the economic revitalization and physical maintenance of the Palo Alto Downtown Business Improvement District. The City contracts with Palo Alto Downtown Business and Professional Association (PADBPA) to provide services to businesses in the BID. The BID assessment is levied on and paid

by businesses in the district boundary to provide these services. The assessment ranges between \$50-\$500 based on the location of the business in the BID, type of business, and number of employees (or number of rooms for a lodging business). In June 2019, Council adopted a resolution approving the annual levy of the BID assessments for 2020 which was rescinded on May 4, 2020. The Downtown BID assessment is estimated to generate approximately \$76,000 annually. This funding is then used to fund programs and activities managed by the Palo Alto Downtown Business and Professionals Association (PADBPA).

Preliminary 2nd Quarter Financial Status: Operating Budget

General Fund

Overall, the General Fund is tracking at or below adopted estimated revenues and at adopted expenses. Based on the continued phased reopening from the shelter-in-place orders imposed in March 2020, consumer behaviors continue to evolve, impacting the financial forecasts. The organization has carefully planned for the financial implications of COVID-19 on the City of Palo Alto. Staff recommends adjustments to the revenues and expense levels to align with current projections. However, it is critical to reiterate that economic trends and data continue to be uncertain.

General Fund: Revenues

The FY 2021 Adopted Operating Budget approved a \$197 million estimate for sources, of which \$67.1 million has been collected to date, or 38 percent of the adopted budgeted. This FY 2021 Adopted Budget included approximately \$40 million in reduced revenues, primarily in Sales Tax and Transient Occupancy Tax revenues followed by reduction in Charges for Services, Documentary Transfer Tax, and Utility User Tax. As reported to the City Council on February 8th ([CMR 11954](#)), major tax revenue estimates for FY 2021 are projected to fall \$3.4 million, or 1.7 percent. This report includes review and analysis of department revenue and proposes adjustments to the budget that continues to scale and modify revenues based on operational impacts experienced due to COVID-19.

General Fund revenues (excluding operating transfers) for the 2nd quarter of FY 2021 totaled \$67.1, which is 19.3 percent lower than the same period of the prior year and comprises 38 percent of the current year Adopted Budget. The level of budget revenue collected through the end of the 2nd quarter is not indicative of the annual expected receipts in FY 2021 due to timing of major revenues received over the fiscal year. Cash receipts as expected declined in all General Fund revenues except Documentary Transfer Tax over prior year's 2nd quarter. The following is a table which highlights the City's major revenue sources for the 2nd Quarter, compared to 2nd Quarter of the prior year. Each quarter's revenue is expressed as a percentage of the Adjusted Budget for each year.

Table 4: General Fund Preliminary Revenue FY 2021 2nd Quarter

City of Palo Alto								
General Fund Revenue								
FY 2021 2nd Quarter [PRELIMINARY]								
(000's)								
	2nd Quarter Actuals			Adjusted Budget				
	FY 2021	FY 2020	% change	FY 2021	%	FY 2020	%	
Property Tax	\$ 17,549	\$ 16,436	6.8%	\$ 52,000	33.7%	\$ 48,634	33.8%	
Sales Tax	9,159	11,239	-18.5%	20,500	44.7%	34,346	32.7%	
Charges for Services	9,343	12,247	-23.7%	25,984	36.0%	30,267	40.5%	
Transient Occupancy Tax	1,569	10,944	-85.7%	14,900	10.5%	29,309	37.3%	
Utility User Tax	7,060	8,246	-14.4%	15,100	46.8%	17,581	46.9%	
Permits and Licenses	3,005	2,947	2.0%	8,270	36.3%	8,667	34.0%	
Documentary Transfer Tax	4,586	4,539	1.0%	4,700	97.6%	8,369	54.2%	
All Other Revenue Sources	14,860	16,562	-10.3%	34,843	42.6%	34,076	48.6%	
Total Revenue	\$67,131	\$83,160	-19.3%	\$176,297	38.1%	\$211,249	39.4%	

As outlined in the May 2020 discussion of COVID-19 fiscal scenarios (CMR [11315](#)), the FY 2021 Proposed Budget estimated the same major tax revenues at \$145.7 million, which is nearly \$40 million higher than the FY 2021 Adopted Budget of \$107.2 million. The below table compares major tax revenues estimates against pre-COVID actual revenue levels in FY 2019 and the FY 2021 projections. These estimates have assisted in informing the recommended budget adjustments included in Attachment A recommended for City Council approval.

Table 5: General Fund Major Tax Revenues

	Actual 2019	Actual 2020	Adopted 2021	as of 12/31 Projected 2021
Revenue & Other Sources				
Sales Taxes	36,508	30,563	20,500	25,030
Property Taxes	47,327	51,089	52,000	53,173
Transient Occupancy Tax	25,649	18,554	14,900	4,830
Documentary Transfer Tax	6,923	6,903	4,700	6,875
Utility Users Tax	16,402	16,140	15,100	14,080
Other Taxes and Fines	1,888	1,172	1,925	392
Subtotal: Taxes	134,697	124,421	109,125	104,380
Charges for Services	26,669	23,557	25,418	20,619
Permits and Licenses	9,088	8,038	8,336	8,932
Return on Investments	2,018	1,419	1,100	1,100
Rental Income	16,411	16,037	16,022	15,404
From Other Agencies	951	1,529	551	2,835
Charges to Other Funds	10,684	11,099	11,992	11,992
Other Revenue	5,084	2,848	2,572	2,412
Total: Non-Tax Revenue	70,905	64,527	65,991	63,293
Operating Transfers-In	20,154	20,568	21,359	21,251
Total Revenue	\$225,756	\$209,516	196,475	\$188,924

Property Taxes

Property tax revenue is the General Fund's largest revenue source and represents approximately 25 percent total revenues. The average annual property tax growth over the last 10 years has been approximately 6.6 percent. The FY 2021 secured and unsecured property tax assessed values growth rates are 7.6 percent and 12.7 percent, respectively, an average of 7.8 percent. These higher assessed values reflect continued strength in commercial and residential real estate markets. Although not in decline, during a recession, property tax impact is delayed by a year. Based on trends from the last two recessions, trends currently indicate a plateau rather than an increase in receipts through FY 2022 as that year will be a reflection of activity in 2020.

In addition, fiscal years 2018, 2019, and 2020 included receipts of \$1.4 million, \$2.7 million, and \$3.9 million respectively, for excess Educational Revenue Augmentation Fund (ERAF) distributions from the County of Santa Clara. ERAF is the fund used to collect and disburse property taxes that are shifted to/from cities, the County, and special districts prior to their reallocation to K-14 school agencies. When the state shifts more local property tax than required to support schools these funds are returned and known as excess ERAF. As a result of the volatility of ERAF, it is not considered a permanent local revenue source. In addition to the uncertain amount of ERAF revenue the City is to receive, the State is claiming that five counties (Marin, Napa, San Francisco, San Mateo, and Santa Clara) are calculating excess ERAF in way that that is contrary to state law where too much property tax revenue is being shifted from schools to other local agencies. The final resolution of this dispute, both in timing and amount, creates further uncertainty in the current and future fiscal years.

The FY 2021 Adopted Budget assumes \$52.0 million in total property tax and is expected to grow to \$53.2 million. A \$1.2 million increase to property tax revenue is included in staff's recommended mid-year budget adjustments (Attachment A). Revised property tax estimates assume \$3.2 million in Excess ERAF revenue will be received.

Sales Taxes

Sales tax receipts have seen significant declines as the City's revenue base is dependent on many high-end goods and dining options at regional destinations, such as Stanford Shopping Center. Cash receipts for the 2nd quarter has decreased 18.5 percent, from the same period last year, however, when reviewing economic activity through September 2020, receipts reflect a year-over-year decline of 24.9 percent. These significant declines reflect a partial offset by business to business sales, the one sector that outpaced other areas with 3.3 percent year-over-year growth. Based on activity and receipts for the recent quarter close, it is estimated that sales tax revenue will exceed the FY 2021 Adopted Budget by \$4.5 million, or 22.1 percent, and will generate a total of \$25.0 million by year-end of FY 2021. This is compared to the \$30.6 million received in FY 2020, and \$36.5 million received in FY 2019. The FY 2021 Adopted Budget for sales tax revenue was based on a conservative estimate and a variety of unknowns. Based on these year-to-date trends, economic forecasts (including UCLA Anderson), and the City's sales tax consultant, staff recommends a \$4.5 million budget increase to the sales tax revenue budget.

Transient Occupancy Tax (TOT)

TOT continues to be the most significantly impacted, though revenues have improved slightly above the activity seen in April and May 2020. Currently, receipts through 2nd quarter are tracking 85.7 percent below prior year levels. These receipts reflect actual activity through November 2020, and therefore do not yet take into consideration the second wave COVID-19 cases that occurred in December 2020. During the first five months of the fiscal year, 10 hotels remained closed completely; one of these hotels opened in December.

The open hotels average daily room and occupancy rates, as of December 2020 were \$117 per day and 38.3 percent, respectively. For the open hotels, occupancy percentage ranges from 9.5 percent to over 76 percent, however, the higher occupancy was at the expense of a deep decline in average room rates (declines range from 10.5 percent to 64.2 percent). Year-over-year, daily average room rates decreased by half, from \$279 per day to \$117 per day, while the occupancy rate has declined from 76.3 percent to 38.3 percent.

According to CBRE, demand for hotel rooms nationally was down by 36.8 percent year-over-year from Q3 calendar year 2019 to 2020, and national hotel occupancy declined a corresponding 37.9 percent year-over-year. San Francisco saw a significant 84.1 percent loss in Revenue Per Available Room (RevPAR), the third greatest decline in the continental U.S., behind Boston and New York. San Jose saw a loss slightly greater than 70 percent from Q3 calendar year 2019 to 2020. As a region where business and other non-leisure travel is a driving impact,

it is expected that until the virus is under control and both domestic and international travel resumes, the City will continue to experience significantly reduced TOT revenue. Rapid progression in vaccines as well as the expected opening of new hotels in Palo Alto are positive developments that will drive recovery for this tax revenue.

Receipts are expected to fall below FY 2021 Adopted Budget estimates and represents a decrease of 67.6 percent, or \$10.1 million. Included in this report is a recommended downward adjustment to the revenues estimate from \$14.9 million to \$4.8 million, partially offset by a recommended \$4.5 million reduction in the transfer to the General Capital Improvement Fund in alignment with the City Council policy to dedicate a portion of TOT receipts to infrastructure investments.

Documentary Transfer Tax (DTT)

In FY 2015, DTT peaked at \$10.1 million. This milestone was a consequence of several large commercial transactions on Page Mill Road and in the Stanford Research Park. Since that time, DTT has significantly moderated, with \$6.9 million earned in FY 2020. Revenues through 2nd Quarter FY 2021 are 1.0 percent higher than prior year receipts. Therefore, should receipts continue to trend similar to prior years, it is expected that DDT revenues will exceed the FY 2021 Adopted Budget by 46.3 percent, or \$2.2 million.

As in past years, this revenue source is challenging to forecast since it is highly dependent on sales volume and the mix of commercial and residential sales. Although the total value of these transactions has decreased by 4.6 percent, the number of transactions through December 2020 (365) are running significantly higher than those through December 2019 (285). A proposed \$2.2 million revenue budget increase is included in Attachment A to account for this increased activity and estimate moderate sale activity for the remainder for the year.

Utility User Tax (UUT)

The UUT is levied on electric, gas, and water consumption, as well as on telephone usage. In total, FY 2021 revenues were budgeted at \$15.1 million, a 14.1 percent reduction from the FY 2020 adopted level of 17.6 million, or a reduction of \$2.5 million. FY 2020 actual receipts were \$16.1 million and to date, revenues are 14.4 percent below prior year levels through the 2nd quarter of FY 2021. Therefore, year over year reductions were consistent, however, the lower FY 2020 actual receipts, staff expects collections to fall slightly below budgeted levels by the end of the fiscal year and a recommended \$1.0 million downward adjustment is included to reflect this.

Charges for Services & Permits and Licenses

The FY 2021 Adopted Budget assumed an estimate of \$25.4 million in Charges for Services, a 14.5% reduction from the FY 2020 adopted level or \$4.3 million below. The FY 2021 Adopted Budget assumed an estimate of \$8.3 million in permit and license revenue, a 29.1% reduction from the FY 2020 adopted level or \$3.4 million below. Revenues in these categories were impacted by changes in FY 2021 such as the planned opening of the newly remodeled Junior Museum and Zoo with a ticketed entry fee and membership program and the Fire Department first responder fee and ambulance subscription fee.

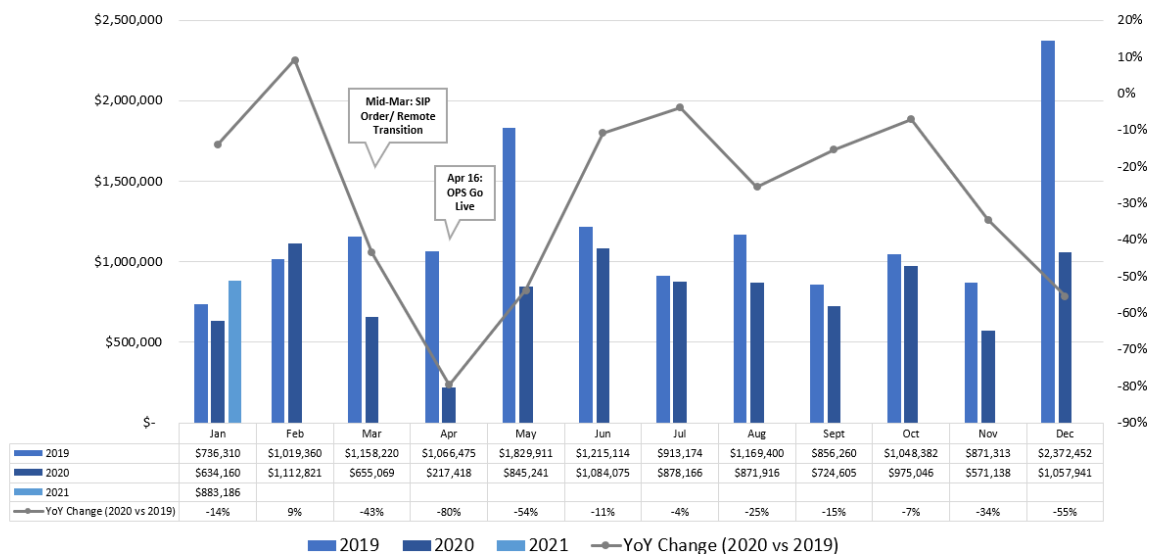
Overall, revenues in this category are expected to end the year below budgeted levels, mainly in Community Services Department and Fire Department receipts. Significant adjustments are recommended in this FY 2021 Mid-Year Budget Review resulting in an overall decrease of \$4.8 million from the FY 2021 Adopted Budget estimate. Below reflect highlights of these downward adjustments.

- Reduce \$1.6 million revenue estimate due to delay in the review and approval of new Fire Fees. The Ambulance Subscription program and fees were reviewed by the Finance Committee on December 15, 2020 and additional analysis was requested prior to further action. The First Responder Fee is still in development.
- Reduce \$1.6 million revenue estimate due to the expected delay in the opening of the Junior Museum and Zoo to FY 2022. A corresponding decrease in some expenses in the amount of \$526,500 is also recommended to recognize this delay and partially offset this loss.
- Reduce \$2.3 million revenue estimate in recreation, theater, and arts programming and rentals due to continued shelter in place orders restricting services that can be provided. A corresponding decrease in estimated expenses of \$835,000 is recommended to offset this loss.

Development Services: Preliminary building application and permit revenue overall is down 14 percent compared to last year and reflects 46 percent of the anticipated building permit revenue for FY 2021 budget. Preliminary Development Services revenue is down 30 percent compared to prior years and is currently pacing to 38 percent of the FY 2021 revenue target. Staff recognizes that monthly revenues may be stabilizing, but there are significant monthly revenue fluctuations compared to prior years that limit any reliable conclusions regarding future construction activity at this time. Staff continues to monitor revenues to determine if recent permit activity reflects a return in confidence for the construction and building sector due to the evolving changes in the current economic environment. Department-managed 6expenses are currently under or on pace to meet the budget. The department is monitoring this category closely on a month to month basis. The table below articulates development services revenues from January through December 2019 versus the same 2020 timeframe.

Table 6:
Development Services Revenue – 2019 vs 2020

Total revenues declined by ~32%.



Note: Revenue is driven by a blend of building permits issued and building applications associated with unique Permit Number, an applicant will pay at two points in time - application submittal and permit issuance; both transactions may or may not occur within the same year.

Source: Accela – Daily GL Data | CC: 65020001-65060001

Other Revenues

The **return on investment** category reflects the interest earnings on the City's investment portfolio. This category is a combination of past investments, new investments at current market rates, and available investable cash which fluctuates seasonally and annually. The revised FY 2021 interest earning forecast of \$0.9 million is \$0.2 million lower than the Adopted Budgeted of \$1.1 million. No adjustment is yet recommended in this Mid-Year Budget Review as staff continues to review its investments.

The FY 2021 Adopted Budget assumed a **rental income** estimate of \$16.1 million, a 14.1 percent reduction from the FY 2020 adopted level or \$2.5 million below. Revenues in this category primarily reflects rent paid to the General Fund from the City's Enterprise Funds and the Cubberley Community Center. During the pandemic, the City has continued to follow Santa Clara County orders and allowed tenants to defer payment of rent, however, as the period continues to grow longer and longer impacting the ability for tenants to continue their normal business, a number of City tenants have asked for rent relief.

As directed by the City Council on October 19, 2020, staff has brought forward as part of this FY 2021 Mid-Year Budget Review, options for a potential rent forgiveness program. This can be found in Attachment B. No program is currently assuming in this FY 2021 Mid-Year Budget Review. Therefore, should the City Council wish to implement one of these program options, the financial impact would need to be drawn from either the City Council's COVID-19 Reserve for unforeseen needs or from the Budget Stabilization Reserve.

General Fund: Expenses

Overall General Fund expenses are currently expected to remain within the FY 2021 Adopted budget levels of \$197 million. General Fund expenses (excluding operating transfers) for 2nd quarter are 8.6 percent lower than prior year and are tracking at 45 percent of Adjusted Budget (excluding encumbrances). This lower than prior year expense levels is expected due to the significant reductions taken as part of the FY 2021 Adopted Budget which reflected an overall decrease in expenses of 14.7 percent from FY 2020 Adopted Budget levels. The following is a table which highlights the City's expenses by function for the 2nd quarter, compared to 2nd quarter of the prior year. Each quarter's expense is expressed as a percentage of the Adjusted Budget for each year.

Table 7: Preliminary General Fund Expenses FY 2021 2nd Quarter

City of Palo Alto General Fund Expenses FY 2021 2nd Quarter [PRELIMINARY] (000's)							
	2nd Quarter Actuals			Adjusted Budget			
	FY 2021	FY 2020	% change	FY 2021	%	FY 2020	%
	inc (dec)						
Police	\$ 20,452	\$ 22,142	-7.63%	\$ 40,590	50.39%	\$ 44,806	49.42%
Fire	17,664	18,195	-2.92%	33,776	52.30%	35,105	51.83%
Community Services	12,969	15,067	-13.92%	30,149	43.02%	32,191	46.81%
Public Works	8,324	8,168	1.91%	20,185	41.24%	19,797	41.26%
Planning and Development Services	7,502	8,916	-15.86%	19,388	38.69%	21,767	40.96%
Library	4,335	4,995	-13.21%	8,573	50.57%	10,532	47.43%
Administrative Services	3,652	3,993	-8.54%	8,597	42.48%	8,989	44.42%
All Other Departments	9,611	10,947	-12.20%	26,665	36.04%	30,652	35.71%
Total Expenses	\$ 84,509	\$ 92,423	-8.56%	\$ 187,923	44.97%	\$ 203,839	45.34%

As a service driven organization, the largest expenses are salaries and benefits. Total salary and benefits expenditures through preliminary December 2020 are approximately \$64.2 million, or 51.6 percent of the \$124.5 million Adopted Budget, compared to \$66.5 million in the same period in the prior year. The City is facing historically low vacancy levels with the elimination of funding for 83 full-time positions (equivalent of 76.50 FTE) and 107 part-time positions (equivalent of 26.18 FTE). Already, assumed in the FY 2021 Adopted Budget was vacancy savings of \$2 million. This is the equivalent of approximately 10 full-time positions on average. Currently, the City has 45 full-time vacancies in the General Fund. In addition, some marginal costs have been incurred as planned due to the transition and implementation of the FY 2021 Adopted Budget actions. These transition costs reflect the separation of employees in frozen positions, including a 30-day notice and other related costs in Q1. The FY 2021 Adopted Budget

established a \$1.1 million reserve for this purpose, and this report recommends the allocation of funding of \$220,000 to departments.

Table 8: Public Safety Salaries and Overtime Expenses

Police and Fire							
Salaries and Overtime Expense							
FY 2021 2nd Quarter [PRELIMINARY]							
(000's)							
	2nd Quarter YTD Actuals			Adjusted Budget			
	FY 2021	FY 2020	% change	FY 2021	%	FY 2020	%
Inc (Dec)							
Police - Salaries	\$ 8,655	\$ 9,007	-3.9%	\$ 17,321	50.0%	\$ 19,484	46.2%
Police - Overtime	732	1,504	-51.3%	944	77.5%	1,842	81.7%
Total Police	9,387	10,511	-10.7%	18,265	51.4%	21,326	49.3%
Fire - Salaries	7,027	7,196	-2.3%	13,530	51.9%	14,131	50.9%
Fire - Overtime	1,411	1,339	5.4%	1,931	73.1%	1,673	80.0%
Total Fire	8,438	8,535	-1.1%	15,461	54.6%	15,804	54.0%
Total Public Safety							
Salaries & Overtime	\$ 17,825	\$ 19,046	-6.4%	\$ 33,726	52.9%	\$ 37,130	51.3%

Police overtime is 51 percent lower than the prior year due to suspension of specialized police units such as the traffic enforcement and investigation units. Suspension of these specialized units resulted in reduced service levels and ability to respond to non-urgent calls. The actual Police overtime is 77.5 percent of adjusted budget. On a combined basis, salaries and overtime are at 51.4 percent of budget through the 2nd quarter of the fiscal year.

Fire overtime is 5.4 percent higher than FY 2020 and 73.1 percent of the adjusted budget primarily due to strike team deployment to multiple California wildfires (August Complex, Glass, Fire, CSU, North Complex, Creek Fire and others) which will be reimbursed by the State. In addition, the department staffed Station 8 for over 1,000 hours on red flag danger days. Fire salaries is 51.9 percent of the adjusted budget is partially attributable to the extension of the Fire Department's FY 2021 staff reduction plan to March 2021. Fire expects to be able to meet this revised attrition timeline of March 2021 and therefore no further action is required. On a combined basis, salaries and overtime are 54.6 percent of the budget through the 2nd quarter of the fiscal year.

Across the organization it is important to acknowledge the reprioritization of resources that are occurring as needs change, working to be efficient and effective within authorized levels. For example, some City facilities remain unoccupied or minimally occupied and therefore do not

need traditional services such as janitorial services. However, those facilities that remain open need increased services due to safety requirements complying with Public Health Orders. Instead of seeking additional contracting authority or funds, the Public Works Department has reallocated services within the contract, focusing on facility needs as a result of increased services to ensure the health and safety of the workplace environment and its visitors, both public and employee alike. Therefore, savings in janitorial services are not expected at year end, in fact, depending on the pace of City facilities reopening, costs may rise as increased frequency of service will likely be necessary to maintain a safe environment per the Centers for Disease Control and Prevention (CDC) and State and County Public Health Officer guidelines will be required at more facilities.

General Fund: Budget Stabilization Reserve

The General Fund Budget Stabilization Reserve is anticipated to be at \$35.9 million. This figure reflects the actual FY 2020 year-end financial reporting as outlined in [CMR 11880 Recommendation to the City Council to Approval of the Macias Gini & O'Connell's Audit of the City of Palo Alto's Financial Statements as of June 30, 2020 and the Management Letter; FY 2020 Comprehensive Annual Financial Report \(CAFR\); & FY 2020 Budget Amendments in Various Funds](#), City Council approved BAO's approved subsequent to the budget adoption through December 31, 2020, and the recommended actions included in this report. This level is 18.2 percent of the FY 2021 Adopted Budget for General Fund expenses and is slightly below City Council's target level \$36.4 million, of 18.5 percent.

Not included in this figure is \$744,000 that the City Council set aside in a reserve with the usage of that reserve to be determined later at City Council's discretion. These funds may only be allocated by City Council action.

Other Funds

Parking Funds

Revenue in the Parking Funds is predominantly comprised of annual parking permits for employees and residents, daily parking permits, and in the Residential Preferential Parking (RPP) Fund citation revenue. As expected, all revenue categories are tracking significantly below budgeted levels due to the suspension of parking enforcement and extension of annual parking permit expiration dates, both part of the City's response to the community and economic impacts of COVID-19. The Parking Funds are projected to remain solvent in FY 2021 based on resumption of commercial enforcement and permit expiration in Spring 2021. Resuming enforcement and ending permit extensions are critical to the solvency of these funds as they are expected to drive demand for sales of annual parking permits for employees and residents, which are the most significant revenue sources in these funds. As annual parking permit sales are anticipated to resume in FY 2021, budgeted targets are not adjusted in this report. Other revenue areas such as daily parking permits and violation revenue are reduced, representing the losses incurred while commercial enforcement has been suspended.

Internal Service Funds

Minimal exceptions are expected in various internal services funds such as the Retiree Health Care Fund, and the Information Technology Fund. The Vehicle Maintenance & Replacement Fund is prioritizing and pausing replacements as per the Council approved budget adjustments. Below highlight a few areas tracking outside of expected levels.

As discussed, **Workers' Compensation claims** costs are trending up. In FY 2020, expenditures increased by \$1.3 million or 26 percent from \$5.1 million to \$6.4 million from the prior year. The appropriation for Workers' Compensation claims expense includes an estimate for claims incurred and reserves for current filings at an 85 percent confidence level, based on actuary estimates. Staff will continue to monitor expenditures and more importantly trends in this type of expense due to adjustments in regulations.

As a reminder **General Liability claims** costs are trending down and city-wide savings of \$2.1 million are expected in this fund. Should these trends continue by year end, staff expects to bring forward year-end adjustments to recognize this savings and recommend to appropriate the General Fund portion in the Litigation Reserve in the General Fund in keeping with the City's practice of proactively setting aside funds for dispute resolution.

As a reminder the **General Benefits Fund** staff expects to recommend at year end that one-time retirement savings in FY 2020 are used to make an additional \$2.0 million (\$1.3 million General Fund) contribution to the Pension 115 Trust Fund, in accordance with the draft pension funding policy the Council approved, bringing total planned contributions (principal) to \$34.3 million (approximately 65 percent of the total is from General Fund).

Enterprise Funds

Mid-year actions being recommended in these funds are primarily related to the alignment of the Utilities Department budgets with current market conditions for revenues and expenses related to the purchase of commodities and the operation of utilities. The actions recommended for FY 2021 mid-year will align revenues and expenses for the Low Carbon Fuel Standards Program; interfund transfers for Electric Streetlights and Traffic Signals, Utilities Equity Transfers; and Electric and Gas commodity costs.

Preliminary 2nd Quarter Financial Status: Capital Budget

Overall, most Capital Improvement projects are anticipated to remain within budgeted levels in FY 2021. Adjustments to the City's 2021 Capital Improvement Plan for a limited number of projects are noted in Attachment A, Exhibit 2, with specific project adjustments described as well. CIP changes fall into two basic categories: 1) projects that have been delayed and can have their appropriations reduced, and 2) projects that need additional funding due to unanticipated costs that were not assumed as part of the FY 2021 Adopted Capital Budget. The program costs recommended in this report are described below and detailed in Attachment A, Exhibit 2.

Staff is currently actively working on the development of the FY 2022 proposed capital budget, including review of projects expected to be brought forward by year end for further work (as referenced above), projects which have been delayed, and realignment of projects as discussed with the City Council as part of recent agenda items including but not limited to the Update on the General Capital Improvement Fund (CMR #11808).

Timeline & Next Steps

Staff expect to continue to diligently manage financials across the organization, providing City Council updates as information becomes available. As we continue into the 2021 fiscal year, staff is actively working on the FY 2022 budget as well as several regular reporting activities over the coming months. Below is a list of expected reports and Council updates planned over the next few months. The Council will continue to be updated on the financials of FY 2021 through these planned discussions with adjustments brought forward as necessary once more information is available and known. Expected upcoming financial status, budget reporting and Community and Economic Recovery Strategy conversations include:

March/April 2021:

- Additional review of fee studies for impacts fees ([CMR 11875](#)) and fire ambulance subscription services fees ([CMR 11710](#));
- Various Utility rate and financial forecast review with Utility Advisory Commission and Finance Committee;
- Review of revised Junior Museum and Zoo opening and potential fee schedule

May 2021:

- Release of the FY 2022 Proposed Operating and Capital Budgets
- Public Budget Hearings on the Proposed Budgets with Finance Committee

June 2021:

- FY 2022 Operating and Capital Budget Adoption
- FY 2022 Municipal Fee Adoption
- FY 2022 Utility Rates adoption

STAKEHOLDER ENGAGEMENT

The Office of Management and Budget has coordinated with all departments city-wide, the City Manager's Office, and stakeholders such as City tenants and Downtown BID as appropriate, to bring forward the changes discussed and recommended in this report.

RESOURCE IMPACT

Approval of the attached transactions is required to amend the FY 2021 budget appropriation ordinance. With the approval of these amendments, the projected ending balance of the General Fund Budget Stabilization Reserve is anticipated to be \$35.9 million, which is slightly below the City Council recommended level of by \$0.5 million, or 18.5 percent. The projected changes to the fund balance for all other funds including Enterprise Funds, Internal Services Funds, Special Revenue Funds, and Capital Funds are outlined in Attachment A and accompanying exhibits and impacts to fund balance summarized as follows:

Table 9: Resource Impact (Non-General Fund)

	<i>Fund</i>	<i>Amount</i>
<i>General Fund</i>	Public Services Donation Fund	-\$55,000
<i>Capital</i>	Capital Improvement Fund	-\$4.3M
<i>Enterprise</i>	Electric Fund	-\$0.2M
	Fiber Optics Fund	-\$0.2M
	Gas Fund	+\$0.3M
	Utilities Administration Fund	-\$30,000
<i>Internal Service</i>	General Liabilities Insurance Fund	-\$52,000
	Information Technology Fund	-\$40,000
	Vehicle Replacement Fund	+\$0.1M
<i>Special Revenue</i>	California Avenue Fund	-\$0.2M
	General Government Facility Impact Fee Fund	-\$0.6M
	Library Impact Fee Fund	-\$0.2M
	Public Safety Facility Impact Fee Fund	-\$0.1M
	Residential Preferential Parking Avenue Fund	-\$0.2M
	Stanford University Medical Center Fund	-\$0.7M
	University Avenue Fund	-\$0.7M
<i>Debt Service</i>	Library GO Bond Fund	+\$0.1M

ENVIRONMENTAL REVIEW

This is not a project under Section 21065 for purposes of the California Environmental Quality Act (CEQA).

Attachments:

- Attachment A - FY 2021 Mid-Year Adjustments
- Attachment B - Rent Forgiveness

CITY OF PALO ALTO

Department		Revenues Adjustment	Expenses Adjustment
GENERAL FUND			
<i>Administrative Services</i>	Salary Vacancy Savings Expense Reduction This action recognizes salary savings anticipated to be generated by vacant positions in the Administrative Service Department through the end of FY 2021. Several management level position vacancies were maintained across the Department through the first half of FY 2021. A couple of these positions are anticipated to be filled in the second half of FY 2021 to reduce service impacts to other City departments. (Ongoing savings: \$0)	\$ -	\$ (210,000)
<i>City Auditor</i>	City Auditor Services Alignment This action reallocates existing funds and adds additional funding for year one of the new Internal City Auditor contract with Baker Tilly US LLP, in accordance with CMR 11624. 25% of the cost of the City Auditor contract is allocated to the Utilities Administration Fund and the other 75% to the General Fund. In subsequent years, it is expected that the contract services authorized will be funded similarly to the current audit services, 75% in the General Fund and 25% in the Utilities Enterprise Funds for a total not to exceed \$750,000 annually. Additional entry in Utilities Administration Fund to align all audit functions across the City. (Ongoing savings: \$138,570)	\$ -	\$ 111,940
<i>City Manager</i>	City Manager Temporary Housing Reduction This action recognizes an expense reduction in the City Manager's initial temporary housing funding. Housing funding was approved by City Council in CMR 9461 as a temporary measure to allow the City Manager to reside within the City limits of Palo Alto until a long-term residential property could be purchased. Remaining relocation funds are no longer needed and can be returned to the General Fund as expense savings. (Ongoing savings: \$0)	\$ -	\$ (21,383)

CITY OF PALO ALTO

Department		Revenues Adjustment	Expenses Adjustment
GENERAL FUND			
<i>Community Services</i>	Administration Support Reduction This action recognizes \$76,132 in six months of projected vacancy savings for 1.0 Administrative Assistant, vacated this year. As part of the FY 2022 balancing strategy, this position is recommended to be defunded and frozen beginning in FY 2022 ongoing. This reduction is in addition to 3.48 positions (including 1.0 Assistant Director) that were defunded and frozen in the Community Services Administration team for a total of 4 of 6 full-time positions in the Administration team, a 2/3 reduction in support. The duties associated with this position will be absorbed by other existing department staff and include administrative tasks such as records retention, oversight of website and marketing materials for the department (including catalog creation for recreation programs), coordinating agendas and reports with Council/clerk's office, timecard monitoring, public records request responses and other administrative items supporting the entire department. There will be 2 full-time staff dedicated to the administration for this department. The remaining Administration Team will be focused on the most critical tasks for daily operations, however, this action could impact delays in public records requests, accuracy in Council and committee reports, and support for special projects, and Council and public ad hoc inquiries. Administrative tasks will also be decentralized to division/program-level staffing as well. (Ongoing Savings: \$145,019)	\$ -	\$ (76,132)
<i>Community Services</i>	Junior Museum and Zoo (JMZ) Opening Delay This one-time action adjusts revenue and expenses for the Junior Museum and Zoo. The continuing community impact of COVID-19 has necessitated the delay of the opening of the new JMZ from March 2021, which results in revenue decreases in ticketed entry and membership sales (\$1,140,000). Other revenue-generating activities have also been canceled due to health order limitations on gatherings, which results in revenue decreases in classes, camps, field trips and birthday parties (\$433,000). This action also recognizes expense savings from the postponed opening in areas such as staff hiring delays, marketing, accreditation-related activities, and new animal care and transport. (Ongoing net savings: \$0)	\$ (1,573,505)	\$ (526,492)

CITY OF PALO ALTO

Department		Revenues Adjustment	Expenses Adjustment
GENERAL FUND			
<i>Community Services</i>	Art Center and Public Art Revenue and Expense Adjustments This one-time action adjusts revenue and expenses for the Art Center and Public Art program. Health orders related to COVID-19 have restricted programming at the Art Center, leading to many cancelled classes and programs. Art Center staff have implemented creative strategies to provide popular programming and generate revenue, including a curb-side ceramics drop off program and ceramics wheel rentals, as well as virtual art classes. Estimated impacts from canceled and modified Art Center programming totals \$403,000 in revenue losses and \$187,000 in expenses savings. This action also recognizes an approximate \$26,000 decrease in donations from the Palo Alto Art Center Foundation (PAACF); \$5,000 of revenue loss for juried exhibitions, which have not started due to Art Center exhibitions being closed all year; and \$5,200 lost in teen leadership fee revenues. Finally, this action also recognizes \$20,000 in expense savings in Public Art due to cancelled events and deferred maintenance. (Ongoing net savings: \$0)	\$ (439,400)	\$ (207,192)
<i>Community Services</i>	Recreation Revenue and Expense Adjustments This one-time action recognizes revenue and expense decreases in recreation programs including Adult Sports, Middle School Athletics (MSA), Special Interest Youth & Adult classes, Teen programs, and Summer Camps. Health orders related to COVID-19 have placed restrictions on recreation programming, shared indoor and outdoor facility space, and comingling of different households, all of which significantly limit the recreational offerings of the City. Staff diligently adhere to all health restrictions by restructuring class and camp operations, frequently sanitizing, and following all health & safety protocols; programming has been adjusted wherever possible to comply with health orders, for example maintaining small, stable cohorts. This action recognizes expense savings from staff positions that can be held vacant given the limited level of programming, reduced need for recreation programming contractors such as referees in MSA, and fewer supplies needed due to cancelation of many in-person programs. Estimated impacts from canceled and modified recreation programming totals \$1.1 million in revenue losses and \$566,000 in expenses savings. (Ongoing net savings: \$0)	\$ (1,049,851)	\$ (565,962)

CITY OF PALO ALTO

Department		Revenues Adjustment	Expenses Adjustment
GENERAL FUND			
<i>Community Services</i>	Community Center Closures Revenue and Expense Adjustments This action recognizes revenue and expense reductions from the limited operations of community centers and recreational facilities. Due to COVID-19 public health orders, these facilities have not been fully opened to the public during FY 2021 and their normal revenue generating activities have been significantly restricted. Expense savings from these operational limitations are estimated to be \$51,000 and include savings in janitorial services and supplies; replacement and repair costs for machinery, equipment, and technology; office supplies; pest control services; and marketing expenses. Revenue losses are estimated to be \$618,000 and consist of the following: Lucie Stern Community Center (\$225,000) indoor ballroom and large outdoor patio spaces for large events such as weddings, neither of which are permitted under current health orders. Small outdoor gatherings have been accommodated to the extent possible. Mitchell Park Community Center (\$177,000) and the Art Center (\$20,000) predominantly rent indoor space, which is not allowed under current health orders. Reservable outdoor space at the Art Center has been prioritized to accommodate the relocation of classes and programs that would typically be inside. Parks and Fields (\$180,000) and tennis court (\$16,000) rentals continue at a reduced level; current health orders restrict comingling of households, sports leagues, and close contact sports. Expenditure reductions of approximately \$52,000 for contractual services that are not needed while the facilities are closed partially offset the revenue losses. (Ongoing net savings: \$0)	\$ (618,000)	\$ (51,282)

CITY OF PALO ALTO

Department		Revenues Adjustment	Expenses Adjustment
GENERAL FUND			
<i>Community Services</i>	Children's Theatre Revenue and Expense Adjustments This action recognizes revenue and expense adjustments at the Children's Theatre (CHT). Health orders related to COVID-19 have restricted programming at the CHT, leading to many cancelled classes, programs, and performances. In-person performances have been halted for FY 2021, resulting in a revenue loss of approximately \$52,000. For most of the year, the CHT has not been allowed to operate indoor programs including theatrical performances and youth acting and music classes, limiting programming to virtual platforms. With the recent move to the Purple Tier of the health order, CHT will be able to offer some in-person classes & camps of limited size and frequency to adhere to the health order. Estimated impacts from canceled and modified CHT programming totals \$91,000. This action also recognizes a decreased donation from the Friends of the Children's Theater in the amount of \$90,000. This action also recognizes a full year of vacancy savings from 0.3 FTE Arts & Science Aide, a part-time summer production support position, which can be defunded and frozen in FY 2021 resulting in expense savings of approximately \$10,500. (Ongoing savings: \$0)	\$ (233,000)	\$ (10,464)
<i>Community Services</i>	Foothills Preserve Entry Fee Revenue and Operations Expense This action recognizes ongoing, prorated revenue from a new vehicle entry fee to Foothills Preserve, as approved in CMR 11956 on 2/1/2021. One-time funding is also recommended to be allocated to Foothills Preserve for the purchase of an automatic fee collection machine which will allow the entry fees to be collected full time. In the FY 2022 budget development process CSD plans to propose to reinstate currently frozen and defunded a 1.0 Community Services Manager (Ranger) at a cost of approximately \$150,000, offset by revenue collected from the vehicle entry fee. (Ongoing net savings: \$200,000)	\$ 75,000	\$ 20,000
<i>Fire Department</i>	Ambulance Subscription Fee Revenue Adjustment This one-time action recognizes revenue reduction due to delays in implementation of the Ambulance Subscription Fee, an optional fee for residents and businesses to secure co-pay free ambulance transport. An initial plan was reviewed with the Finance Committee in CMR 11710 December 15, 2020 and the department is gathering data and performing additional work as requested by the Committee before bringing the final plan to the full Council for adoption of the new fee. Implementation is anticipated to be complete in late spring 2021. (Ongoing expense: \$0)	\$ (1,184,000)	\$ -

CITY OF PALO ALTO

Department		Revenues Adjustment	Expenses Adjustment
GENERAL FUND			
<i>Fire Department</i>	Ambulance Transport Revenue Adjustment This action recognizes reduced revenue from lower than projected ambulance transports in FY 2021. Shelter-in-place orders have limited EMS calls for service and corresponding ambulance transports. This revenue reduction is anticipated to continue as long as health orders significantly limit community activities. (Ongoing revenue reduction: \$745,000)	\$ (745,000)	\$ -
<i>Fire Department</i>	First Responder Fee Revenue Adjustment This action recognizes reduced revenue from delays in implementation of the First Responder Fee. This fee would be charged for all EMS calls regardless of transport and would cover cost for initial response for first due engine. This fee would be assessed on insurance companies. It is still being developed by the department with the support of a consultant. The department will bring a plan forward to Council as soon as possible to pursue implementation. (Ongoing revenue reduction: \$0)	\$ (375,000)	\$ -
<i>Fire Department</i>	Revenue from the State of California/Strike Team Reimbursement This cost neutral action recognizes additional revenues and corresponding Overtime expenses associated with the deployment of strike teams. To date, the Fire Department has deployed ten strike teams through FY 2021. The Fire Department will return as part of the FY 2021 Year-End process if it deploys additional strike teams through the remainder of the year. (Ongoing savings: \$0)	\$ 1,040,339	\$ 1,040,339
<i>Human Resources</i>	Administrative Expense Reduction This one-time action recognizes non-salary expense savings in FY 2021. These savings are available due to reduced administrative operations, training resources, and contractor services. (Ongoing savings: \$0)	\$ -	\$ (27,000)

CITY OF PALO ALTO

Department		Revenues Adjustment	Expenses Adjustment
GENERAL FUND			
<i>Library Department</i>	Various Grants Revenue and Expense Adjustments This expense neutral one-time action increases grant revenues by \$39,634 for grants received from the Pacific Library Partnership (PLP) and California Library Services Act (CLSA) in FY 2021 with corresponding expense offsets specific to each grant. The grant funds will be used for enhancing library services and learning opportunities, which includes the following: Mitchell Park robot for Harvest at the Library (\$5,000); XR camera for immersive virtual library programming (\$5,000); Overdrive consortium dues (\$9,634); and a "Read Together" program kit of resources and materials to support diversity, inclusion, and youth literacy (\$20,000). Grant funded projects are limited in scope to the current fiscal year and any ongoing maintenance costs will be absorbed by the Library's annual operating budget. Patrons will be informed of the temporary nature of any subscription based services. (Ongoing net expense: \$0)	\$ 39,634	\$ 39,634
<i>Non- Departmental</i>	Election Expense Savings This one-time action recognizes \$75,000 in expense savings from the \$225,000 originally budgeted for the November 2020 Election. These savings are available due to Council direction in March 2020 (CMR 11161) to withdraw a local tax measure from the ballot in light of the economic hardships of COVID-19. (Ongoing savings: \$0)	\$ -	\$ (75,000)
<i>Non- Departmental</i>	Property Tax The FY 2021 Adopted Budget assumes \$52.0 million in total property tax and is expected to grow to \$53.2 million by year-end. The budget includes \$3.2 million in Excess ERAF. Although not in decline, during a recession, property tax impact is delayed by a year. Based on trends from the last two recessions, trends currently indicate a plateau rather than an increase in receipts	\$ 1,173,000	\$ -
<i>Non- Departmental</i>	Sales Tax The FY 2021 Adopted Budget for sales tax revenue was based on a conservative estimate and a variety of unknowns. Based on activity and receipts for the recent quarter close, it is estimated that sales tax revenue will exceed the FY 2021 Adopted Budget by \$4.5 million, or 22.1 percent, and will generate a total of \$25.0 million by year-end of FY 2021. This is compared to the \$30.6 million received in FY 2020, and \$36.5 million received in FY 2019.	\$ 4,530,000	\$ -

CITY OF PALO ALTO

Department		Revenues Adjustment	Expenses Adjustment
GENERAL FUND			
<i>Non-Departmental</i>	Transient Occupancy Tax/Transfer to Capital Improvement Fund Receipts are expected to fall below FY 2021 Adopted Budget estimates and represents a decrease of 67.6 percent, or \$10.1 million, from \$14.9 million to \$4.8 million. This revenue decrease is partially offset by a recommended \$4.5 million reduction in the transfer to the General Capital Improvement Fund in alignment with the City Council policy to dedicate a portion of TOT receipts to infrastructure investments.	\$ (10,070,000)	\$ (4,466,000)
<i>Non-Departmental</i>	Documentary Transfer Tax A proposed \$2.2 million revenue budget increase is recommended, increasing budget from \$4.7 million to \$6.9 million, to account for increased property sale activity through December 2020 and to estimate moderate sale activity for the remainder for the year.	\$ 2,175,000	\$ -
<i>Non-Departmental</i>	Utility Users Tax This action reduces revenue based on year-to-date activity, which is trending 14.1 percent below prior year second quarter levels.	\$ (1,020,000)	\$ -
<i>Non-Departmental</i>	CARES Act This action recognizes Palo Alto's portion of funding from the Federal Government distributed to local jurisdictions as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act.	\$ 854,743	\$ -
<i>Non-Departmental</i>	Cable Franchise Fee Revenue Cable franchise fees paid to the Cable Franchise Joint Powers Authority (JPA) has been impacted by COVID-19. This action represents the reduction in Palo Alto's portion of the fee funds from \$0.9M to \$0.7M. (Ongoing revenue reduction: \$200,000)	\$ (200,000)	\$ -
<i>Office of Transportation</i>	Travel, Training, and Membership Expense Reductions This action recognizes one-time expense savings from the department's travel, training, and membership budget. This will reduce the department's capacity to travel for City business, limit attendance at conferences and trainings, eliminate the Friends of Caltrain membership, and reduce resources available for office work including transcription services for meetings of the Palo Alto Transportation Management Association (PATMA). (Ongoing savings: \$0)	\$ -	\$ (43,554)
<i>Office of Transportation</i>	Contract Service Expense Reductions This action recognizes one-time expense savings from the department's contracts for transportation infrastructure maintenance and parking consulting services. (Ongoing savings: \$0)	\$ -	\$ (26,446)

CITY OF PALO ALTO

Department		Revenues Adjustment	Expenses Adjustment
GENERAL FUND			
<i>Police</i>	Parking Enforcement Suspension This one-time action reduces the revenue estimate for citations for the temporary suspension of parking restrictions and enforcement in the Palo Alto commercial districts at University and California Avenue. Due to COVID-19 health orders, the City is experiencing less parking in business districts, and staff has been reassigned to other work that impacts health and safety. Staff will bring forward budgetary adjustments as appropriate to align citation revenues as health orders rescind and commercial restrictions resume. (Ongoing net costs: \$0)	\$ (1,392,000)	\$ -
<i>Police</i>	Penalties and Fines This ongoing action reduces the revenue estimate for penalties and fines to align with state law changes that have affected crime classifications and sentencing guidelines. Over the course of the past few years, these changes have reduced the number of cases at the local level that would otherwise have associated fines and penalties. This action technically aligns revenue estimates with more recent trends and is anticipated to be brought forward as an ongoing adjustment in the FY 2022 Budget. (Ongoing net costs: \$141,000)	\$ (141,000)	\$ -
<i>Police</i>	School Resource Officer (SRO) Reimbursement This action eliminates reimbursements from the Palo Alto Unified School District (PAUSD) for School Resource Officers (SROs). In the prior agreement, PAUSD reimbursed the City for half of the cost of 2.00 SROs to provide Police Officer presence and enhance school safety efforts (CMR 10059). This service has been discontinued in FY 2021. (Ongoing net costs: \$250,000)	\$ (250,000)	\$ -

CITY OF PALO ALTO

Department		Revenues Adjustment	Expenses Adjustment
GENERAL FUND			
<i>Planning & Development Services</i>	Cost Recovery Program: 3225 El Camino Real This net-neutral action increases Development Services appropriations for a private development project using full cost recovery contracts. Under this program, the applicant pays upfront for contract services related to their project and funding is held in a deposit account until services are performed. (Ongoing net costs: \$0)	\$ 96,250	\$ 96,250
<i>Planning & Development Services</i>	Local Early Action Plan (LEAP) Grant This net-neutral action increases appropriations for a reimbursable grant from the California Department of Housing and Community Development (HCD) for technical assistance, preparation and adoption of planning documents, and process improvements to accelerate housing production and facilitate compliance to implement regional housing needs assessment. (Ongoing net costs: \$0)	\$ 300,000	\$ 300,000
<i>Planning & Development Services</i>	Salary Vacancy Savings Expense Reduction This action recognizes salary savings anticipated to be generated by vacant administrative and planning positions in the Long Range and Data Divisions through the end of FY 2021. The existing staff has temporarily absorbed these workloads, and the department will evaluate the need to recruit or adjust staffing levels as part of the FY 2022 Budget process.	\$ -	\$ (130,433)
<i>Public Works</i>	Street Sign Supplies and Materials This action recognizes \$10,000 in savings for supplies and materials to replace reflective sign material and poles. Similar work is currently performed under capital project PO-11000 so the consolidation of these services should have little to no service delivery impact. (Ongoing savings: \$10,000)	\$ -	\$ (10,000)
<i>Public Works</i>	Foothills Road Brush Clearing This action recognizes \$54,800 in savings for an expired contract to provide brush clearing services on Pagemill Road. In-house staff will take over this work, which may decrease capacity among the Streets crew to perform other work such as road and sidewalk repairs. Long-term impact may affect projects in other areas, such as Utilities or special initiatives if reduced capacity to complete work orders are prolonged and a backlog of work orders accumulate. (Ongoing savings: \$54,800)	\$ -	\$ (54,800)

CITY OF PALO ALTO

Department		Revenues Adjustment	Expenses Adjustment
GENERAL FUND			
<i>Public Works</i>	Streets and Facilities Maintenance Services This action recognizes \$205,000 in projected vacancy savings for 0.20 Management Specialist-H, 0.90 Facilities Technician, and 1.0 Traffic Controller I/II, which were each vacated this year. As part of the FY 2022 balancing strategy, these positions were recommended to be defunded and frozen beginning in FY 2022 ongoing. This reduction is in addition to 4.48 FTE in positions that were defunded and frozen in the Public Works Department as part of the FY 2021 Adopted Budget. The Management Specialist position change will result in little to no impact due to the limited term nature of the assignment. The Facilities Technician and Traffic Controller position changes will result in impacts primarily associated with facilities and streets maintenance work functions. Anticipated service delivery impact in those work functions are delays in work orders and an accumulation of backlog, which will reduce capacity to cover unanticipated events and preventative work. (Ongoing Savings: \$298,000)	\$ -	\$ (204,822)
<u>TECHNICAL ADJUSTMENTS</u>			
<i>Non-Departmental</i>	Equity Transfer to the General Fund This action decreases revenues from the Electric and Gas Equity Transfer to the General Fund by \$108,000 to true-up of transfers in alignment with net assets reported in the FY 2020 Comprehensive Annual Financial Report (CAFR) as of June 30, 2020. During the development of the FY 2021 budget, the net assets were not yet available and estimates were applied. This alignment will increase transfers from the Electric Fund by \$159,000 and decrease transfers from the Gas Fund by \$267,000 for a net decrease of \$108,000.	\$ (108,000)	\$ -

CITY OF PALO ALTO

Department		Revenues Adjustment	Expenses Adjustment
GENERAL FUND			
<i>Non-Departmental</i>	Street Lights and Traffic Signals Transfer from the General Fund This action is a technical correction to adjust the General Fund transfer to Electric Fund by \$62,844 from \$2,144,844 to \$2,082,000 for FY 2021. The base transfer covers the General Fund's portion of Street Light and Traffic Signal (SL/TS) base electric costs, which are set when Electric rates are updated. Rates were last updated in FY 2020, when Council adopted an 8% rate increase for Electric utilities and the General Fund's base transfer amount was set to \$2,082,000 (rounded). In FY 2021, the adopted base transfer amount was \$2,144,844, which reflects a rate increase of 4%. This rate increase was the FY 2021 rate change forecasted in the FY 2020 Financial Plan. However, since Council adopted a 0% rate adjustment for FY 2021, the FY 2021 transfer amount should have remained the same as FY 2020, at \$2,082,000 until the next rate adjustment.	\$ -	\$ (62,844)
<i>Non-Departmental</i>	FY 2021 Staffing Transition / Use of Reserves This action reduces the reserve for staffing transition costs in order to fund actions described below in this report.	\$ -	\$ (210,000)
<i>Non-Departmental</i>	Economically Sensitive Department Revenue Reserve As part of the FY 2021 Adopted Budget, a \$5.0M reserve was established to mitigate reductions in economically sensitive revenue particularly from services impacted by COVID-19. This action uses \$3.5M of this reserve to offset revenue losses mainly from the Community Services, Fire, and Police Departments.	\$ 3,538,879	\$ -
<i>Various</i>	Travel and Meetings Expense Reduction This one-time action eliminates all available remaining funding for travel and meetings across the General Fund. (Ongoing savings: \$0)	\$ -	\$ (289,196)
<i>Various</i>	Management Development Expense This one-time action eliminates current year funding for management development across the General Fund. A total of \$289,000 that was reappropriated from FY 2020 to FY 2021 remains for this purpose.(Ongoing savings: \$0)	\$ -	\$ (125,072)

CITY OF PALO ALTO

Department		Revenues Adjustment	Expenses Adjustment
GENERAL FUND			
<i>Various</i>	FY 2021 Staffing Transition Expenses / Use of Reserves	\$ -	\$ 210,000
	This action recognizes the use of reserves for costs associated with position reductions (freezes). A total of \$1.1 million was set aside in a reserve in FY 2021 to offset position related costs that staff could not implement immediately. This action increases salary and benefit expenses for employees in impacted positions during a 30 day noticing period in July 2020: Human Resources Department (\$10,000), Community Services Department (\$90,000), Library Department (\$60,000), and Police Department (\$50,000). These costs exclude safety personnel; concessions in these groups offset an extended attrition period. A corresponding action is included in this report to reduce the reserve from \$1.1 million to \$845,000.		
GENERAL FUND (102 & 103) SUBTOTAL		\$ (5,575,911)	\$ (5,575,911)
<u>PUBLIC SERVICES DONATION FUND (191)</u>			
<i>Police</i>	Transfer to Vehicle Replacement Fund	\$ -	\$ 55,000
	This action increases the transfer to the Vehicle Replacement Fund for one-time replacement costs of an Animal Control Officer (ACO) vehicle. The ACO vehicle requires early replacement in FY 2021 due to higher than anticipated mileage. The Vehicle Fund has accumulated \$25,000 of the expected \$80,000 to replace the vehicle; this action resolves the difference using animal service donations.		
<i>Non-Departmental</i>	Adjustment to Fund Balance	\$ -	\$ (55,000)
	This action adjusts the fund balance to offset adjustments recommended in this report.		
PUBLIC SERVICES DONATION FUND (191) SUBTOTAL		\$ -	\$ -

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2021 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
CAPITAL IMPROVEMENT FUNDS			
<u>CAPITAL IMPROVEMENT FUND (471)</u>			
<i>Capital</i>	Capital Improvement Project Adjustments This action reflects the combined impact from adjustments to projects as outlined in Attachment A, Exhibit 2.	\$ (808,506)	\$ (981,687)
<i>Capital</i>	Transfer from the General Fund This action reduces the transfer from the General Fund to the Capital Improvement Fund from \$6.6M to \$2.1M due to the reduction in estimated Transient Occupancy Tax (TOT) revenue in alignment with the City Council policy to dedicate a portion of TOT receipts to infrastructure investments.	\$ (4,466,000)	\$ -
<i>Fund Balance</i>	Adjustment to Fund Balance (Infrastructure Reserve) This action decreases the fund balance to offset adjustments recommended in this report.	\$ -	\$ (4,292,819)
CAPITAL IMPROVEMENT FUND (471) SUBTOTAL		\$ (5,274,506)	\$ (5,274,506)

CITY OF PALO ALTO

RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2021 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
ENTERPRISE FUNDS			
<u>ELECTRIC FUND (513 & 523)</u>			
<i>Utilities</i>	Expense and Revenue Adjustments	\$ 1,760,000	\$ 1,745,404
	This action increases revenues and expenses in FY 2021 to align funding in the Low Carbon Fuel Standards (LCFS) program with current projections and reallocate portions of FTE from two utilities positions working on the LCFS program into the LCFS cost center. In order to comply with the requirements of this program, a new cost center and LCFS reserve was established to distinguish LCFS program revenue and expenses from other demand-side management (DSM) program activities which are geared towards planning, implementing, and monitoring activities of electric utilities designed to encourage consumers to modify their level and pattern of electricity usage.		
<i>Utilities</i>	Street Lights and Traffic Signals Transfer from the General Fund	\$ (62,844)	\$ -
	This action is a technical correction to adjust the General Fund transfer to Electric Fund by \$62,844 from \$2,144,844 to \$2,082,000 for FY 2021. The base transfer covers the General Fund's portion of Street Light and Traffic Signal (SL/TS) base electric costs, which are set when Electric rates are updated. Rates were last updated in FY 2020, when Council adopted an 8% rate increase for Electric utilities and the General Fund's base transfer amount was set to \$2,082,000 (rounded). In FY 2021, the adopted base transfer amount was \$2,144,844, which reflects a rate increase of 4%. This rate increase was the FY 2021 rate change forecasted in the FY 2020 Financial Plan. However, since Council adopted a 0% rate adjustment for FY 2021, the FY 2021 transfer amount should have remained the same as FY 2020, at \$2,082,000 until the next rate adjustment.		
<i>Utilities</i>	Equity Transfer to the General Fund	\$ -	\$ 159,000
	This action increases expenses from the Electric Fund Equity Transfer to the General Fund by \$159,000 to true-up of transfers in alignment with net assets reported in the FY 2020 Comprehensive Annual Financial Report (CAFR) as of June 30, 2020. During the development of the FY 2021 budget, the net assets were not yet available and estimates were applied. This alignment will increase transfers from the Electric Fund by \$159,000 and decrease transfers from the Gas Fund by \$267,000 for a net decrease of \$108,000.		

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2021 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
ENTERPRISE FUNDS			
<i>Fund Balance</i>	Adjustment to Fund Balance	\$ -	\$ (207,248)
	This action decreases the fund balance to offset adjustments recommended in this report.		
ELECTRIC FUND (513 & 523) SUBTOTAL		\$ 1,697,156	\$ 1,697,156

FIBER OPTICS FUND (533)

<i>Utilities</i>	Fiber To The Home (FTTH) Funding for the Community & Economic Recovery Workplan	\$ -	\$ 200,000
	This action appropriates funds for the acceleration of Fiber to the Home (FTTH) as part of the recommendations brought forward to Council on Jan 19, 2021 (CMR 11877) to appropriate funding for specific projects to mitigate the spread of COVID-19 to the greatest extent possible.		

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2021 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
ENTERPRISE FUNDS			
<i>Fund Balance</i>	Adjustment to Fund Balance	\$ -	\$ (200,000)
	This action decreases the fund balance to offset adjustments recommended in this report.		
FIBER OPTICS FUND (533) SUBTOTAL		\$ -	\$ -
<u>GAS FUND (514 & 524)</u>			
<i>Utilities</i>	Low Carbon Fuel Standards Program Adjustments	\$ -	\$ (20,015)
	This action recognizes \$20,000 in salary expense decreases for the Gas fund as a result of reallocating 0.25 FTE from Gas to Electric as part of the funding alignment for the Low Carbon Fuel Standards (LCFS) program. In order to comply with the requirements of this program, a new cost center and LCFS reserve was established to distinguish LCFS program revenue and expenses from other demand-side management (DSM) program activities which are geared towards planning, implementing, and monitoring activities of electric utilities designed to encourage consumers to modify their level and pattern of electricity usage.		
<i>Utilities</i>	Equity Transfer to the General Fund	\$ -	\$ (267,000)
	This action decreases expenses from the Gas Fund Equity Transfer to the General Fund by \$267,000 to true-up of transfers in alignment with net assets reported in the FY 2020 Comprehensive Annual Financial Report (CAFR) as of June 30, 2020. During the development of the FY 2021 budget, the net assets were not yet available and estimates were applied. This alignment will increase transfers from the Electric Fund by \$159,000 and decrease transfers from the Gas Fund by \$267,000 for a net decrease of \$108,000.		
<i>Fund Balance</i>	Adjustment to Fund Balance	\$ -	\$ 287,015
	This action increases the fund balance to offset adjustments recommended in this report.		
GAS FUND (514 & 524) SUBTOTAL		\$ -	\$ -

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2021 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
ENTERPRISE FUNDS			
<u>UTILITIES ADMINISTRATION FUND (521)</u>			
<i>Utilities</i>	City Auditor Services Alignment	\$ -	\$ 30,305
	This action reallocates existing funds and adds additional funding for year one of the new Internal City Auditor contract with Baker Tilly US LLP, in accordance with CMR 11624. 25% of the cost of the City Auditor contract is allocated to the Utilities Administration Fund and the other 75% to the General Fund. In subsequent years, it is expected that the contract services authorized will be funded similarly to the current audit services, 75% in the General Fund and 25% in the Utilities Enterprise Funds for a total not to exceed \$750,000 annually. Additional entry in General Fund to align all audit functions across the City.		
<i>Fund Balance</i>	Adjustment to Fund Balance	\$ -	\$ (30,305)
	This action decreases the fund balance to offset adjustments recommended in this report.		
UTILITIES ADMINISTRATION FUND (521) SUBTOTAL		\$ -	\$ -

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2021 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
INTERNAL SERVICE FUNDS			
<u>GENERAL BENEFITS FUND (687)</u>			
Non- Departmental	Charges to Other Funds / Healthcare and Pension Expense This net-neutral action decreases the estimate for charges to other funds by \$3.2 million due to staffing freezes approved as part of the FY 2021 Adopted Budget. In total, the City froze nearly \$16.0 million in salaries and benefits in FY 2021. Of this amount, approximately \$3.2 million is attributable to pension and healthcare costs. The General Benefits Fund acts as a pass-through for pension and healthcare costs; therefore, this action reduces expenditures by a corresponding amount.	\$ (3,209,116)	\$ (3,209,116)
		GENERAL BENEFITS FUND (687) SUBTOTAL	\$ (3,209,116) \$ (3,209,116)
<u>GENERAL LIABILITIES INSURANCE FUND (689)</u>			
Non- Departmental	Umbrella Excess Liability Insurance Expense This action increases the estimate for umbrella excess liability insurance to align with higher than anticipated premium costs, from \$2.04 million to \$2.09 million.	\$ -	\$ 51,600
Fund Balance	Adjustment to Fund Balance This action adjusts the fund balance to offset adjustments recommended in this report.	\$ -	\$ (51,600)
		GENERAL LIABILITIES INSURANCE FUND (689) SUBTOTAL	\$ - \$ -

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2021 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
INTERNAL SERVICE FUNDS			
<u>INFORMATION TECHNOLOGY FUND (682)</u>			
<i>Information Technology</i>	Funding Request for Virtual Interview Platform This ongoing action adds \$40,000 in expense funding to support a subscription to the on-demand virtual interview program, Hirevue. In FY 2020, the Human Resources Department was provided one-time funding to pilot prescreening technology to enhance candidate screening cycles along with a goal to reduce bias in the interview process, which lead to the contract with Hirevue to provide on-demand screening through recorded interview process. This contract was established in March 2020, just as a Shelter in Place (SIP) orders were enacted. The recruitment team has successfully completed many interview processes through Hirevue and believe that a recorded online interview process to be the new normal process to screen candidates. Due to financial pressures, recruitments are being fully vetted through an internal Hiring Committee and while the numbers of active recruitments are reduced compared to pre-COVID-19 numbers, the City continues to remotely recruit for positions that provide critical services to the community. (Ongoing cost: \$40,000)	\$ -	\$ 40,000
<i>Fund Balance</i>	Adjustment to Fund Balance This action decreases the fund balance to offset adjustments recommended in this report.	\$ -	\$ (40,000)
INFORMATION TECHNOLOGY FUND (682) SUBTOTAL		\$ -	\$ -

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2021 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
INTERNAL SERVICE FUNDS			
<u>VEHICLE REPLACEMENT AND MAINTENANCE FUND (681)</u>			
<i>Public Works</i>	Expense Action This action recognizes \$100,000 in expense savings for vehicle fuel purchase expenses. This action will align fuel costs more closely with how extra taxes are accounted, and with reduced fuel consumption related to aging fleet being replaced with newer, more fuel-efficient vehicles/equipment. This alignment will have little to no service delivery impact. (Ongoing savings: \$100,000)	\$ -	\$ (100,000)
<i>Police</i>	Transfer from Public Service Donation Fund / Vehicle Expense This action increases the transfer from the Public Service Donation Fund for one-time replacement costs of an Animal Control Officer (ACO) vehicle. The ACO vehicle requires early replacement in FY 2021 due to higher than anticipated mileage. The Vehicle Fund has accumulated \$25,000 of the expected \$80,000 to replace the vehicle; this action resolves the difference using animal service donations.	\$ 55,000	\$ 55,000
<i>Fund Balance</i>	Adjustment to Fund Balance This action increases the fund balance to offset adjustments recommended in this report.	\$ -	\$ 100,000
VEHICLE REPLACEMENT AND MAINTENANCE FUND (681) SUBTOTAL		\$ 55,000	\$ 55,000

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2021 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
SPECIAL REVENUE FUNDS			
<u>CALIFORNIA AVENUE FUND (237)</u>			
<i>Office of Transportation</i>	California Avenue Parking Fund Revenue Adjustments This action recognizes decreased revenue in the California Avenue Parking Fund. Revenue in fund 237 is comprised predominantly of 1-day and annual parking permits. Both revenue categories are tracking significantly below budgeted targets due to the suspension of parking enforcement and extension of annual parking permit expiration dates, both part of the City's response to the community and economic impacts of COVID-19. Parking enforcement is proposed to resume and annual permits are proposed to expire in Spring 2021; with these actions, the most significant driver of revenue in the fund, annual parking permits, is expected to return to normal levels of demand. 1-day permit revenues are expected to recover upon reinstatement of enforcement to average budgeted levels, therefore this action decreases revenue in this area representing the losses incurred while enforcement was paused. The California Avenue fund is projected to remain solvent based on the Q4 FY 2021 resumption of enforcement and permit sales. (Ongoing impact: \$0)	\$ (231,491)	\$ -
<i>Fund Balance</i>	Adjustment to Fund Balance This action adjusts the fund balance to offset actions recommended in this report.	\$ -	\$ (231,491)
		CALIFORNIA AVENUE FUND (237) SUBTOTAL	\$ (231,491) \$ (231,491)

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2021 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
SPECIAL REVENUE FUNDS			
<u>COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) FUND (232)</u>			
<i>Planning & Development Services</i>	FY 2021 CDBG Allocation This net-neutral action aligns the FY 2021 CDBG allocation with revised estimates from the Department of Housing and Urban Development (HUD). This adjustment reflects a minor formula correction by HUD and is not anticipated to impact any of the planned programs.	\$ (113)	\$ (113)
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) FUND (232) SUBTOTAL		\$ (113)	\$ (113)
<u>GENERAL GOVERNMENT FACILITY IMPACT FEE FUND (226)</u>			
<i>Non-departmental</i>	Transfer from Impact Fee Funds to the Capital Improvement Fund This action provides a one-time transfer of \$574,118 from the General Government Facility impact fee fund to the Capital Improvement Fund for \$356,956 to the Civic Center Fire Life Safety Upgrades project (PE-18016) and \$217,162 for the JMZ Renovation project (AC-18001) recommended to Council on Jan 25, 2021 as part of the Annual Status Report on Development Impact Fees for FY 2020 and adoption of a resolution making statutory findings for certain funds (CMR 11875). Please see Attachment A, Exhibit 2 for related offsetting transactions.	\$ -	\$ 574,118
<i>Fund Balance</i>	Adjustment to Fund Balance This action decreases the fund balance to offset adjustments recommended in this report.	\$ -	\$ (574,118)
GENERAL GOVERNMENT FACILITY IMPACT FEE FUND (226) SUBTOTAL		\$ -	\$ -

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2021 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
SPECIAL REVENUE FUNDS			
<u>LIBRARY IMPACT FEE FUND (212)</u>			
<i>Library</i>	Transfer from Impact Fee Funds to the Capital Improvement Fund This action provides a one-time transfer of \$220,000 from the Library impact fee fund to the Capital Improvement Fund for the Library Automated Material Handling Project (LB-21000) to increase capacity for contactless library materials processing. Please see Attachment A, Exhibit 2 for related offsetting transactions.	\$ -	\$ 220,000
<i>Fund Balance</i>	Adjustment to Fund Balance This action decreases the fund balance to offset adjustments recommended in this report.	\$ -	\$ (220,000)
LIBRARY IMPACT FEE FUND (212) SUBTOTAL		\$ -	\$ -
<u>PUBLIC SAFETY FACILITY IMPACT FEE FUND (225)</u>			
<i>Non-departmental</i>	Transfer from Impact Fee Funds to the Capital Improvement Fund This action provides a one-time transfer of \$455,912 from the Public Safety Facility impact fee fund to the Capital Improvement Fund for the New Public Safety Building Project (PE-15001) recommended to Council on Jan 25, 2021 as part of the Annual Status Report on Development Impact Fees for FY 2020 and adoption of a resolution making statutory findings for certain funds (CMR 11875). Please see Attachment A, Exhibit 2 for related offsetting transactions.	\$ -	\$ 105,912
<i>Fund Balance</i>	Adjustment to Fund Balance This action decreases the fund balance to offset adjustments recommended in this report.	\$ -	\$ (105,912)
PUBLIC SAFETY FACILITY IMPACT FEE FUND (225) SUBTOTAL		\$ -	\$ -

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2021 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
SPECIAL REVENUE FUNDS			
<u>RESIDENTIAL PREFERENTIAL PARKING AVENUE FUND (239)</u>			
<i>Office of Transportation</i>	Residential Preferential Parking (RPP) Fund Revenue Adjustments This action recognizes decreased revenue in the RPP Fund. Revenue in fund 239 is comprised predominantly of 1-day parking permits, annual parking permits, and parking citation fees. All revenue categories are tracking significantly below budgeted targets due to the suspension of parking enforcement and extension of annual parking permit expiration dates, both part of the City's response to the community and economic impacts of COVID-19. Parking enforcement is proposed to resume and annual permits are proposed to expire in Spring 2021; with these actions, the most significant driver of revenue in the fund, annual parking permits, is expected to return to normal levels of demand. 1-day permit and citation revenues are expected to recover upon reinstatement of enforcement to average budgeted levels, therefore this action decreases revenue in these areas representing the losses incurred while enforcement was paused. The RPP fund is projected to remain solvent based on the Q4 FY 2021 resumption of enforcement and permit sales. (Ongoing impact: \$0)	\$ (218,986)	\$ -
<i>Fund Balance</i>	Adjustment to Fund Balance This action adjusts the fund balance to offset actions recommended in this report.	\$ -	\$ (218,986)
RESIDENTIAL PREFERENTIAL PARKING AVENUE FUND (239) SUBTOTAL		\$ (218,986)	\$ (218,986)

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2021 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
SPECIAL REVENUE FUNDS			
<u>STANFORD UNIVERSITY MEDICAL CENTER FUND (260)</u>			
<i>Non-departmental</i>	Transfers from the Stanford University Medical Center development funds for the Community & Economic Recovery Workplan This action recognizes a one-time transfer of \$650,000 from the Stanford University Medical Center to the Capital Improvements Fund as part of the recommendations brought forward to Council on Jan 19, 2021 (CMR 11877) to appropriate funding for specific projects to mitigate the spread of COVID-19 to the greatest extent possible. Please see Attachment A, Exhibit 2 for related offsetting transactions.	\$ -	\$ 650,000
<i>Fund Balance</i>	Adjustment to Fund Balance This action adjusts the fund balance to offset actions recommended in this report.	\$ -	\$ (650,000)
STANFORD UNIVERSITY MEDICAL CENTER FUND (260) SUBTOTAL		\$ -	\$ -

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2021 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
SPECIAL REVENUE FUNDS			
<u>UNIVERSITY AVENUE FUND (236)</u>			
<i>Office of Transportation</i>	University Avenue Parking Fund Revenue Adjustments This action recognizes decreased revenue in the University Avenue Parking Fund. Revenue in fund 236 is comprised predominantly of 1-day and annual parking permits. Both revenue categories are tracking significantly below budgeted targets due to the suspension of parking enforcement and extension of annual parking permit expiration dates, both part of the City's response to the community and economic impacts of COVID-19. Parking enforcement is proposed to resume and annual permits are proposed to expire in Spring 2021; with these actions, the most significant driver of revenue in the fund, annual parking permits, is expected to return to normal levels of demand. 1-day permit revenues are expected to recover upon reinstatement of enforcement to average budgeted levels, therefore this action decreases revenue in this area representing the losses incurred while enforcement was paused. (Ongoing impact: \$0)	\$ (756,230)	\$ -
<i>Office of Transportation</i>	Transportation Management Association (TMA) Contract Funding Alignment This action recognizes one-time expense savings of \$103,000 from the FY 2021 contract with the TMA. Council approved TMA funding of \$453,000 for FY 2021 in accordance with the funding request from TMA reviewed in budget hearings on May 26, 2020. Subsequently, TMA further decreased their funding request and the final contract was approved for \$350,000. (Ongoing savings: \$0)	\$ -	\$ (103,000)
<i>Fund Balance</i>	Adjustment to Fund Balance This action adjusts the fund balance to offset actions recommended in this report.	\$ -	\$ (653,230)
UNIVERSITY AVENUE FUND (236) SUBTOTAL		\$ (756,230)	\$ (756,230)

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2021 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
DEBT SERVICE FUNDS			
<u>LIBRARY GO BONDS (370)</u>			
<i>Non- Departmental</i>	Library GO Bond Debt Service This technical adjustment corrects the annual debt service expense for the Library General Obligation Bonds to align with the bond's debt service schedule.	\$ -	\$ (219,000)
<i>Non- Departmental</i>	Adjustment to Fund Balance This action increases the fund balance to offset adjustments recommended in this report.	\$ -	\$ 219,000
LIBRARY GO BONDS (370) SUBTOTAL		\$ -	\$ -

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2021 BUDGET

Department		Revenues Adjustment	Expenses Adjustment
AGENCY TRUST FUNDS			
<u>CABLE FRANCHISE FEE FUND (779)</u>			
<i>Non-</i>	Franchise Fee Revenue/Fee Distribution to JPA Members	\$ (300,000)	\$ (300,000)
<i>Departmental</i>	This action reduces cable franchise fee revenue paid to the Cable Franchise Joint Powers Authority (JPA) by cable providers from \$1.9M to \$1.6M due to impacts from COVID-19. The funding distribution to various JPA member jurisdictions is also reduced by \$0.3M of which \$0.2M goes to Palo Alto's General Fund.		
		CABLE FRANCHISE FEE FUND (779) SUBTOTAL	\$ (300,000) \$ (300,000)

CITY OF PALO ALTO
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2021 CAPITAL IMPROVEMENT PROGRAM

Title	Project Number	Revenues	Expenses	Comments
CAPITAL IMPROVEMENT FUND				
New Public Safety Building	PE-15001	\$ 105,912	\$ 105,912	Recommendations in the Annual Status Development Impact Fees FY 2020 report (CMR 11875)
University Avenue Streetscape Updated	PE-21004	\$ 150,000	\$ 150,000	Recommendations for the Community & Economic Recovery Workplan (CMR 11877)
JMZ Renovation	AC-18001	\$ 217,162	\$ 217,162	Recommendations in the Annual Status Development Impact Fees FY 2020 report (CMR 11875)
Library Automated Material Handling	LB-21000	\$ 220,000	\$ 220,000	Funding to purchase library hold lockers and lending kiosks using Library Impact Fees
Charleston Arastradero Corridor	PE-13001	\$ (358,536)	\$ (358,536)	Anticipated revenue from grants and subsequent expense alignment.
Civic Center Fire Life Safety Upgrades	PE-18016	\$ 356,956	\$ 356,956	Recommendations in the Annual Status Development Impact Fees FY 2020 report (CMR 11875)
Building Systems Improvements	PF-01003	\$ 500,000	\$ 500,000	Recommendations for the Community & Economic Recovery Workplan (CMR 11877)
Safe Routes to School	PL-00026	\$ -	\$ 671,000	Recommendations in the VERBS Grant Project and Community Engagement Plan (CMR 11757)
El Camino Real Pedestrian Safety and Streetscape Project	PL-18000	\$ (2,000,000)	\$ (2,844,181)	Recommendations in the VERBS Grant Project and Community Engagement Plan (CMR 11757)
TOTAL CAPITAL IMPROVEMENT FUND PROJECT ADJUSTMENTS		\$ (808,506)	\$ (981,687)	
ELECTRIC FUND				
SCADA System Upgrades	EL-02010	\$ -	\$ 50,000	Internal labor required to install peripheral hardware.
Caltrain Modernization	EL-17007	\$ -	\$ (50,000)	Project anticipated to complete with some expense savings.
TOTAL ELECTRIC FUND PROJECT ADJUSTMENTS		\$ -	\$ -	

Review and Authorize the Creation of a Rent Forgiveness Program for City Tenants

Recommendation

Staff recommends the City Council approve the creation of a rent forgiveness program to qualified City tenants and authorize the City Manager to execute amendments to all leases in accordance with the City Council established program.

Options for the structure of a rent forgiveness program for City Council Consideration:

- Option A – Rent Forgiveness for All Active Tenants
- Option B – Rent Forgiveness for Active and Non-Operational Tenants
- Option C – Rent Forgiveness for Active Non-Profit Tenants
- Option D – No Rent Forgiveness

Executive Summary

At the October 19, 2020 City Council meeting, staff recommended that the City Council discuss Palo Alto's current fiscal status and provide direction to staff on potential budget actions, including on rental relief for City non-profit and for-profit tenants. City Council requested staff bring back options to provide rental relief for a defined period of time for the City's tenants. This staff report provides a time bounded rent forgiveness program to City tenants with various criteria to meet qualifications.

Staff recommends Council approve the following qualifications for tenants to participant in this program:

1. The rent forgiveness program is available to those tenants that have satisfied all responsibilities under their existing agreement, have no outstanding delinquencies for any payments due prior to April 1, 2020, and is a current tenant as the date of the application.
2. Tenant must cite section(s) of the County ordinance that restricted tenant's operations.
3. Rent over \$100 per month including operating expenses.
4. Tenants will be required to complete a form describing their impact from the COVID-19 pandemic and provide financial statements demonstrating the amount of reduced business revenue.
5. The business must have had gross revenues of less than \$2.5 million in 2019.
6. The business must provide an income statement demonstrating a decline in gross revenue during 1st half of 2020 of at least 50% from 1st half of 2019.
7. If a qualified tenant paid rent during the forgiveness period instead of deferring, it may qualify for rent credits to be used for rent owed in the following three months after the parties agree to an amendment.
8. Tenants that meet all qualifications will be required to enter into an amendment, subject to City Manager approval.

Background

The City rents some of its real property throughout the city to multiple tenants conducting a variety of business. In total, the agreements provide approximately \$278,000 per month in projected revenue to the City including Airport tenants, as of Fiscal Year End 2019 – 2020. On March 16, 2020, Santa Clara County Public Health issued a shelter in place order effective the following day to keep the community safe from the spread of COVID-19. This limited activity, travel, and business functions to only the most essential needs. Many of the City's tenants did not operate during the shelter in place order, resulting in multiple requests made for rental relief.

The City responded by providing rent deferral to its Cubberley and Airport tenants. A total of 20 tenants requested for rent relief and over \$250,000 in rent that was due in the fourth quarter of Fiscal Year 2019 – 2020 was deferred. Some of the City's tenants did not apply or did not qualify because they were leasing at other City properties. As a result, there is approximately \$149,000 in delinquencies from rent owed in fourth quarter of Fiscal Year 2019 – 2020.

In the summer, the City established a Small Business Recovery Grant Program from its General Fund that provided up to \$10,000 each to 50 local businesses. Separately, the County of Santa Clara adopted a commercial tenant eviction moratorium, which is currently scheduled to expire on March 31, 2021. Under the moratorium, small business tenants have up to six months after the moratorium expires or terminates to repay at least 50% of the past-due rent, and up to 12 months after the moratorium expires or terminates to repay in full the past-due rent. Other government programs also provided support through the Paycheck Protection Program, Economic Injury Disaster Loan, and deferral of property and income tax payments.

Discussion

Despite the various support available to City tenants, the lingering effects of COVID-19 continue, with some tenants still expressing difficulty in paying rent and requesting for rent forgiveness.

To provide additional support to City tenants that continue to struggle with paying rent, and with consideration for the City's \$39 million budget shortfall forecast in the current fiscal year, staff is proposing to offer to certain tenants rent forgiveness for amounts due in the months of April, May, and June 2020. If a qualified tenant paid rent during the forgiveness period instead of deferring, it may qualify for rent credits to be used for rent owed in the following three months after the parties agree to an amendment. Staff suggests making the rent forgiveness program available to those tenants that have satisfied all responsibilities under their existing agreement and have no outstanding delinquencies for any payments due prior to April 1, 2020. Additionally, rent forgiveness should only be made available to tenants whose operations at the premises were restricted by the County ordinance.

The program qualifications for Council's consideration includes options ranging for \$0 and up to \$875,000 and possibly assist up to 67 tenants (Attachment A – List of City's Current Tenants). The rent forgiveness considers nonprofit organizations, small businesses, and tenants experiencing a loss of revenue at a certain level attributed to the COVID-19 pandemic. To determine which

tenants qualify and are most in need of rent forgiveness, tenants will be required to complete a form describing their impact from the COVID-19 pandemic and provide financial statements demonstrating the amount of reduced business revenue. Those tenants that meet all qualifications will be required to enter into an amendment, subject to City Manager approval. The City Manager requests City Council delegation to determine final eligibility and authority to execute amendments with tenants who elect to participate in the forgiveness program.

Here is a list of options for City Council's consideration:

Rent Forgiveness Options to Consider	Estimated Impact Cost	Estimated Impacted Stakeholders	Time Covered
Option A – Rent Forgiveness for All Active Tenants	\$875,000	67 tenants – (For-profits, Non-profits, Small Businesses, Large Businesses)	3 months
Option B – Rent Forgiveness for Active and Non-Operational Tenants	\$751,000	58 tenants – (For-profits, Non-profits, Small Businesses)	3 months
Option C – Rent Forgiveness for Active and Non-Operational Non-Profit Tenants	\$203,000	19 tenants – (Non-Profits)	3 months
Option D – No Rent Forgiveness	\$0	N/A	N/A

- Option A – would give rent forgiveness for all our current tenants for three (3) months.
- Option B – would give rent forgiveness for all active and non-operational tenants for three (3) months. The Shelter-in-Place mandate impacted business operations for most of our tenants which prompted the City to offer rent deferral.
- Option C – would give rent forgiveness for all active non-profits for three (3) months. The option would focus our effort in helping our most impacted business given the essential service they provide to the Palo Alto community.
- Option D – would not provide rent forgiveness to our tenants. The County's eviction moratorium has been continued multiple times throughout 2020 and we are unsure when it will expire. If staff is given more time to and gain clarity on when business reopens, we would be able to provide a better approach to the situation. With the vaccine becoming available, staff would foresee late Summer or Fall as an ideal time to revisit the rent forgiveness program.

Staff may come back to Council at a later date to discuss scenarios related to large rent amounts becoming overdue. For example, the City has commercial tenants who currently owe multiple

months in delinquent rent and are requesting substantial discounts. In one example, a commercial tenant is seeking to reduce rent more than 90% from its current rent of over \$40,000 due to substantial loss in revenue.

Timeline

Staff will notify qualified tenants about the rent forgiveness program requirements and provide forms after Council approval.

Resource Impact

As of Fiscal Year End 2019 – 2020, the City's real property assets were projected to generate approximately \$278,000 per month in revenue through various agreements with tenants including Airport tenants. The ultimate fiscal impact to the City's budget would depend on the amount of tenants that apply and are qualified in any program approved by the City Council. As outlined above, staff would recommend use of the City Council's COVID-19 Reserve or Budget Stabilization Reserve for financial impacts of this potential program.

Policy Implications

Policy and Procedures 1-11 provides guidance on leased use of city land/facilities. "The purpose of this policy is to ensure that decisions regarding use of City real property are made in the best interest of the citizens and taxpayers of Palo Alto....Tenant shall be required to provide the City with adequate compensation for the rights granted by the City to the tenant. Determination of appropriate consideration shall begin with the estimated fair market rental value of the lease premises for the use proposed." While the rent forgiveness program will impact the City's budget, it is believed to be necessary to assist vital community businesses through an unprecedented pandemic. The granting of rent forgiveness may result in inadequate compensation, but Policy and Procedures 1-11 gives consideration to tenants that provide clearly articulated actual non-monetary benefits to a significant portion of the citizens and taxpayers of the city.

Stakeholder Engagement

Staff has received a number of requests for rent forgiveness from tenant occupying various City real property. There are some private and public landlords that reportedly have provided limited rent forgiveness.

Staff researched neighboring cities including Mountain View, Menlo Park, and Los Altos regarding a rent abatement program. Staff discovered these neighboring cities did not have a rent abatement program but did reference County's eviction moratorium. Santa Clara County approved a Small Business Loan Program in December 2020. The loan program is expected to provide up to \$100,000 per small business and as much as \$100 million dollars in total loans. Staff was able to find one example of public rent abatement with the Port of San Francisco. The Port of San Francisco Rent Forgiveness Program focused on eligible tenants that included percentage rent tenants with base or minimum rent obligations, certain categories of maritime tenants, and local business enterprise tenants. The program cost was estimated at \$13.45 million which included an estimated 196 eligible tenants. The Simon Property Group is an example of private sector granted rent deferral and abatement to thousands of local and regional small businesses

and restaurants entrepreneurs for the period they were closed. The San Mateo County Board of Supervisors has dedicated \$2 million to establish a grant program for small-scale residential rental property owners in the County who have been impacted by the COVID-19 pandemic.

Staff has received multiple phone calls and emails from City tenants requesting additional rent relief as the pandemic continues. City tenants have expressed their inability to operate their business due to the County's restrictions. While some City tenants are back in operation, their business has struggled to maintain pre-COVID clientele. This unfortunately has closed the doors for some businesses. Staff has been unable to further assist some tenants beyond citing the rent deferral of April, May, and June.

Environmental Review

The project is categorically exempt from the requirements of the California Environmental Quality Act (CEQA) pursuant to Section 15301 (Existing Facilities) of the CEQA guidelines.

Exhibit A
List of City's Active Tenants

City Tenant	Non-profit*	For-Profit*	Government	Active	Non-Active	Note
Abundant Air Café		x			x	
Acme Education Group, Inc.		x		x		
Advantage Aviation		x		x		
Aero Works		x		x		
Anderson Honda		x		x		
Art of Living Foundation	x				x	
Austro Aircraft		x		x		
Avenidas	x			x		
Barbara Boissevain		x		x		
Bay Area Cellular Telephone Company dba AT&T		x		x		Cell Tower
BrainVyne	x			x		
California Law Review			x	x		
California Pop Orchestra	x			x		
Carmina Eliason		x		x		
Catherine di Napoli		x			x	
Chandrika Marla		x		x		
Children's Pre-School Center	x			x		
College of Palo Alto		x		x		
Community For Christ Church of Palo Alto	x				x	
Conrad Johnson		x		x		
Dance Action inc (dba Dance Visions)	x			x		
Dance Connection		x		x		
Dance Magic	x			x		
Danièle Archambault		x		x		
Darryl Dieckman		x		x		
Elizabeth Bennett		x		x		
Ernest Regua		x		x		
Friends of the Palo Alto Library	x			x		
Good Neighbor Montessori		x			x	
GTE Mobilenet of California Limited Partnership (Verizon)		x		x		Cell Tower
Harumo Sato		x		x		
Heart Fit for Life (Cardiac Therapy Foundation)	x			x		
Hua Kuang Chinese Reading Room	x			x		
Imagination School	x				x	
IVY GOAL EDUCATION CO		x			x	
JATO Aviation		x		x		
Jennifer Gonsalves		x		x		
JSRFIT LLC d.b.a. Form Fitness		x		x		
Karer CDC LLC		x			x	
Kids Choice		x		x		
Living Wisdom High School	x			x		
Martha Sakellariou		x		x		
Me Fit Vending, LLC		x		x		

Exhibit A
List of City's Active Tenants

City Tenant	Non-profit*	For-Profit*	Government	Active	Non-Active	Note
Mel Day		x		x		
Melody Academy of Music Inc.		x		x		
Minority Television Project	x			x		
OB Sports Golf Management (Baylands), LLC		x		x		
Omnipoint Communications, Inc (T-Mobile)		x		x		Cell Tower
Palo Alto Community Child Care	x			x		
Palo Alto Humane Society	x			x		
Palo Alto Lawn Bowls Club		x		x		
Palo Alto Players-Peninsula Center Stage	x			x		
Palo Alto Soccer Club	x			x		
Paloma Lucas		x		x		
Pantea Karimi		x		x		
Patrick Fenton		x		x		
Precision Engineering, Inc.		x			x	
PTI US Towers II, LLC		x		x		Cell Tower
Rachelle Doorley		x		x		
Ranger Taekwondo		x		x		
Reach	x			x		
Robin Mullery		x		x		
Rossi Aircraft		x		x		
Sahba Shere		x		x		
San Mateo Credit Union	x			x		
Sanghee Lee		x		x		
Servane Briand		x		x		
Silicon Valley Karate		x			x	
Sprint Spectrum L.P.		x		x		Cell Tower
Stanford Flying Club	x			x		
Sundance Flying Club		x		x		
t.w. five (Andersson, Pernilla / Pereira, Paula)		x		x		
Tara de la Garza		x		x		
The Purple Pipe LLC		x		x		
Valley Transportation Authority			x	x		
West Valley Flying Club	x			x		
Yishu Wang		x			x	
Zohar Dance Company	x			x		

*Based on available information

Exhibit B

County's Notice to Small Business Tenant Concerning Repayment of Your Rent

**NOTICE TO SMALL BUSINESS TENANT
CONCERNING REPAYMENT OF YOUR RENT**

**(Per County of Santa Clara Ordinance No. NS-9.287, as amended
by Ordinance Nos. NS-9.288, NS-9.289, NS-9.292 and NS-9.293)**

The County of Santa Clara has temporarily banned evictions for non-payment of rent if you are a tenant that qualifies as a small business and have suffered a substantial loss of income or substantial out-of-pocket medical expense due to the COVID-19 pandemic. The County's Ordinance is extended until March 31, 2021 and applies to small business tenants.

If you qualify for protection under the County's Ordinance, you have rights that relate to your repayment of past-due rent. These are:

1. You have up to 6 months from the date the Ordinance expires or is terminated to repay at least 50% of your past-due rent;
2. You have up to 12 months from the date the Ordinance expires or is terminated to repay all of your past-due rent; and
3. A landlord cannot charge a late fee and/or penalties for rent that was deferred as a result of the Ordinance so long as you repay your rent according to this timeline.

For the most current information about the Ordinance, please refer to the Frequently Asked Questions on the County website at: bit.ly/sccemfaq5. You should also seek legal help to understand your rights and responsibilities under the Ordinance.

A list of emergency rental assistance programs is available on the County website at: bit.ly/sccemresources.