



**SPECIAL CITY COUNCIL MEETING
COUNCIL RETREAT**

Please Note: Per California Executive Order N-29-20, the City Council will meet via Telephone/Video Conference only.

TUESDAY, JANUARY 18, 2022 4:00 P.M.

***Members of the Public may join and participate in the Council meeting at
<https://webinar.ringcentral.com/j/1491560741>***

And

SATURDAY, JANUARY 22, 2022 9:00 A.M.

***Members of the Public may join and participate in the Council meeting at
<https://webinar.ringcentral.com/j/1463239852>***

TO COMMENT DURING THE MEETING members of the public will need to join the meeting using the above link and have a working microphone on their device. To request to speak please use the “Raise hand” feature located at the bottom of the screen. Public testimony will be taken at the direction of the Mayor and members of the public may only comment during times allotted for public comments.

TO LISTEN to the City Council Meeting, members of the public may call 1-650-242-4929 (Meeting ID: ***1491560741 for Tuesday meeting and 1463239852 for Saturday meeting***). Please note that members of the public who call in using the telephone number will **NOT** be able to provide public comments.

TO SUBMIT WRITTEN COMMENTS, prior to the meeting, on matters listed on the agenda email PublicComment@losaltosca.gov with the subject line in the following format:

PUBLIC COMMENT AGENDA ITEM ## - MEETING DATE.

Correspondence must be received by NOON the day BEFORE of the meeting to ensure it can be distributed prior to the meeting. Emails received prior to the meeting will be included in the public record.

ESTABLISH QUORUM

PLEDGE OF ALLEGIANCE

OPEN RETREAT AND REVIEW PROCESS – City Manager

DISCUSSION ITEMS: It is anticipated that the Council will discuss topics 1-3 on Tuesday, January 18, 2022 and topics 4 and 5 on Saturday January 22, 2022. However any unfinished topics from Tuesday, January 18, 2022 may continue to Saturday, January 22, 2022.

SEE AGENDA ATTACHMENT for detailed description of Agenda Items 1-5 (below)

1. Understanding our Budget and Financial Circumstances
2. Employee Recruitment and Retention
3. Maintenance and Improvement of City Facilities

PUBLIC COMMENTS ON ITEMS ON THE AGENDA

According to State Law (also known as “the Brown Act”), public comments at Special Meetings of the City Council are limited to those items on the agenda.

CLOSING COMENTS – City Manager Wrap Up

ADJOURNMENT TO:

SATURDAY, JANUARY 22, 2022 9:00 A.M.

Members of the Public may join and participate in the Council meeting at

<https://webinar.ringcentral.com/j/1463239852>

ESTABLISH QUORUM

PLEDGE OF ALLEGIANCE

PUBLIC COMMENTS ON ITEMS ON THE AGENDA

According to State Law (also known as “the Brown Act”), public comments at Special Meetings of the City Council are limited to those items on the agenda.

DISCUSSION ITEMS:(Continuation of discussion from January 18, 2022) It is anticipated that the Council will discuss topics 1-3 (listed above) on Tuesday, January 18, 2022 and topics 4 and 5 on Saturday January 22, 2022. However any unfinished topics from Tuesday, January 18, 2022 may continue to Saturday, January 22, 2022.

4. Council Policy Decisions
5. Remaining Decisions: Discuss and provide direction, decide, or agree to a future date for all items deferred during the meeting or topics that came up during conversation for later discussion.

CLOSING COMENTS – City Manager Wrap Up

ADJOURN

SPECIAL NOTICES TO THE PUBLIC

In compliance with the Americans with Disabilities Act, the City of Los Altos will make reasonable arrangements to ensure accessibility to this meeting. If you need special assistance to participate in this meeting, please contact the City Clerk 72 hours prior to the meeting at (650) 947-2720.

Agendas, Staff Reports and some associated documents for City Council items may be viewed on the Internet at <http://www.losaltosca.gov/citycouncil/online/index.html>.

All public records relating to an open session item on this agenda, which are not exempt from disclosure pursuant to the California Public Records Act, and that are distributed to a majority of the legislative body, will be available for public inspection at the Office of the City Clerk’s Office, City of Los Altos, located at One North San Antonio Road, Los Altos, California at the same time that the public records are distributed or made available to the legislative body.

If you wish to provide written materials, please provide the City Clerk with **10 copies** of any document that you

Day 1: January 18th

Introduction: 4:00-4:15

Call to Order

Opening Presentation, Gabe Engeland

Part 1: Understanding our Budget and Financial Circumstances (4:15-5:50)

A. Annual Comprehensive Financial Report Fiscal Year 2020-21 (Requested by City Council, John Furtado)

Description: The City of Los Altos received an unmodified opinion on the 2020-21 Annual Comprehensive Financial Report (ACFR). This presentation will provide a high-level overview of how the City ended the fiscal year financially. The presentation will highlight revenues and expenditures, overview the current General Fund balances (reserved and unreserved), and show significant or important changes and corrections that were made in the previous fiscal year.

Action Requested: None. This is a presentation only. The ACFR was presented to the Financial Commission on December 20, 2021 and will be presented to the City Council on January 25, 2022.

B. Topic: Budget Overview (Requested by City Council, John Furtado)

Description: The City of Los Altos needs to modernize its budget practices, including how positions are allocated, the charging of personnel to appropriate Funds, the establishment and utilization of Internal Service Funds, strategic utilization of restricted funds or special revenue funds, and a rationale policy for CIP funding. This presentation will provide a comprehensive understanding of how the Los Altos budget works currently and areas that will be improved, updated, and changed moving forward.

Action Requested: None. The following changes have been authorized by the City Manager: Beginning with the next budget cycle, the City will practice a zero-based budget, develop and utilize internal service funds, and create and implement proper cost allocation models. Additionally, the City will budget for known obligations in current and future budgets and make it transparent when fund balances are being reduced to pay for on-going costs.

Policy Question(s): None. Policy questions are included in presentations occurring later in the meeting.

C. Topic: CalPERS & OPEB Funding (John Furtado)

Description: The City of Los Altos pension programs for Safely and Miscellaneous are currently funded at an average of 68.5% (31.5% remains unfunded). Prior to the \$5M pre-payment of CalPERS obligations in 01/2022, the City had not been making adequate payments to responsibly fund the pension system. As an example, after making the minimum payment to CalPERS in the previous fiscal year, the City's pension liability on the ACFR increased by more than \$3.2M in the current fiscal year.

This presentation will provide an overview of pension obligations, unfunded accrued liability (UAL), and provide an explanation of the City's various retirement plans. The overview will include options for annual Additional Discretionary Payments (ADP), the term used by CalPERS to identify payments made in excess of the minimum required amount, as well as the potential to establish a 115 plan.

POLICY QUESTION: Does the City Council wish to authorize the use of ADPs on an annual basis to reduce the long-term liability of its pension plans with CalPERS?

POLICY QUESTION: Does the Council wish to receive additional information on the potential creation of a 115 plan?

D. Topic: Special Revenue Funds, Internal Service Funds, and Restricted Funds (Gabe Engeland)

Description: The City collects revenue in 17 Special Revenues Funds and 1 Restricted Fund. The use of these Funds is limited to what is legally allowable based on State law and/or how the fund was established. Historically, the City has not utilized these funds to their potential, and instead funded items through the General Fund first, reducing funds available for expenditure on general government needs, including maintenance of assets and city facilities and investments in personnel and parks. The outcome is downward pressure on the General Fund, while balances grow in the restricted and special revenue funds, and City needs are deferred. This type of budgeting has caused General Fund eligible expenditures to be cancelled, delayed, or not requested during the budget process even though sufficient funding existed. The use of special revenue and restricted funds on eligible expenditures, prior to using General Fund funds, is a recommended practice.

Category: Accounting & Budgeting Changes

- 1. CIP:** *Currently, the CIP Fund is funded through the General Fund first, with secondary funding sources coming from restricted funds, special revenue funds, and grant funds. Additionally, the CIP list contains several projects that have no known or identified source of funding or funding that is inadequate to meet the needs of the project. The CIP Fund should be funded as part of overall revenues from the General Fund, with these funds applied after all other eligible funding sources have been used or considered. CIP projects should also have identified sources of funding in the 5-year plan and sufficient funding in the budget when planned.*

At the beginning of the current fiscal year, the CIP budget had a \$2 million deficit, as shown in the table below.

CIP, General Fund	
Current Fund Balance	\$11.5 Million
Current Obligations (FY 21-22)	\$13.5 Million
Unfunded Obligations (FY 21-22)	(\$2,000,000)
Projected Obligations (5-Year CIP)	\$33.9 Million
Unfunded Obligations (5-Year CIP)	(\$21.8 Million)
CIP, Non-General Fund	
Current Fund Balance	\$11.1 Million
Current Obligations (FY 21-22)	\$6.0 Million
Projected Obligations (5-Year CIP)	\$20.4 Million
Projected Revenue (2-Year CIP)	\$12.7 Million
Projected Surplus	\$3.4 Million

Action Taken: The City Manager will accurately budget for the needs and known expenditures for capital projects. The budget will include, when applicable, special, restricted, grant or other funding. Projects will not be included in current year budgets that do not have sufficient funding.

- 2. Benefits (Funds: Dental/Vision; Unemployment; Workers' Compensation; Liability):** *The City is not appropriately funding obligations in the funds collectively referred to as "benefits." The City has chosen to draw down fund balances as opposed to funding known obligations. The underfunding of these Funds has led to expenditures in the General Fund being artificially lowered and a General Fund balance that is artificially increased because it does not consider these known, unbudgeted expenditures in future years. The City will need to fund benefits as the Fund balances are rapidly being depleted and will drop from \$2.3M currently to less than \$750,000 at the end of the current budget cycle.*

Current Fund Balance (combined) Millions	Opening Fund Balance	Revenue	Expenditure	Ending Fund Balance
Current Year	\$2.3M	\$1.06M	\$1.8M (\$794K)	\$1.56M
FY 22-23	\$1.56M	\$1.08M	\$1.9M (\$892K)	\$740,000

Category: Establishment of Internal Service Funds (ISF)

- 3. Technology Reserve (General Fund):** *IT projects are funded through General Fund Reserves and categorized as an expenditure from the CIP. This should be changed by establishing an IT replacement internal service fund that receives contributions from the general fund as well as the Enterprise funds like Sewer based on use. The current balance in the Technology reserve of around \$1.1M can be transferred as the starting balance for this Internal Service Fund.*

Current Fund Balance	\$1.1 Million
Current Obligations (2 years)	\$800,000
Projected Collections	N/A Establishing ISF (Fund Based on Need)

Action Taken: The City Manager will create internal service funds to account for technology needs. The establishment of the ISF will be funded by the transfer of the fund balance of \$300,000.

- 4. Equipment Replacement Fund:** *The Equipment Replacement Fund is anticipated to have a negative fund balance, potentially as high as \$900,000, by the end of FY 23. The City will need to change its budget processes to account for the expected deficit while planning for future needs.*

Current Fund Balance	\$400,000
Current Obligations (2 years)	\$1.3 Million
Unfunded Obligations	(\$900,000)

Action Taken: The City Manager will plan for equipment replacement as part of the normal budget process.

Category: Policy Questions

- 5. *Downtown Parking Fund:*** *The Downtown Parking Fund was originally established in 2003 as the Downtown Maintenance Fund. This fund has transitioned from focusing on the overall maintenance and improvement of the downtown, to being reserved for parking only.*

Staff would like to designate this fund as the Downtown Maintenance Fund and use it to upgrade or repair parking, lighting, wayfinding signage, small business grants, downtown wi-fi, beautification, events, and other items that improve the quality of life for residents, including the exploration of the establishment of a business improvement district.

Current Fund Balance	\$890,000
Current Obligations (2 years)	None
Projected Collections (5 Years)	\$353,500

POLICY QUESTION: Should the City Council designate the Downtown Parking Fund as it was originally intended (Downtown Maintenance Fund) and broaden eligible expenditures?

- 6. *Park in Lieu Funds:*** *Currently the General Fund supports approximately \$1 million in annual expenditures that are eligible expenditures from Park in Lieu Funds. The General Fund subsidy of park projects has caused other needs or obligations in the General Fund to be deferred or canceled. The below chart shows the current fund balance, obligations, and expected revenue collection of Park in Lieu Funds over the next 5 years.*

Current Fund Balance	\$5.8 Million
Current Obligations (5-Year CIP)	\$6.7 Million
Projected Collections (5 years)	\$10 Million

POLICY QUESTION: Should the City Council fund current eligible expenditures from Park in Lieu funds as opposed to the General Fund?

BREAK: 5:50-6:00

Part 2. Employee Recruitment and Retention 6:00-6:30

Topic: Employee Attraction, Recruitment, and Retention (Irene Barragan Silipin)

Description: Discussion of current state of the City's compensation philosophy, classification system, turnover and separation rates, organizational continuity, and comparison of Los Altos to the marketplace.

Los Altos is a service organization. The City must attract, retain, and develop talented employees to meet the expectations of Los Altos residents and implement the vision of the City Council. The operations of the government depend on the recruitment and retention of highly skilled personnel.

Los Altos has been unable to retain employees, leading to more than 25% of the full-time workforce separating from service each fiscal year in recent years. Currently, less than 50% of all employees have worked in Los Altos for five years. As an example, there is only one full-time employee in the Finance Department with a tenure greater than 9 months. In Engineering Services, positions outside of senior leadership have turned over often. In this position group the median length of service with the City is 27 months, however there are currently multiple vacancies in this classification that when hired will reduce the median tenure substantially. Additionally, 2/3 of professional staff share an office with a co-worker or multiple co-workers and there is currently no dedicated meeting space at City Hall for internal meetings or meetings with the public. Several City employees currently work out of temporary trailers located behind the police station, including the City's IT Department and the Traffic Division of the Police Department.

Focus Area(s) and Policy Decisions: Does the City Council wish to update its approach to employee compensation and benefits, working conditions, and classification to attempt to attract and retain highly competent employees?

Action Requested: The City Council should develop a compensation philosophy outlining the goals and vision for personnel retention and attraction in Los Altos. If the City Council directs the establishment of a compensation philosophy, City staff will bring back decisions to Council around compensation and benefits, working conditions, and classification that are in line with the adopted compensation philosophy.

Part 3. Maintenance and Improvement of City Facilities (6:30 – 7:50)

A. (6:30-7:00) Topic: Report from Police Facility Subcommittee (Requested by City Council, Vice Mayor Meadows & Councilmember Weinberg)

Description: The City Council authorized the creation of a subcommittee to review if the City should pursue a bond measure for a new police facility. Vice Mayor Meadows and Councilmember Weinberg will provide an update on the work of the subcommittee.

Action Requested: Determine if further action is necessary based on the report of the subcommittee. If yes, Staff will schedule the topic for further discussion at an upcoming Study Session.

B. (7:00 – 7:50) Topic: City-Owned Facilities, Priorities (Requested by City Council, Manny Hernandez & Gabe Engeland)

Description: The City must continually invest in public safety, public works, parks and recreation, and government facilities. The below list of government-owned facilities is not to be considered exhaustive but does contain assets that need to be scheduled for maintenance, renewal, retirement/demolition, or replacement.

Facilities were placed in the matrix by staff after an assessment of the known condition of the asset. The placement in the matrix is not intended to review or change any Council direction or alter or amend direction received by the City Council. Instead, the matrix outlines what is currently known of the condition of the asset and the suggested timeframe for Council to act.

Facilities in the matrix were determined by Urgency to act (Low, Medium, High), Resource Use (Low = \$2M or less, Medium = \$2M - \$5M, High = \$5M+) and potential inclusion in the budget (Immediate = FY22-23, Near Term = 5 Year CIP Plan, Future = Unscheduled). The facilities are filtered by “Timing” with immediate items listed first, followed by 5-year CIP, and then Unscheduled.

To the extent possible, the inclusion for each category is based on the decisions the City Council has made to date. For example, Halsey House is listed as “Low” in resource needs because the current direction is to mothball the structure, which has an estimated cost of \$250,000 this fiscal year, with small outlays in future fiscal years. When the City Council determines to move forward with full rehabilitation (or phased rehabilitation) or adaptive reuse of the Halsey House, the resource use would move to “high” if the cost exceeds \$5M or medium if the cost is between \$2M and \$5M.

The Bus Barn Theater is listed as “unknown” for Resource Use with “5-year CIP” for timing. This is because it has not yet been determined how the Council will handle the current facility with regards to maintenance, renewal, retirement/demolition, or replacement. The timing was listed due to the agreement of an MOU with the Los Altos Stage Company that would not exceed 3 years.

The City Council is not being asked to prioritize specific facilities or assets within the given listed timeframe, but instead determine which projects should be categorized within each timeframe area

(Immediate, 5-Year CIP, Unscheduled). Once the projects are categorized appropriately, the City Council will be able to prioritize specific projects as part of the normal budget process.

It is understood more detailed costs and analysis will be necessary to move certain items forward within the timeline and resource allocation outlined below. The matrix is for policy planning purposes. More information will be available as projects are moved from planned to a recommended budget.

Action Requested: Does the City Council agree with timing and urgency of the projects listed?

If yes, Staff will plan accordingly in future budget years and return these items to Council for prioritization as part of the normal budget process.

If no, what changes should be made to the timing and/or urgency of these facilities based on their current physical condition?

Facility	Urgency	Resource Use	Timing
<i>Caretaker House</i>	High	Low	Immediate
<i>Halsey House</i>	High	Low	Immediate
<i>Fire Station Almond</i>	High	Medium	Immediate
<i>LAYC/City Hall</i>	High	Low	Immediate
<i>Park/ADA</i>	High	Low	Immediate
<i>Police Facility</i>	High	High	Immediate

Facility	Urgency	Resource Use	Timing
<i>Bus Barn Theater</i>	Medium	Unknown	5-Year CIP
<i>Fire Station Loyola</i>	Medium	Medium	5-Year CIP
<i>Garden House</i>	Low	Medium	5-Year CIP
<i>Grant Park Senior Center</i>	High	Medium	5-Year CIP
<i>MSC</i>	Low	Low	5-Year CIP

Facility	Urgency	Resource Use	Timing
<i>999 Fremont</i>	Low	High	Unscheduled
<i>Underground Facilities</i>	Low	Low	Unscheduled

City Facilities, Timing: Immediate

Caretaker House (Redwood Grove): This property is not fit for occupation and is currently used for supply storage for Redwood Grove Summer Camp, Grassroots Ecology, and the archery program. Restrooms in Redwood Grove are currently provided by portable toilets. The property should be restored, replaced, or demolished. The City Council should consider the current uses and determine if restoration or replacement is preferable to demolition. If replacement or demolition is the preferred option, the City should place restroom and storage facilities at the current location.

Halsey House: The City Council directed staff to mothball Halsey House until a final decision could be made on the type of rehabilitation of the property. The City Council will need to make a final determination on full rehabilitation (including staged/partial rehabilitation) or adaptive reuse, and how to plan the recommended approach, at a future meeting date.

Fire Station, Almond: Roof (critical), building windows need replacement, facility lighting needs to be updated, and HVAC units and water heaters are nearing end of usable life.

LAYC/City Hall: City Hall, like the police station, needs repair or replacement. Additionally, the offices in City Hall are not sufficient to conduct city business. Two-thirds of all professional employees share office space, there is no longer any dedicated meeting space in City Hall, and the IT Department currently works out of a temporary trailer on City Property. Converting LAYC to staff space would be a cost-effective way to meet some of the needs of the workforce, eliminate working in temporary trailers, and provide dedicated meeting space for staff and residents.

Park/ADA: The playgrounds in Los Altos could provide greater access to residents with physical and cognitive disabilities. Los Altos should incorporate access needs into current playground designs. In addition, several of the playgrounds are nearing the end of their useful life and will need to be replaced soon.

Police Facility: The City Council recently formed a subcommittee to explore the need for a new Police facility. The current building is badly in need of repair or replacement. Vital components of the facility (plumbing, HVAC, and sewer) need major repair or complete replacement. The traffic division of the Police Department currently operates out of a temporary trailer on City property.

City Facilities, Timing: 5 Year CIP

Bus Barn Theater: The City owns the Bus Barn Theater, which is currently operated by the Los Altos Stage Company as a community theater. The building has outlived its useful life and needs to be renewed or replaced. The City Council recently signed an MOU with the Los Altos Stage Company to explore the possibility of moving the theater operations to a downtown location.

Fire Station, Loyola: Emergency generator (replacement), facility lighting needs to be updated, and HVAC units and water heaters are nearing the end of usable life.

Garden House: Interior space is dated and needs updating. Paint, flooring, hot water system, and kitchen appliances have passed useful life and need replacement. Air conditioning is needed in the facility. This building space is listed as separate from the underground as it is currently used by the public.

Grant Park Senior Center: The Grant Park Senior Center is need of repair and upgrades. Currently, there is no hot water system in the plumbing system and the electrical system does not allow for commercial use of the kitchen or an adequate HVAC system for either of the buildings.

MSC: The admin building has an inadequate amount of space for office staff and limited workspace for field crew members to complete necessary reports and work on computers. All warehouse space in the yard is full. Cargo containers are now being added to the yard for additional storage and workspace.

City Facilities, Timing: Unscheduled

999 Fremont Ave.: The City purchased this property in 2019 but has yet to prioritize a project. The City Council could consider demolition of the structure that currently sits on the property.

Underground Facilities: The underground is no longer in regular use but is not a desirable location for most users due to lack of HVAC and the general condition of the flooring, walls, and regular issues with the plumbing system. The apartment is no longer occupied and is being used for storage and as the headquarters for Summer Day Camp. This space also has an active lapidary. This building space is listed as separate from the Garden House as it is currently not used by the public.

Public Comment

Wrap-Up: 7:50-8:00 (Gabe Engeland)

Staff will summarize the decisions that have been made during the first day of the work plan and retreat and will outline which items or decisions will be deferred to the second day (or another date in the future). Staff will also add items that were raised during the first day for discussion on the second day.

Day 2: January 22nd

Introduction, Gabe, 9:00 – 9:10

Part 4. Council Policy Decisions (9:10-10:50)

A. Topic: Policy on Fees (Requested by City Council, Jon Maginot):

Description: The City Council should adopt fees annually as part of the budget process. The fees should be set based on City Council policy direction and applicable State laws. During the most recent adoption of the fee schedule, Council raised questions regarding potential subsidies for residents or non-profits or other groups for the use of community facilities. If the Council would like to subsidize these groups, should it be through reduced fees only or should the Council establish a use or fee waiver policy or update the current fee waiver policy?

Policy Question: Does the City Council wish to subsidize certain users and groups of City facilities, and if so, to what extent? Does the City Council wish to update the current fee waiver policy?

B. Topic: Fees and Cost Recovery for Services (Laura Simpson)

Description: The City of Los Altos is unique in that it has a very low fee structure, including flat fees for staff processing, as well as fees such as housing in-lieu or other fees to be dedicated for special programs. The flat planning fees do not fully recover the staff time associated with projects and should be considered an hourly fee rate in the next Master Fee Schedule Resolution. If cost recovery is allowed through billable hours, this would support the City's overall budget and allow for appropriate staffing levels in both planning and building to ensure timely review and responses.

Policy Question: Does the City Council wish to continue subsidizing development through a fee structure that does not recover staff time?

C. Topic: Creation of Policy for Use of City Property or Facilities at Civic Center Site (Requested by City Council, Jon Maginot)

Description: The City Council authorizes the use of certain community groups and non-profits for regular, licensed, or leased use of City properties and facilities on the civic center site. This use is currently completed within the context of the City Code, Council actions, or relevant policies. Council has asked for a discussion on this topic.

Policy Question: Should the City Council put in place a policy to guide the use of the civic center property for continuous or regular use, including licensing, leasing, and other purposes?

D. Topic: Below Market Rate (BMR) (requested by City Council, Laura Simpson and Erik Ramakrishnan)

Description: The City Council may subsidize the development of Below Market Rate (BMR) units for rental or sale. This can be accomplished through several mechanisms, including the options provided in this report.

Policy Question: Should the City Council put in place a policy to subsidize BMR development? If so, which of the options outlined here would Council like more information on? The options selected could be included as part of the Housing Element process.

E. Topic: Tree Protection Policy (Requested by City Council, Emiko Ancheta & Jon Maginot)

Description: The current tree protection and tree removal policies of the City can be difficult to apply consistently as part of the development process. As evidenced by a recent development where trees were removed, including some protected species, some areas of the code may be confusing or not reflect the direction of the City Council.

Policy Question: Should the City Council update the tree protection policy currently in place?

Break: 10:50-11:00

Part 5. Remaining Decisions, Direction, Deferred Items, Mayor 11:00 – 1:00

Topic Remaining Decisions: Discuss and provide direction, decide, or agree to a future date for all items deferred during the meeting or topics that came up during conversation for later discussion.

Public Comment

Adjourn. 1:00

Los Altos City Council Planning & Work Session

Gabriel Engeland, City Manager







Expectation: We will not revisit previous directions given by the City Council



This is a process, not an event.



Crisis Response



Reinforces what is known



Crisis Response



Exposes what is unknown



Crisis Response




Reinforces what is known



Exposes what is unknown



A blue-tinted background image showing a financial chart with a pen pointing to a data point. The chart has a grid and a line graph. The pen is silver and is pointing to a point on the line graph. The text "By the Numbers: ACFR & Budget" is overlaid in the center in a white, bold, sans-serif font.

By the Numbers: ACFR & Budget

\$3.98M

To date, one-time revenues received in Cares Act & ARPA funds to balance budget.

(\$4.0M)

One-Time mistakes and corrections in ACFR (largely due to reclassification of settlement agreement and correction of unrealized gains).

\$1.17M

Property Tax revenue in excess of budget (4.3% positive variance). This trend should continue in the current FY.

18.7%

General Fund reserve. Mid-Year was 21.4%, and goal is never less than 20%.

\$6.6M

Reduction in General Fund unassigned reserve, which now stands at \$1.2M, started year at \$7.8M.

(\$2.0M)

GF CIP shortfall to begin FY, \$13.5M in need and \$11.5M in funding.

13.4%

Percent over budget for sales tax collection (though actuals were down \$370,000).

11.4M

Reduction in liability after \$5M prepayment to CalPERS by City Council. Funded status increased 4.5%.

\$4.0M

Expected ARPA Payment in July of 22.

Quotes & Numbers: Personnel



Q: What is your primary reason for leaving?

Answer: “No stability. Constant turnover. Volume of work is not sustainable with the current staffing structure.”



51%

Percent of workforce who has been with Los Altos less than 5 years

20%+

Percent of workforce who separates employment annually

14%

Percent of full-time positions currently advertised (not vacant)

Q: Is there anything you would change about your job?

Answer: “This is a totally thankless job...not enough support or resources.”



1

Number of full-time employees in Finance with a tenure longer than 9 months

2

Total number of external applications received for a recent advertised management position

Q: What was the least satisfying thing about your job?

Answer: “We have been understaffed for quite some time.”

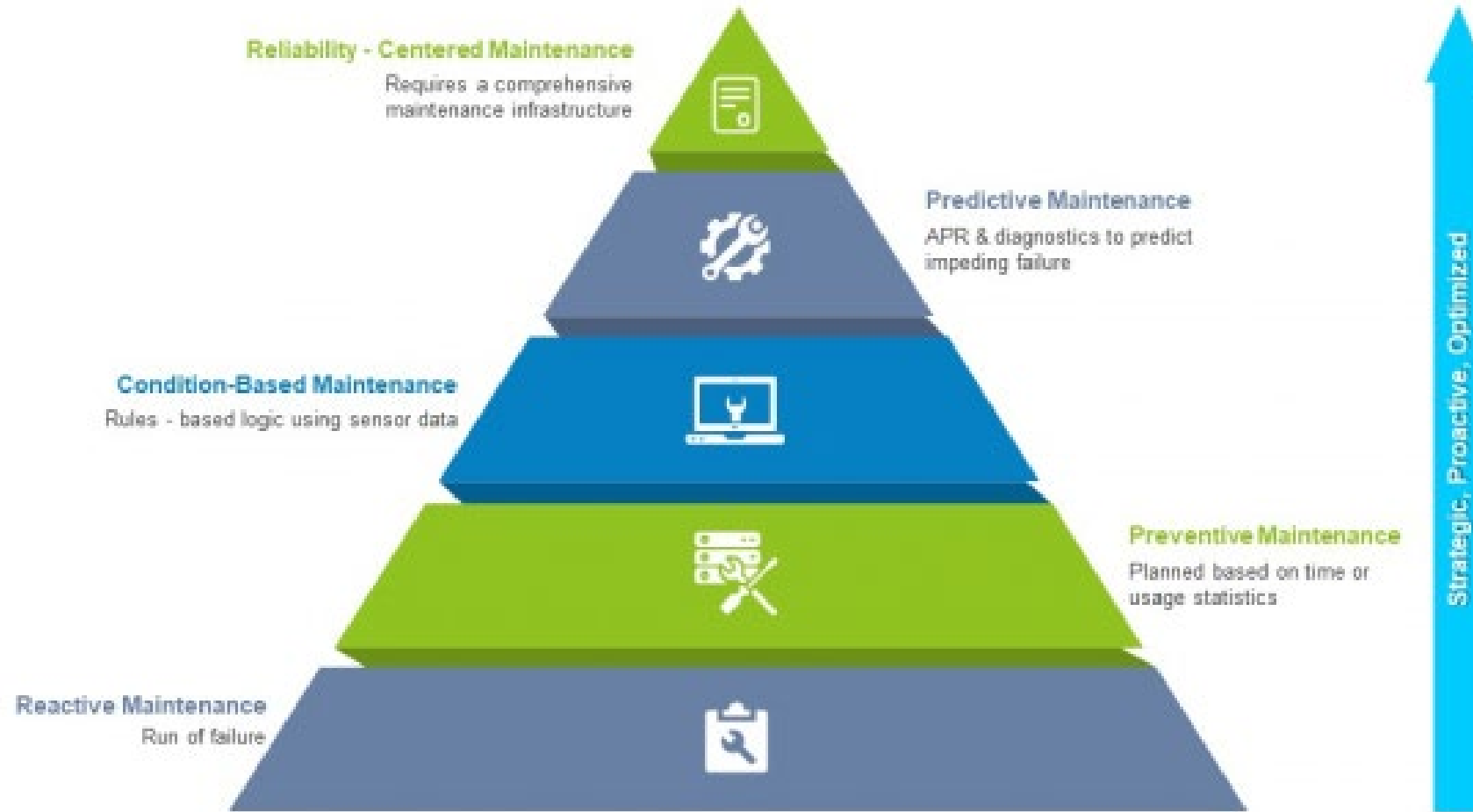




Infrastructure



Performance Management Maintenance Pyramid





**Reactive
Maintenance**

Allow Assets to
Run to Failure



**Preventive
Maintenance**

Preventing
Problems Before
They Occur



**Predictive
Maintenance**

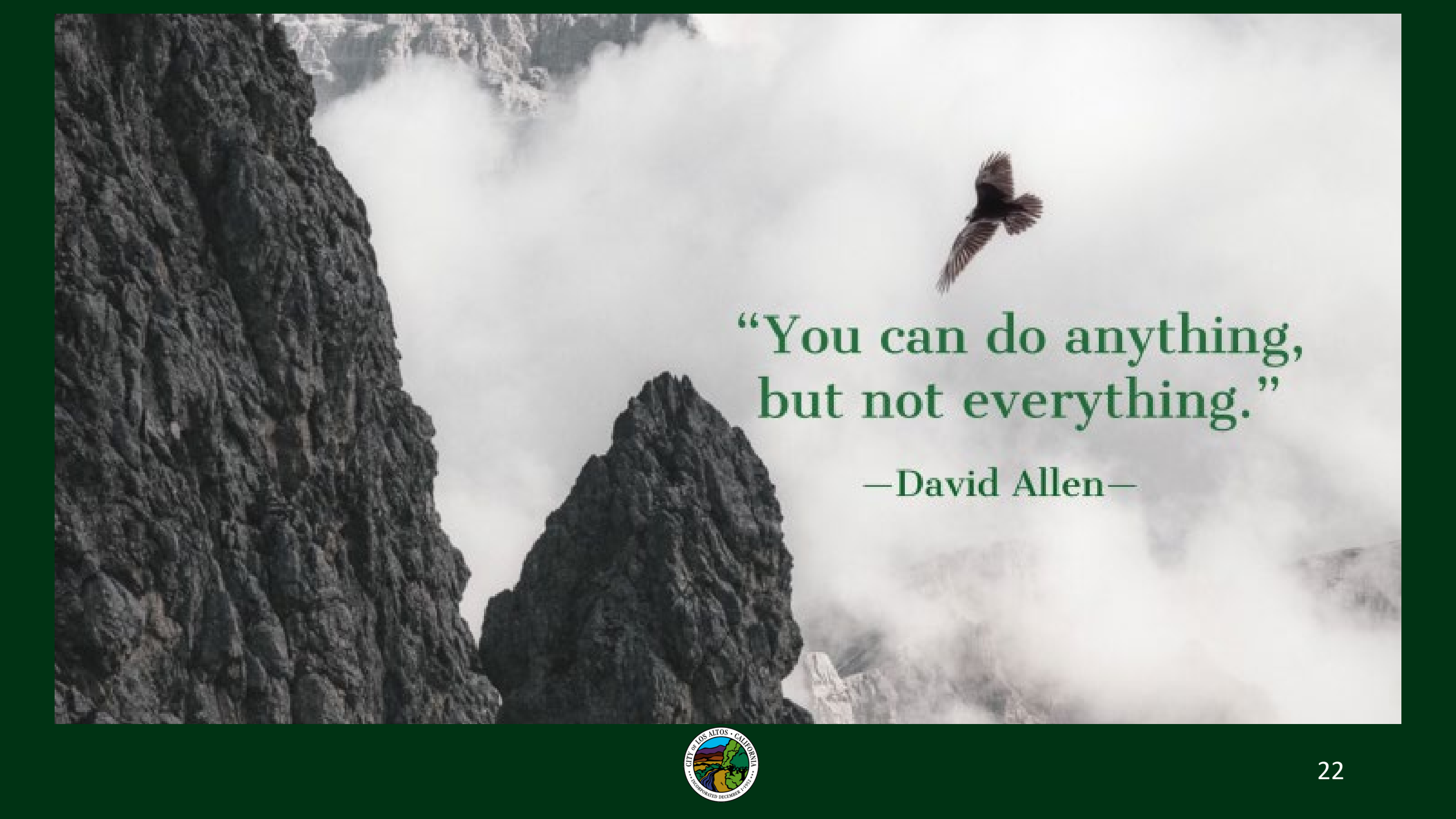
Predicting
Problems to
Increase Asset
Reliability



**You can do anything,
but not everything.**

David Allen






“You can do anything,
but not everything.”

—David Allen—





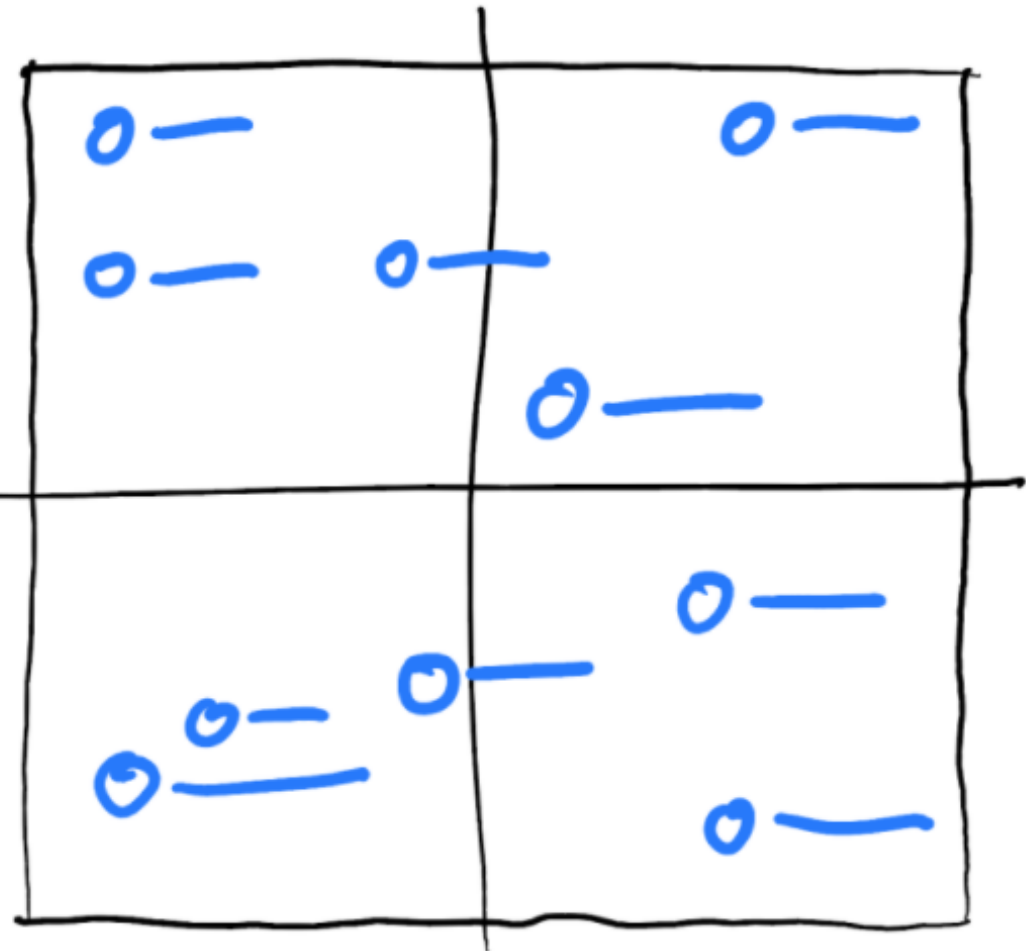
You can do anything,
but not everything.

David Allen

 quoteFancy



→ IMPORTANCE



→ URGENCY



A photograph of a concrete sidewalk next to a tree trunk. The sidewalk is made of several slabs, and the tree trunk is on the right side. A dark green vertical bar is on the left side of the image, containing white text.

You can do anything,
but not everything.

You can do anything, but not everything.





You can do anything,
but not everything.







It was a dark
and stormy night.



A close-up, low-angle shot of a person's legs and feet running on a track. The person is wearing dark-colored athletic shoes with white soles. The background is heavily blurred with horizontal streaks, suggesting high speed. The lighting is bright and warm, with a strong sun flare effect on the left side of the frame. The text "Let's Get Started" is overlaid in the center in a white, bold, sans-serif font with a slight drop shadow.

Let's Get Started

FY2021 Annual Comprehensive Financial Report (ACFR)

City of Los Altos
Council Retreat
January 16, 2022



Today's Discussion



ACFR Document

Sections

Contents



FY2021 Results

Year Over Year Comparison



Next Steps

Receive Report

Refer FY 21 ACFR to City Council



The Audit

Maze & Associates presentation

The ACFR Document

Introductory

Financial

Statistical



Financial Section

Government Wide Financial Statements

Governmental Activities

- All Activities Excluding Business Type
- Includes Internal Service Funds

Business Type Activities

- **Charge Customers directly for services**
- Enterprise Funds

Fund Financial Statements

Governmental Funds

- Basic Services of Government, Typically Financed with Taxes, grants, etc.

Proprietary Funds

- Services that charge a fee to users, Enterprise funds , internal service funds

Fiduciary Funds

- Resources that belong to others, not available to primary government



ACFR Highlights

Independent Auditors Report

Transmittal Letter

- General overview of the City for the past year
- FY21 Initiatives and projects accomplished
- Overall Economic outlook

Management Discussion & Analysis

- Financial highlights
- Variance analysis

Financial Statements & RSI

- Statement of Net Position
- Notes to Basic Financial Statements
- Budgetary Information



FY 2021 Results

The City's financial Statements for FY 20-21 are fairly stated in conformity with accounting principals generally accepted in the United States

Commonly known as an "unmodified" or "clean" opinion



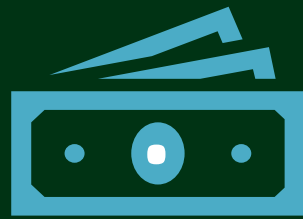
Government –Wide :

Financial Highlights



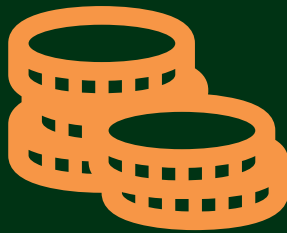
Net Position
\$137.9 million

Governmental Activities	\$107.7
Business- Type Activities	\$30.2



Revenues
\$61.5 million

Governmental Activities	\$53.4
Business- Type Activities	\$8.1



Expenses
\$82.9 million

Governmental Activities	\$77.2
Business- Type Activities	\$5.7



General Fund Revenue Comparison

General Fund Revenue

Revenue (in Millions)	FY 2020 Actual	FY 21 Budget	FY 2021 Actual	Actual Var %	Budget Var%
Property Tax	25.79	27.29	28.46	10.4%	4.3%
Sales Tax	3.37	2.64	3.00	-11.2%	13.4%
Transient Occupancy Tax	2.36	0.58	0.66	-71.9%	13.7%
Other Taxes	3.96	3.48	4.41	11.3%	26.6%
Interest Income	1.79	0.41	0.14	-91.9%	-64.2%
Grants (ARPA + CARES)	-	-	3.98	100.0%	100.0%
All other Reveune	8.30	7.76	7.85	-5.4%	1.2%
Total Revenue	45.57	42.16	48.51	6.4%	15.1%

- Total revenues increased primarily due to higher property tax receipts and Grant Funds (ARPA/ CARES)
- Key Revenue loss in TOT and interest income
- Sales tax still below pre pandemic
- Adjusted actuals lower then FY20

ARPA Adjustment			(3.59)		
Adjusted Revenue	45.57	42.16	44.92	-1.4%	6.6%



General Fund Expenditure Comparison

General Fund Expenditures - Department View

Expenses (in Millions)	FY 2020 Actual	FY 21 Budget	FY 2021 Actual	Actual Var %	Budget Var%
Public Safety	18.80	20.34	19.39	3.2%	-4.7%
Public Works	5.47	5.77	5.62	2.7%	-2.7%
Recreation	2.31	1.80	1.78	-23.0%	-1.0%
Community Development	5.52	6.20	6.36	15.1%	2.5%
Adminstration & Finance	8.52	7.35	7.70	-9.5%	4.8%
Total Expenditures	40.61	41.47	40.85	0.6%	-1.5%

- Total Expenditures increased YOY, but were lower than Budget
- Public Safety & Public Works & Recreation underspent
- Community Development and Admin/Finance overspent

By Type View

General Fund Expenditures - By Type

Expenses (in Millions)	FY 2020 Actual	FY 21 Budget	FY 2021 Actual	Actual Var %	Budget Var%
Personnel Costs	22.81	24.02	23.91	4.8%	-0.4%
Services and Supplies	17.51	17.39	16.74	-4.4%	-3.7%
Capital Outlay and others	0.30	0.09	0.22	-27.8%	131.5%
Total Expenditures	40.61	41.47	40.85	0.6%	-1.5%

- Personnel costs Increased
- Services and Supplies decreased



Fund Balance : General Fund

In Millions	FY 21	FY 20	Variance
Non Spendable	1.86	1.84	0.02
Restricted	-	-	-
Committed	-	-	-
Assigned	15.94	25.77	(9.84)
Unassigned	4.93	7.86	(2.93)
Total Fund Balance	22.72	35.47	(12.75)

<u>Unassigned</u>	FY 21
ARPA Reserve for FY 22	3.60
Unrealized gain Loss	0.12
Unassigned (Available for prog)	1.21

*Unassigned Fund balance was adjusted by \$ 2.86 million to account for the Purchase of 999 Fremont that was recorded as Land for development in FY 20



Reserve Balances

Reserve Type	FY 20	FY 21	% of FY 21 Exp
<u>Non Spendable</u>			
Inventory	60,030	145,196	
Notes Receivable	1,767,659	1,704,880	
Veterans Memorial	8,615	8,615	
Total Non Spendable	1,836,304	1,858,691	
<u>Assigned</u>			
Emergency and operating reserve	7,206,207	7,649,169	18.7%
OPEB	1,500,000	1,500,000	
PERS	5,000,000	5,000,000	
Technology Reserve	1,412,090	1,108,582	
Community Center Reserve	10,654,976	679,110	
Total Assigned	25,773,273	15,936,861	
<u>Unassigned</u>			
ARPA Reserve for FY 22		3,598,964	
Unrealized gain Loss		118,905	
Unassigned (Available for prog)	7,861,296	1,210,297	
Total Unassigned	7,861,296	4,928,166	
Total Fund Balance	35,470,873	22,723,718	55.6%

Operating Reserve has fallen to below 20% partly because Council approved Legal Settlement of \$1.04M

Unrealized Gain Should not be considered distributable

Other Major Funds

In Lieu Parkland

- Revenues \$1.6 million, Transfers to CIP \$1.3 million
- Fund Balance \$5.8 million
- Commitments to CIP (prior + FY 22)=1.2 million
- Available fund balance = \$4.58 million

Capital Projects Fund

- FY 21 Expenditures \$22.8 million
- Fund Balance 11.5 million
- Commitments to CIP (prior + FY 22)=13.5 million
- Available fund balance = ***-\$-2.0 million***



Memorandum of Internal Control (MOIC)

- 2021-01: Timely Invoice payments
- 2021-02: Outdated Signature Cards
- 2021-03: Information System Risk Management Policy





Questions



Requested Action

- Receive report and presentation
- **QUESTIONS??**



Net Position Governmental Activities

In millions	2021	2020	Variance
Assets	165.7	151.6	14.2
Deferred Outflows	9.5	9.3	0.2
Less:			
Liabilities	66.7	56.4	10.2
Deferred Inflows	2.8	2.9	(0.2)
Net Position	105.8	101.5	4.3
Totals Governmental + Business type			
Net pension liability	42.4	39.1	3.2
Net OPEB liability	1.6	1.4	0.2

- Assets increases due to higher revenues, lower spending and higher capitalization.
- Liabilities increased due to higher accrued payroll, unearned revenues and ARPA Grant receivable
- Deferred inflows / Outflows increases / decreases due to GASB 68 pension related changes
- Net pension liability increased by \$ 3.2 million to \$42.4 primarily due to actuarial assumption changes



Change in Net Position : Governmental Activities

In Millions	2021	2020	Variance
General Revenues	39.5	40.9	(1.4)
Program Revenues	13.9	8.4	5.5
Total Revenue	53.4	49.2	4.1
Expenses	46.2	48.5	(2.3)
Excess / (Deficit) before Transfers	7.2	0.7	6.5
Transfers	(2.8)	-	(2.8)
Change in Net Position	4.3	0.7	3.7

- Total revenues increased primarily due to higher property tax receipts and Grant Funds (ARPA/ CARES) Recreation program revenues decreased due to inability to provide programs & services as a result of the community center closure
- Expenses lower due to planned spending restrictions related to the pandemic and higher vacant positions
- Net Position increased by \$ 4.3 million over FY 20



Change in Unassigned Fund Balances

Reconciliation of Unassigned Fund Balance	FY 21	FY 20
Unassigned Fund Balance Per ACFR	1.21	7.86
Unused Unassigned balance from FY 19	-	(1.08)
Unassigned Balance For the Year only	1.21	6.78
Land Purchase reclassification	2.86	-
Unrealized Gain / Loss	0.66	(0.66)
2020 Encumbrance	0.26	(0.26)
Adjusted Unassigned Fund Balance	4.99	5.87
Additional Debt Service for Community Center	0.70	-
Revenue loss FY 21	0.65	-
Expense Increase FY 21	(0.47)	-
Comparative Ending Balance	5.87	5.87



Budget overview

Council Retreat : January 18th, 2022





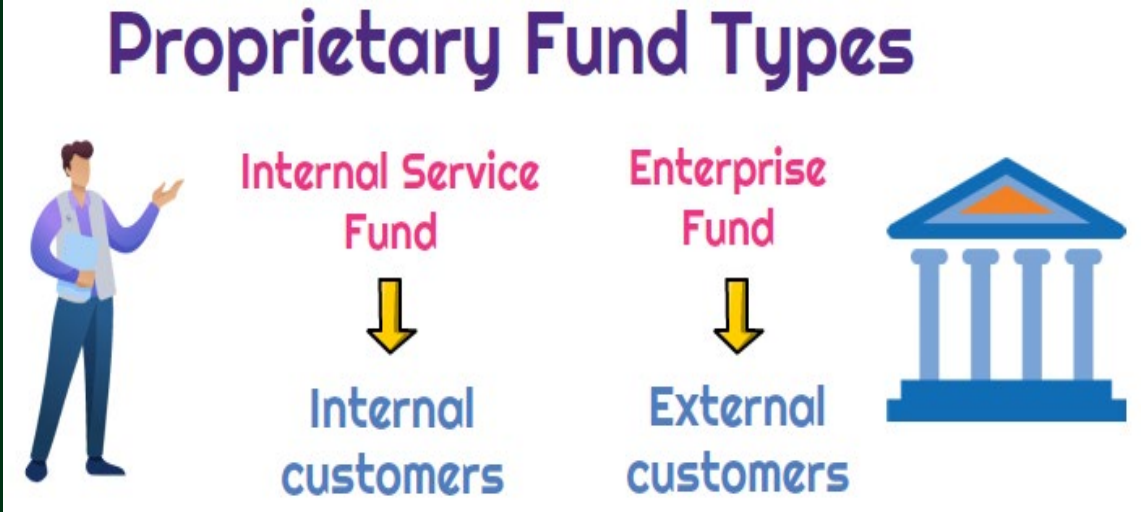
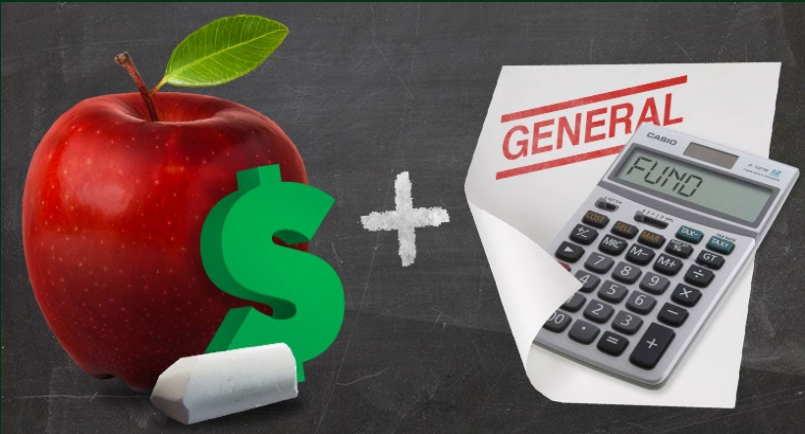
▶ BECAUSE IT'S YOUR MONEY

▶ It's important to understand how funds are allocated...

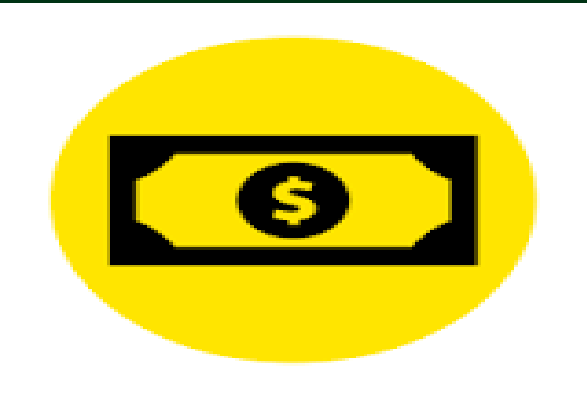


City Fund Structure

General Fund



Special Revenue Funds



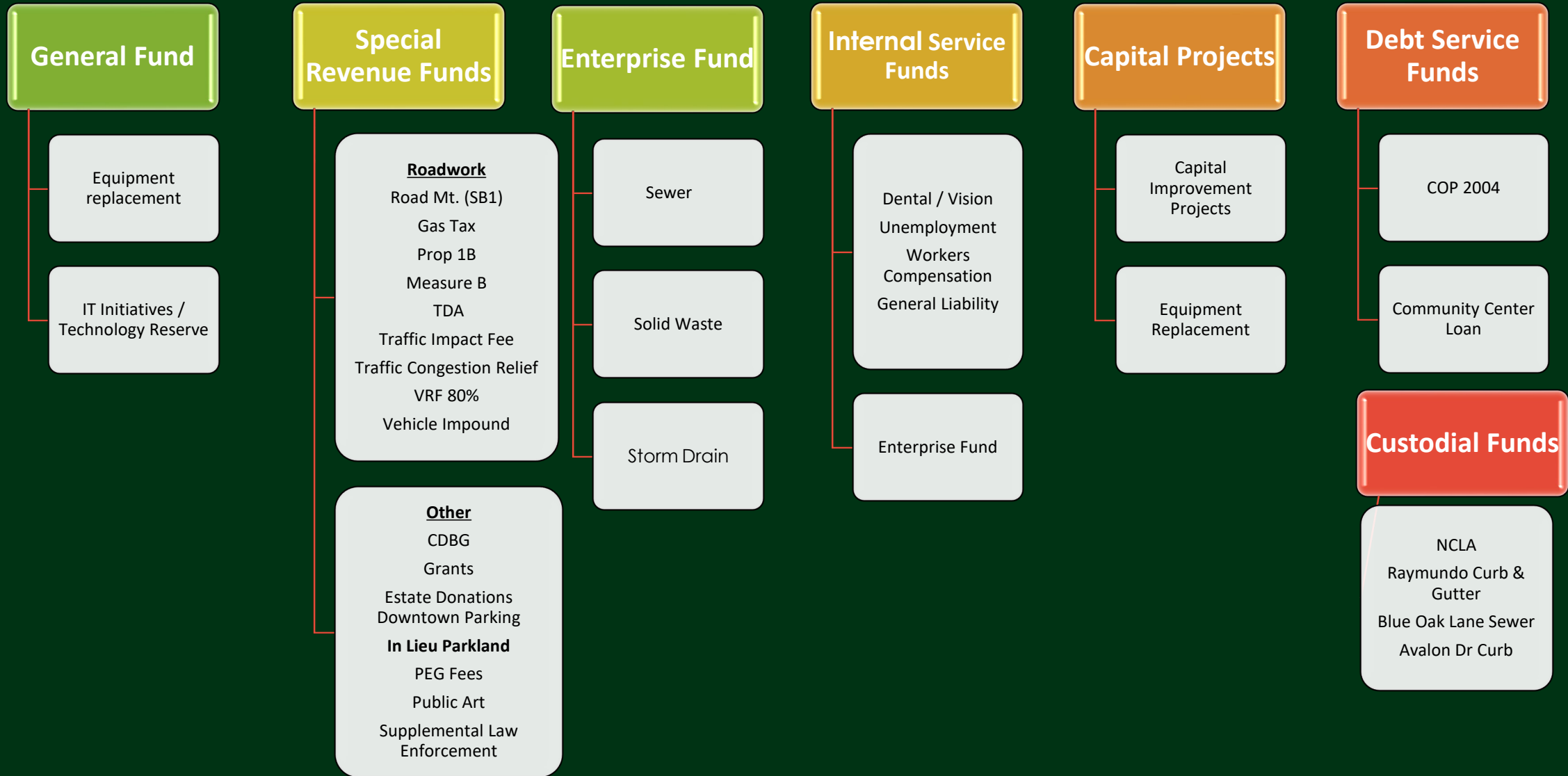
Capital Improvement Fund



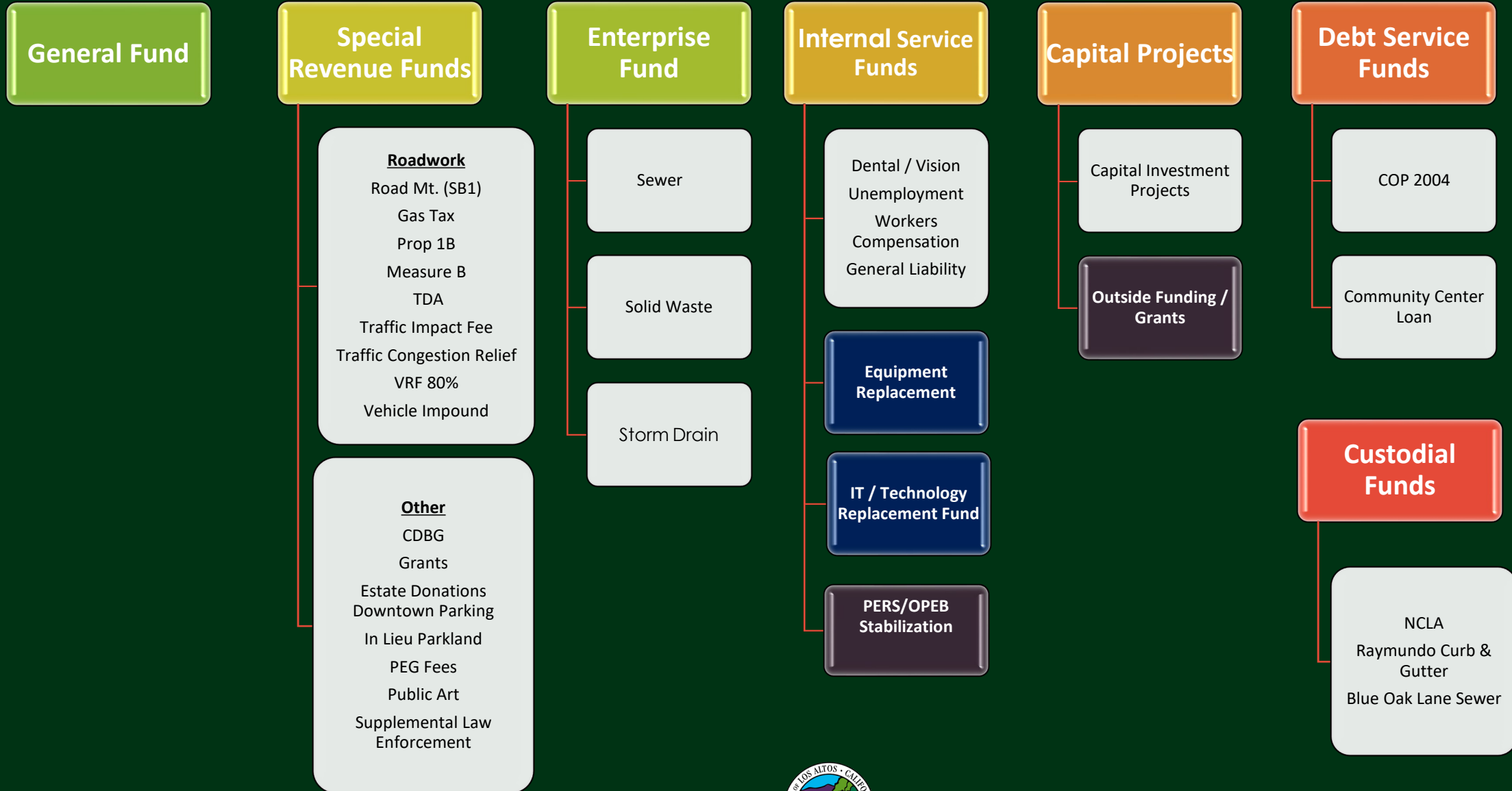
Debt Service Funds



Current City Fund Structure



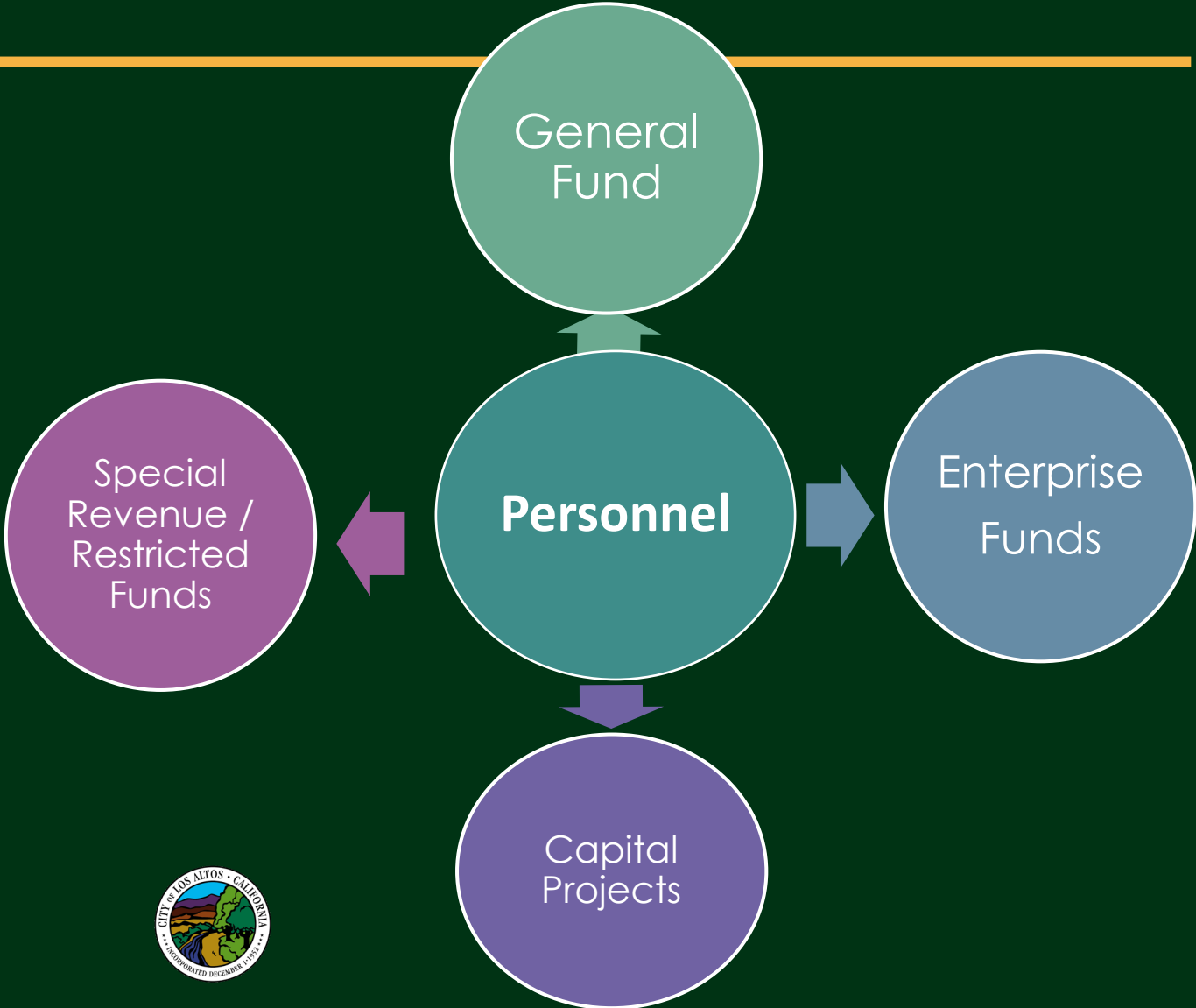
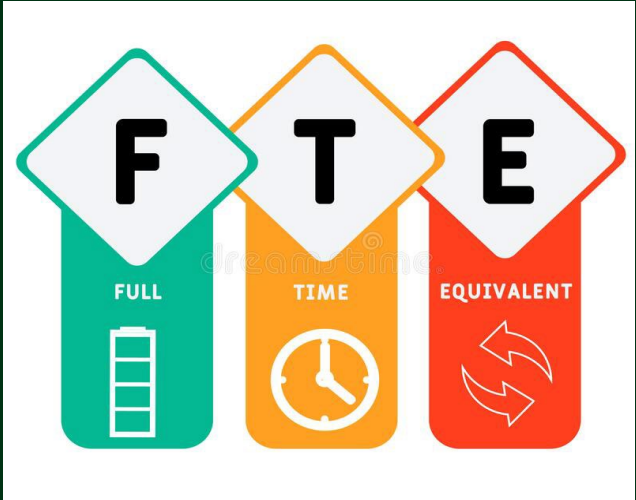
City Fund Structure – Going Forward



Personnel Allocations

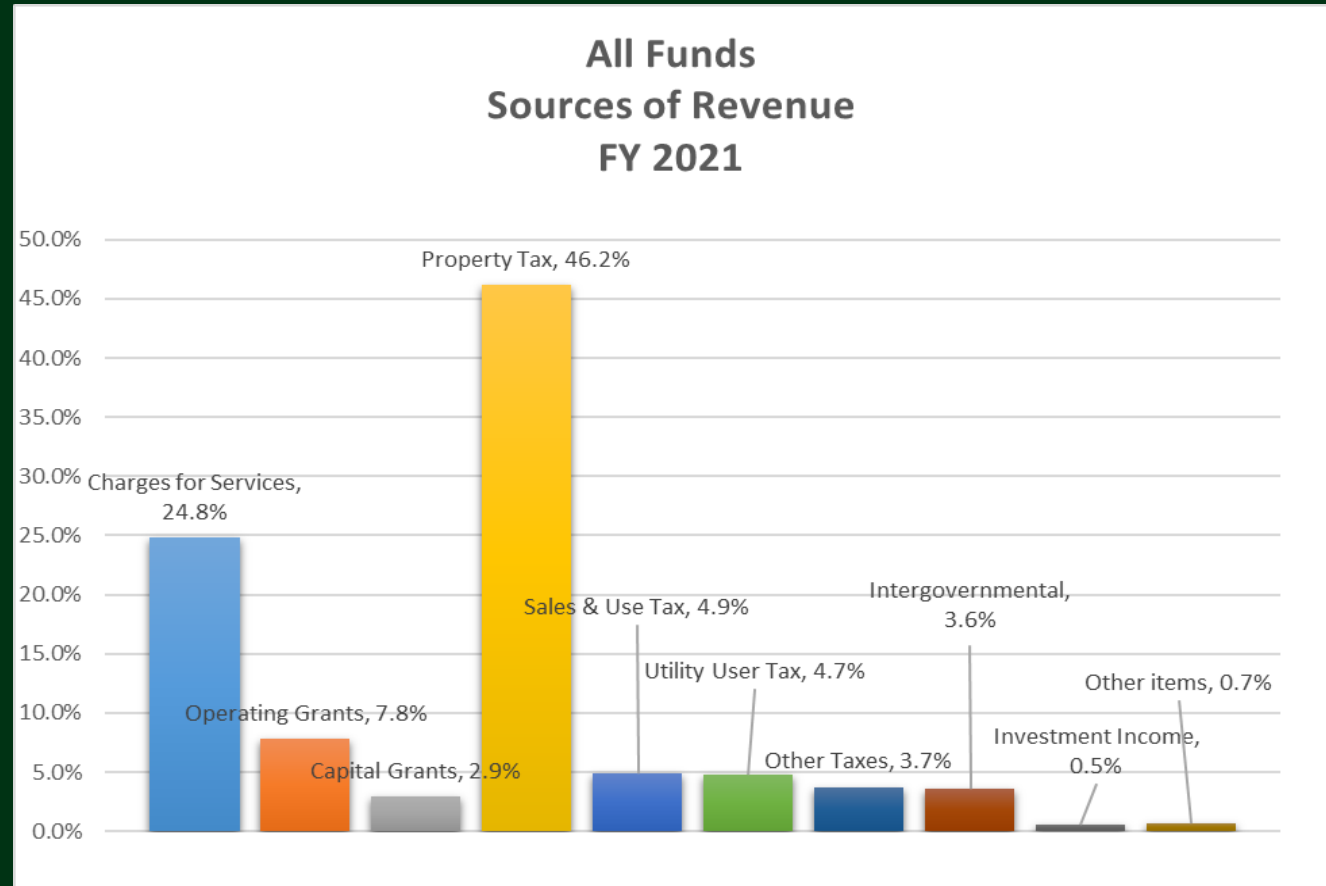
Allocations Going Forward

Currently, all charged to the General Fund



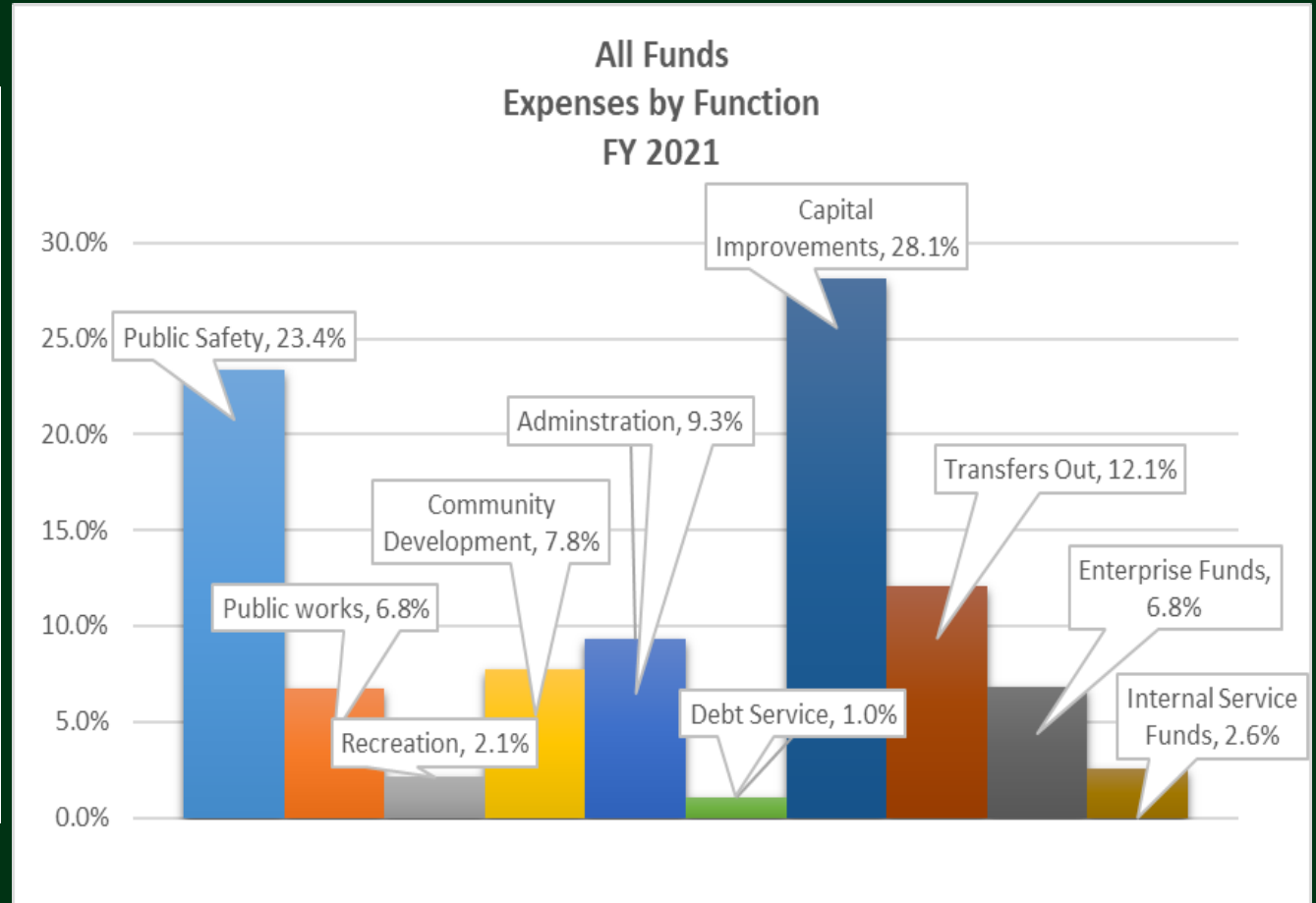
All Funds Revenue

Revenue All Funds \$, millions	FY 21	%
Charges for Services	15.27	24.8%
Operating Grants	4.82	7.8%
Capital Grants	1.81	2.9%
Property Tax	28.40	46.2%
Sales & Use Tax	3.00	4.9%
Utility User Tax	2.92	4.7%
Other Taxes	2.30	3.7%
Intergovernmental	2.21	3.6%
Investment Income	0.32	0.5%
Other items	0.43	0.7%
Totals	61.48	



All Funds Expenditure

Source of Expenses \$, millions	FY 21	%
Public Safety	19.39	23.4%
Public works	5.62	6.8%
Recreation	1.78	2.1%
Community Development	6.44	7.8%
Adminstration / Finance	7.70	9.3%
Debt Service	0.87	1.0%
Capital Improvements	23.34	28.1%
Transfers Out	10.00	12.1%
Enterprise Funds	5.66	6.8%
Internal Service Funds	2.13	2.6%
Totals	82.94	

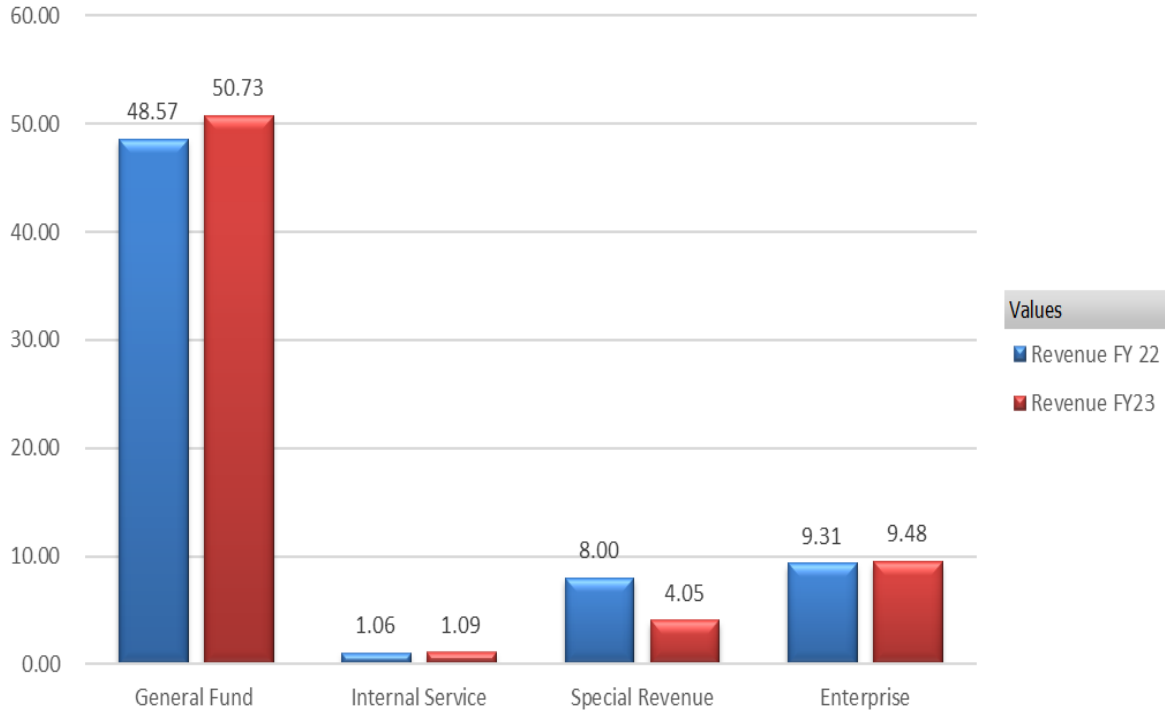


The Big Picture: FY22-23

All Funds

Revenue FY 22 Revenue FY23

All Funds Revenue \$132.3 million

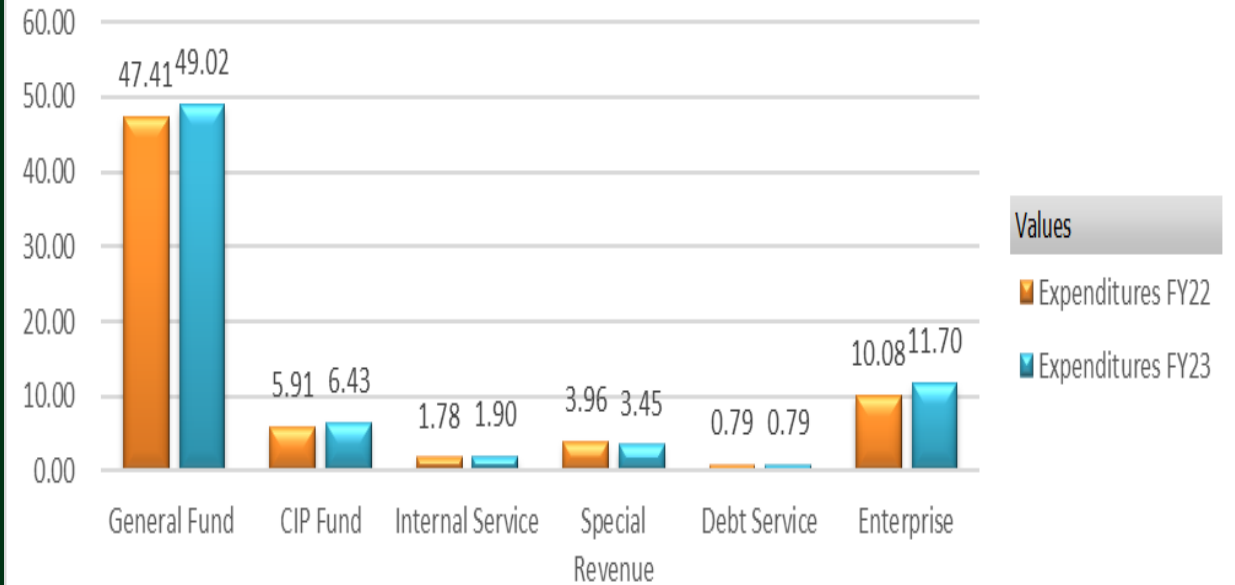


FUND

Fund Type	2 Year Revenue
General Fund	99.30
Internal Service	2.15
Special Revenue	12.05
Enterprise	18.79
Grand Total	132.30

Expenditures FY22 Expenditures FY23

All Funds Expenditure \$143.2 million



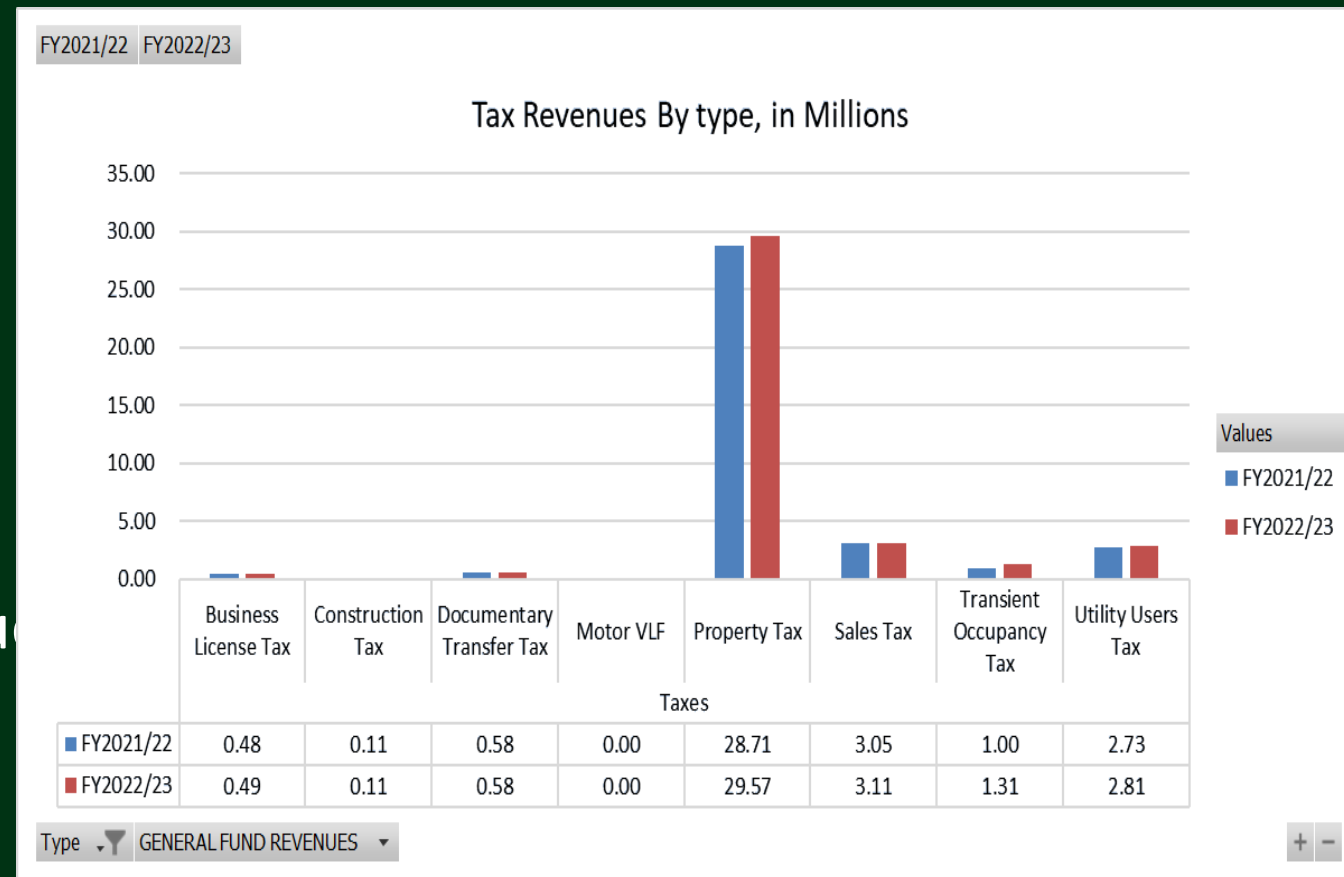
FUND

Fund Type	2 Year Expenses
General Fund	96.43
CIP Fund	12.33
Internal Service	3.68
Special Revenue	7.41
Debt Service	1.58
Enterprise	21.77
Grand Total	143.21



Fiscal Structure - General Fund

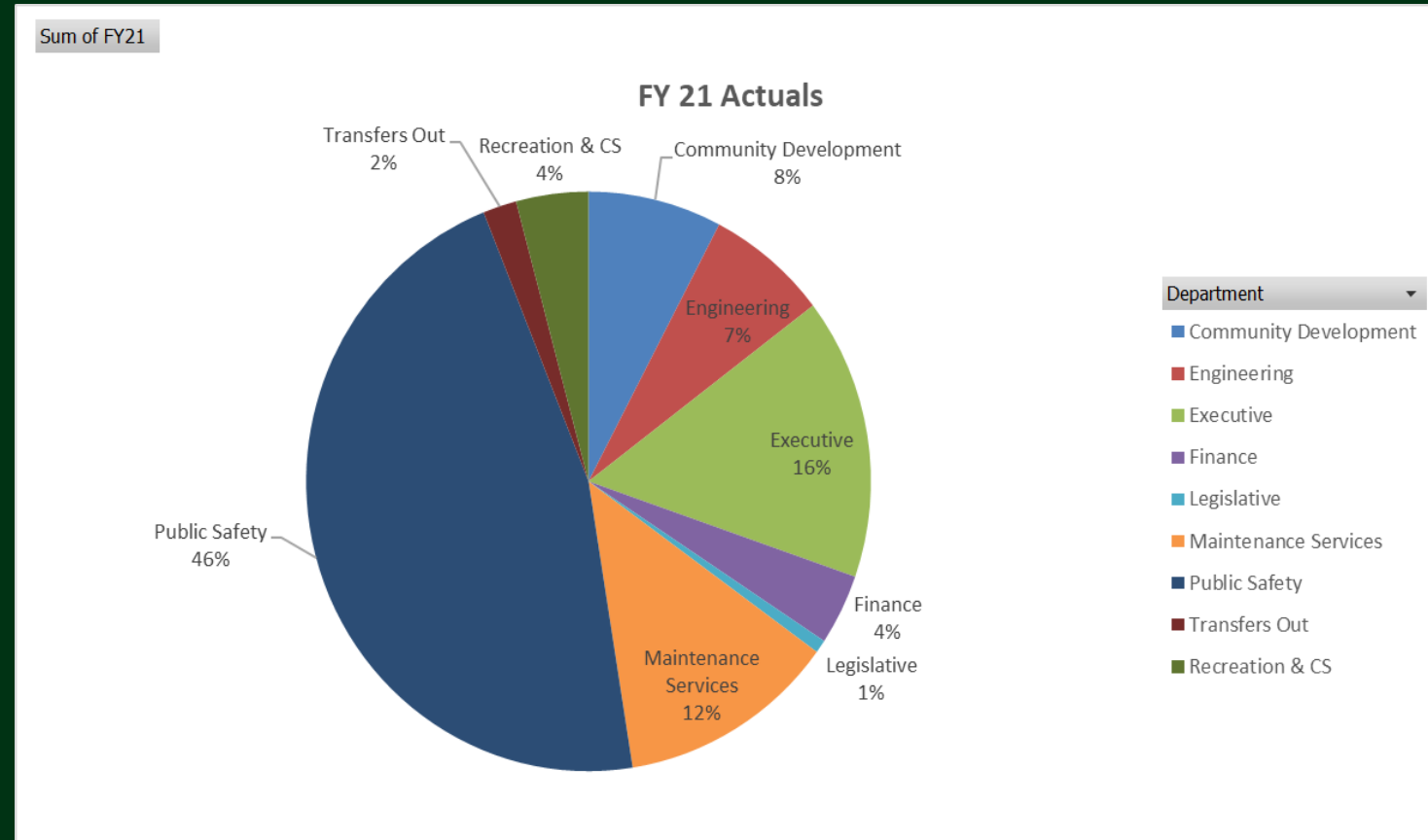
- Primary Fund for City's Operation
 - Critical to City's overall financial health
- Revenues
 - Include Property Tax, Sales Tax, Permit Fees, Recreation fees, Franchise Fees, Fines, etc.
 - Comprised 79% of all fund revenues in FY 2021



Fiscal Structure - General Fund

- Supports the following programs/ Department Expenses

- Administration
- Public Safety (Police & Fire)
- Community Development
- Public Works
- Recreation
- Debt Service

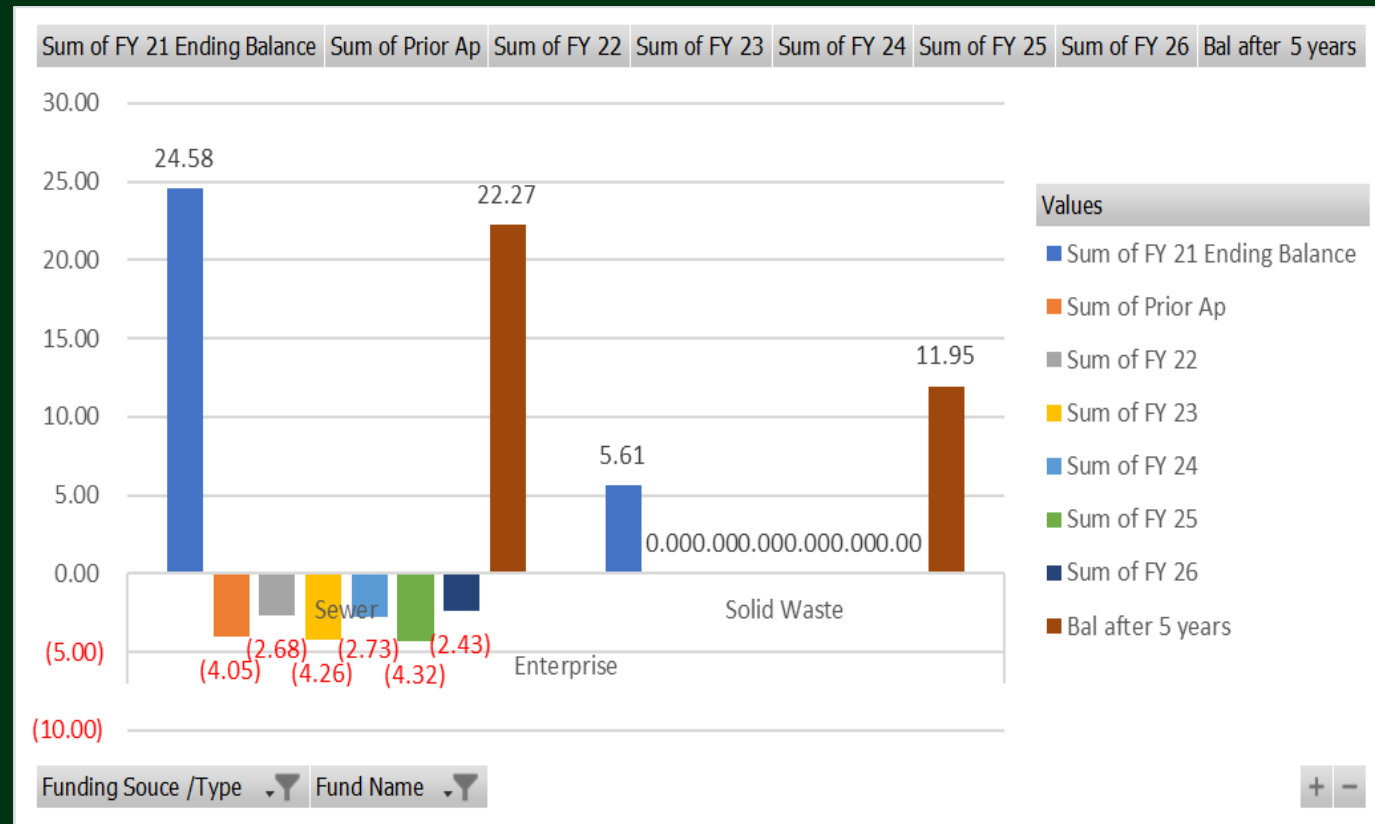


Fiscal Structure -Enterprise Funds

- Are not paying their “fair share”

- **Sewer /Solid waste/Storm Drain**

- Classified as “Enterprise Funds”
- Must be self-sustaining
- Revenues are collected only to cover operating expenses
- Cannot be used for any other purpose per State law
- Sewer comprised \$7.1 million 11.6% of operating revenues in FY 2021
- Solid waste comprised \$0.86 million 1.4% in FY 2021
- Storm Drain Fund has no revenue source and is supported by GF



Fiscal Structure - Restricted Funds

Restricted Funds are used for specific purposes which are regulated by state law or Council decision.

Some examples are

Park in Lieu Fund

- Funds can only be used on land designated as park land

Gas Tax Fund

- Restricted for maintenance of City streets and alleys
- Must have a Maintenance of Effort component. Current 1.98M

- These funds may supplement operations in various departments, although most expenditures are not used for administrative costs.



Fiscal Structure –Internal Service Funds

- Workers Compensation, Dental, Unemployment, General Liability
 - Classified as “Internal Service Funds”
 - Must be funded as part of the budget process
 - Revenues are collected from all sources General fund, Enterprise, and others if eligible.

Proposed to create 3 new Funds

- Equipment and Fleet Replacement
- Information technology replacement
- PERS Stabilization

- Currently underfunded



Fiscal Structure – Debt Service Funds

2004 Certificates of participation (COP04)

- Debt raised to build Rosita Park
- Annual debt payment of 167,400
- Interest rate
- Balance payable 880,000
- Payments complete in 6 years (2028)

Community Center Loan

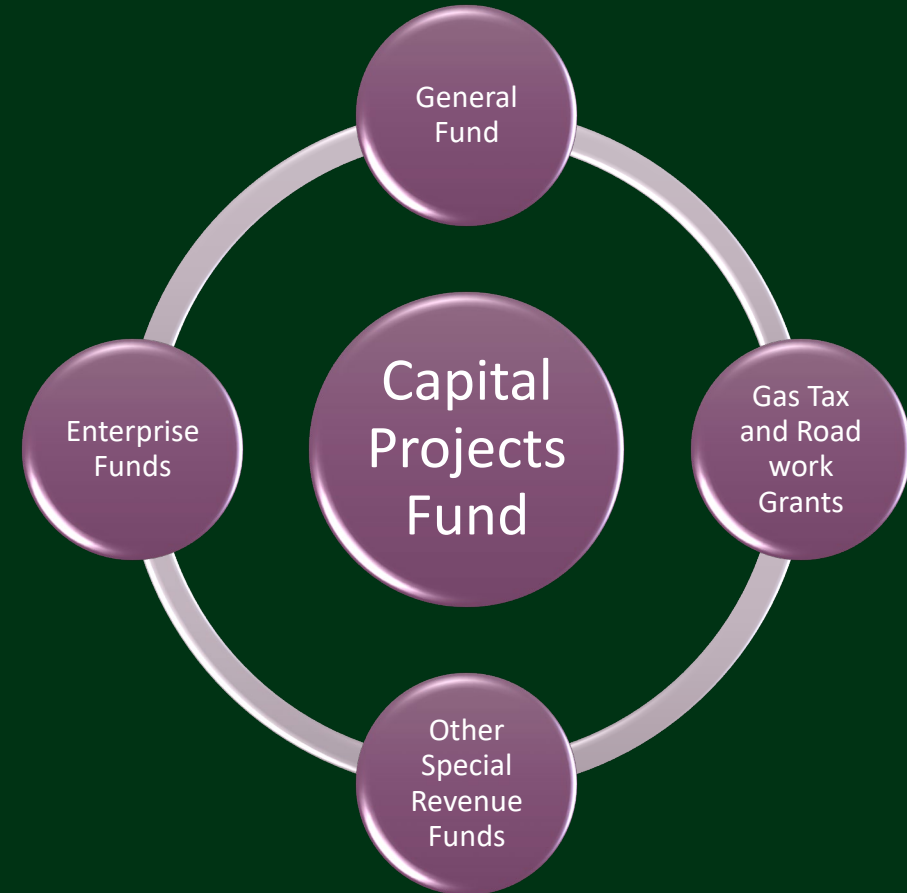
- Debt raised to build complete the community center
- Annual debt payment of 622,090
- Interest rate 2.29%
- Balance payable 9,496,863
- Payments complete in 18 years (June 30,2040)

- Currently Funded from General Fund
- Can this be eligible for Park in Lieu?



Fiscal Structure - Capital Improvement Fund

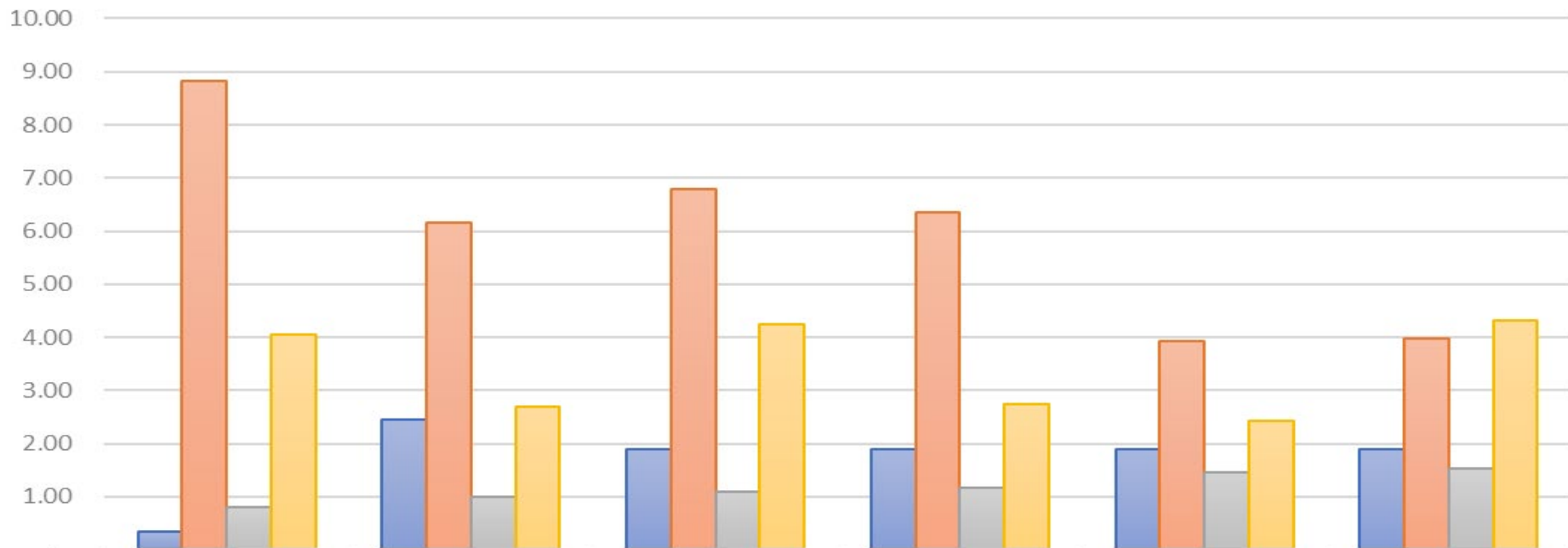
- Established by City Council to designate funds earmarked for major Maintenance and infrastructure projects and others
 - Annual Street resurfacing
 - Sewer Maintenance and repairs
- Funded through Gas Tax, VRF, and other road funding sources and General Fund surpluses
- Proposal to allocate an annual amount or percentage of revenues from the General fund during the budget process



Fiscal Structure - Capital Improvement Fund

Prior Years FY22 FY23 FY24 FY25 FY26

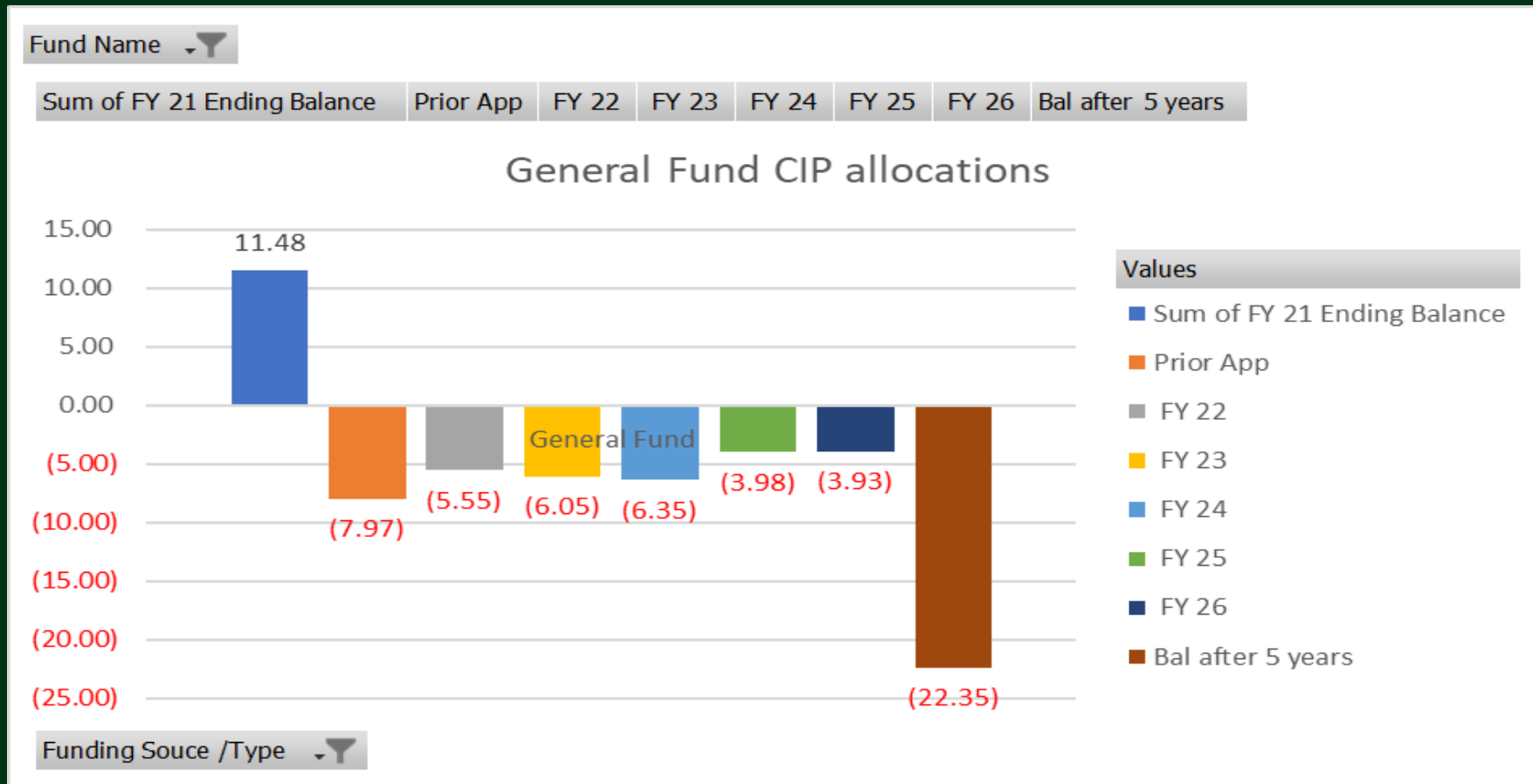
CIP Funding Sources



	Prior Years	FY22	FY23	FY24	FY25	FY26
Gas / Road	0.34	2.45	1.90	1.90	1.90	1.90
General Fund	8.81	6.16	6.78	6.35	3.93	3.98
Grants/SRF	0.80	1.00	1.10	1.16	1.46	1.54
User Fees	4.05	2.68	4.26	2.73	2.43	4.32

Values

Fiscal Structure - Capital Improvement Fund, General Fund Contributions



Questions



Fiscal Structure - Equipment Fund

- Established by City Council as a general fund reserve to designate funds earmarked for major equipment purchases
- Replacement schedule to be established to coordinate usage of funds (in conjunction with other restricted funds, where applicable)
- Proposal is to have it as a dedicated internal service fund
- Some Cities have tagged along a Technology fee on permits that can help offset Technology costs in Community Development



CALPERS UAL Funding

City of LOS ALTOS COUNCIL RETREAT
January 16, 2022



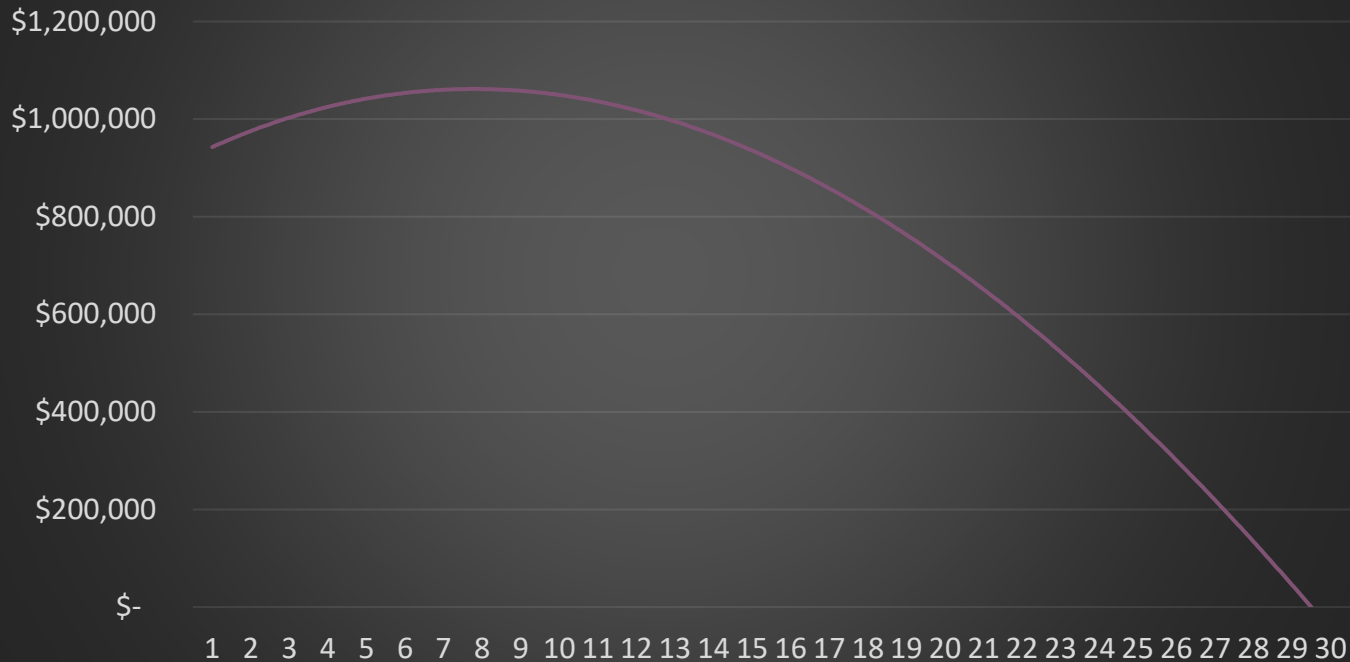
Unfunded Accrued Liability (UAL)

$$\text{UAL} = \text{Accrued Liability} - \text{Market Value of Assets}$$



Current UAL Structure, Negative Amortization

Negative Amortization: Single Base, \$1M Balance, 30 payments



Negative amortization

- Payments are less than the interest charged
- Difference increases total amount owed
- Currently we are paying negative principle



What is Unfunded Accrued Liability (UAL)

- The Unfunded Accrued Liability (UAL) obligation represents the market value of the assets, minus the discounted value of the future liabilities. When a plan or pool's Market Value of Assets is less than the Actuarial Accrued Liability, the difference is the plan or pool's UAL.

- **Major components**

- Service Costs
- Interest Costs
- Return on plan assets
- Amortization of Prior Service Cost
- Gains and Losses



Background

- Reserves set aside in the General Fund \$5M
 - UAL balances per CALPERS projections (June 30, 2021) \$45.1 M
 - Current Discount Rate 6.8%
- **Finance Commission (Meeting September 20, 2021)**
 - Recommended transfer of reserve to CALPERS
 - Directed staff to identify which tiers of UAL to paydown
 - Requested to identify more funds at year-end
 - Move money prior to the end of the calendar year
- **City Council (Meeting December 14, 2021)**
 - Directed staff to Paydown \$5 million of UAL



Safety Plan

- ❑ Original Benefit
 - ❑ 3.0% at age 50
- ❑ Council Action- Hired after December 31, 2011
 - ❑ 3.0% at age 55
- ❑ PEPRA Law- Hired after January 1, 2013
 - ❑ 2.7% at age 62 (and pay 50% of normal cost)

Misc. Plan

- ❑ Original Benefit
 - ❑ 2.7% at age 55
- ❑ Council Action- Hired after December 31, 2011
 - ❑ 2% at age 60
- ❑ PEPRA Law- Hired after January 1, 2013
 - ❑ 2% at age 62 (and pay 50% of normal cost)



Staff Analysis

Safety Plan

- Current Status
 - UAL 20.4
 - Funding Ratio 68.5%
 - Interest paid overtime 15.67M*

Misc. Plan

- Current Status
 - UAL 24.7
 - Funding Ratio 68.4%
 - Interest paid overtime 17.97M*

*Based on CALPERS provided workbook.



Post ADP paydown

Safety Plan

- ❑ After ADP paydown
 - ❑ \$2.27M
 - ❑ New Funding ratio 73.1%
 - ❑ *Savings over time 2.92M*

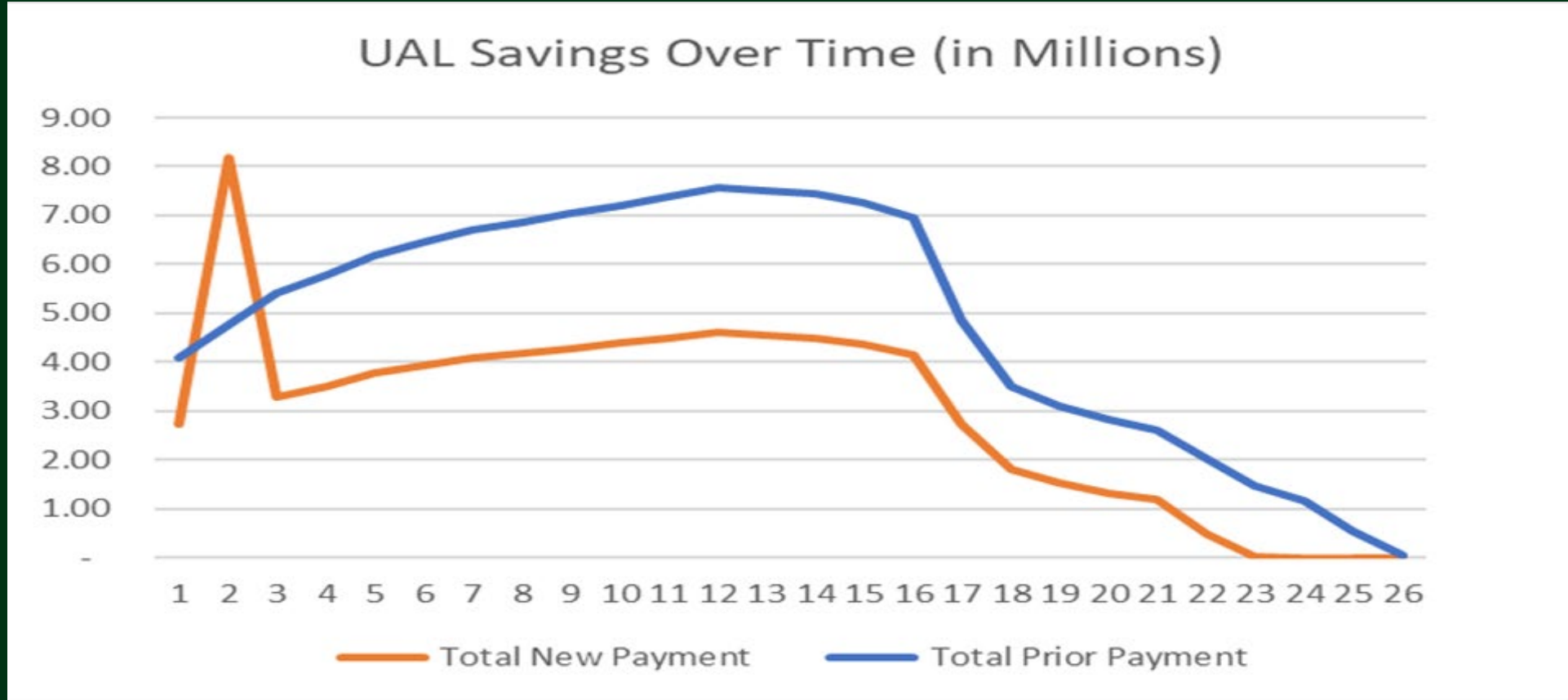
Misc. Plan

- ❑ After ADP paydown
 - ❑ \$2.73M
 - ❑ New Funding ratio 73.1%
 - ❑ Savings over time 3.46M

**Based on CALPERS provided workbook.*



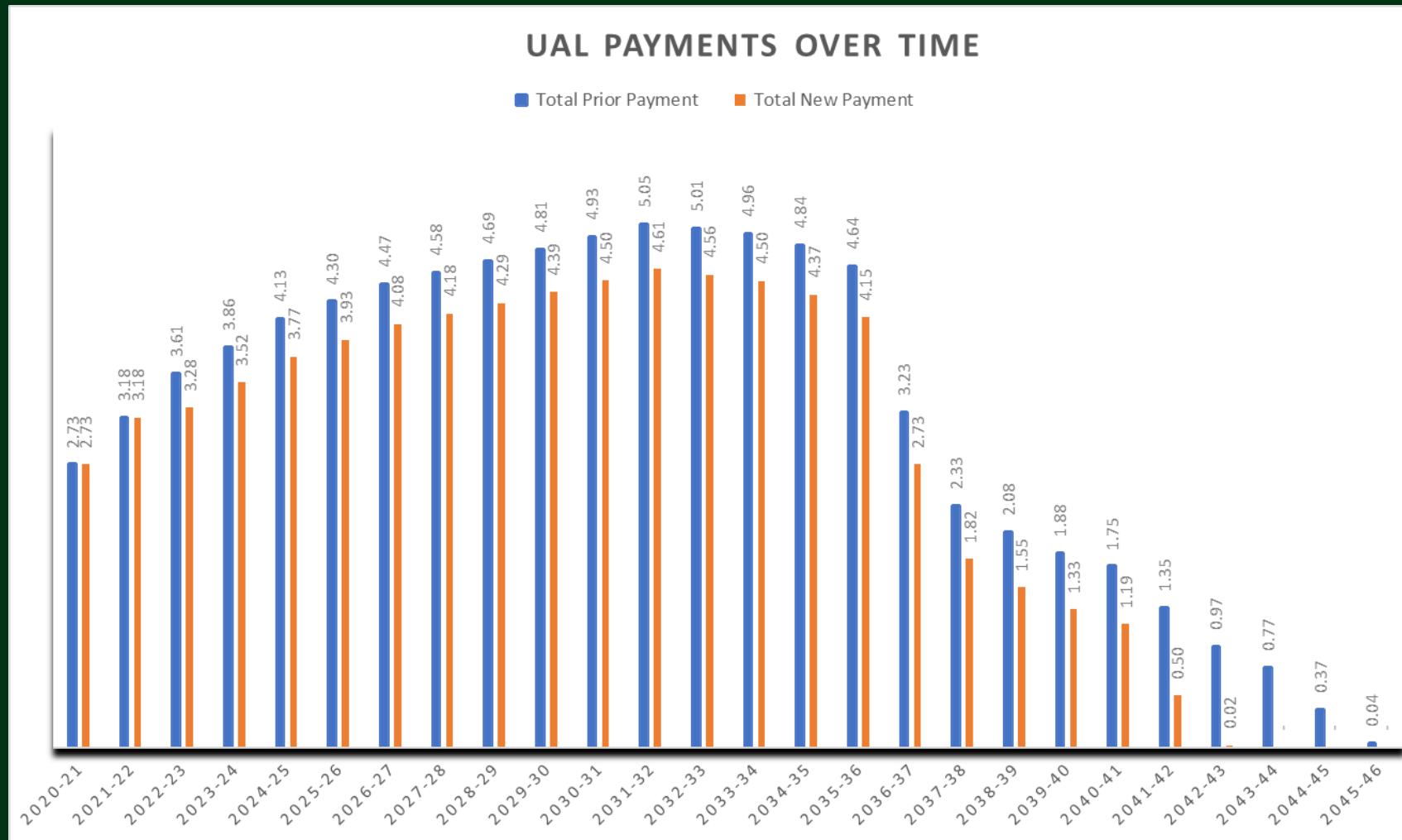
Combined net savings



Annual Operating Budget Savings

Year	FY21*	FY 22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30 -46	Total
Savings	5.00	(0.33)	(0.34)	(0.36)	(0.37)	(0.38)	(0.39)	(0.40)	(0.42)	(8.38)	(6.38)

Effect of Payments over time



Future Options

1. Set up a PERS Stabilization Internal service Fund
2. Adopt a policy for (annual discretionary payments)ADP
3. Setup a Section 115 Trust
 - ❖ Money set aside can only be used to pay pension costs
 - ❖ City in control of investment & strategy
 - ❖ Up to 2 years of Pension costs can be withdrawn
 - ❖ Returns have ranged from 3% to 10% annually depending on the strategy



QUESTIONS



OPEB Update

City of Los Altos

Council Retreat January 16, 2022



OPEB Valuation Report Summary

OPEB Actuarial Valuation Report by Bartel Associates, LLC

Measurement Date	6/30/2019	6/30/2020
Total Participants <small>(Active + Retiree's w/ Benefits + Retiree's w/o Benefits = Total)</small>	132 + 49 + 75 = 256	132 + 49 + 75 = 256
Present Value of Benefits (PVB)	\$5,032,000	\$5,032,000
Total OPEB Liability (TOL)	\$3,173,000	\$3,607,820
Valuation Assets	\$1,789,000	\$1,982,361
Net OPEB Liability (NOL)	\$1,384,000	\$1,625,459
Funded Status	56%	55%
Actuarially Determined Contribution (ADC)	\$333,000 (fye 2020)	\$343,000 (fye 2021)
Normal Cost	\$201,000 (fye 2020)	\$208,000 (fye 2021)
Amortization of Net OPEB Liability	\$132,000 (fye 2020)	\$135,000 (fye 2021)
Projected Retiree Premiums (Pay-Go Cost)	\$82,000 (fye 2021)	\$92,000 (fye 2022)
Implicit Rate Subsidy Credit	\$47,000 (fye 2021)	\$50,000 (fye 2022)
CERBT Asset Allocation Strategy	Strategy 1	Strategy 1
Discount Rate	6.75%	6.75% ²

CERBT Account Summary

As of October 26, 2021	Strategy 1
Initial contribution <small>(3/24/2016)</small>	\$1,500,000
Additional contributions	\$0
Disbursements	\$0
CERBT expenses	(\$8,852)
Investment earnings	\$1,120,554
Total assets	\$2,611,702
Money-weighted annualized net rate of return <small>(3/24/2016 – 10/26/2021 = 5.59 Years)</small>	10.79%



Funded Status Comparison

Measurement Date	Total OPEB Liability	CERBT Assets	Funded Status
6/30/2014	\$4,394,000	\$0	0%
6/30/2017	\$3,097,000	\$1,566,000	51%
6/30/2019	\$3,173,000	\$1,789,000	56%
6/30/2020	\$3,607,820	\$1,982,361	55%
2/20/2022*	\$3,607,820	\$3,482,361	96.5%

* After Prefunding of \$1.5M is complete



Pension Contribution Investment Tools

Portfolios	CalPERS Pension	CalPERS 115 CEPPT Trust Strategy 1	CalPERS 115 CEPPT Trust Strategy 2	LAIF
Expected Return	6.8%	5.0%	4.0%	~1%
Risk	11.4%	8.2%	5.2%	Lowest
Optimal Investment Time Horizon	Long-Term	2-10 Years		1-24 Months
Liquidity	No	Yes		Yes



CERBT Portfolios

Portfolios	CERBT Strategy 1	CERBT Strategy 2	CERBT Strategy 3
Expected Return	7.59%	7.01%	6.22%
Risk	11.83%	9.24%	7.28%



QUESTIONS



Special Revenue Funds, Internal Service Funds, and Restricted Funds

Anthony Carnesecca, Economic Development Administrator

June Du, Finance Manager

Manny Hernandez, Maintenance Services Director

Gabriel Engeland, City Manager



CIP, General Fund

Action Taken: The City Manager will accurately budget for the needs and known expenditures capital projects. The budget will include, when applicable, special, restricted, grant or other funding.

CIP, General Fund	
Current Fund Balance	\$11.5M
Current Obligations (FY 21-22)	\$13.5M
Unfunded Obligations (FY 21-22)	(\$2M)
Projected Obligations (5-Year CIP)	\$33.9M
Projected Obligations (5-Year CIP)	(\$21.8M)

CIP, Non-General Fund

Action Taken: The City Manager will accurately budget for the needs and known expenditures capital projects. The budget will include, when applicable, special, restricted, grant or other funding.

CIP Non-General Fund	
Current Fund Balance	\$11.1 Million
Current Obligations (FY 21-22)	\$6.0 Million
Projected Obligations (5-Year CIP)	\$20.4 Million
Projected Revenue (2-Year CIP)	\$12.7 Million
Projected Surplus	\$3.4 Million

CIP, Combined

Action Taken: The City Manager will accurately budget for the needs and known expenditures capital projects. The budget will include, when applicable, special, restricted, grant or other funding.

CIP, General Fund	
Current Fund Balance	\$11.5M
Current Obligations (FY 21-22)	\$13.5M
Unfunded Obligations (FY 21-22)	(\$2M)
Projected Obligations (5-Year CIP)	\$33.9M
Projected Obligations (5-Year CIP)	(\$21.8M)

CIP Non-General Fund	
Current Fund Balance	\$11.1 Million
Current Obligations (FY 21-22)	\$6.0 Million
Projected Obligations (5-Year CIP)	\$20.4 Million
Projected Revenue (2-Year CIP)	\$12.7 Million
Projected Surplus	\$3.4 Million

Benefit Funds (Combined)

Action Taken: The City Manager will accurately budget for the needs and known expenditures for the combined funds referred to as benefits.

Fund balance drawdown and deficit spending will have to be eliminated in future budgets.

FY21/22 Fund Balance	\$2.3M
Revenue Expected	\$2.1M
Expenditures	\$3.7M
FY 22/23 Deficit	\$1.6M
Ending Fund Balance	\$740k

Summary of Changes: Accounting & Budgeting

PROJECTED GF ANNUAL
DEFICIT--BENEFITS

\$800K

PROJECTED GF ANNUAL
UNFUNDED CIP

\$5M

Action Taken: The City Manager will accurately budget for the needs and known expenditures for the combined funds referred to as Benefits.

Action Taken: Fund balance drawdown and deficit spending will have to be eliminated in future budgets.

Action Taken: The City Manager will accurately budget for the needs and known expenditures capital projects. The budget will include, when applicable, special, restricted, grant or other funding.



Technology Reserve (General Fund)

Action Taken: The City Manager will create internal service funds to account for technology needs. The establishment of the ISF will be funded by the transfer of the fund balance of \$300,000.

Current Fund Balance	\$1.1M
Current Obligations	\$800k
Projected Collections	N/A



Equipment Replacement Fund

Action Taken: The City Manager will create internal service funds to account for Equipment Replacement and Fleet needs. The negative Fund balance will need to be planned for.

Additional Presentation:
June Du, Finance Manager

Current Fund Balance	\$400k
Current Obligations	\$1.3M
Unfunded Obligations	\$900k

Summary of Changes: Establish ISF

PROJECTED GF DEFICIT
(COMBINED) \$600K

Action Taken: The City Manager will create internal service funds (ISF) to account for Technology, Equipment Replacement, and Fleet Needs.

Action Taken: Negative Fund Balance will need to be planned for and addressed in future budgets.



Park in Lieu Funds

POLICY QUESTION: Should the City Council fund current eligible expenditures from Park in Lieu funds as opposed to the General Fund?

Additional Presentation:

Manny Hernandez,
Maintenance Services Director

Current Fund Balance	\$5.8M
Current Obligations (5-Year CIP)	\$6.7M
Projected Collections (5 years)	\$10M



Downtown Parking Fund

POLICY QUESTION: Should the City Council designate the Downtown Parking Fund as it was originally intended (Downtown Maintenance Fund) and broaden eligible expenditures?

Additional Presentation:

Anthony Carnesecca,
Economic Development Administrator

Current Fund Balance	\$890k
Current Obligations	\$0
Projected Collections (5 years)	\$354k



Policy Decisions

Park in Lieu

POLICY QUESTION: Should the City Council fund current eligible expenditures from Park in Lieu funds as opposed to the General Fund?

Downtown Parking

POLICY QUESTION: Should the City Council designate the Downtown Parking Fund as it was originally intended (Downtown Maintenance Fund) and broaden eligible expenditures?

Thank You.

Next: 15 Minute Break



Equipment Replacement Fund

Finance



Overview

- City currently has 85 vehicles and equipment in use.

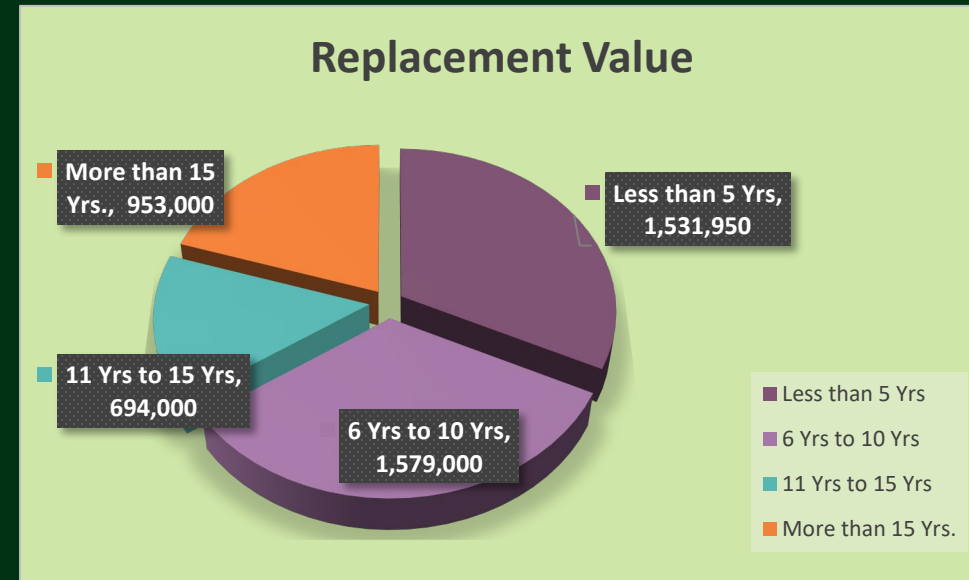
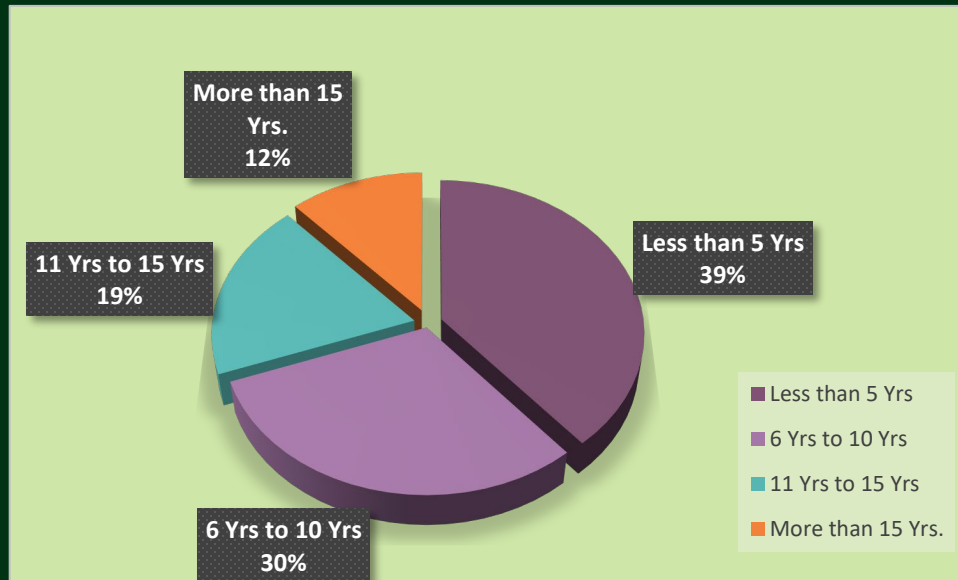
Department	# of Active Vehicles & Equip.
City Hall	9
Facilities	4
MSC	7
Parks	16
Public Safety	35
Recreation	1
Sewer	7
Streets	6
Grand Total	85

Description	# of Active Vehicles & Equip.
Light Truck/Heavy Truck/Van	29
Aerial Lift Truck	3
Utility Van	1
Motorcycles/Scooters	6
Passenger Car- Non Patrol	17
Passenger Car- Patrol	10
Police Trailer	1
Radar Trailer	5
Crack Trailer	1
Heavy truck-Vac-Con unit	2
Tractor-Backhoe	1
Tractor-Loader	1
Waste Corp Water Trailer	1
Lawn Mower	2
Chipper	2
Emergency Generator	3
Grand Total	85



Aging

- Of the 85 vehicles and equipment in use, 39% are less than 5 years, 30% are between 6 and 10 years, 19% are between 11 and 15 years, and 12% are more than 15 years.



More Than 15 Years Aging (10)

Active Vehicles & Equipment	Year	Make	Model	Useful Life	Age	Count	Replacement Cost
Aerial Lift Truck	2001	Ford	F750/LRV55	7-10 Years	21	1	140,000
	2004	Ford	F-350 (Small)	7-10 Years	18	1	65,000
Chipper	1997	N/A	Chipper	9-14 Years	25	1	25,000
Emergency Generator	1990	N/A	Emergency Generator/ Corp Yard	20 Years	32	1	140,000
	1991	N/A	Emergency Generator/City Hall	20 Years	31	1	130,000
	1998	N/A	Emergency Generator/ PD	20 Years	24	1	150,000
Heavy Truck	2006	Ford	F-450	7-10 Years	16	1	60,000
Light Truck/ Van	2006	Ford	E-350 Club Wagon	7-10 Years	16	1	41,000
Tractor-Backhoe	2001	N/A	Diesel powered tractor/backhoe 2000 case 580SL	13-18 Years	21	1	110,000
Tractor-Loader	2001	N/A	Diesel powered tractor/loader 2000 case 570 LXT Turbo w/ Gannon scraper	13-18 Years	21	1	92,000
Grand Total						10	\$953,000

All the vehicles and equipment on this list are beyond their useful life and need to be replaced immediately.



More Than 15 Years Aging (10)

Department	Active Vehicles & Equipment	Year	Description	Useful Life	Age	Count	Replacement Cost
MSC	Emergency Generator	1990	Emergency Generator/ Corp Yard	20 Years	32	1	140,000
		1991	Emergency Generator/City Hall	20 Years	31	1	130,000
		1998	Emergency Generator/ PD	20 Years	24	1	150,000
MSC Total						3	420,000
Parks	Aerial Lift Truck	2001	F750/LRV55	7-10 Years	21	1	140,000
	Chipper	1997	Chipper	9-14 Years	25	1	25,000
	Light Truck/Van	2006	E-350 CLUB WAGON	7-10 Years	16	1	41,000
Parks Total						3	206,000
Streets	Aerial Lift Truck	2004	F-350	7-10 Years	18	1	65,000
	Tractor-Loader	2001	Diesel powered tractor/loader 2000 case 570 LXT Turbo w/ Gannon scraper	13-18 Years	21	1	92,000
Streets Total						2	157,000
Sewer	Heavy Truck	2006	F-450	7-10 Years	16	1	60,000
	Tractor-Backhoe	2001	Diesel powered tractor/backhoe 2000 case 580SL	13-18 Years	21	1	110,000
Sewer Total						2	170,000
Grand Total						10	\$953,000

MSC \$420K; Parks \$206k, Streets \$157k, and Sewer \$170k. Total= \$953k



Aging Between 11 Years to 15 Years (16)

- 14 out of 16 Vehicles and Equipment are beyond their useful life with a replacement value of \$645k.
- The Lawn Mower and Chipper need to be replaced within the next two years, the replacement cost is \$49k.

Active Vehicles & Equipment	Year	Make	Model	Useful Life	Age	Count	Replacement Cost
Chipper	2010	N/A	Chipper	9-14 Years	12	1	27,000
Heavy Truck	2007	Ford	F-450	7-10 Years	15	1	60,000
	2008	Ford	F-350	7-10 Years	14	1	45,000
			F-450	7-10 Years	14	1	60,000
			F-550	7-10 Years	14	1	60,000
	2009	Ford	F-650	7-10 Years	13	1	80,000
Lawn Mower	2010	Tora	Mower	9-14 Years	12	1	22,000
Light Truck	2008	Chevrolet	Colorado	7-10 Years	14	1	33,000
		Ford	F-350	7-10 Years	14	2	90,000
	2009	Ford	F-350	7-10 Years	13	2	90,000
			Ranger	7-10 Years	13	2	66,000
Motorcycles/Scooters	2009	BMW	Motorcycle	7-10 Years	13	1	28,000
Passenger Car	2008	Ford	Fusion	7-10 Years	14	1	33,000
Grand Total						16	\$694,000



Aging Between 6 Years to 10 Years (26)

- 5 out of 26 Vehicles and Equipment need to be replaced in the next year with a replacement value of \$543k.

Active Vehicles & Equipment	Year	Make	Model	Useful Life	Age	Count	Replacement Cost
Aerial Lift Truck	2016	Ford	F-550 Powerstroke	7-10 Years	6	1	130,000
Heavy truck-Vac-Con unit	2012	Peterbilt	Vac-Con 350LHA	7-10 Years	10	1	425,000
	2016	Peterbilt	PB348	7-10 Years	6	1	425,000
Light Truck	2016	Nissan	Frontier S-Series	7-10 Years	6	3	75,000
Motorcycles/Scooters	2013	BMW	R1200RTP	7-10 Years	9	2	77,000
		T3 Motion	N/A	7-10 Years	9	1	12,000
Passenger Car	2015	Ford	Police Interceptor/Sedan	7-10 Years	7	2	78,000
		Toyota	Prius One 5dr Hatchback	7-10 Years	7	5	165,000
	2016	Honda	Accord (Black)	7-10 Years	6	1	29,000
			Accord (White)	7-10 Years	6	1	36,000
Passenger Car- Patrol	2012	Dodge	Charger	5-6 Years	10	1	29,000
Passenger Car-CSO	2016	Ford	Explorer	7-10 Years	6	1	38,000
Radars Trailer	2015	Stalker	SAM		7	3	30,000
	2016	Stalker	SAM		6	2	20,000
Waste Corp Water Trailer	2016	Waste	Utility: WT-500 Series 525US	10-15 Years	6	1	10,000
Grand Total						26	\$1,579,000



Less Than 5 Years (33)

Active Vehicles & Equipment	Year	Make	Model	Useful Life	Age	Count	Replacement Cost
Crack Trailer	2019	CRACK	Trailer	9-14 Years	3	1	65,000
Heavy Truck	2017	Ford	F-550 Crew Cab	7-10 Years	5	1	35,000
	2018	Ford	F-350 Super cab 4x2	7-10 Years	4	2	101,000
	2020	Chevrolet	Silverado 3500 crew cab	7-10 Years	2	1	61,000
			Silverado 3500 crew cab (diesel)	7-10 Years	2	1	43,000
Lawn Mower	2017	John Deere	Mower model #Z997R	9-14 Years	5	1	17,500
Light Truck	2017	Ford	F-250	7-10 Years	5	1	38,000
	2018	Ford	F-150 4x2 Super crew	7-10 Years	4	1	55,000
	2019	Ford	Ranger (P/U)	7-10 Years	3	1	38,000
	2020	Chevrolet	Silverado	7-10 Years	2	1	36,000
		Ford	Ranger	7-10 Years	2	1	30,000
	2021	Ford	Ranger	7-10 Years	1	1	30,450
				7-10 Years			
Motorcycles/Scooters	2017	BMW	R1200RTP	7-10 Years	5	1	33,000
	2020	BMW	R1250RTP	7-10 Years	2	1	37,000
	2021	Ford	Police Interceptor/SUV	7-10 Years	1	1	62,000



Less Than 5 Years (continued)

Active Vehicles & Equipment	Year	Make	Model	Useful Life	Age	Count	Replacement Cost
Passenger Car	2017	Dodge	Grand Caravan 4d Wagon SE Plus	7-10 Years	5	1	30,000
		Ford	Edge	7-10 Years	5	1	31,000
			Explorer	7-10 Years	5	1	36,000
	2019	Ford	Fusion Energy	7-10 Years	3	1	36,000
	2021	Ford	Police Interceptor/Explorer	7-10 Years	1	1	45,000
			Police Interceptor/SUV	7-10 Years	1	1	63,000
Passenger Car- Patrol	2018	Ford	Police Interceptor/Explorer	5 -6 Years	4	1	55,000
			Police Interceptor/SUV	5 -6 Years	4	2	110,000
	2019	Chevrolet	Tahoe	5 -6 Years	3	1	75,000
		Ford	Police Interceptor/Explorer	5 -6 Years	3	2	115,000
	2020	Chevrolet	Tahoe	5 -6 Years	2	1	74,000
			Ford	Police Interceptor/SUV	5 -6 Years	2	1
		Ford	Police Interceptor/SUV	5 -6 Years	1	1	62,000
Police Trailer	2017	CARGO MATE	6x10 Utility trailer (ORCH610SA)	N/A	5	1	4,000
Utility Truck	2019	Ford	F550	7-10 Years	3	1	80,000
Utility Van	2021	Ford	Transit Van	7-10 Years	1	1	34,000
Grand Total						33	\$1,531,950



FY21/22 & 22/23 Budget

Beginning Fund Balance 7/1/2021	\$389,459
Ending Fund Balance 6/30/2023	(\$904,873)
Need Immediate Replacement (Beyond useful life)	(1,627,000)
Need to Be Replaced Next Year	(918,000)
Budgeted in FY21-23 Remaining	415,000
Funding shortfall for equipment replacement at 6/30/2023	(\$3,034,873)



Conclusion

- Equipment Replacement Fund audited FY21 year-end balance is \$389,459. The existing commitment for FY22 & FY23 is \$1.29 million after which there is a budget deficit is \$904k.
- The city has approximately \$953k vehicles and equipment over 15 years old.
- Seven major pieces of equipment are more than 20 years old and need immediate attention for safety and efficiency. (\$787k)
- Of the above seven, two of the three generators are over 30 years old (\$270k). Generators usually have 20 years life span.
- Over \$3 Million of replacement funds are needed by June 2023.



Questions?



Los Altos Downtown Parking Fund

Anthony Carnesecca
Economic Development Administrator



What is the Los Altos Downtown Parking Fund?

- Established in 2003 by City Council along with the Downtown Employee Parking Permit Program
- Collects money from annual and quarterly parking permit sales
- Two major goals
 - Cover the ongoing operating costs
 - Address Downtown's maintenance needs



Fund Balance

- Current Fund Balance: \$890,000
- Current Obligations (2 years): None
- Projected Collections (5 years): \$353,500



Policy Statement

- City staff plan to utilize the funds to improve business and visitor access and attraction to the downtown.
- These funds will help our current businesses succeed while trying to attract new businesses to our community.



Potential Uses

- Downtown WiFi
- Upgrade or repair parking plazas
- Improve lighting in parking plazas
- Increase wayfinding signage
- Improve electrical outlets for tree lights
- Distribute small business grants
- Beautification
- Events
- Explore the establishment of a Business Improvement District



Policy Question

- Should the City Council designate the Downtown Parking Fund as it was originally intended (Downtown Maintenance Fund) and broaden eligible expenditures?



Los Altos Park Equipment Costs

Manny Hernandez
Maintenance Services Director



Playground Replacement Costs

Replacement Year	Park (Year Installed)	ADA Surface Installation	Playground Structure Replacement	Expected Replacement Cost
Past Replacement Life	Shoup (2004)	\$300,000	\$600,000	\$900,000
Past Replacement Life	Marymeade (2007)	\$179,000	\$300,000	\$479,000
	McKenzie (2007)	\$231,000	\$400,000	\$631,000
Past Replacement Life	Grant (2008)	\$170,000	\$300,000	\$470,000
	Montclair (2008)	\$150,000	\$250,000	\$400,000
	Heritage Oaks (2008)	\$ 92,000	\$200,000	\$292,000
Past Replacement Life	Rosita (2011)	\$132,000	\$200,000	\$332,000
Unscheduled (28/29)	Los Altos Youth Center (2018)	\$117,000	\$200,000	\$317,000
	San Antonio Club (2018)	\$63,000	\$ 150,000	\$213,000
	Total	\$1,434,000	\$2,600,000	\$4,034,000
			Budgeted Amount	\$620,000
			Percent Budgeted	15.4%



Playground Annual Operating Costs (Grant)

Estimated Annual Cost Grant Park								
	Supplies	PG&E	Water	General Maintenance	Maint, Equip, & Replacement	TOTALS		
MP Building, Activity Rooms, Restrooms	\$ 49,550	\$ 8,000	\$ 32,000	\$ 22,000	\$ 20,000	\$	\$	\$ 131,550
Sports Field	\$ 2,000	N/A	N/A	\$ 15,000	\$ 25,000	\$	\$	\$ 42,000
Basketball Court	\$ 100	N/A	N/A	\$ 5,000	\$ 4,000	\$	\$	\$ 9,100
Playground	\$ 2,000	N/A	N/A	\$ 5,000	\$ 31,000	\$	\$	\$ 38,000
Landscape	\$ 200	N/A	N/A	\$ 15,000	\$ 1,000	\$	\$	\$ 16,200
Hardscape/ Furniture/Fence	\$ 500	N/A	N/A	\$ 10,000	\$ 5,500	\$	\$	\$ 16,000
TOTALS	\$ 54,350	\$ 8,000	\$ 32,000	\$ 72,000	\$ 86,500	\$	\$	\$ 252,850



Playground Annual Operating Costs (Rosita)

Estimated Annual Cost Rosita						
	Supplies	PG&E	Water	General Maintenance	Maint, Equip, & Replacement	TOTALS
Snack Shack Building	\$ 900	\$ 1,400	\$ 58,500	\$ 5,200	\$ 3,500	\$ 69,500
Sports Field	\$ 3,000	N/A	N/A	\$ 15,600	\$ 37,500	\$ 56,100
Tennis Courts	\$ 500	N/A	N/A	\$ 5,200	\$ 6,000	\$ 11,700
Playground/ Exercise equipment	\$ 2,000	N/A	N/A	\$ 5,200	\$ 22,000	\$ 29,200
Landscape	\$ 200	N/A	N/A	\$ 15,600	\$ 1,000	\$ 16,800
Hardscape/ Furniture/ Fencing	\$ 500	N/A	N/A	\$ 5,200	\$ 5,500	\$ 11,200
TOTALS	\$ 7,100	\$ 1,400	\$ 58,500	\$ 52,000	\$ 75,500	\$ 194,500



Policy Question

- Should the City Council fund current eligible expenditures from Park in Lieu funds as opposed to the General Fund?



Employee Recruitment and Retention

Irene Barragan Silipin, Human Resources Manager
Scott Gerdes, Human Resources Analyst



Objective

Implementation of a compensation philosophy outlining the goals and vision for personnel retention and attraction in Los Altos.



Introduction

- Global Labor Challenges Today
- Current State of City of Los Altos Workforce
- Workforce Realignment Considerations
- Compensation Philosophy Implementation



**While organizational objectives outline
what you want to get done,
culture defines *how* you get it done.**



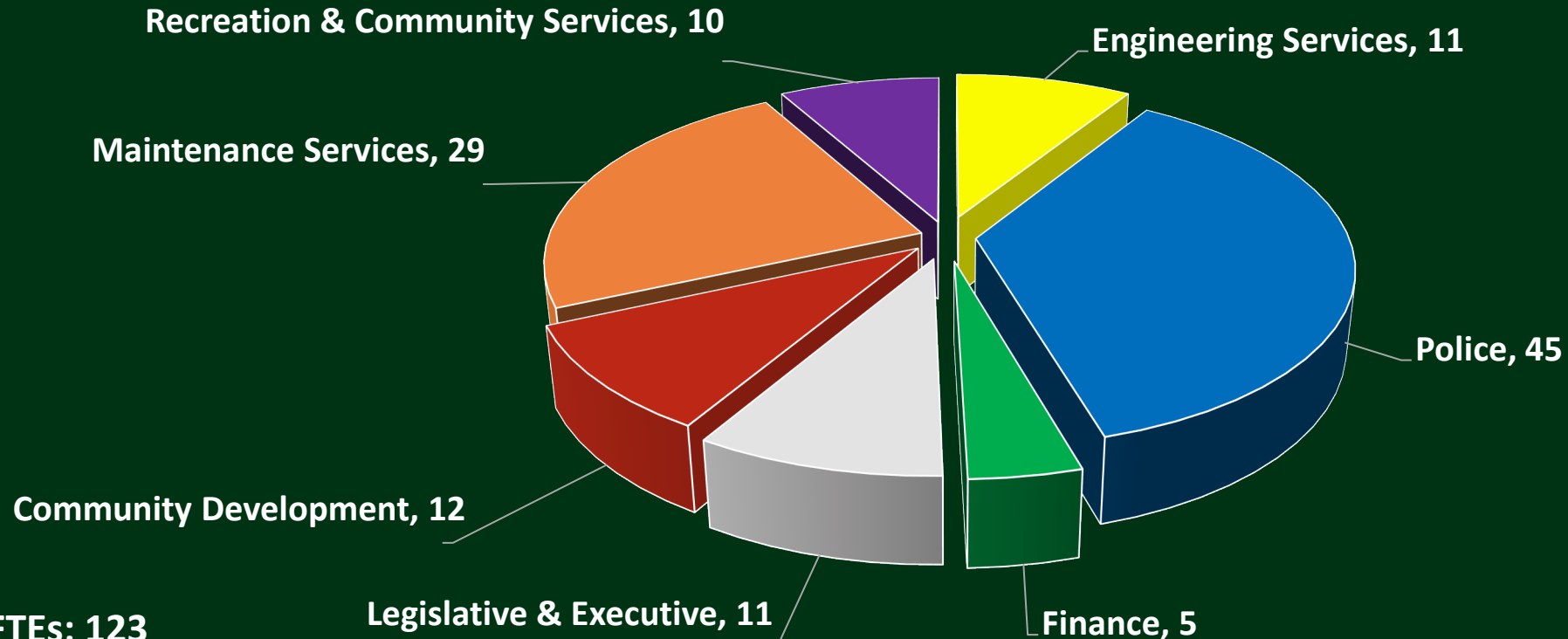
Global Labor Challenges Today

- Great Resignation – *“The Resignation Tsunami”*
 - 41% of U.S. workers resigning within the next 6 months.
 - 39% of a survey indicated resignations happening without a new job in hand
 - 70% of U.S. workers claim to now work on longer hours and weekends
- Labor Shortage
 - Unemployment Rates at 3.9%
 - 30% of U.S. workers actively job hunting
- Talent Exodus
 - Employee’s Market
 - War of Talent
 - Draining of the talent pool



City of Los Altos Employee Workforce

City of Los Altos FTE Snapshot



Total FTEs: 123

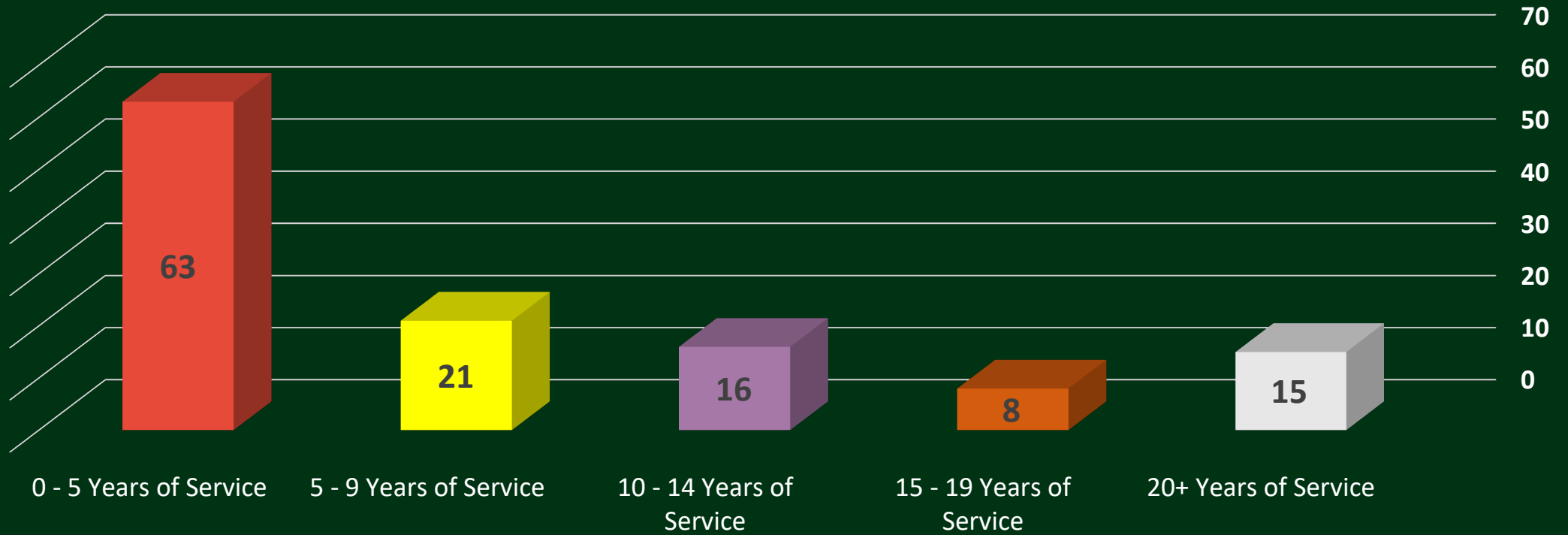
Total PT: 42

Combined: 165



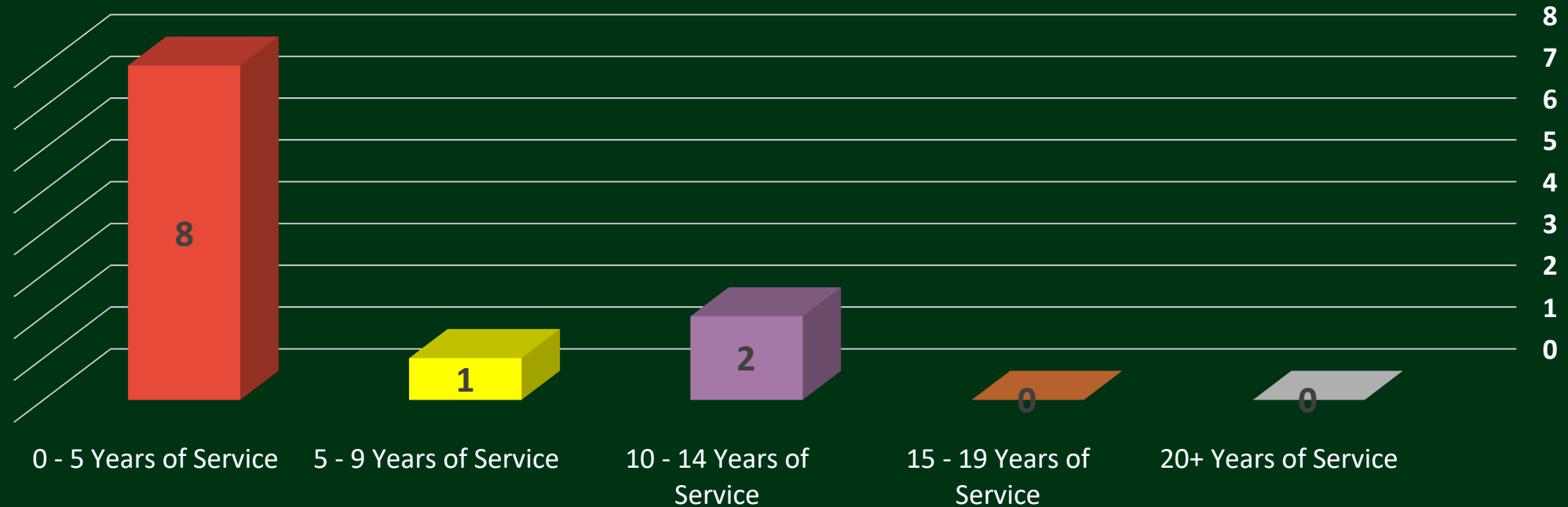
Employee Average Years of Service

City of Los Altos FTE Years of Service



Employee Average Years of Service Example

Engineering Services Department FTE Years of Service



Current Total Compensation Overview

- Total Compensation Market Comparison
 - Under-market in the Overall Salary and Benefits
 - Vacation Accrual
 - Retiree Medical
 - Observed Holidays
 - Learning and Development Program
 - Educational Assistance Program
 - Example
 - Observed Holidays and Holiday Closure



The Great Realignment

If we want to be competitive, we must start with investing in the individuals that are already part of our workforce.



Workforce Realignment Considerations

- Invest in Our Workforce
 - Blend of personal and work life
 - Flexibility
 - Hybrid Work Schedules
 - Talent War
 - Prioritize Internal Promotions
 - Employee Professional Development
 - Offer Perks that Matter



Workforce Realignment Considerations

- Enhance Total Compensation Benefits Package
 - Increase Observed Holidays
 - Juneteenth, Indigenous People's Day, Cesar Chavez, Holiday Closure, Floating Holidays
 - Professional Development/Higher Education Paid Program
 - Pay for Performance
 - Cash-outs
 - Vacation and Management Leave
 - Wellness Program



Compensation Philosophy

What is a compensation philosophy?

- Formal statement documenting our agencies position about employee compensation and benefits

Compensation Philosophy Importance:

- Provides valuable input and direction.
- Explains the “why” behind employee pay, benefits and creates a framework for consistency.
- Assists with attracting, retaining and motivating employees.
- Defines how we plan to pay and reward competitively, based on market conditions, competition and ability to pay.



Conclusion

- Establish a compensation philosophy
- City Staff will develop compensation and benefits package that align with adopted philosophy.



Thank You

Questions?



Police Facility Subcommittee Report to City Council

January 18, 2022

The subcommittee recommends that the Council direct staff to place a bond measure on the November, 2022 ballot. We explored three types of Bond Measures to finance a new police facility:

1. Citizens' Initiative (requires a majority vote of residents to pass)
2. General Tax (also requires a majority vote)
3. Special Tax (requires a two-thirds vote)

The ballot Measure would either raise an existing tax or create a new one as the source of revenue.

A citizens' initiative is a Bond Measure placed on the ballot by non-government parties. Although recent court decisions have confirmed that a citizens' initiative may be approved with a simple majority vote, the subcommittee recommends against this approach due to:

- Potential legal risk (e.g., a challenge if approved by >50% but less than 66.6% of voters)
- Process and timelines to qualify the initiative for the ballot (must obtain signatures from 10% of registered Los Altos voters)
- Council and Staff could play no role in helping the process move forward, leaving the city without any input on the measure.

The subcommittee recommends Council consider proposing either a General Tax or a Special Tax, key differences are summarized in the table:

Overview of General Tax and Special Tax Requirements

	GENERAL TAX	SPECIAL TAX
Use of Revenues	Unrestricted	Specific purpose
Governing Body Approval Required	<ul style="list-style-type: none">• General-law cities: two-thirds approval is required.• Charter cities: majority approval is required.• Transactions and use taxes: two-thirds approval is required.	Majority
Voter Approval Required	Majority	Two-thirds
Other Rules	A general tax election must be consolidated with a regularly scheduled general election of members of the governing body, unless an emergency is declared by unanimous vote (among those present) of the governing body.	Special tax funds must be deposited in a separate account. The taxing agency must publish an annual report including the tax rate, the amounts of revenues collected and expended and the status of any project funded by the special tax.

Source: 2016 League of California Cities
(<http://www.californiacityfinance.com/WCCaCityRevenuePrimer1612.pdf>)

In addition, the subcommittee is exploring the scope of the facilities the Council ought to consider improving with the proceeds from the Bond Measure. Most narrowly we could target funding a police facility only (with or without IT), or more broadly include public safety infrastructure (police and fire), or

even more broadly include a library (Campbell passed a Bond Measure for Police and Library in 2018, see below). Generally, the larger the financial ask of the voters, the lower the likelihood of achieving voter approval, especially the two-thirds majority required for a Special Tax. On the other hand, expanding the scope of intended investment might attract more constituencies to support the Bond Measure.

As a recent, local example, a bond issue to fund police facilities and a library meeting fire and earthquake codes was on the ballot for Campbell voters in November 2018. It was put on the ballot by the Campbell City Council on June 19, 2018. The Measure asked voters to authorize the city to issue up to \$50 million in bonds at an estimated tax rate of \$0.019 per \$100 in assessed value to fund an emergency police operations center, police station updates, and a library meeting fire and earthquake codes. It required a two-thirds majority to pass and it was approved 69.6% to 30.4%.

Moving forward, we would need to work with an investment banker and bond counsel to facilitate the process; their compensation is based on the Measure passing. The City Manager facilitated a meeting between the subcommittee and Stifel Financial Advisors to understand the investment banker's role.

Regarding the timeline, the deadline to submit a Measure to the Registrar of Voters is August 12, 2022.

Other options the subcommittee explored but do not recommend that the council consider are:

- Borrowing from an institutional lender. While a commercial loan does not need voter approval, the City would be obligated to put up collateral. Moreover, interest rates for a commercial loan are higher than for a bond, making this option the most expensive.
- Do nothing. The subcommittee trusts that the Council agrees that this is not an acceptable option, as the problems with the existing police facility are well known.

The subcommittee seeks the following direction from the Council:

- Confirmation that the subcommittee should explore only a Council-proposed ballot measure (general tax or specific tax)?
- Does Council agree with the Subcommittee that we should continue to explore the size and scope (Police/Public Safety/Library) of a bond measure with outside experts or would the Council prefer to determine the scope of a measure now?
- Does Council agree that the subcommittee should start working with appropriate outside advisors (investment bankers, bond counsel, etc.) to identify the best options to place before the voters?
- Approval from Council to work with staff to identify the best sources of revenue to finance the bond measure.

Prioritization of City-Owned Facilities

Manny Hernandez, Facilities Director
Gabriel Engeland, City Manager



City-Owned Facilities, Priorities

The City must continually invest in public safety, public works, parks and recreation, and personnel.



How Were Assets Organized?

Urgency

Low

Medium

High

Resource Use

Low (\$2M or less)

Medium(\$2M-\$5M)

High (\$5M+)

Potential Schedule

Immediate (FY 22/23)

Near-Term (5 Year CIP)

Future (Unscheduled)



Timing: Immediate

Facility	Urgency	Resource Use	Timing
Caretaker House	High	Low	Immediate
Halsey House	High	Low	Immediate
Fire Station Almond	High	Medium	Immediate
LAYC/City Hall	High	Low	Immediate
Park/ADA	High	Low	Immediate
Police Facility	High	High	Immediate



Timing: 5-Year-CIP

Facility	Urgency	Resource Use	Timing
Bus Barn Theater	Medium	Unknown	5-Year CIP
Fire Station Loyola	Medium	Medium	5-Year CIP
Garden House	Low	Medium	5-Year CIP
Grant Park Senior Ctr	High	Medium	5-Year CIP
MSC	Low	Low	5-Year CIP



Timing: Unscheduled

Facility	Urgency	Resource Use	Timing
999 Fremont	Low	High	Unscheduled
Underground Facilities	Low	Low	Unscheduled



Action Requested

The City Council is not being asked to prioritize specific facilities or assets within the given listed timeframe, but instead determine which projects should be categorized within each timeframe area (Immediate, 5-Year CIP, Unscheduled).

Once the projects are categorized appropriately, the City Council will be able to prioritize specific projects as part of the normal budget process.



Action Requested

Does the City Council agree with timing of the projects listed?

- If yes, Staff will plan accordingly in future budget years.
- If no, what changes should be made to the timing and/or priority of these facilities?



Development Services Cost Recovery through Master Fee Updates

Laura Simpson, Interim Planning Director

Steve Golden, Interim Planning Services Manager



Planning Fees for Development Permits

- Currently, Planning charges a flat fee for processing depending upon the type of development.
- Because the development review process requires a substantial number of committees and hearings—e.g. **Complete Streets, Historic, Design Review, Planning Commission, and Council**, staff time spent on specific developments is not fully recovered through the flat fee structure.
- Staff time varies by project, based upon complexity, size, etc. Some projects may return to a single commission several times.



Recovering Costs Above Flat Fees

- If a development project requires additional time, staff review, or public hearings, staff can track the hours and bill the developer monthly for the actual hours worked on the project.
- Staff costs include salary and benefits, which can be calculated on an hourly basis based upon position, e.g. senior planner or associate planner.
- This will allow the City to recover costs for a significant portion of planning work that is associated with private development that exceeds flat fee amounts.



General Plan Fee

- Currently, there is no fee collected that associated with General Plan Maintenance and Implementation
- Most cities have established a fee collected as a percentage of building permit fee or construction valuation
- A General Plan Maintenance Fee would be used for General Plan Update, City Initiated GP Element Amendments, and Code Amendments to Implement General Plan



Costs Not Recoverable

- Planning costs include unfunded state mandates, such as SB9, SB330 and others.
- Planning also handles questions from residents in the pre-submittal phase which is not cost recoverable.
- Permit Center counter is open 7:30-4:30 Monday through Thursday and by virtual appointment on Fridays. Most of this time is not billable or recoverable.



Benefits of Cost Recovery

- City is reflecting actual time worked on private development and not subsidizing private sector.
- Fees will be used to assure appropriate staffing levels are achieved when building development cycles are higher or lower.
- A General Plan fee, if approved, could be used for future Long Range Planning for the General Plan update.



Fee Recommendations

1. Include an hourly rate for planning in the fee schedule, based upon the 2019 cost allocation study, to allow planners to track actual time and recover staff costs associated with private development, when it accrues above and beyond the flat fee amount, particularly for large, time intensive projects.
2. Include a 1% of building permit valuation fee for General Plan update. Funds collected will support the expense of the update. Next General Plan update is imminent.
3. These updates can be incorporated in the Master Fee Schedule update in February.



Affordable Housing Fees



Why Impose Housing Fees?

- To create an affordable housing trust fund to subsidize housing at low- and very low-income levels
- To leverage state and federal funds, as discussed later in the presentation



Types of Fees

- Impact Fees: These are fees imposed on market-rate units, which are calculated based upon the need for affordable housing created through the production of market-rate units.
- In-lieu Fees: These are fees paid as an alternative to constructing affordable units to comply with an inclusionary ordinance.



Types of Fees (Cont'd)

- It may be difficult to show a nexus between the production of market-rate units and the need for affordable units.
- *California Building Industry Assn. v. San Jose*: California Supreme Court approved in-lieu fees without proving a nexus
- Some agencies also do a nexus study before imposing in-lieu fees.



Notes About Establishing In-lieu fees

- It is recommended to conduct a feasibility study to ensure in-lieu fees are reasonable.
- Some agencies set in-lieu fees intentionally low (i.e., less than the cost to construct the inclusionary units onsite). This is to prioritize payment of fees.



Why Some Cities Prioritize Inclusionary

- Inclusionary housing result in units on the ground now, not later.
- Inclusionary housing integrates people at all income levels.
- Inclusionary housing policies generate affordable for-sale opportunities. Fees are almost always used to generate rental housing.



Why Some Cities Prioritize Fees

- Fees have the potential to generate more overall affordable units in the long-term.
- Fees generate more rental housing opportunities.
- Local subsidies leverage state and federal funds.
- Local agencies have more discretion over projects as lenders than as planning agencies.



Leveraging Federal and State Funds

- Most affordable housing is constructed using a combination of federal tax credit financing and loans.
- These sources cover most, but rarely all, the costs of constructing projects. The additional funding needed is called “gap funding.”
- Local agency housing trust funds are one source of gap funding.
- The availability of local gap funding is a criterion used to allocate competitive (9%) tax credits, loans funded through tax exempt bonds, and state gap funding sources.



Notice of Funding Availability (NOFA)

- What does a city do once it has money in its housing trust fund?
- Start by issuing a NOFA.
- A NOFA invites developers to submit proposals for funding. The agency ranks the choices and funds the best projects.



Grants or Loans

- Loans are more typical because:
 - Loans allow affordable developers to choose whether their projects will be prevailing wage projects.
 - Loans create more financial incentive for “follow through.”
 - Repaid loan funds go back to the housing trust fund to pay for future projects.



Residual Receipts Loans

- A common loan structure is a “residual receipts loan.”
- Residual receipts are project revenues minus expenses, including debt service on superior financing.
- Rather than requiring a set repayment amount each year, a city might require, for example, that 50% of residual receipts be paid back to the city, with the balance due in 55 years.
- Interest is commonly charged, although at a below-market or nominal rate, or sometimes only if the borrower is in default.



Pre-Development Loans

- The riskiest stage of a project at which to lend funds is the pre-development stage.
- Risk at this stage can be minimized, but it cannot be avoided.
- Because it can be difficult to obtain financing at this stage, small pre-development loans can be helpful in ensuring that projects materialize.
- For this reason, it is common for city funds to be awarded in the form of pre-development loans.



Questions



Thank You.

Next: Wrap-Up



Recap

Anita Enander, Mayor

**IF YOU DON'T KNOW WHERE
YOU'RE GOING, ANY PATH
WILL TAKE YOU THERE.**

With apologies to Lewis Carroll

FY 20-21 – \$4 Million Oops

- ▶ Fortunately, CARES/ARPA compensated (we had planned for these funds)
- ▶ Fortunately, property tax and sales tax were above conservative estimates
- ▶ Short \$2M for planned CIP
- ▶ We are below our 20% Reserve by ~\$600K
- ▶ A balanced budget is not always a good budget if it does not include essential expenses

FY 21-22

- ▶ Will know in a month
- ▶ Early indicators we will be ok, thanks to more CARES/ARPA \$ and continuing increase in property tax
- ▶ As with FY 20-21, some essential expenses were not included

Long Term

- ▶ Need to budget for pension, fleet, and facilities costs
- ▶ Backlog of these expenses

We need a plan to get out of this hole

Annual Backlog Requirement

Community Center	\$	622,090
UAL		3-4,000,000
Fleet		1,000,000
CIP		4,500,000

Additional upward pressure on salaries and benefits

City CIP funds needed to get certain tax and matching revenue

In good years: \$3-5 Million (general revenue minus operational expenses)
available for other expenses. Not \$ 8-10 Million, as above.

Looking Forward

- ▶ New financial staff is highly competent and has tools to do the job
- ▶ Council must be disciplined in our budgeting
- ▶ City Manager and E-staff – new / cost-effective ways of doing business
- ▶ Excellence in execution

Staff Resources

- ▶ Establish policies that will allow us to recruit and retain the highly competent staff needed to deliver services our residents expect
- ▶ Support City Manager as he rebuilds the staff – make decisions and follow-through

Integrating Other Priorities

- ▶ Calendar 2021 priorities were: **Housing**, Land Use, **Fiscal Sustainability**, Community Safety, **Asset Management**, Environmental Sustainability, Community Engagement, and Transitioning Through Change.
- ▶ How would Council like to revisit and integrate other priorities into the Calendar year 2022 and FY 2022-23 budget planning?

Maintaining Discipline

- ▶ For the next 2-5 years, we must pursue these objectives and not become distracted.



PUBLIC CORRESPONDENCE

The following is public correspondence received by the City Clerk's Office after the posting of the original agenda. Individual contact information has been redacted for privacy. This may *not* be a comprehensive collection of the public correspondence, but staff makes its best effort to include all correspondence received to date.

To send correspondence to the City Council, on matters listed on the agenda please email PublicComment@losaltosca.gov

From: [Bill Hough](#)
To: [City Council](#); [Public Comment](#)
Cc: [Andrea Chelemengos](#)
Subject: [External Sender]Public Comment of Agenda Item 1 for January 18, 2022
Date: Monday, January 17, 2022 3:53:40 PM

Regarding this policy question regarding the Downtown Parking Fund: “Should the City Council designate the Downtown Parking Fund as it was originally intended (Downtown Maintenance Fund) and broaden eligible expenditures?”

This is an empathetic NO! “Small business grants, downtown wi-fi, beautification, events, and other items that improve the quality of life for residents” might be “nice to have” things, but at the moment they need to be set aside, given all the pressing demands on the city’s budget. The items listed above should be privately funded, assuming that they should be funded at all. Keep the Downtown Parking Fund narrowly focused. Going forward, the City should charge rent to restaurants that continue to use street space for dining.

Regarding the question of “Should the City Council fund current eligible expenditures from Park in Lieu funds as opposed to the General Fund?,” the answer is another “yes” because we do not want to spread the general fund too thin.

Bill Hough
Los Altos

From: [Joe Beninato](#)
To: [Public Comment](#)
Subject: Public Comment - Special City Council Meeting January 18, 2022
Date: Tuesday, January 18, 2022 1:23:47 PM

Hello City Council, City Manager and Staff,

Since I suspect we will have limited time to speak today, I decided to submit my prepared comments via email as well in the hopes that you will see it at some point soon.

I reviewed the meeting materials this weekend, and have to admit I am very concerned about the state of Los Altos right now. From budget shortfalls to unfunded pension obligations to crumbling infrastructure to the taxpayer dollars wasted on unnecessary lawsuits and bad computer software...we've obviously got some challenges to tackle.

Without getting into the blame game, I think it's important to focus on 3 things:

- We need to understand how we got here, so we can avoid more issues like this moving forward.
- We need to understand where we are now.
- We need to have short, medium and long term plans for how to prioritize what matters and fix it.

I commend City Manager Engeland and his staff for identifying these issues for the City Council. I have a few observations that tell me we have our work cut out for us.

Public safety is always top of mind for any city. For us to be in the situation we are in with the police station and to a lesser extent the Almond fire station is unacceptable. Chief Galea and his team put their life on the line every day, and we have decided that having them work in a building that floods with bad wifi and people working out of trailers is OK? It is time for us to stop paying lip service to how important our first responders are, and step up to provide them with not just adequate facilities, but excellent facilities.

One glaring issue in the materials is the turnover rate and morale of the city staff. Again, this is unacceptable. The current staff works incredibly hard to keep up with their limited resources. I think City Manager Engeland was a great hire, and the council now needs to give him the resources and space he needs to add great hires to the team and manage the city. You need to trust the staff and not micromanage them. While we are a small city, we have high expectations for our city services, and we need to match the budget to our high expectations.

Finally, I am very concerned that our infrastructure is in poor condition. I know for a fact that the street I live on has not been resurfaced in at least 15 years, which is as far back as my neighbors and I can remember. While I'd love to have our potholes fixed and our street resurfaced once in a while, it points to a bigger problem that we are not investing in maintaining our infrastructure properly. There should be a minimum expectation that our streets aren't riddled with potholes, our electricity, water, sewers, Internet and cellular services work properly, and we're budgeting appropriately to ensure we don't have issues in the future.

Thank you for your consideration of these issues.

Joe

.....

Joe Beninato



From: [Pat Marriot](#)
To: [Public Comment](#)
Subject: PUBLIC COMMENT AGENDA ITEM C - January 22, 2022 CITY PROPERTY & FACILITIES
Date: Tuesday, January 18, 2022 3:23:56 PM

Council Members:

Just say NO. We don't have enough city property that we can afford to donate it or rent/lease at low rates to any non-city group that asks.

We already have an issue with Friends of the Library who had an agreement to vacate the civic center, but then asked for more time.

Which worthy groups are entitled to public land? Who gets priority?

To avoid problems, just make it a hard and fast rule that city property and city facilities are for city uses.

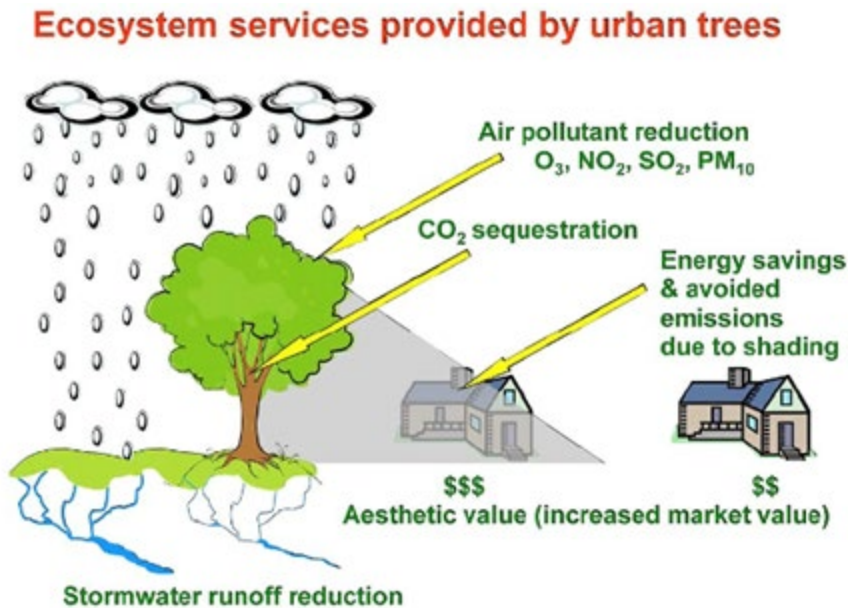
Thank you,

Pat Marriott

From: [Pat Marriot](#)
To: [Public Comment](#)
Subject: PUBLIC COMMENT AGENDA ITEM E - January 22, 2022 TREE PROTECTION
Date: Tuesday, January 18, 2022 3:41:43 PM
Attachments: [image003.png](#)

Council Members,

As we add more and denser housing to the city, it will be difficult to keep and maintain our tree canopy, which is one of the things that makes Los Altos special – and contributes to a healthy environment.



An environmental consultant for Los Angeles found major problems with that city’s urban forest. Recommendations were made for “Urban Forest General Plan Element,” which might be over the top, but could be considered. In any case these suggestions were proposed for an Urban Forest Plan:

- Tree selection should emphasize [native species](#) because they have evolved to tolerate historical variations in local temperature and rainfall, including heat waves and droughts.
- Tree planting must be followed by watering until trees are fully established, plus trees must be pruned in perpetuity.
- Tree planting and maintenance must be properly funded. Comparable cities [to Los Angeles] devote 1 percent of their municipal budget to the urban forest.
- The implementation must ensure equitable outcomes for all neighborhoods.
- City departments that deal with urban forest issues, whether in public areas or on private parcels, must synchronize their operations.
- To assure the proper implementation, policies and programs must be carefully

monitored.

See: <https://www.citywatchla.com/index.php/cw/los-angeles/23553-la-has-ignored-its-urban-forest-who-will-pay-the-price-for-this-negligence>

Pat Marriott