Infrastructure Blue Ribbon Committee
AGENDA
Thursday, November 18, 2010
Lucie Stern Community Center
1305 Middlefield Road, Community Room
Time: 5:00 p.m.

This notice is posted in accordance with government code section 54954.2(a) or 54956.

ATTENTION SPEAKERS: If you wish to address the Infrastructure Blue Ribbon Committee (IBRC) during oral communications or on an item on the agenda, please complete a speaker's card and give it to City staff. By submitting the speaker's card, the Chair will recognize you at the appropriate time.

I. Introduction by Jim Keene
- **No limitations on IBRC's scope**
- **Costs of Infrastructure liability too large for existing general fund resources – new resources/revenues necessary to eliminate backlog**
- **Role of IBRC assessing infrastructure needs, raising needed resources**

II. Roll Call and Introductions of Committee Members and Staff
- **a. Introductions should include some background information and expertise**
- **b. IBRC and city staff roster**

III. New Business:
1. Brown Act rules and regulations
   - Action minutes and voice recorded meetings
2. Discussion of Desired Mission/Objective as adopted by City Council
3. Background, Review of Briefing Materials and Long Range Financial Forecast Update
4. Potential organizational structure of IBRC
   - Consideration of Co-Chairs (this worked well for both the Compost and Police Building Blue Ribbon Task Force)
   - Consideration of subcommittees
5. Future Meeting Schedule for IBRC Recommendation to Council and Possible Agenda Topics

IV. Oral Communications:
Members of the public may address the IBRC on any subject not on the agenda. A reasonable time restriction may be imposed at the discretion of the meeting Chair.

11/15/2010

V. Adjournment

ADA. Persons with disabilities who require auxiliary aids or services in using City facilities, services, or programs or who would like information on the City's compliance with the Americans with Disabilities Act (ADA) of 1990, may contact (650) 329-2550. Sign language interpreters will be provided upon request with 72 hours in advance notice.

Meeting materials will be provided at the meeting. Visit www.cityofpaloalto.org/ibrc or email ibrc@cityofpaloalto.org or call (650) 617-3174 for more information.

11/15/2010

Attachment A

Infrastructure Blue Ribbon Committee Member and Staff Roster

IBRC Committee Members (18)

Ray Bacchetti
Marc Berman
David Bower
Ralph Britton
Brent Butler
Eric Gerritsen
Mark Harris
Stephen Levy
Leland Levy
Patricia Markevitch
John Melton
Mark Michael
Jim Olstad
Alex Panelli
James Schmidt
Robert Stillerman
Greg Tanaka
Gary Wetzel

*Personal contact information of IBRC members will be distributed once consent to do so has been given.

IBRC Staff Support

Steve Emslie
Deputy City Manager
(650) 329-2354
steve.emslie@cityofpaloalto.org

Lalo Perez
Director of Administrative Services
(650) 329-2675
lalo.perez@cityofpaloalto.org

Mike Sartor
Acting Public Works Director
(650) 329-2270
mike.sartor@cityofpaloalto.org

Joe Saccio (Staff Liaison)
Deputy Dir. of Administrative Services
(650) 329-2288
joe.saccio@cityofpaloalto.org

Elizabeth Ames (Staff Liaison)
Senior Engineer for Public Works
(650) 329-2502
elizabeth.ames@cityofpaloalto.org

Richard Hackmann
City Manager’s Office
(650) 617-3174
richard.hackmann@cityofpaloalto.org

Attachment B

Infrastructure Blue Ribbon Committee

SUMMARY OF THE BROWN ACT

A. What is it? The Ralph M. Brown Act governs agendas, meetings and their conduct.

B. Why is it important? The statute intends to make government transparent. All decisions should be made in the public eye with the public allowed to comment. It may be cumbersome, but it is the law and generally works pretty well.

C. Applies to legislative bodies of local agencies and certain commissions formed by such bodies.

D. Governs the agenda: Everything must be on the agenda or it can't be discussed, period (unless emergency exception).

1. Agenda 20 word description
2. 72 hour notice for regular meeting
3. 24 hour notice for special meeting
4. Oral Communications each meeting on every item

E. Governs Meetings: A meeting occurs when a majority of members discuss city business.

1. Very broadly defined
2. Groups of more than 4 should be avoided.
3. Taking a position pro or con.
4. Exchange of information can trigger.
5. Do not send e-mails to all members. Avoid reply all.
6. Using staff to gather information, e.g. suggestions for changes to letters, etc.
7. Often there are innocent violations.
8. Hub & Spokes.
9. Chain meeting.

F. Standing Committees are covered by the Brown Act.

1. Ad Hoc Committees are not. The analysis to determine whether a committee is ad hoc is very fact based and complicated.

G. Social Gatherings and Conferences are okay.

1. Try to sit separately.
2. Do not gather and discuss an item or issue that may come before you.

H. Closed session meetings of the IBRC are not permitted.
.
I. Enforcement
1. Action can be voided if Brown Act violation.
2. Generally District Attorney enforces.

Infrastructure Blue Ribbon Committee
(IBRC)
Desired Mission/Objective

Desired Mission/Objective: Provide a recommendation to the City Council on infrastructure needs, priorities, projects and associated funding mechanisms to address the infrastructure backlog and future needs.

The City Council directed the formation of the IBRC and sent to the Policy and Services Committee the goal of generating an infrastructure program. As a guide to achieving the program, the Policy and Services Committee (CMR: 247:10), and as adopted by the City Council, recommended the following questions for the IBRC to consider:

- What is the complete listing of the City's infrastructure backlog and future needs? What criteria should be used to prioritize this list of projects?
- Are there ways the City's infrastructure needs can be prioritized into 5 year increments that can be financed and also effectively implemented given current staff resources?
- What are potential financing mechanisms that could be used to address the City's infrastructure needs? Should there be a one-time financing mechanism or some ongoing source of infrastructure funding? What are the options for each of these choices?
- Is a bond measure the best mechanism for funding the infrastructure backlog? If so, when should this move forward and how could it be structured?
- How can public/private partnerships be leveraged as an infrastructure funding mechanism?
- How are City project cost estimates developed and are these in alignment with other local jurisdictions?
- How do Enterprise Fund infrastructure projects intersect with General Fund infrastructure projects?

*Please note these are guiding questions. The Committee will undoubtedly generate its own questions as it works through the issues and options.

City of Palo Alto
City Manager's Report

TO: HONORABLE CITY COUNCIL

ATTN: FINANCE COMMITTEE

FROM: CITY MANAGER DEPARTMENT: ADMINISTRATIVE SERVICES

DATE: OCTOBER 5, 2010 CMR: 370:10

SUBJECT: **Follow-up on General Fund Long Range Financial Forecast 2010-2020**

BACKGROUND

On February 16, 2010, staff presented to the Finance Committee the City's General Fund Long Range Financial Forecast (LRFF) for FY 2010 to FY 2020. In the presentation, staff asked the Finance Committee to review and comment on its forecast of revenues, expenses and reserve levels and to forward it to the full Council. (See Attachment B; CMR 143:10).

During the discussion, Finance Committee members posed a number of questions and requested specific adjustments to the Forecast, to which staff's responses are included in this report.

DISCUSSION

The Long Range Financial Forecast (LRFF) presented an overview of the City's fiscal situation and showed projected deficits ranging from $6.4 million in FY 2011 to $19.6 million in FY 2020. The Forecast did not include benefit savings from the two-tier pension formula of 2.0% at 60 for new employees, nor did it include future employee contributions to health care premiums.

Chart 1 below summarizes the forecast presented February 16.

Chart 1

SUMMARY LONG RANGE FINANCIAL FORECAST MODEL 2010 ($000)

	FY 2009	FY 2010	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
	Actual	Adopted Budget	Projected Budget										
Revenues													
Taxes	$ 69,102	$ 69,285	$ 66,648	$ 68,806	$ 71,082	$ 73,707	$ 76,635	$ 80,250	$ 84,115	$ 87,781	$ 91,236	$ 93,980	$ 97,245
Total other revenues	43,260	42,546	40,827	42,190	44,301	43,276	44,646	46,288	47,998	49,786	51,616	53,587	55,662
Reimbursements from Other Funds	11,483	10,643	10,559	10,790	11,158	11,456	11,852	12,329	12,827	13,348	13,892	14,463	15,014
Transfers from Other Funds	17,614	19,664	20,207	18,709	19,347	19,865	20,550	21,378	22,242	23,145	24,089	25,078	26,034
TOTAL REVENUES	141,459	142,138	138,241	140,495	145,888	148,304	153,683	160,245	167,182	174,060	180,833	187,108	193,955
Expenditures													
Salaries and Benefits	91,581	92,717	91,787	95,272	101,335	106,128	112,179	117,330	122,647	128,217	134,045	140,163	146,123
Non-Salary Expenditures	33,432	38,344	38,734	38,980	39,918	41,434	42,482	43,726	45,006	46,326	47,686	49,087	50,442
Infrastructure Fund and Capital Projects	14,648	9,900	7,200	10,248	11,480	12,896	13,339	13,810	14,312	14,847	15,417	16,024	16,673
Debt Service, Tech Fund Repayment, Other	1,166	1,128	2,353	2,347	2,197	2,022	796	803	803	804	803	805	285
TOTAL EXPENDITURES	140,827	142,089	140,074	146,846	154,930	162,480	168,795	175,669	182,767	190,194	197,951	206,079	213,524
Drawdown on Budget Stabilization Reserve	-	-	1,833	-	-	-	-	-	-	-	-	-	-
Comprehensive Annual Financial Rpt. Recon.	177												
GRAND NET SURPLUS (GAP)	$ 809	$ 49	$ -	$ (6,351)	$ (9,042)	$ (14,176)	$ (15,113)	$ (15,424)	$ (15,585)	$ (16,134)	$ (17,119)	$ (18,970)	$ (19,569)

Palo Alto is far from alone in facing sustained deficit projections; California cities in general are faced with a narrowing revenue base, compounding the impacts of severe recession. In Palo Alto in particular, the departure of auto dealerships, competition from large retailers in neighboring jurisdictions, and lack of space to grow limits the expectation of future General Fund revenue growth.

At its February 16, 2010 meeting the Finance Committee posed the following questions and comments for follow-up by staff. (The February 16 Finance Committee minutes are attached as Attachment C.):

1. Property taxes should be looked at via specific buildings under development. Should staff utilize the analysis being done by the School District regarding specific properties under development in the City's forecast?

2. There are four hotels being proposed, of which one has been approved. Can we incorporate Transient Occupancy Tax (TOT) revenue from at least the approved new hotel in our future projections?

3. Staff should include savings from two likely changes in the Miscellaneous group's benefits: a) employee contributions of half of the annual health premium increases up to a total of 10% of the total health care premium; and b) a second tier retirement formula of 2% at 60 for new employees.

4. Why should salaries continue to be projected at 3-4% increases per year, especially when head count goes down? Combined salary and benefit increases should be no greater than presumed revenue increases for each year.

5. The LRFF model includes PERS rates based on an assumed average investment return of 7.75%. What if PERS does not achieve that rate of return?

Staff's responses to the above questions and requests follow.

1. Property Taxes – Project-by-project analysis, in cooperation with PAUSD

City staff met with PAUSD business management and found that all property tax information compiled by the District flows from the County Assessor, Tax Collector, and Controller's Office. Both PAUSD and City staff meet quarterly with these County offices to discuss issues or factors affecting the development of the annual roll and tax revenues. The factors include the level of assessment appeals, automatic roll adjustments by the County, and overall growth rates in the roll.

PAUSD confirmed that the County does not provide data on property transactions affecting each jurisdiction's roll during the year. The district subscribes to a consultant report providing transaction data, analysis of the mix between commercial and residential properties, and the top tax contributors. This report, however, is provided **after** the roll is finalized and **after** budget projections are made. In conclusion, the City and PAUSD use the best available County information to forecast forthcoming year revenues. City and PAUSD staff agreed to share information and projection assumptions beginning next year.

On a related note, staff anticipates that with continued turnover in the housing stock, residential assessed values will increase appreciably in the long term. Currently there are many long-held residential properties in Palo Alto with lower assessed values than their more recently turned-over counterparts. The median home price in FY 2009 was $1.3 million, while the median assessed value was $0.547 million. (See Attachment D: Property Tax Data.) As houses continue to turn over, clearly those assessed values will rise. Staff has not included this expected rise into its property tax projections since it is impossible to accurately predict the rate of turnover. Staff is concerned about commercial valuation appeals due to the recession. These will have a negative impact for the next few years.

2. TOT Revenue from Approved Hotels Under Development

Staff estimates that the new hotel, Hotel Keen, will generate $153,000 in new TOT revenue annually after its opening in May, and that the Ming's Hotel will begin generating $500,000 per year in TOT revenue after its opening in 2013. Those amounts have been added to the revised LRFF projections discussed below, beginning in the second half of FY 2011 and in 2013, respectively. Because of the weak economy, both Ming's and the Palo Alto Bowl projects are being delayed by the owners. To be somewhat conservative, staff has included projected revenue for Ming's only.

3. Savings from Miscellaneous Group Contributions to Medical Premiums and from 2% at 60 Tier for New Miscellaneous Employees – and – 4. Constrain Salary and Benefit Increases

In the original LRFF, staff included the pre-recession status quo scenario of annual staff salary increases in the range of 3% to 4%. In response to the Finance Committee's suggestions and the harshening fiscal realities, staff created two salary-constraint scenarios. In the first (Attachment A-2), combined salaries and benefits increase at a rate no greater than the projected rate of revenue increases (the "No-Greater-Than-Revenues" Scenario), and no salary increase is projected in FY 2012. Over the ten years, revenues increase by 39.26%, while salaries and benefits increase by 36.85%.

In Scenario 2 (Attachment A-3), no salary increase is projected in 2012, and salaries rise at 2% per year beginning in 2013 (the "2% Scenario"); salaries and benefits rise 29.42% over the ten years.

In addition, both Attachments A-2 and A-3 include the following changes requested by Finance Committee members:

- Added projected revenue from Hotel Keen and the Ming's Hotel
- Savings from 2% at 60 retirement formula for new Miscellaneous employees – a savings of $3.05 million over the first ten years. These savings are assumed to begin in FY 2014, since CalPERS generally begins recognizing such savings two years after the fact.
- Savings from Miscellaneous employee contributions to health care premiums - $8.27 million over ten years.

Lastly, staff added the following changes:

- Adjusted (midyear) budget figures for FY 2010. (Year-end figures will be presented to the Council in December 2010.)
- Salaries frozen in 2011 and 2012 for all but PAPOA for which a 6% increase is included in the FY 2011 budget.
- Adopted FY 2011 Budget substituted for the originally projected FY 2011 figures.
- "Retiree Medical Cost Increase" originally listed as $0.74 million for each year beginning FY 2011 has been incorporated into overall benefit costs.
- The PERS investment portfolio lost 24% of its value in the fiscal year ending June 30, 2010, rather than the 28% it had assumed it would lose. Therefore PERS updated the August 2009 Circular letter that had determined the "Additional Retirement Contribution Increase" line item in the original LRFF. The rates were therefore increased by less than originally prescribed, and thus the originally expected added cost of $46.5 million over nine years was decreased to $27.4 million – a savings of $19.1 million.
- A new CalPERS Experience Study, measuring actual plan demographics over a period of time, indicated that members should add an additional 1.1% to 1.7% to their Miscellaneous contribution rates and an additional 1% to 2% to their Safety contribution rates, beginning FY 2012. Staff assumed an overall increase of 1.7% for all groups.

The results of the changes described above are summarized in Chart 2 below.

Chart 2: Salary Increase Assumptions and Resulting Surplus (Deficit) for FY 2012 – 2020 in Original LRFF and Two Scenarios (Dollars in Millions)

		FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	Cumulative Total
Original LRFF	Salary Increase	3.22%	1.87%	2.92%	3.94%	3.94%	3.94%	3.94%	3.94%	3.95%	
	Resulting Surplus (Deficit) (in $$Millions)	$ (9.0)	$ (14.2)	$ (15.1)	$ (15.4)	$ (15.6)	$ (16.1)	$ (17.1)	$ (19.0)	$ (19.6)	$ (141.1)
Scenario 1	Salary Increase	0.00%	0.50%	1.00%	3.25%	3.50%	3.10%	2.85%	2.35%	2.50%	
	Resulting Surplus (Deficit) (in $$Millions)	$ (1.4)	$ (2.9)	$ (1.3)	$ (0.7)	$ (0.1)	$ 0.4	$ 0.8	$ 0.9	$ 1.7	$ (2.5)
Scenario 2	Salary Increase	0.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	
	Resulting Surplus (Deficit) (in $$Millions)	$ (1.4)	$ (4.0)	$ (3.1)	$ (1.7)	$ 0.1	$ 1.4	$ 2.6	$ 2.9	$ 4.3	$ 1.2

Chart 2 shows – in the first line - the bottom-line results from the Long Range Forecast presented to the Finance Committee in February 2010. These figures do **not** include the $7.3 million in adjustments included in the adopted FY 2011 budget. Scenarios 1 and 2 – the second and third lines in the chart – **do** include the $7.3 million in adjustments as well as the constraints requested by the Finance Committee.

Either one of the salary-constraining scenarios (Scenario 1 or Scenario 2) would erase the deficit by FY 2017, but the 2% Scenario saves $3.7 million more than the "No-Greater-Than-Revenues" Scenario saves over the ten-year period. More detailed versions of these scenarios may be seen in Attachments A-2 and A-3.

Please note that adding a second tier of 3% at 55 for new Public Safety employees, for example, would add a combined additional savings of $1.17 million in the first ten years. Greater savings could be achieved through other less generous two-tier options, such as 2% at 55. (See Chart 3.) Again, staff assumes here that no actual PERS savings would occur until FY 2013, due to PERS's delayed recognition of second-tier savings.

Chart 3

Summary of Savings for Two-Tier Formula for SAFETY								
Year	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Note: Retirement and Attrition Percentage assumptions equal 90% of average rates for 2005-2007, or a combined 4.7%								
Assumed Salary Inflation	2%	2%	2%	2%	2%	2%	2%	2%
Number of Employees (Start of FY)**	201							
Current Estimated Cost for Safety PERS	$ 7,175,392	$ 7,750,275	$ 7,905,280	$ 8,063,386	$ 8,224,654	$ 8,389,147	$ 8,556,930	$ 8,728,068
Cost Savings of 2% at 55	$ 111,657	$ 214,800	$ 307,330	$ 388,983	$ 458,995	$ 561,810	$ 668,553	$ 779,342
Savings in terms of percentage of current plan	1.6%	2.8%	3.9%	4.8%	5.6%	6.7%	7.8%	8.9%
Cost Savings of 2% at 50	$ 76,603	$ 142,744	$ 194,106	$ 230,945	$ 252,330	$ 308,852	$ 367,534	$ 428,439
Savings in terms of percentage of current plan	1.1%	1.8%	2.5%	2.9%	3.1%	3.7%	4.3%	4.9%
Cost Savings of 3% at 55	$ 57,140	$ 102,736	$ 131,239	$ 143,196	$ 137,581	$ 168,400	$ 200,395	$ 233,604
Savings in terms of percentage of current plan	0.80%	1.33%	1.66%	1.78%	1.67%	2.01%	2.34%	2.68%
add'l savings for 36-month	$ 445,025	$ 443,972	$ 452,851	$ 463,004	$ 474,499	$ 483,989	$ 493,669	$ 503,542
Savings in terms of percentage of current plan	6.2%	5.7%	5.7%	5.7%	5.8%	5.8%	5.8%	5.8%

5. PERS Investment Return Lower than 7.75%

The PERS rates used in the forecast are based upon PERS' assumption that their portfolio will achieve an average 7.75% return. Staff asked the PERS actuary what would be the impact of a reduced return. The reply was that for each 1% decline in average return on the portfolio, the City's normal costs would increase 15-20%, and accrued liability would increase 10% - 20%. For purposes of this report, staff averaged the known impacts for an overall 20% increase in PERS costs. Those results are summarized in Chart 4 below.

Chart 4

Additional Expense due to 1% decline in CalPERS investment returns
($$ Thousands)

	General Fund Only			Citywide
	PERS expense with 7.75% avg. returns	PERS expense with 6.75% avg. returns	Added expense	Added expense
2010-11	$ 12,334	$ 14,911	$ 2,578	$ 3,871
2011-12	$ 14,383	$ 17,389	$ 3,006	$ 4,515
2012-13	$ 14,454	$ 17,475	$ 3,021	$ 4,605
2013-14	$ 14,599	$ 17,650	$ 3,051	$ 4,697
2014-15	$ 15,073	$ 18,223	$ 3,150	$ 4,791
2015-16	$ 15,602	$ 18,863	$ 3,261	$ 4,887
2016-17	$ 16,084	$ 19,446	$ 3,362	$ 4,984
2017-18	$ 16,543	$ 20,000	$ 3,457	$ 5,084
2018-19	$ 16,933	$ 20,472	$ 3,539	$ 5,186
2019-20	$ 17,355	$ 20,982	$ 3,627	$ 5,290
Total add'l ten-year GF expense			$ 32,052	$ 47,910

Note: each 1% decline results in an assumed increase of 20.9% in overall costs.

Conclusions

In conclusion, a number of elements are driving costs down below those projected in the original 2010-2020 Long Range Forecast: first, employee contributions of up to 10% of the health care premium (beginning 2011); second, the two-tier pension formula for non-safety employees. An additional cost-reducing element that was included in the original Forecast is the change in the retiree medical benefit from a vesting period of five years to twenty years for new employees (starting in 2004). Finally, Council adopted a FY 2011 budget that balanced a $7.3 million deficit. This not only solved the FY 2011 deficit problem; it also reduced the "base budget" which drives expenditures in FY 2012 and beyond.

The two-tier pension and retiree medical vesting formulas, by providing new employees with a twin incentive to stay with the City longer,[1] produce additional long-term savings beyond the time span of this Forecast. When an employee retires at age 55, the City pays for her retiree health care premiums as well as her pension costs through her retirement years. In addition, the City incurs liability and expenses for a replacement employee. If that same employee stays with the City until age 65, however, the City saves ten years worth of the new employee's retiree

[1] Employees will have two financial incentives to stay longer: one, their pension benefit whereas an employee under the 2.7% at 55 formula, with 30 years of service at age 55, would receive 81% of his pay upon retirement. Under the 2% at 60 formula, however, an employee with 30 years of service at age 60 would only receive 60% of her pay. She has more incentive to continue working to age 65, at which point she would earn 84.63% of her highest pay. Also, since employees will now contribute up to 10% of their annual health care premiums, working until 65 would mean a newly retired employee with a dependent would pay just 10% of the Medicare health care premium of $7,188 rather than the same percentage of the regular health care premium of $13,860 (using current rates). Therefore, these benefit changes also create a strong incentive for employees to stay with the City longer.

medical liability and pension costs. Therefore, the two-tier formulas will create additional savings for the City well beyond the ten-year scope of this Forecast.

It is clear from the updated Forecast that the City cannot sustain the historic salary increases it once bestowed and stay solvent. Salary and benefit increases will need to be more limited going forward than they were in the past.

RESOURCE IMPACT

The resource impacts discussed as part of the Long Range Financial Forecast are outlined above.

POLICY IMPLICATIONS

The issues discussed above are in line with current City policies.

ENVIRONMENTAL REVIEW

This does not constitute a project under the California Environmental Quality Act.

PREPARED BY: Nancy Nagel

NANCY NAGEL
Senior Financial Analyst

DEPARTMENT HEAD APPROVAL:

for LALO PEREZ
Director of Administrative Services

CITY MANAGER APPROVAL:

JAMES KEENE
City Manager

ATTACHMENTS

Attachment A: Three versions of Long Range Financial Forecast, 2010-2020

Attachment A-1:	Original LRFF model
Attachment A-2:	Original LRFF model modified to include salary constraints to no greater than the percentage of projected revenue increases, among other updates
Attachment A-3:	Model modified as in C-2, but salaries assumed to increase by 2% per year

Attachment B: CMR 143:10
Attachment C: Finance Committee Minutes from February 16, 2010
Attachment D: Property Tax Data

ATTACHMENT A-1: ORIGINAL LRFF MODEL

LONG RANGE FINANCIAL FORECAST MODEL 2010 ($000)

	FY 2009 Actual	FY 2010 Adopted Budget	FY 2010 Projected Budget	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Revenues													
Sales Taxes	$ 20,089	$ 19,650	$ 17,190	$ 17,868	$ 18,577	$ 19,335	$ 20,175	$ 21,067	$ 22,014	$ 22,784	$ 23,467	$ 24,137	$ 25,056
Property Taxes	25,432	25,752	25,778	25,907	26,553	27,546	28,852	30,293	31,861	33,410	34,954	35,787	36,822
Utility User Tax	11,030	11,250	11,417	12,513	13,156	13,676	13,973	14,703	15,486	16,328	17,200	18,071	18,966
Transient Occupancy Tax	7,111	7,000	6,639	6,771	6,920	7,118	7,420	7,773	8,161	8,528	8,806	9,057	9,336
Documentary Transfer Tax	3,092	2,800	3,250	3,313	3,394	3,485	3,588	3,693	3,774	3,809	3,788	3,804	3,836
Other Taxes, Fines & Penalties	2,348	2,833	2,374	2,434	2,482	2,547	2,627	2,721	2,819	2,922	3,021	3,124	3,229
Subtotal: Taxes	69,102	69,285	66,648	68,806	71,082	73,707	76,635	80,250	84,115	87,781	91,236	93,980	97,245
Service Fees & Permits	16,210	17,437	15,814	16,575	17,799	18,131	18,660	19,395	20,160	20,956	21,783	22,717	23,688
Joint Service Agreements (Stanford University	7,796	7,857	7,632	7,991	8,556	8,923	9,334	9,793	10,276	10,786	11,322	11,889	12,484
Interest Earnings	2,008	1,900	1,662	1,646	1,676	1,724	1,785	1,852	1,923	2,002	2,053	2,095	2,163
Other revenues	17,246	15,352	15,719	15,978	16,270	14,498	14,867	15,248	15,639	16,042	16,458	16,886	17,327
Reimbursements from Other Funds	11,483	10,643	10,559	10,790	11,158	11,456	11,852	12,329	12,827	13,348	13,892	14,463	15,014
Total Revenues Before Transfers	123,845	122,474	118,034	121,786	126,541	128,439	133,133	138,867	144,940	150,915	156,744	162,030	167,921
Transfers from Other Funds	17,614	19,664	20,207	18,709	19,347	19,865	20,550	21,378	22,242	23,145	24,089	25,078	26,034
TOTAL REVENUES	141,459	142,138	138,241	140,495	145,888	148,304	153,683	160,245	167,182	174,060	180,833	187,108	193,955
Expenditures													
Base Salaries	62,104	63,512	63,669	64,164	66,233	67,470	69,437	72,174	75,020	77,978	81,054	84,251	87,575
Salary & Benefit Reductions to be Negotiated [(1)]		(3,000)											
PAPOA Salary Increase Deferral [(2)]			(759)										
Savings from SEIU			(1,222)	(1,222)	(1,246)	(1,271)	(1,310)	(1,362)	(1,416)	(1,473)	(1,532)	(1,593)	(1,657)
Savings from Mgmt./Prof.			(806)	(806)	(822)	(839)	(864)	(898)	(934)	(972)	(1,010)	(1,051)	(1,093)
Benefits	29,477	32,205	32,205	33,373	36,396	38,270	40,259	42,375	44,613	46,980	49,475	52,125	54,918
Other Activities													
Additional Retirement Contribution Increase [(3)]					1,031	2,774	4,963	5,389	5,756	6,140	6,542	6,963	6,963
Retiree Medical Cost Increase				735	735	735	735	735	735	735	735	735	735
Salary & Benefit Reductions to be Negotiated				(972)	(991)	(1,011)	(1,042)	(1,083)	(1,127)	(1,172)	(1,219)	(1,267)	(1,318)
Vacant Positions Salary Savings			(1,300)										
Subtotal: Salaries and Benefits	91,581	92,717	91,787	95,272	101,335	106,128	112,179	117,330	122,647	128,217	134,045	140,163	146,123
Contract Services	10,100	9,076	9,562	9,804	9,951	10,120	10,373	10,684	11,005	11,335	11,675	12,025	12,386
Supplies & Materials	3,023	3,547	3,391	3,480	3,532	3,592	3,682	3,793	3,906	4,023	4,144	4,269	4,397
General Expense	9,008	10,193	10,285	9,870	10,121	10,385	10,681	11,002	11,330	11,670	12,020	12,381	12,665
Rents, Leases, & Equipment	1,014	1,212	1,180	1,213	1,231	1,252	1,283	1,322	1,362	1,402	1,445	1,488	1,532
Allocated Expenses	10,287	14,316	14,316	14,613	14,832	15,084	15,462	15,925	16,403	16,895	17,402	17,924	18,462
Other Activities													
Library Operating Cost Increase					250	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Total Expenditures Before Transfers	125,013	131,061	130,521	134,252	141,253	147,562	154,661	161,056	167,653	174,543	181,731	189,249	196,566
Transfers to Other Funds													
GF Transfer for Infrastructure CIP	8,062	6,180	6,180	8,501	8,844	9,211	9,604	10,024	10,474	10,955	11,470	12,021	12,610
Other Activities													
Infrastructure Contribution Increase					1,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Technology Fund Repayment			1,225	1,225	1,225	1,225							
Public Safety Bldg. Budget Savings			(2,700)										
GF Transfer for Other Capital Projects	6,586	3,720	3,720	1,747	1,636	1,685	1,735	1,786	1,838	1,892	1,947	2,003	2,063
Debt Service	1,082	1,086	1,086	1,080	929	752	749	754	751	753	752	754	234
Other	84	42	42	42	44	45	47	49	51	51	51	51	51
TOTAL EXPENDITURES	140,827	142,089	140,074	146,846	154,930	162,480	168,796	175,669	182,767	190,194	197,951	206,078	213,524
Net Operating Surplus/(Gap)	632	49	(1,833)	(6,351)	(9,042)	(14,176)	(15,113)	(15,424)	(15,585)	(16,134)	(17,119)	(18,970)	(19,569)
Drawdown on Budget Stabilization Reserve			1,833										
Comprehensive Annual Fin. Rpt. Recon.	177												
Subtotal	177	-	1,833	-	-	-	-	-	-	-	-	-	-
GRAND NET SURPLUS (GAP)	$ 809	$ 49	$ -	$ (6,351)	$ (9,042)	$ (14,176)	$ (15,113)	$ (15,424)	$ (15,585)	$ (16,134)	$ (17,119)	$ (18,970)	$ (19,569)

(1) In FY 2010, $2.8 million in permanent budgeted compensation savings has been realized.
(2) Police union (PAPOA) deferred their FY 2010 negotiated salary increase of $0.8 million to FY 2011
(3) Based on current 2.7% @ 55 formula; employee contribution towards health care premiums not included.
Note: Assumption of no salary increase for SEIU and Mgmt./Prof. in FY 2010 and FY 2011 and no salary increase for Firefighters (IAFF) in FY 2011

ATTACHMENT A-1: ORIGINAL LRFF MODEL

PERCENTAGE CHANGES IN FORECAST FOR REVENUES AND EXPENSES

	FY 2009 % Change	FY 2010 AB % Change	FY 2010 PB % Change	FY 2011 % Change	FY 2012 % Change	FY 2013 % Change	FY 2014 % Change	FY 2015 % Change	FY 2016 % Change	FY 2017 % Change	FY 2018 % Change	FY 2019 % Change	FY 2020 % Change	Change, 2010-2020
Revenues														
Sales Taxes	(11.20%)	(2.19%)	(14.43%)	3.94%	3.97%	4.08%	4.34%	4.42%	4.50%	3.50%	3.00%	2.86%	3.81%	
Property Taxes	10.17%	1.26%	1.36%	0.50%	2.49%	3.74%	4.74%	4.99%	5.18%	4.86%	4.62%	2.38%	2.89%	
Utility User Tax	7.24%	1.99%	3.51%	9.60%	5.14%	3.95%	2.17%	5.22%	5.33%	5.44%	5.34%	5.06%	4.95%	
Transient Occupancy Tax	(10.85%)	(1.56%)	(6.64%)	1.99%	2.20%	2.86%	4.24%	4.76%	4.99%	4.50%	3.26%	2.85%	3.08%	
Documentary Transfer Tax	(42.54%)	(9.45%)	5.10%	1.94%	2.44%	2.69%	2.94%	2.94%	2.19%	0.94%	(0.57%)	0.44%	0.83%	
Other Taxes, Fines & Penalties	(5.63%)	20.66%	1.11%	2.53%	1.97%	2.62%	3.14%	3.58%	3.60%	3.65%	3.39%	3.41%	3.36%	
Subtotal: Taxes	(3.81%)	0.26%	(3.55%)	3.24%	3.31%	3.69%	3.97%	4.72%	4.82%	4.36%	3.94%	3.01%	3.47%	45.91%
Service Fees & Permits	(5.43%)	7.57%	(2.44%)	4.81%	7.38%	1.87%	2.92%	3.94%	3.94%	3.95%	3.95%	4.29%	4.27%	
Joint Service Agreements (Stanford	12.40%	0.78%	(2.10%)	4.70%	7.07%	4.29%	4.61%	4.92%	4.93%	4.96%	4.97%	5.01%	5.00%	
Interest Earnings	(10.04%)	(5.38%)	(17.23%)	(0.96%)	1.82%	2.86%	3.54%	3.75%	3.83%	4.11%	2.55%	2.05%	3.25%	
Other revenues	(4.36%)	(10.98%)	(8.85%)	1.65%	1.83%	(10.89%)	2.55%	2.56%	2.56%	2.58%	2.59%	2.60%	2.61%	
Reimbursements from Other Funds	1.32%	(7.32%)	(8.05%)	2.19%	3.41%	2.67%	3.46%	4.02%	4.04%	4.06%	4.08%	4.11%	3.81%	
Total Revenues Before Transf	(2.87%)	(1.11%)	(4.69%)	3.18%	3.90%	1.50%	3.65%	4.31%	4.37%	4.12%	3.86%	3.37%	3.64%	42.26%
Transfers from Other Funds	2.24%	11.64%	14.72%	(7.41%)	3.41%	2.68%	3.45%	4.03%	4.04%	4.06%	4.08%	4.11%	3.81%	
TOTAL REVENUES	(2.27%)	0.48%	(2.28%)	1.63%	3.84%	1.66%	3.63%	4.27%	4.33%	4.11%	3.89%	3.47%	3.66%	40.30%
Expenditures														
Base Salaries	2.77%	2.27%	1.30%	1.99%	3.22%	1.87%	2.92%	3.94%	3.94%	3.94%	3.94%	3.94%	3.95%	
Salary & Benefit Reductions to be Negotiated (1)		N/A	N/A											
PAPOA Salary Increase Deferral (2)			N/A											
Savings from SEIU			N/A	0.00%	2.00%	2.00%	3.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	
Savings from Mgmt./Prof.			N/A	0.00%	2.00%	2.00%	3.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	
Benefits	(4.54%)	9.25%	9.25%	3.63%	9.06%	5.15%	5.20%	5.26%	5.28%	5.31%	5.31%	5.36%	5.36%	
Subtotal: Salaries and Benefits	0.30%	1.24%	0.23%	3.80%	6.36%	4.73%	5.70%	4.59%	4.53%	4.54%	4.55%	4.56%	4.25%	59.20%
Contract Services	7.37%	(10.14%)	(5.33%)	2.53%	1.50%	1.70%	2.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Supplies & Materials	(0.10%)	17.33%	12.17%	2.62%	1.50%	1.70%	2.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
General Expense	(1.83%)	13.15%	14.18%	(4.04%)	2.55%	2.61%	2.85%	3.00%	2.99%	3.00%	3.00%	3.00%	2.30%	
Rents, Leases, & Equipment	(10.58%)	19.53%	16.33%	2.83%	1.50%	1.70%	2.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Allocated Expenses	(30.39%)	39.17%	39.17%	2.07%	1.50%	1.70%	2.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Total Expenditures Before Tra	(43.21%)	4.84%	4.41%	2.86%	5.21%	4.47%	4.81%	4.13%	4.10%	4.11%	4.12%	4.14%	3.87%	50.60%
Transfers to Other Funds														
GF Transfer for Infrastructure CIP	13.77%	(23.34%)	(23.34%)	37.55%	4.04%	4.15%	4.26%	4.38%	4.48%	4.60%	4.70%	4.80%	4.90%	
Projects	39.50%	(43.52%)	(43.52%)	(53.04%)	(6.35%)	3.00%	2.97%	2.94%	2.91%	2.94%	2.91%	2.88%	3.00%	
Debt Service	(0.01%)	0.38%	0.36%	(0.54%)	(13.99%)	(19.04%)	(0.40%)	0.67%	(0.40%)	0.27%	(0.13%)	0.27%	(68.97%)	
Other	115.38%	(50.00%)	(50.00%)	0.00%	4.00%	4.00%	4.00%	4.00%	4.00%	0.00%	0.00%	0.00%	0.00%	
TOTAL EXPENDITURES	(39.58%)	0.90%	(0.53%)	4.84%	5.51%	4.87%	3.89%	4.07%	4.04%	4.06%	4.08%	4.11%	3.61%	52.44%

ATTACHMENT A-2

LONG RANGE FINANCIAL FORECAST MODEL 2010 ($000)

	FY 2009	FY 2010	FY 2010	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
	Actual	Adopted Budget	Projected Budget	Adjusted Budget										
Revenues														
Sales Taxes	$ 20,089	$ 19,650	$ 17,190	$ 17,313	$ 18,218	$ 18,941	$ 19,714	$ 20,570	$ 21,479	$ 22,445	$ 23,231	$ 23,928	$ 24,612	$ 25,550
Property Taxes	25,432	25,752	25,778	25,778	$ 25,907	$ 26,552	$ 27,545	$ 28,851	$ 30,293	$ 31,863	$ 33,411	$ 34,955	$ 35,787	$ 36,821
Utility User Tax	11,030	11,250	11,417	11,417	$ 11,429	$ 12,115	$ 12,720	$ 13,229	$ 13,626	$ 14,171	$ 14,738	$ 15,328	$ 15,941	$ 16,578
Transient Occupancy Tax	7,111	7,000	6,639	6,639	$ 6,944	$ 7,175	$ 7,381	$ 7,694	$ 8,060	$ 8,462	$ 8,843	$ 9,131	$ 9,391	$ 9,681
Additional Hotel Keen revenue					$ 77	$ 153	$ 155	$ 156	$ 158	$ 159	$ 161	$ 162	$ 164	$ 166
Additional Ming's Hotel Revenue						$ -	$ 500	$ 600	$ 606	$ 612	$ 618	$ 624	$ 631	$ 637
Documentary Transfer Tax	3,092	2,800	3,250	3,250	$ 3,613	$ 3,701	$ 3,801	$ 3,912	$ 4,027	$ 4,116	$ 4,154	$ 4,131	$ 4,149	$ 4,183
Other Taxes, Fines & Penalties	2,348	2,833	2,374	2,334	$ 2,330	$ 2,376	$ 2,438	$ 2,514	$ 2,604	$ 2,698	$ 2,797	$ 2,891	$ 2,990	$ 3,090
Subtotal: Taxes	69,102	69,285	66,648	66,731	68,518	71,013	74,253	77,526	80,854	84,526	87,953	91,150	93,664	96,706
Service Fees & Permits	16,210	17,437	15,814	15,897	$ 16,699	$ 17,931	$ 18,267	$ 18,800	$ 19,541	$ 20,311	$ 21,113	$ 21,947	$ 22,888	$ 23,866
Joint Service Agreements (Stanford U)	7,796	7,857	7,632	7,632	$ 7,902	$ 8,461	$ 8,824	$ 9,230	$ 9,685	$ 10,162	$ 10,666	$ 11,196	$ 11,757	$ 12,345
Interest Earnings	2,008	1,900	1,662	1,662	$ 1,646	$ 1,676	$ 1,724	$ 1,785	$ 1,852	$ 1,923	$ 2,002	$ 2,053	$ 2,095	$ 2,163
Other revenues	17,246	15,352	15,719	15,723	$ 15,362	$ 15,643	$ 13,940	$ 14,295	$ 14,661	$ 15,036	$ 15,424	$ 15,824	$ 16,235	$ 16,659
Reimbursements from Other Funds	11,483	10,643	10,559	10,546	$ 10,622	$ 10,984	$ 11,277	$ 11,668	$ 12,137	$ 12,627	$ 13,140	$ 13,676	$ 14,238	$ 14,780
Total Revenues Before Transfers	123,845	122,474	118,034	118,191	120,749	125,709	128,285	133,304	138,729	144,585	150,298	155,846	160,878	166,519
Transfers from Other Funds	17,614	19,664	20,207	20,208	$ 18,684	$ 19,321	$ 19,839	$ 20,523	$ 21,350	$ 22,213	$ 23,115	$ 24,058	$ 25,047	$ 26,001
TOTAL REVENUES	141,459	142,138	138,241	138,399	139,433	145,030	148,124	153,828	160,079	166,798	173,412	179,904	185,925	192,520
Expenditures														
Base Salaries	62,104	63,512	63,669	62,879	$ 58,509	58,509	58,804	59,392	61,322	63,468	65,436	67,301	68,882	70,604
Salary & Benefit Reductions to be Negotiated [1]		(3,000)			$ -									
PAPOA Salary Increase Deferral [2]			(759)	(759)	$ -									
Savings from SEIU			(1,222)	(1,222)	-									
Savings from Mgmt./Prof.			(806)	(806)	-									
Benefits	29,477	32,205	32,205	32,702	$ 30,035	33,432	34,935	36,457	38,267	40,218	42,215	44,278	46,388	48,632
(Savings from Misc employee contributions to medical premiums)[3]					-	(529)	(714)	(864)	(908)	(952)	(997)	(1,048)	(1,100)	(1,157)
(Savings from Tier 2 for Miscellaneous employees)							(103)	(198)	(278)	(344)	(396)	(485)	(577)	(672)
Other Activities														
Additional Retirement Contribution Increase					-	407	793	2,683	2,999	3,326	3,666	4,017	4,381	4,758
Retiree Medical Cost Increase					-	-	-	-	-	-	-	-	-	-
Salary & Benefit Reductions to be Negotiated					-	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Vacant Positions Salary Savings			(1,300)		-									
Subtotal: Salaries and Benefits	91,581	92,717	91,787	92,794	88,544	91,820	93,715	97,470	101,402	105,717	109,924	114,063	117,974	122,166
Contract Services	10,100	9,076	9,562	9,969	$ 10,180	10,333	10,508	10,771	11,094	11,427	11,770	12,123	12,487	12,861
Supplies & Materials	3,023	3,547	3,391	3,410	$ 3,242	3,291	3,347	3,430	3,533	3,639	3,748	3,861	3,977	4,096
General Expense	9,008	10,193	10,285	9,857	$ 10,022	10,278	10,546	10,846	11,172	11,506	11,851	12,206	12,573	12,862
Rents, Leases, & Equipment	1,014	1,212	1,180	1,066	$ 1,115	1,132	1,151	1,180	1,215	1,252	1,289	1,328	1,368	1,409
Allocated Expenses	10,287	14,316	14,316	14,389	$ 15,371	15,602	15,867	16,263	16,751	17,254	17,772	18,305	18,854	19,419
Other Activities					$ -									
Library Operating Cost Increase					$ -	250	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Total Expenditures Before Transfers	125,013	131,061	130,521	131,485	128,474	132,704	136,134	140,961	146,168	151,794	157,354	162,886	168,231	173,813
Transfers to Other Funds														
GF Transfer for Infrastructure CIP	8,062	6,180	6,180	6,180	$ 8,055	8,844	9,211	9,604	10,024	10,474	10,955	11,470	12,021	12,610
Other Activities					$ -									
Infrastructure Contribution Increase					$ -	1,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Technology Fund Repayment			1,225	1,221	-	1,225	1,225							
Public Safety Bldg. Budget Savings			(2,700)	(2,700)	$ -									
GF Transfer for Other Capital Projects	6,586	3,720	3,720	3,720	$ 1,747	1,636	1,685	1,735	1,786	1,838	1,892	1,947	2,003	2,063
Debt Service	1,082	1,086	1,086	988	$ 1,080	929	752	749	754	751	753	752	754	234
Other	84	42	42	42	$ 42	44	45	47	49	51	51	51	51	51
TOTAL EXPENDITURES	140,827	142,089	140,074	140,936	139,398	146,382	151,052	155,096	160,781	166,908	173,004	179,106	185,061	190,771
Net Operating Surplus/(Gap)	632	49	(1,833)		35	(1,352)	(2,928)	(1,268)	(702)	(110)	408	798	864	1,749
Drawdown on Budget Stabilization Reserve			1,833	833										
Comprehensive Annual Fin. Rpt. Recon.	177													
Year-end savings from Hiring Freeze				1,704										
Subtotal	177	-	1,833	2,537	-	-	-	-	-	-	-	-	-	-
GRAND NET SURPLUS (GAP)	$ 809	$ 49	$ -	$ (0)	$ 35	$ (1,352)	$ (2,928)	$ (1,268)	$ (702)	$ (110)	$ 408	$ 798	$ 864	$ 1,749

(1) In FY 2010, $2.8 million in permanent budgeted compensation savings has been realized.

(2) Police union (PAPOA) deferred their FY 2010 negotiated salary increase of $0.8 million to FY 2011

(3) Savings include ARC savings (retiree medical required contribution)

LONG RANGE FINANCIAL FORECAST MODEL 2010 ($000)

ATTACHMENT A-2

PERCENTAGE CHANGES IN FORECAST FOR REVENUES AND EXPENSES

	FY 2009 % Change	FY 2010 AB % Change	FY 2010 PB % Change	FY 2010 AB % Change	FY 2011 % Change	FY 2012 % Change	FY 2013 % Change	FY 2014 % Change	FY 2015 % Change	FY 2016 % Change	FY 2017 % Change	FY 2018 % Change	FY 2019 % Change	FY 2020 % Change	Change, 2010-2020
Revenues															
Sales Taxes	(11.20%)	(2.19%)	(14.43%)	(11.89%)	5.98%	3.97%	4.08%	4.34%	4.42%	4.50%	3.50%	3.00%	2.86%	3.81%	
Property Taxes	10.17%	1.26%	1.36%	0.10%	0.50%	2.49%	3.74%	4.74%	5.00%	5.18%	4.86%	4.62%	2.38%	2.89%	
Utility User Tax	7.24%	1.99%	3.51%	1.48%	0.11%	6.00%	5.00%	4.00%	3.00%	4.00%	4.00%	4.00%	4.00%	4.00%	
Transient Occupancy Tax	(10.85%)	(1.56%)	(6.64%)	(5.16%)	4.59%	3.33%	2.86%	4.24%	4.76%	4.99%	4.50%	3.26%	2.85%	3.08%	
Additional Hotel Keen revenue															
Additional Ming's Hotel Revenue															
Documentary Transfer Tax	(42.54%)	(9.45%)	5.10%	16.07%	11.17%	2.44%	2.69%	2.94%	2.94%	2.19%	0.94%	(0.57%)	0.44%	0.83%	
Other Taxes, Fines & Penalties	(5.63%)	20.66%	1.11%	(17.61%)	(1.85%)	1.96%	2.62%	3.14%	3.58%	3.60%	3.65%	3.39%	3.41%	3.36%	
Subtotal: Taxes	(3.81%)	0.26%	(3.55%)	(3.69%)	2.81%	3.64%	4.56%	4.41%	4.29%	4.54%	4.05%	3.64%	2.76%	3.25%	45.10%
Service Fees & Permits	(5.43%)	7.57%	(2.44%)	(8.83%)	5.60%	7.38%	1.87%	2.92%	3.94%	3.94%	3.95%	3.95%	4.29%	4.27%	
Joint Service Agreements (Stanford	12.40%	0.78%	(2.10%)	(2.86%)	3.54%	7.07%	4.29%	4.61%	4.92%	4.93%	4.96%	4.97%	5.01%	5.00%	
Interest Earnings	(10.04%)	(5.38%)	(17.23%)	(12.53%)	(0.96%)	1.82%	2.86%	3.54%	3.75%	3.83%	4.11%	2.55%	2.05%	3.25%	
Other revenues	(4.36%)	(10.98%)	(8.85%)	2.42%	(2.27%)	1.83%	(10.89%)	2.55%	2.56%	2.56%	2.58%	2.59%	2.60%	2.61%	
Reimbursements from Other Funds	1.32%	(7.32%)	(8.05%)	(0.91%)	0.60%	3.41%	2.67%	3.46%	4.02%	4.04%	4.06%	4.08%	4.11%	3.81%	
Total Revenues Before Transfi	(2.87%)	(1.11%)	(4.69%)	(3.50%)	2.30%	4.11%	2.05%	3.91%	4.07%	4.22%	3.95%	3.69%	3.23%	3.51%	41.08%
Transfers from Other Funds	2.24%	11.64%	14.72%	2.77%	(7.54%)	3.41%	2.68%	3.45%	4.03%	4.04%	4.06%	4.08%	4.11%	3.81%	
TOTAL REVENUES	(2.27%)	0.48%	(2.28%)	(2.63%)	0.86%	4.01%	2.13%	3.85%	4.06%	4.20%	3.97%	3.74%	3.35%	3.55%	39.26%
Expenditures															
Base Salaries	2.77%	2.27%	1.30%	(2.19%)	(7.00%)	0.00%	0.50%	1.00%	3.25%	3.50%	3.10%	2.85%	2.35%	2.50%	10.89%
Salary & Benefit Reductions to be Negotiated (1)		N/A	N/A	N/A											
PAPOA Salary Increase Deferral (2)			N/A	N/A											
Savings from SEIU			N/A	N/A											
Savings from Mgmt./Prof.			N/A	N/A											
Benefits	(4.54%)	9.25%	9.25%	1.54%	(6.74%)	11.31%	4.49%	4.36%	4.96%	5.10%	4.97%	4.89%	4.77%	4.84%	51.01%
Subtotal: Salaries and Benefits	0.30%	1.24%	0.23%	0.08%	(3.53%)	3.70%	2.06%	4.01%	4.03%	4.25%	3.98%	3.77%	3.43%	3.55%	33.10%
Contract Services	7.37%	(10.14%)	(5.33%)	9.84%	6.46%	1.50%	1.70%	2.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Supplies & Materials	(0.10%)	17.33%	12.17%	(3.86%)	(4.39%)	1.50%	1.70%	2.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
General Expense	(1.83%)	13.15%	14.18%	(3.30%)	(2.56%)	2.55%	2.61%	2.85%	3.00%	2.99%	3.00%	3.00%	3.00%	2.30%	
Rents, Leases, & Equipment	(10.58%)	19.53%	16.33%	(12.05%)	(5.48%)	1.50%	1.70%	2.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Allocated Expenses	(30.39%)	39.17%	39.17%	0.51%	7.37%	1.50%	1.70%	2.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Total Expenditures Before Tra	(43.21%)	4.84%	4.41%	0.32%	(1.57%)	3.29%	2.58%	3.55%	3.69%	3.85%	3.66%	3.52%	3.28%	3.32%	33.17%
Transfers to Other Funds															
GF Transfer for Infrastructure CIP	13.77%	(23.34%)	(23.34%)	0.00%	30.34%	9.80%	4.15%	4.26%	4.38%	4.48%	4.60%	4.70%	4.80%	4.90%	
Projects	39.50%	(43.52%)	(43.52%)	0.00%	(53.04%)	(6.35%)	3.00%	2.97%	2.94%	2.91%	2.94%	2.91%	2.88%	3.00%	
Debt Service	(0.01%)	0.38%	0.36%	(9.02%)	(0.53%)	(14.00%)	(19.07%)	(0.40%)	0.68%	(0.31%)	0.15%	(0.10%)	0.31%	(69.04%)	
Other	115.38%	(50.00%)	(50.00%)	0.00%	0.00%	4.00%	4.00%	4.00%	4.00%	4.00%	0.00%	0.00%	0.00%	0.00%	
TOTAL EXPENDITURES	(39.58%)	0.90%	(0.53%)	(0.81%)	(0.48%)	5.01%	3.19%	2.68%	3.67%	3.81%	3.65%	3.53%	3.32%	3.09%	36.19%
Net Operating Surplus/(Gap)		(100.06%)	(389.82%)		(101.92%)	(3948.75%)	116.60%	(56.70%)	(44.62%)	(84.30%)	(470.07%)	95.51%	8.29%	119.23%	

PERCENTAGE CHANGES IN FORECAST FOR REVENUES AND EXPENSES

ATTACHMENT A-3

LONG RANGE FINANCIAL FORECAST MODEL 2010 ($000)

	FY 2009 Actual	FY 2010 Adopted Budget	FY 2010 Projected Budget	FY 2010 Adjusted Budget	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Revenues														
Sales Taxes	$ 20,089	$ 19,650	$ 17,190	$ 17,313	$ 18,218	$ 18,941	$ 19,714	$ 20,570	$ 21,479	$ 22,445	$ 23,231	$ 23,928	$ 24,612	$ 25,550
Property Taxes	25,432	25,752	25,778	25,778	$ 25,907	$ 26,552	$ 27,545	$ 28,851	$ 30,293	$ 31,863	$ 33,411	$ 34,955	$ 35,787	$ 36,821
Utility User Tax	11,030	11,250	11,417	11,417	$ 11,429	$ 12,115	$ 12,720	$ 13,229	$ 13,626	$ 14,171	$ 14,738	$ 15,328	$ 15,941	$ 16,578
Transient Occupancy Tax	7,111	7,000	6,639	6,639	$ 6,944	$ 7,175	$ 7,381	$ 7,694	$ 8,060	$ 8,462	$ 8,843	$ 9,131	$ 9,391	$ 9,681
Additional Hotel Keen revenue					$ 77	$ 153	$ 155	$ 156	$ 158	$ 159	$ 161	$ 162	$ 164	$ 166
Additional Ming's Hotel Revenue						$ -	$ 500	$ 600	$ 606	$ 612	$ 618	$ 624	$ 631	$ 637
Documentary Transfer Tax	3,092	2,800	3,250	3,250	$ 3,613	$ 3,701	$ 3,801	$ 3,912	$ 4,027	$ 4,116	$ 4,154	$ 4,131	$ 4,149	$ 4,183
Other Taxes, Fines & Penalties	2,348	2,833	2,374	2,334	$ 2,330	$ 2,376	$ 2,438	$ 2,514	$ 2,604	$ 2,698	$ 2,797	$ 2,891	$ 2,990	$ 3,090
Subtotal: Taxes	69,102	69,285	66,648	66,731	68,518	71,013	74,253	77,526	80,854	84,526	87,953	91,150	93,664	96,706
Service Fees & Permits	16,210	17,437	15,814	15,897	$ 16,699	17,931	18,267	18,800	19,541	20,311	21,113	21,947	22,888	23,866
Joint Service Agreements (Stanford University	7,796	7,857	7,632	7,632	$ 7,902	8,461	8,824	9,230	9,685	10,162	10,666	11,196	11,757	12,345
Interest Earnings	2,008	1,900	1,662	1,662	$ 1,646	1,676	1,724	1,785	1,852	1,923	2,002	2,053	2,095	2,163
Other revenues	17,246	15,352	15,719	15,723	$ 15,362	15,643	13,940	14,295	14,661	15,036	15,424	15,824	16,235	16,659
Reimbursements from Other Funds	11,483	10,643	10,559	10,546	$ 10,622	10,984	11,277	11,668	12,137	12,627	13,140	13,676	14,238	14,780
Total Revenues Before Transfers	123,845	122,474	118,034	118,191	120,749	125,709	128,285	133,304	138,729	144,585	150,298	155,846	160,878	166,519
Transfers from Other Funds	17,614	19,664	20,207	20,208	$ 18,684	19,321	19,839	20,523	21,350	22,213	23,115	24,058	25,047	26,001
TOTAL REVENUES	141,459	142,138	138,241	138,399	139,433	145,030	148,124	153,828	160,079	166,798	173,412	179,904	185,925	192,520
Expenditures					$ -									
Base Salaries	62,104	63,512	63,669	62,879	$ 58,509	58,509	59,679	60,873	62,090	63,332	64,599	65,891	67,209	68,553
Salary & Benefit Reductions to be Negotiated [1]		(3,000)			$ -									
PAPOA Salary Increase Deferral [2]			(759)	(759)	$ -									
Savings from SEIU			(1,222)	(1,222)	-									
Savings from Mgmt./Prof.			(806)	(806)	-									
Benefits	29,477	32,205	32,205	32,702	$ 30,035	33,432	35,154	36,823	38,458	40,186	42,012	43,935	45,979	48,131
(Savings from Misc employee contributions to medical premiums) [3]					-	(529)	(714)	(864)	(908)	(952)	(997)	(1,048)	(1,100)	(1,157)
(Savings from Tier 2 for Miscellaneous employees)							(103)	(198)	(278)	(344)	(396)	(485)	(577)	(672)
Other Activities														
Additional Retirement Contribution Increase					-	407	793	2,683	2,999	3,326	3,666	4,017	4,381	4,758
Retiree Medical Cost Increase					-	-	-	-	-	-	-	-	-	-
Salary & Benefit Reductions to be Negotiated		-			-	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Vacant Positions Salary Savings			(1,300)		-									
Subtotal: Salaries and Benefits	91,581	92,717	91,787	92,794	88,544	91,820	94,810	99,318	102,362	105,548	108,883	112,310	115,891	119,613
Contract Services	10,100	9,076	9,562	9,969	$ 10,180	10,333	10,508	10,771	11,094	11,427	11,770	12,123	12,487	12,861
Supplies & Materials	3,023	3,547	3,391	3,410	$ 3,242	3,291	3,347	3,430	3,533	3,639	3,748	3,861	3,977	4,096
General Expense	9,008	10,193	10,285	9,857	$ 10,022	10,278	10,546	10,846	11,172	11,506	11,851	12,206	12,573	12,862
Rents, Leases, & Equipment	1,014	1,212	1,180	1,066	$ 1,115	1,132	1,151	1,180	1,215	1,252	1,289	1,328	1,368	1,409
Allocated Expenses	10,287	14,316	14,316	14,389	$ 15,371	15,602	15,867	16,263	16,751	17,254	17,772	18,305	18,854	19,419
Other Activities														
Library Operating Cost Increase						250	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Total Expenditures Before Transfers	125,013	131,061	130,521	131,485	128,474	132,704	137,228	142,809	147,128	151,626	156,313	161,133	166,149	171,260
Transfers to Other Funds														
GF Transfer for Infrastructure CIP	8,062	6,180	6,180	6,180	$ 8,055	8,844	9,211	9,604	10,024	10,474	10,955	11,470	12,021	12,610
Other Activities														
Infrastructure Contribution Increase						1,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Technology Fund Repayment			1,225	1,221	-	1,225	1,225							
Public Safety Bldg. Budget Savings			(2,700)	(2,700)										
GF Transfer for Other Capital Projects	6,586	3,720	3,720	3,720	$ 1,747	1,636	1,685	1,735	1,786	1,838	1,892	1,947	2,003	2,063
Debt Service	1,082	1,086	1,086	988	$ 1,080	929	752	749	754	751	753	752	754	234
Other	84	42	42	42	$ 42	44	45	47	49	51	51	51	51	51
TOTAL EXPENDITURES	140,827	142,089	140,074	140,936	139,398	146,382	152,147	156,943	161,741	166,740	171,964	177,353	182,978	188,218
Net Operating Surplus/(Gap)	632	49	(1,833)	(2,537)	35	(1,352)	(4,023)	(3,116)	(1,662)	58	1,448	2,551	2,947	4,302
Drawdown on Budget Stabilization Reserve			1,833	833										
Comprehensive Annual Fin. Rpt. Recon.	177													
Year-end savings from Hiring Freeze				1,704										
Subtotal	177	-	1,833	2,537	-	-	-	-	-	-	-	-	-	-
GRAND NET SURPLUS (GAP)	$ 809	$ 49	$ -	$ (0)	$ 35	$ (1,352)	$ (4,023)	$ (3,116)	$ (1,662)	$ 58	$ 1,448	$ 2,551	$ 2,947	$ 4,302

(1) In FY 2010, $2.8 million in permanent budgeted compensation savings has been realized.

(2) Police union (PAPOA) deferred their FY 2010 negotiated salary increase of $0.8 million to FY 2011

(3) Savings include ARC savings (retiree medical required contribution)

ATTACHMENT A-3

PERCENTAGE CHANGES IN FORECAST FOR REVENUES AND EXPENSES

	FY 2009 % Change	FY 2010 AB % Change	FY 2010 PB % Change	FY 2010 AB % Change	FY 2011 % Change	FY 2012 % Change	FY 2013 % Change	FY 2014 % Change	FY 2015 % Change	FY 2016 % Change	FY 2017 % Change	FY 2018 % Change	FY 2019 % Change	FY 2020 % Change	Cumulative % Change
Revenues															
Sales Taxes	(11.20%)	(2.19%)	(14.43%)	(11.89%)	5.98%	3.97%	4.08%	4.34%	4.42%	4.50%	3.50%	3.00%	2.86%	3.81%	
Property Taxes	10.17%	1.26%	1.36%	0.10%	0.50%	2.49%	3.74%	4.74%	5.00%	5.18%	4.86%	4.62%	2.38%	2.89%	
Utility User Tax	7.24%	1.99%	3.51%	1.48%	0.11%	6.00%	5.00%	4.00%	3.00%	4.00%	4.00%	4.00%	4.00%	4.00%	
Transient Occupancy Tax	(10.85%)	(1.56%)	(6.64%)	(5.16%)	4.59%	3.33%	2.86%	4.24%	4.76%	4.99%	4.50%	3.26%	2.85%	3.08%	
Additional Hotel Keen revenue															
Additional Ming's Hotel Revenue															
Documentary Transfer Tax	(42.54%)	(9.45%)	5.10%	16.07%	11.17%	2.44%	2.69%	2.94%	2.94%	2.19%	0.94%	(0.57%)	0.44%	0.83%	
Other Taxes, Fines & Penalties	(5.63%)	20.66%	1.11%	(17.61%)	(1.85%)	1.96%	2.62%	3.14%	3.58%	3.60%	3.65%	3.39%	3.41%	3.36%	
Subtotal: Taxes	(3.81%)	0.26%	(3.55%)	(3.69%)	2.81%	3.64%	4.56%	4.41%	4.29%	4.54%	4.05%	3.64%	2.76%	3.25%	45.10%
Service Fees & Permits	(5.43%)	7.57%	(2.44%)	(8.83%)	5.60%	7.38%	1.87%	2.92%	3.94%	3.94%	3.95%	3.95%	4.29%	4.27%	
Joint Service Agreements (Stanford	12.40%	0.78%	(2.10%)	(2.86%)	3.54%	7.07%	4.29%	4.61%	4.92%	4.93%	4.96%	4.97%	5.01%	5.00%	
Interest Earnings	(10.04%)	(5.38%)	(17.23%)	(12.53%)	(0.96%)	1.82%	2.86%	3.54%	3.75%	3.83%	4.11%	2.55%	2.05%	3.25%	
Other revenues	(4.36%)	(10.98%)	(8.85%)	2.42%	(2.27%)	1.83%	(10.89%)	2.55%	2.56%	2.56%	2.58%	2.59%	2.60%	2.61%	
Reimbursements from Other Funds	1.32%	(7.32%)	(8.05%)	(0.91%)	0.60%	3.41%	2.67%	3.46%	4.02%	4.04%	4.06%	4.08%	4.11%	3.81%	
Total Revenues Before Transf	(2.87%)	(1.11%)	(4.69%)	(3.50%)	2.30%	4.11%	2.05%	3.91%	4.07%	4.22%	3.95%	3.69%	3.23%	3.51%	41.08%
Transfers from Other Funds	2.24%	11.64%	14.72%	2.77%	(7.54%)	3.41%	2.68%	3.45%	4.03%	4.04%	4.06%	4.08%	4.11%	3.81%	
TOTAL REVENUES	(2.27%)	0.48%	(2.28%)	(2.63%)	0.86%	4.01%	2.13%	3.85%	4.06%	4.20%	3.97%	3.74%	3.35%	3.55%	39.26%
Expenditures															
Base Salaries	2.77%	2.27%	1.30%	(2.19%)	(7.00%)	0.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	7.67%
Salary & Benefit Reductions to be Negotiated (1)		N/A	N/A	N/A											
PAPOA Salary Increase Deferral (2)			N/A	N/A											
Savings from SEIU			N/A	N/A											
Savings from Mgmt./Prof.			N/A	N/A											
Benefits	(4.54%)	9.25%	9.25%	1.54%	(6.74%)	11.31%	5.15%	4.75%	4.44%	4.49%	4.55%	4.58%	4.65%	4.68%	49.45%
Subtotal: Salaries and Benefits	0.30%	1.24%	0.23%	0.08%	(3.53%)	3.70%	3.26%	4.75%	3.07%	3.11%	3.16%	3.15%	3.19%	3.21%	30.32%
Contract Services	7.37%	(10.14%)	(5.33%)	9.84%	6.46%	1.50%	1.70%	2.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Supplies & Materials	(0.10%)	17.33%	12.17%	(3.86%)	(4.39%)	1.50%	1.70%	2.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
General Expense	(1.83%)	13.15%	14.18%	(3.30%)	(2.56%)	2.55%	2.61%	2.85%	3.00%	2.99%	3.00%	3.00%	3.00%	2.30%	
Rents, Leases, & Equipment	(10.58%)	19.53%	16.33%	(12.05%)	(5.48%)	1.50%	1.70%	2.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Allocated Expenses	(30.39%)	39.17%	39.17%	0.51%	7.37%	1.50%	1.70%	2.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Total Expenditures Before Tra	(43.21%)	4.84%	4.41%	0.32%	(1.57%)	3.29%	3.41%	4.07%	3.02%	3.06%	3.09%	3.08%	3.11%	3.08%	31.21%
Transfers to Other Funds															
GF Transfer for Infrastructure CIP	13.77%	(23.34%)	(23.34%)	0.00%	30.34%	9.80%	4.15%	4.26%	4.38%	4.48%	4.60%	4.70%	4.80%	4.90%	
Projects	39.50%	(43.52%)	(43.52%)	0.00%	(53.04%)	(6.35%)	3.00%	2.97%	2.94%	2.91%	2.94%	2.91%	2.88%	3.00%	
Debt Service	(0.01%)	0.38%	0.36%	(9.02%)	(0.53%)	(14.00%)	(19.07%)	(0.40%)	0.68%	(0.31%)	0.15%	(0.10%)	0.31%	(69.04%)	
Other	115.38%	(50.00%)	(50.00%)	0.00%	0.00%	4.00%	4.00%	4.00%	4.00%	4.00%	0.00%	0.00%	0.00%	0.00%	
TOTAL EXPENDITURES	(39.58%)	0.90%	(0.53%)	(0.81%)	(0.48%)	5.01%	3.94%	3.15%	3.06%	3.09%	3.13%	3.13%	3.17%	2.86%	34.37%

ATTACHMENT B

TO: HONORABLE CITY COUNCIL

ATTN: FINANCE COMMITTEE

FROM: CITY MANAGER **DEPARTMENT: ADMINISTRATIVE SERVICES**

DATE: February 16, 2010 **CMR: 143:10**

SUBJECT: Update to Long Range Financial Forecast, 2010-2020

RECOMMENDATION

Staff recommends that the Finance Committee review and comment on the attached forecast of revenues, expenses, and reserve levels and forward it to the full Council.

BACKGROUND

Attached to this report is the City's updated General Fund Long Range Financial Forecast (LRFF) for the fiscal years 2010 through 2020. The LRFF identifies key issues that will guide the upcoming 2010-11 budget process and affect the City's future financial condition. In addition, the December 15 report (CMR 478:09) is attached, containing copies of the September 8, October 5, and December 1, 2009 reports to Council.

DISCUSSION

This Long Range Financial Forecast and analysis demonstrate the irrefutable reality of the City's structural deficit, which will only get worse with each passing year. The City cannot continue to maintain the same portfolio of services at current levels given its shrinking revenue base. As Stephen Levy of the Continuing Study of the California Economy aptly commented regarding municipal finance for California cities "the arithmetic doesn't work. Something's gotta change."

Although the worst of the recession may be behind us, the pace, if not the fact, of the recovery is in question, particularly in California. Nationally, economists point to increased Gross Domestic Product, some increase in consumer and business optimism, and increasing manufacturing orders as evidence of a nascent recovery. However, California's unending fiscal quagmire and high unemployment rate continue to negatively impact the City's finances. Until job creation picks up considerably, consumer spending resumes, and property values grow at something like their prior rate of increase, the City's fiscal position will continue to deteriorate.

Furthermore, even when that local recovery takes hold, the traditional revenue sources will not sustain the current array of City services, employee salaries and benefits, and extensive infrastructure. Thus the City will need to trim its service offerings, find new sources of revenue, or continue to prune the benefits packages offered to its employees in an equitable manner.

The Forecast assumes that one-time adjustments are made in FY 2010 to bring this year's deficits to zero, but no structural adjustments are made for the future. Moreover, the Forecast does not fully fund the $510 million infrastructure liability, which if not adequately addressed, will lead to significant long-term damage to the City's physical assets. Therefore this Forecast illustrates the magnitude of the work that remains to balance the General Fund budget.

The following table summarizes the base Forecast presented in the report.

SUMMARY LONG RANGE FINANCIAL FORECAST MODEL 2010 ($000)

	FY 2009	FY 2010	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
	Actual	Adopted Budget	Projected Budget										
Revenues													
Taxes	$ 69,102	$ 69,285	$ 66,648	$ 68,806	$ 71,082	$ 73,707	$ 76,635	$ 80,250	$ 84,115	$ 87,781	$ 91,236	$ 93,980	$ 97,245
Total other revenues	43,260	42,546	40,827	42,190	44,301	43,276	44,646	46,288	47,998	49,786	51,616	53,587	55,662
Reimbursements from Other Funds	11,483	10,643	10,559	10,790	11,158	11,456	11,852	12,329	12,827	13,348	13,892	14,463	15,014
Transfers from Other Funds	17,614	19,664	20,207	18,709	19,347	19,865	20,550	21,378	22,242	23,145	24,089	25,078	26,034
TOTAL REVENUES	141,459	142,138	138,241	140,495	145,888	148,304	153,683	160,245	167,182	174,060	180,833	187,108	193,955
Expenditures													
Salaries and Benefits	91,581	92,717	91,787	95,272	101,335	106,128	112,179	117,330	122,647	128,217	134,045	140,163	146,123
Non-Salary Expenditures	33,432	38,344	38,734	38,980	39,918	41,434	42,482	43,726	45,006	46,326	47,686	49,087	50,442
Infrastructure Fund and Capital Projects	14,648	9,900	7,200	10,248	11,480	12,896	13,339	13,810	14,312	14,847	15,417	16,024	16,673
Debt Service, Tech Fund Repayment, Other	1,166	1,128	2,353	2,347	2,197	2,022	796	803	803	804	803	805	285
TOTAL EXPENDITURES	140,827	142,089	140,074	146,846	154,930	162,480	168,795	175,669	182,767	190,194	197,951	206,079	213,524
Drawdown on Budget Stabilization Reserve	-	-	1,833	-	-	-	-	-	-	-	-	-	-
Comprehensive Annual Financial Rpt. Recon.	177												
GRAND NET SURPLUS (GAP)	$ 809	$ 49	$ -	$ (6,351)	$ (9,042)	$ (14,176)	$ (15,113)	$ (15,424)	$ (15,585)	$ (16,134)	$ (17,119)	$ (18,970)	$ (19,569)

For FY 2010, the Forecast projects an initial funding gap of $6.3 million. This is an increase of $0.9 million from the $5.4 million gap projected in December 2009, due primarily to a further decline in sales tax revenue. The $6.3 million can be reduced by a net $4.5 million through the following measures:

- Salary savings from vacant positions—$1.2 million
- Savings from non-salary one-time reductions—$1.8 million
- Savings from Public Safety Building funds that were budgeted but not spent—$2.7 million
- Repayment of Technology Fund—($1.2 million)

These measures leave a net operating gap of $1.8 million in FY 2010, which can be offset by drawing on the General Fund's Budget Stabilization Reserve (BSR), leaving a balance of $22.9 million or 16.4% of total General Fund expenditures. The $1.8 million draw on the BSR includes: (a) the $0.8 million transfer to the Technology Fund at Council's direction in January 2010 (b) the $0.4 million transfer needed to complete the Technology Fund repayment; and (c) $0.6 million needed to close the expected FY 2010 gap.

The Forecast does not include benefit savings from a two-tier pension formula of 2.0% at 60 for new employees, expected to be implemented in the spring of 2010. Nor does it include future employee contributions to health care premiums.

Palo Alto is far from alone in facing these dilemmas; California cities in general are faced with a narrowing revenue base. But in Palo Alto in particular, the departure of auto dealerships, competition from large retailers in neighboring jurisdictions, and lack of space to grow leave the City on shrinking fiscal ground. Even if the Silicon Valley economy does reasonably well over the next two to three years, the City will only partially benefit from that recovery, because of its narrow tax base and the delayed response of the housing market.

NEXT STEPS

The presentation of this Forecast is the first step of a process of ongoing discussions to formulate plans for balancing the City's budget. The chart below outlines one-time adjustments needed to achieve a balanced budget this fiscal year, as well as the magnitude of structural adjustments that will be required to balance the FY 2011 and FY 2012 budgets. The particulars of those $9.2 million in spending cuts or revenue increases will need to be informed by all stakeholders, including community members, businesses, staff, and others.

Adjustments Required to Address FY 2010 - FY 2012 Deficits

$ (millions)	FY 2009	FY 2010 (adopted)	FY 2010 (projected)*	FY 2011 (projected)*	FY 2012 (projected)
Funding Gap	$8.0	$10.0	$6.3	$6.4 (additional gap)	$2.8 (additional gap)
One-time adjustments	$8.8	[illegible]	[illegible]	[illegible]	[illegible]
Structural adjustments	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Final 09 CAFR adjustments	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bottom line	$0.8	$0	$0	$0	$0

Staff recommends embarking immediately on this multi-step process of reaching sustainable budgets for the future, including a clear timeline for presenting recommendations to Council.

RESOURCE IMPACT

As with any financial forecast, the fiscal impacts shown are estimates. Estimates of future deficits and surpluses, as well as the estimated costs of future financial challenges, are meant to guide future policy and budget decisions.

Staff will introduce the recommended midyear budget adjustments to the Finance Committee on March 2, 2010 and continue the budget reduction proposals with the 2010-11 proposed budget process.

POLICY IMPLICATIONS

The Long Range Financial Forecast is a tool for Council's use in making policy decisions regarding the allocation of resources.

ENVIRONMENTAL REVIEW

This report does not require California Environmental Quality Act (CEQA) review.

PREPARED BY: Joe Saccio for Nancy Nagel
NANCY NAGEL
Senior Financial Analyst

DEPARTMENTAL HEAD APPROVAL:
LALO PEREZ
Director, Administrative Services

CITY MANAGER APPROVAL:
JAMES KEENE
City Manager

ATTACHMENTS

Attachment A: Long Range Financial Forecast Fiscal Years 2010 to 2020

Attachment B: CMR 478:09, "Additional Information Provided in Response to Finance Committee Questions on the 2009 Year-End Close," December 15, 2009

Please see Section E of the

Infrastrucuture Blue Ribbon Committee

Briefing Materials

Dated October 2010

ATTACHMENT B

TO: HONORABLE CITY COUNCIL

ATTENTION: FINANCE COMMITTEE

FROM: CITY MANAGER DEPARTMENT: ADMINISTRATIVE SERVICES

DATE: DECEMBER 15, 2009 CMR: 478:09

SUBJECT: **Additional Information Provided in Response to Finance Committee Questions on the 2009 Year-End Close**

RECOMMENDATION

Staff recommends that the Finance Committee review and provide input on the additional information and responses requested on December 1, 2009 when the Committee reviewed the General Fund financial results for FY 2009 and FY 2010.

BACKGROUND

On December 1 staff presented to the Finance Committee the financial results for Fiscal Year 2009 and Fiscal Year 2010 as of November 20, 2009 (CMR:434:09, Attachment A). The presentation focused on the deficit that occurred at the end of Fiscal Year 2009 along with information provided on the local economy, the financial forecast through 2012, and budget reduction strategies for FY 2009 and FY 2010. After the presentation, Finance Committee discussion centered on important issues surrounding financial results for FY 2009, the financial condition of other municipalities, and the plans for addressing deficits FY 2010. The committee requested that staff return on December 15, 2009 with additional information and responses to their questions.

DISCUSSION

The Finance Committee wanted additional information for FY 2009 concerning the General Benefits and Insurance fund. This fund consists of three sub-funds. They are benefits including PERS payments, workmen's and liability. compensation other issues raised by the Finance Committee included deficits in other cities, public safety overtime and for FY 2010 revenue projections for property documentary transfer taxes.

Benefits

As stated in CMR 434:09, staff maintained the General Fund benefit and insurance budget allocations for FY 2009 at the same levels as for FY 2008. The General Fund's benefit and insurance expenses at year-end, however, ended at approximately $1.8 million over budget. With such an overage, and in any other year, staff would look to the General Benefit and Insurance Fund (an Internal Service Fund) to cover this excess expense. As of June 30, 2008, unrestricted reserves in the General Benefit and Insurance Fund were $3.2 million (page 124 of the 2008 Comprehensive Annual Financial Report – CAFR) which should have been sufficient to cover the $1.8 million overage.

As background, many but not all benefits expenses and liabilities are centralized in the General Benefits and Insurance Fund (GBIF) and are then allocated to all City funds based on actual salary expense. Examples of these GBIF expenses include: pension, health care premiums for current employees and retirees, life insurance, disability insurance, paid leave, dental, and general and workers compensation liabilities. As a consequence of some of these expenses being higher than expected, the GBIF's reserves were reduced to $0.5 million at year end. These overages primarily were in the areas of unpaid leave liability and dental care premium expense.

Since the GBIF balance was reduced to such a marginal balance, and to have some cushion to absorb unanticipated expenses for FY 2010, the GBIF was unable to absorb the General Fund's $1.8 million excess expense as it would have and did in prior years. While there were very small increases in general liability and workers compensation expenses, it must be clarified that they did not cause the reduction in the GBIF fund balance. In other words, the general and workers compensation liabilities were funded appropriately and there were no significant expense variances as previously thought.

The GBIF balance of $0.5 million at the end of FY 2008 will be replenished somewhat by health care premium savings in FY 2010 of $0.6 million dollars. This is a consequence of CALPERS reducing the charges for the Preferred Provider Organization (PPO) health care premiums for two months due to one-time adjustments. Staff is analyzing the current budget to actual trends to identify any additional funding requirements and could make a recommended revision to the budget that could result in an increasing budget deficit for 2010.

Deficits in Other Cities

Based on the Finance Committee's request, the following table provides information on deficits faced by surrounding cities:

($ millions)				
City	**Fiscal Year**	**Budget**	**Deficit**	**% of Budget**
Palo Alto	2010	$143	$5.4	3.78%
	2011	$145	$5.6	3.86%
San Francisco (citywide)	2010	$6,600	$53	0.80%
	2011	$6,600	$522	7.91%
Livermore	2010	$86	$3.2	3.72%

Oakland	2010	$430	$19	4.42%
San Jose	2010	$984	$96.4	9.80%
Mountain View	2011	$90	$4.1	4.56%
Santa Clara	2011	$158	$9	5.70%
Redwood City	2009	$85	$5.8	6.82%
	2010	$86.6	$8.2	9.47%
Walnut Creek	2011, 2012	$143	$20	13.99%
San Carlos	2010	$29	$2.7	9.41%

As the data above indicates, Palo Alto is not alone in facing budget shortfalls.

Overtime

The Finance Committee requested data on overtime by quarter for the past several years. This information is provided in Attachment C.

Salary Savings

The Finance Committee requested confirmation that the salary savings projections in 2010 will be realized. The City Manager has placed a hold on the hiring non-critical positions. With this freeze in place, it is expected that salary savings in the amount of $1.5 million will be achieved. This includes covering the cost of overtime as well as temporary salaries.

Staff reported on December 1, 2009 that the General Fund's has 622.51 Full-Time Equivalents (FTE) of which there are currently 45 vacant FTE. Should the City maintain this vacancy rate, an estimated $4.1 million in savings can be realized by year end. Of the 45 FTE, however, 10 positions are considered critical for public health and safety and operations will be filled. This will reduce the vacancy savings by approximately $1.0 million. In addition, and because of overtime costs annually exceeding budget, anticipated salary savings must be further reduced by $1.6 million. The net anticipated vacancy or salary savings at year end is anticipated to equal $1.5 million at year end. The Table below shows these savings by department.

	In Thousands			
		Projected Year End		
Department	Salary Adopted Budget	Salary Savings	Overtime Exceeding Budget	Net Salary Savings
City Attorney	1,374	124	-	124
City Auditor	487	25	-	25
City Clerk	593	67	-	67
City Council	65	5	-	5

City Manager	1,302	151	-	151
Administrative Services	3,709	147	-	147
Community Services	8,707	276	(137)	139
Library	3,297	156	-	156
Fire	14,182	1,539	(679)	860
Human Resources	1,544	193	-	193
Planning and Community Environment	4,531	390	(37)	353
Police	16,706	1,891	(691)	1,200
Public Works	4,831	337	(51)	286
Non-departmental	(1,313)	(2,206)	-	(2,206)
Total	60,015	3,095	(1,595)	1,500

Revenue Information

Documentary Transfer Tax

During the December 1, 2009 Finance Committee meeting, the Committee requested trend analysis of the documentary transfer tax results for FY 2010 that incorporated different assumptions for growth in the remainder of the year.

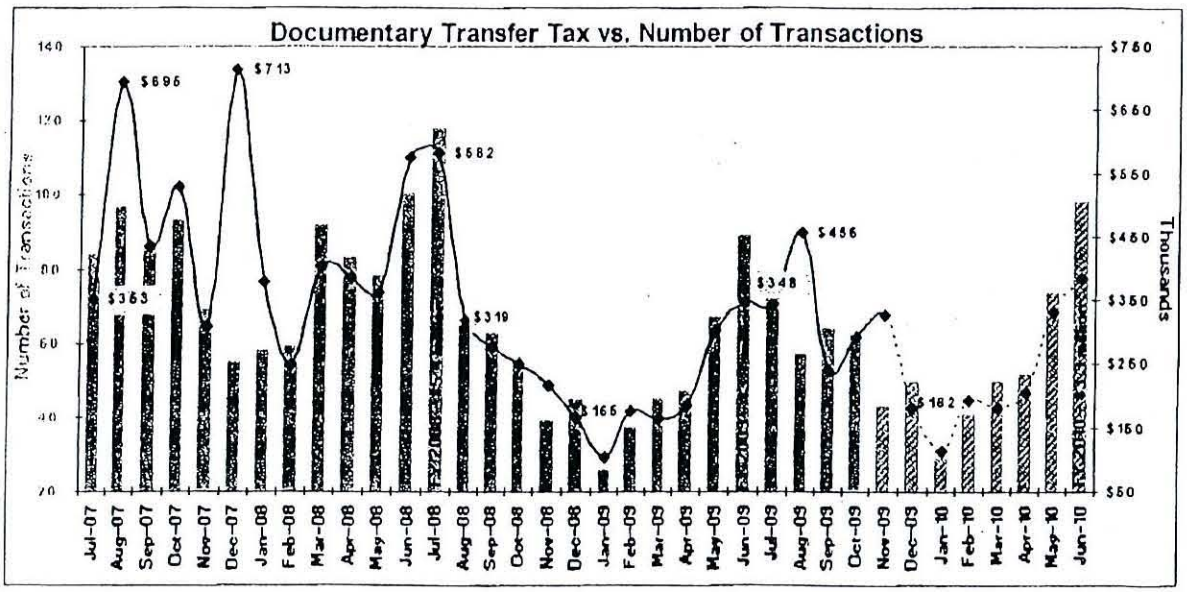
In the report delivered to the Committee (CMR: 434:09), staff stated that that this revenue source may have reached its trough and that revenues at year end were likely to equal $2.9 million. This conservative estimate assumed that revenues through the remainder of this fiscal year would not be materially different from December through June of the prior year. This assumption was based primarily on a persistently weak economy, poor credit availability, and data (through mid-October) that indicated transactions were running nearly 22 percent below the prior year levels for the same period.

In addition, staff stated that transfer taxes from July through November 30, 2009 equaled $1.5 million, similar in amount for the same period in the prior fiscal year. Since revenues began to decline considerably from December of 2009 through June of 2009, performance through the first four months of this fiscal year would appear to indicate a strengthening in transfer taxes. A straight annualizing of year to date revenues (based on 9 of 24 remittances) would result in revenues of $4.0 million at year end, an amount that does not appear achievable given prior year results and the economy. On December 9, staff received a remittance of $170,104 (#10 for the FY). This remittance exceeds that of the prior year period by $36,000 or 26.8 percent indicating further stabilization and possible growth in this revenue source compared to the prior year

Before providing a reasonable range for year end revenues, the following factors affecting this revenue category should be considered:

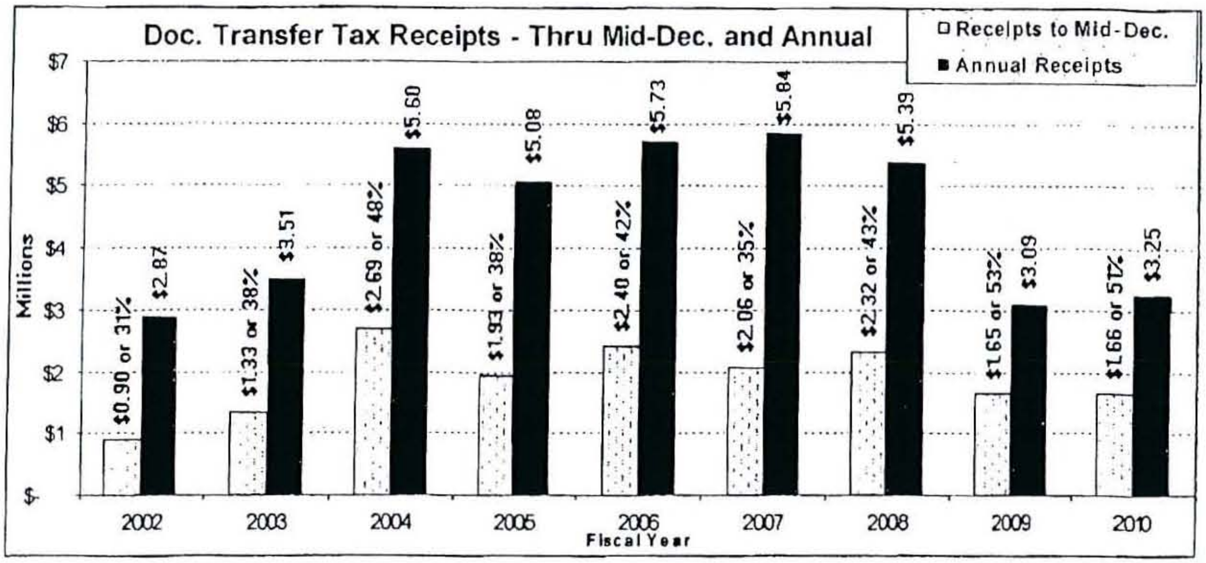
- o Documentary transfer taxes ($3.30 per $1,000 of value) are dependent on the volume of transactions in any given year
- o These taxes are based on the mix of transactions between commercial and residential properties where one large commercial transaction can be the equivalent of numerous residential transactions
- o Seasonality plays a role in projections since there are a higher number of transactions during the period March through August than during the remaining months
- o One or two large commercial property transactions, which may or may not occur in any given year, can skew trend analysis

The graph below plots remittances and available transaction data and depicts the affect the above factors can have on under or over estimating revenues.



Keeping in mind these factors, as well as data indicating a possible firming of transactions, staff now believes a $2.90 million projection represents the lower end of a reasonable projection. Assuming that revenues will grow by 10 percent for the remainder of the year, a projection of $3.25 million is attainable. A 15 percent increase would result in $3.32 million in revenue. Should the City realize another large, commercial transaction during the remainder of this year, an additional $0.1 to $.2 million may be realized.

Another approach to determining a reasonable range of transfer tax outcomes is to use the historical percentages (ratios) of July through mid-December revenues to total fiscal year revenues for prior years (note that revenues from July through mid-December, 2009 equal $1.66 million). The graph below shows these percentages, which range from a low of 31 percent in FY 2002 (dot.com boom period) to a high of 53 percent (Great Recession period) in FY 2009. Remittance data dating back to FY 2001 and the percentages cited in this text can be found in Attachment D.



With the first remittance of December, it now appears that higher year-end revenue could be realized. For example, a lower percentage, such as 50 percent or 48 percent (a 48 percent ratio is similar to that experienced in FY 2004 when the City was recovering from dot.com bust) would result in revenues of $3.3 million or $3.4 million, respectively.

Based on the analysis above and respecting the fragility and potential surprises from a still weak economy, staff believes transfer tax revenues could reach the $3.2 to $3.3 million levels by year end.

Property Tax Revenues

The Finance Committee requested additional analysis of property tax projections for FY 2010-11 and wanted information on the assessed value added to the roll by new developments and property transactions or turnovers/sales. The table below shows the secured property tax roll percentage changes for the City of Palo Alto dating back to FY 2005

Fiscal Year	Secured Property Valuation	Percentage Change
2010	$20.24 billion	4.4%
2009	19.38 billion	11.5%
2008	17.39 billion	7.2%
2007	16.22 billion	8.9%
2006	14.89 billion	9.3%
2005	13.62 billion	

Although the county does provide statistics on growth due to change in ownership and new construction, it is on a countywide basis. There are several variables affecting growth, but based on the maximum 2 percent increase permitted by law and realized from 2006-2010, the City's growth rate to new ownership and construction is close to a low of 2.4 percent in 2010 to a high of 9.4 percent in 2009. A 1 percent increase in secured property value translates into approximately $175,000 in additional secured property tax revenue.

At this time, the County is projecting that 2011 property values will have a negative .23 percent adjustment factor based on the California CPI. This means that assessed values for City properties will decline by .23 percent and offset growth due to property transactions and development. Given the precipitous decline in the secured property assessed value from 2009 to 2010, growth is likely to be minimal for FY 2011. It is important to note that property tax movements lag behind the increases and decreases in the more immediately economically sensitive sales and transient occupancy tax revenues. The long range forecast attached to the December 1, 2009 CMR projected an increase of 2.3 percent increase for 2011. At this time, and given the most recent information that a negative CPI adjustment is likely, staff believes a 1 percent increase over the 2010 projection would be more prudent.

RESOURCE IMPACT

The discussion in this report and the financial results depicted in the LRFF indicate impacts to the City's General Fund.

ENVIRONMENTAL REVIEW

This is not a project for the purposes of the California Environmental Quality Act.

PREPARED BY:

DAVID RAMBERG
Assistant Director of Administrative Services

JOE SACCIO
Deputy Director of Administrative Services

DEPARTMENT HEAD APPROVAL:

LALO PEREZ
Director of Administrative Services

CITY MANAGER APPROVAL:

JAMES KEENE
City Manager

ATTACHMENTS

Attachment A: CMR:434:09 Fiscal Year 2009 General Fund Discussion and Fiscal Year 2010 Financial Results as of November 20, 2009
Attachment B: Excerpt from the Finance Committee Minutes of December 1, 2009
Attachment C: General Fund Overtime Trends
Attachment D: Documentary Transfer Tax Performance

ATTACHMENT A

TO:	HONORABLE CITY COUNCIL	
ATTENTION:	FINANCE COMMITTEE	
FROM:	CITY MANAGER	DEPARTMENT: ADMINISTRATIVE SERVICES
DATE:	DECEMBER 1, 2009	CMR: 434:09
SUBJECT:	**Fiscal Year 2009 General Fund Discussion and Fiscal Year 2010 Financial Results as of November 20, 2009**	

RECOMMENDATION

Staff recommends:

1. That the Finance Committee review and provide input on the General Fund financial results for FY 2009 and preliminary results for FY 2010, including staff's proposed financial plans for each of the two fiscal years.

2. After Finance Committee review, direct staff to present this report to the full Council in January 2010.

BACKGROUND

Staff is providing the 2009 fiscal year-end financial results for the General Fund (GF) earlier than usual due to the severe downturn in the economy and the impacts it has caused to the City's financial position. Because of a higher than anticipated budget gap in Fiscal Year (FY) 2009, staff is presenting year-end results in this report and will provide the final audited financial statements to the Finance Committee December 15.

Looking at the current fiscal year, the continuing economic downturn requires revisiting revenue and expense performance and potential options to close a higher than expected year-end budget gap. In the FY 2010 budget process, a $10 million General Fund deficit was identified. This gap was closed with a three pronged approach that relied on one-time reductions, program cuts, and reductions in employee benefits and salaries. The latter was achieved through reductions in benefits to SEIU and management employees and a postponement of a police union salary increase. Unfortunately, these reductions of approximately $10 million have proven insufficient to stem the tide of declining revenues and the City is facing an additional $5.4 million deficit. This deficit could continue to grow if revenues do not remain stable in the second half of this fiscal year.

The City of Palo Alto is not alone in facing this disturbing situation. The cities of San Francisco and Oakland have already pared their budget several times and are likely to face additional future drops in property taxes. Jurisdictions up and down the Peninsula are facing fluid, if disruptive revenue environments in which multiple budget adjustments are needed. Moreover, the size and nature of the revenue shortfalls, such as shifts in consumer spending patterns, likely require long-term structural expense changes. An updated Long Range Financial Forecast (Attachment A) is provided to show the projected deficits the City faces in FY 2010 and beyond.

DISCUSSION

Fiscal Year 2009 General Fund Results

The drop in key revenue sources in FY 2009 required midyear budget adjustments to GF revenues and expenditures. Early in the year, staff estimated the FY 2009 budget deficit to be $8 million and a plan was implemented to close this gap. The adjustments made to revenues at midyear were close to projections. Unfortunately, however, the adjusted expense budget underestimated expenditures at year end and resulted in a GF deficit of $4.8 million (in addition to the $8 million projection). This additional shortfall was mentioned briefly during the October 5, 2009 Council meeting, but since staff did not have the specific data reviewed by the outside auditor at that time, it has not been discussed in detail until this report. The components of the shortfall are outlined in the following table and explained below.

Table 1
FY 2009 General Fund Deficit Summary

Salaries	($2,100,000)
Overtime	
Police	($ 650,000)
Fire	($ 250,000)
Benefits	($1,800,000)
Total	**($4,800,000)**

Salaries

The salary line item was over budget due to a miscalculation in the amount of expected salary savings. The adopted operating budget includes an annual factor for salary savings. These savings result from 1) an expected vacancy rate or the number of positions that are not filled at any given time throughout the fiscal year; and 2) a salary expense "cushion" resulting from salaries being budgeted at the top step compared to actual salaries that are, for many employees lower (e.g., new hires). During the midyear budget process, staff included a second round of salary savings that did not materialize. The miscalculation was not recognized in time to make additional expense adjustments. Staff has implemented monthly variance reports, as well as other controls, to avoid such occurrences in the future.

Overtime

Overtime costs in the Police and Fire departments exceed the budget every year due to vacancies, disabilities, minimum staffing requirements, and staffing of Station 8 for fire protection in the summer and emergencies. In a typical year, these overages are covered by salary savings citywide or in the public safety departments. With the salary savings factor overestimated, however, the savings were not there to absorb the overtime excess. Therefore, the $900,000 in excess overtime for these two departments contributed to the FY 2009 deficit. It should be noted that Stanford University reimburses 30.3 percent of all operating expenditures including overtime and the State of California provided reimbursements for Fire Strike Team activities. The $900,000 is not offset by these reimbursements. The City will receive these reimbursements in FY 2011.

Benefits

The City has a General Benefit Fund (GBF) from which it pays its benefit expenses such as medical and workers compensation costs. This fund, like other Internal Service Funds (e.g., Technology, Vehicle), typically carries a positive balance in the form of retained earnings which covers operations and project or capital needs. In the past, the balance in retained earnings in the General Benefits Fund helped cushion against year-end benefit expense adjustments. Specifically, workers compensation and general liability costs, which reflect yearend actuarial adjustments (based on incurred but not reported expenditures) can fluctuate considerably but are not known until year end as they are based on the volume and severity of claims. In most years, the GBF and the Fund's retained earnings are sufficient to cover unexpected liabilities as well as any overages in other benefit categories such as medical premium expenses.

Anticipating that retained earnings in the GBF were sufficient to cover benefit expenses in FY 2009, General Fund benefit expenses were held constant from FY 2008 to FY 2009. This practice has been implemented in past budget years in an effort to keep a reasonable balance between retained earnings balances in the GBF and what expenses are budgeted in and allocated to GF departments each year. Disappointingly, benefit expenses at the end of FY 2009 came in $1.8 million over budget due to higher than anticipated claims.

Establishing an annual budget depends on a number of variables that can be difficult to predict and are subject to change. In high performing years, the City has enjoyed considerable cushion in its budget that has allowed midyear adjustments with negligible impact on the bottom line. In times of sustained economic downturn, cushions such as higher than anticipated revenues, are no longer present. Margins that are extremely tight due to falling revenues, low Internal Service Fund reserve balances, and prior expense reductions have become tighter and more difficult to maintain. Of the $4.8 million FY 2009 deficit shown in Table 1, only the $2.1 million in underestimated salary expenses could have been foreseen at midyear (midyear report was presented to the Finance Committee on March 10) and later. The remaining expenditures, on the other hand, are finalized at year-end and thus sufficient data is not available for earlier adjustments.

Budget Balancing Plan for Fiscal Year 2009

In order to solve the $4.8 million deficit for FY 2009, staff proposes postponing a budgeted $4.8 million transfer to the Technology Fund. This will have the effect of lowering GF expense and eliminating the General Fund deficit. This one-time deferral will reduce the Technology Fund's retained earnings to $51,000 net of encumbrances and re-appropriations. The $4.8 million transfer will result in planned technology projects such as radio infrastructure improvements and library RFID implementation being delayed. In addition, technology infrastructure replacement schedules will need to be revisited and adjusted accordingly. As a consequence of this action, the Technology Fund is at an exceptionally low balance and will need to be replenished via future transfers from the GF so as to not severely impact technology operations. Currently, repayment over a four year period is being contemplated. The only other immediately available option to solve the deficit would be to draw down the General Fund Budget Stabilization Reserve, but since the City is experiencing extremely volatile economic conditions which have implications for FY 2010 a reserve drawdown in FY 2009 is not recommended.

Fiscal Year 2010 Financial Results To Date

On September 8 and October 5 (CMR: 394:09 and CMR 358:09 in Attachment B), staff informed Council of potential further deterioration in General Fund revenues and the possible need for budget adjustments in excess of the $10 million in reductions already incorporated in the Adopted FY 2010 Budget. Due to the extended recession, City revenues will fall significantly below budget in FY 2010. Since FY 2008, sales, transient occupancy, documentary, and interest income have fallen by a combined $8.2 million. In addition, permit, golf course fee, and traffic fine revenue also have dropped by $1.1 million since FY 2008 due to the economic environment. Cumulatively, this represents a $9.3 million downward swing in GF resources over two years and it has caused an additional budget deficit for FY 2010 which is estimated now at $5.4 million. Attachment C shows the performance of revenues through November 20, 2009 relative to the budget. Due to the timing of payments (e.g., sales and property taxes) and seasonal factors, these results must be viewed cautiously.

Revenue Performance in FY 2010

Sales Tax

Sales Tax revenue is the General Fund's third highest revenue equaling 14 percent of its resources. In recent years sales tax has become a highly volatile and fragile source of City income. Whereas FY 2008 actual revenues were $22.6 million; it now appears the City will realize $17.7 million in FY 2010. This represents a $5 million or 22 percent decline in a very short period of time. To place it in perspective, this $5 million drop equals 77% of the FY 2010 Library budget.

The projected $17.7 million in sales tax revenue is $2.0 million below the FY 2010 Adopted Budget. The primary cause for the decline is economic and the secondary cause is a dramatic decrease in the amount remitted by the State in its semi-annual "triple flip" payments for FY 2010. With the exception of one economic segment (electronic equipment), all sales tax segments – autos, department stores, miscellaneous retail, furniture/appliance had dreadful results in the second quarter. In fact, all of these areas had the lowest "benchmark year" performance in this quarter compared to 8 prior "benchmark year" quarters (a benchmark year is the current quarter reporting period plus the prior 3 quarters). New auto sales fell to $1.1 million compared to $1.8 million in the second quarter of 2007. For the same periods, department store sales have fallen from $2.7 million to $2.2 million, while miscellaneous retail sales dropped from $1.9 million to $1.5 million. Even the normally resilient restaurant sector has turned downward. The City's outside sales tax consultant believes that sales taxes may fall as much as 15 percent in the upcoming third quarter compared to the prior third quarter. This would be consistent with the prior 2 quarters and would not bode well for the critical fourth quarter holiday sales season.

Furthermore, on October 14, the State notified jurisdictions of lower "triple flip" payments. Whereas the State advanced the City $5.7 million in FY 2009, in FY 2010 its payment dropped to $4.3 million, a 24.6 percent reduction. While there is a solid rationale for reducing the City's "triple flip" payment given the economy and statewide sales tax receipts dropping by 20.8% in the second quarter, the State seems to have underestimated what the City will realize in sales taxes at year end by around $0.4 million. The State eventually will reconcile its payments to actual results for FY 2010, but not until the following fiscal year.

In contrast, the State's "triple flip" payment to the City for FY 2009 was higher than justified by actual results. Since the State reconciles its payments to actual results in the following fiscal year, consequently the "true up" for FY 2009 will result in a $0.8 million reduction in payment for FY 2010. By adopting the "triple flip" payment system to solve its budget dilemmas, the State has further complicated sales tax projections.

Transient Occupancy Tax (TOT)

City TOT revenues have been soft. Revenues from January through June 2009 were 29 percent below those of the prior year. In July 2009, revenues were below July 2008 by 21.3 percent. The Senior Games did have a salutary impact in that August revenues were only 8.7 percent below the previous August; but September's results resumed this sector's weak trend line being 21 percent below September 2008. Based on performance to date, a downward adjustment of around $0.2 million will be recommended at midyear.

Investment Income

With the Federal Open Market Committee (FOMC) keeping interest rates low for a longer than expected period, the City's interest income has declined. Although short-term interest rates on Treasury instruments are close to zero percent, the City is earning nearly 4 percent on its portfolio. This rate of return is a consequence of earlier, long-term investments that have not yet matured. This rate will decrease and staff believes a downward adjustment in income of $0.2 million is necessary.

Property and Documentary Transfer Taxes

Property taxes are tracking close to budget and are expected to be on target at year end. Despite a weak housing market, property values in Palo Alto have remained relatively stable. There are indications from the County, however, that a large number of commercial properties throughout the County are filing for reassessments which will lower future property tax receipts. No hard numbers are available at this time, but an impact on this revenue category can be expected in the next few years.

Although the transfer tax has fallen from $5.4 million in FY 2008 to $3.1 million in FY 2009, receipts from July through October are only slightly lower compared to the same period of the prior year. This may indicate that the bottom of this revenue source has been reached and will hold steady until year end. At this time, the budget of $2.8 million in FY 2010 for the transfer tax appears realistic and will likely be increased to $2.9 million at midyear.

Utility Users Tax

Results to date indicate the telephone tax will exceed estimates, while utility related revenues will be lower than anticipated. The net result is that this revenue source will likely be adjusted upward at midyear by around $0.2 million.

Parking Violation Revenue

The City has collected $0.4 million or 20 percent of the $2.0 million budgeted in Parking Violations to date. The number of first quarter citations issued is 29 percent lower than previous first quarter results, while, due to a decline in downtown occupancy and the slowdown of retail spending, the number of vehicles monitored has decreased 16 percent. Based on the 16 percent checked for compliance, year end Parking Violation revenue is projected to be $1.5 million, or $0.5 million short of budget. Staff will be reevaluating the cost recovery levels of the program and make recommendations to balance revenues and expenses.

Permits

Permit processing has declined approximately 14 percent or $0.6 million. Although the valuation of projects submitted for permit issuance is higher than the prior year, stricter lending qualifications and conservative spending practices have lengthened the time applicants require to finalize their projects. While some permit fees are collected at the beginning, most are recognized when the permit is finally issued. Projects that do not go to completion do not pay the costs of processing their permits part way. This collection system should be reevaluated to ensure that the program is covering its costs throughout the permit process.

Plan Checking Fees

Fees for the processing of applications have declined approximately 14 percent due to the recession. This line item is expected to be decreased at midyear by $0.3 million.

Golf Course Revenue

The economic environment has affected the number of golf rounds played in Palo Alto and throughout the industry. The projection for FY 2010 of 76,000 rounds at the course is being revised downward to 72,000 rounds, thus reducing revenues by an estimated $0.2 million. CSD is examining ways to keep the golf course competitive with other nearby municipal golf courses. It will be important to develop a long-term plan for the golf course (which is in need of additional maintenance and upgrades) given the significant drop in rounds and as the associated costs of running and maintaining the course continue to increase. It is important to note that the Golf Course suffered a $0.3 million loss in FY 2009. Staff will return during the fiscal year with further recommendations on how to address the golf course deficits and a long-term plan.

Class Registration Fees

The Community Services Department (CSD) experienced a 6 percent decline in program and camp registrations this summer, demonstrating that the recession has had an impact on class and program activity. CSD fee revenue will be adjusted downward at midyear by approximately

$0.4 million. The department is working with class producers to look at new programs and revamp old ones by using evaluation information from participants. CSD will look at new methods of marketing (including banners through the city, school flyers and e-mail blasts from Friends groups).

Cost recovery levels will need to be reviewed and difficult policy decisions made regarding programs that may not be recovering their costs or are being duplicated by surrounding competition. The City is likely at a point where it will no longer be able to sustain the number of Community Services programs offered, and a prioritization of programs will be needed with input from all stakeholders.

Other Revenues

This revenue source includes facility rentals, special events fees, and other miscellaneous revenues. It will be decreased by approximately $0.3 million, due to an economy related decrease in demand for these services.

Attachment D shows, in considerable detail, GF revisions to revenue projections for FY 2010 and FY 2011 based on the discussion above.

Expense Performance in FY 2010

With the exception of overtime, regular salary expenses are in line with their budgeted levels. This is supported by the discussion below on the salary savings expected in FY 2010 due to vacancies. These savings represent one of the proposed steps for solving the expected year-end deficit.

Overtime Expenditures Compared to Adjusted Budget

General Fund Overtime Analysis:

The following chart shows total overtime expenditures reaching 73 percent of the adjusted budget on a citywide basis while straight line usage would indicate 39 percent usage through November 20. The table below shows that Fire, Police, and Public Works Departments are the principal departments exceeding their budget.

Table 2: FY 2010 General Fund Overtime As of November 20

CITY OF PALO ALTO
FISCAL YEAR 2010 MIDYEAR FINANCIAL REPORT
AS OF NOVEMBER 20, 2009
GENERAL FUND OVERTIME
(In thousands of dollars)

			(as of 11-20-2009)	
Categories	Adopted Budget	Adjusted Budget	Actual	% of Adj Budget
City Attorney	-	-	-	-
City Auditor	-	-	-	-
City Clerk	7	7	-	-
City Council	-	-	-	-
City Manager	3	3	-	-
Administrative Services	45	45	12	27%
Community Services	105	105	42	40%
Library	58	58	22	38%
Fire	1,018	1,018	1,041	102%
Human Resources	4	4	-	-
Planning and Community Environment	67	67	18	27%
Police	1,000	1,000	568	57%
Public Works	113	113	75	66%
Total Overtime	**2,420**	**2,420**	**1,778**	**73%**

- The Fire Department has used 102 percent of its annual overtime budget through November 20, 2009. This is due to Station #8 staffing ($0.2 million) and Medic-1 staffing ($0.1 million), with the remaining amount of $0.7 million resulting from backfill for minimum staffing requirements due to sick leave, vacations, and workers' compensation light duty assignments.

- The Police Department's has used 57 percent of its annual overtime budget. The customary work of busy shifts, case writing, investigations, and court appearances on off days as well as an increase in the 9-1-1 dispatch center as more senior Police Dispatchers train newer employees are the cause of Police exceeding budget to date. Traffic control services at Stanford football games and other events are partially offset by reimbursements from the university and organizations.

- The Public Works department has used 66 percent of its overtime budget. The department has had limited staffing in custodial and maintenance areas and has used overtime to maintain minimum service levels. The department is currently using limited hourly personnel to assist with custodial and maintenance services. Overtime costs are expected to rise further as the temporary salary budget is exhausted. This department's OT budget is small in comparison to the Fire and Police departments.

For historical and more detailed information on public safety overtime costs see Attachment E.

Budget Balancing Plan for Fiscal Year 2010

Although department expense budgets, as a whole, are within their expected target range, the dramatic fall in revenues requires immediate action to achieve a balanced budget. The following table shows the revenue adjustments discussed above and the actions recommended to close the expected $5.4 million gap. These actions are explained below.

Table 3: FY 2010 Proposed Budget Balancing Plan

Revenue Impacts	-000s-
Sales Taxes	-2,005
Parking Violations	-460
Fees/Permits	-1,551
Return on Investments	-238
Other Revenue	-186
Increases in Specific Revenues	144
Total Revenue Impacts	-4,296
Expense Impact	-1,131
Total GF Impact	-5,427
Expense Offsets – Proposed	
Salary savings - hiring freeze	1,500
Public Safety Building	2,700
Budget Stabilization Reserve	1,279
Repayment of the IT Loan	-1,225
Non-Salary Savings	1,000
$3 Million Solution Salary and Benefit Gap to Offset	173
Total Proposed Offsets	5,427
Net Change	0

Salary Savings

Staff is now monitoring salary savings due to vacant positions on a monthly basis. The General Fund's has 622.51 Full-Time Equivalents (FTE) of which there are currently 45 vacant FTE. Should the City maintain this vacancy rate, an estimated $4.1 million in savings can be realized by year end. Of the 45 FTE, however, 10 positions are considered critical for public health and safety and operations will be filled. This will reduce the vacancy savings by approximately $1.0 million. In addition and because of overtime costs annually exceeding budget, anticipated salary savings must be further reduced by $1.6 million. The net anticipated vacancy or salary savings at year end is anticipated to equal $1.5 million at year end. Attachment F shows these savings by department.

Public Safety Building

It is proposed that the remaining encumbrance for the public safety building capital project be reduced by $2.7 million. These funds were designated for completing design work and since this project has been postponed and there is no land currently identified for the building, it is recommended they be returned to the original source of funding the General Fund's Budget Stabilization Reserve. This project will then retain $0.3 million to allow for evaluation of alternative facilities.

Budget Stabilization Reserve

The extraordinary economic conditions, precipitous fall in revenues, and time required for implementing further expense reductions, cause staff to reluctantly recommend a one-time draw on the General Fund Budget Stabilization Reserve (BSR) of $1.3 million. With the City's participation in the California Securitization Program (CMR 413:09), the $2.5 million property tax "loan" by the State (cited in CMR: 394:09) that would have required a draw on the Budget Stabilization Reserve has been neutralized. The City will now receive bond proceeds through the Program at the time property taxes are deducted from the State, thereby keeping the GF whole.

The one-time $1.3 million drawdown will reduce the BSR to $24.6 million or 17.4 percent of budgeted expenditures. City policy requires that the BSR remain at a minimum of 15% of expenditures. If the reserve falls below this level the policy will need to be amended or an exception will need to be approved by the Council. Having a healthy level of reserves is critical for emergencies or severe economic dislocations such as the one we are enduring. Therefore, it is appropriate to use it in FY 2010. In future years, however, additional expenditure reductions or revenue enhancements will be required to avoid drawing down the BSR below required minimum levels (see Attachment A - the Long Range Financial Forecast).

Additional FY 2010 Budget Reductions and Expenses

To minimize the draw on the BSR, staff will attempt this fiscal year to find $1.2 million in non-salary and other savings. Contracts, travel and training, and materials and services will be scrutinized to achieve this before year end. Staff had hoped to find such savings in FY 2009 (to offset the $1.131 million expense impact cited in Table 3 above), but was unable to identify them. Without these reductions, an additional draw on the BSR may be needed. This will be a challenging but necessary exercise to close the anticipated gap.

Because of the $4.8 million drawdown on the Technology Fund in FY 2009, it is important to replenish the Technology Fund. To do so requires a $1.2 million annual payback over four years. This payment is reflected in the Table 3 above.

FY 2010 and Future Fiscal Year Challenges

Although staff believes that if all of the above budget solutions are implemented and revenues do not further decline, a balanced budget would result at year end, the tenuousness of the economy and uncontrollable expenses such as general liability losses and workers compensation could further adversely impact the budget. The City has already made repeated and painful expense reductions to balance its budget beginning with the dot.com bust and earlier and there are only more painful reductions left. Meanwhile, the City faces sizeable, new expense challenges.

The Long Range Financial Forecast (LRFF) presented to Council on October 5, 2009 (CMR: 394:09) has been updated based on recent revenue and expense data. The Net Operating Surplus (Deficit) line in the forecast for FY 2010 shows a deficit of $5.4 million in FY 2010. Below this line are the recommended solutions (discussed above) to solve the projected deficit. Even with the solutions proposed for FY 2010, the General Fund still shows continuing Net Operating Deficits in Fiscal Years 2011 through 2020.

Compounding these deficits are additional costs and liabilities the City will face in the near future. These "below the line" liabilities and costs cause the City's deficit to equal $5.6 million in FY 2011 and to grow considerably until 2020. These include:

1) CalPERS will increase retirement contributions from participating jurisdictions starting in FY 2012 due to significant losses in its investment portfolio. The City of Palo Alto estimated increases will rise from an additional $1.0 million in FY 2012 to $5.4 million in FY 2015.

2) The annual contribution towards the citywide employee retiree medical liability will rise by $1.4 million per year with the General Fund's share at $0.7 million

3) The new library and community center expansions and rehabilitations require approximately $1.0 million in incremental annual operating expenses beginning in FY 2013.

4) The current rate of funding from the General Fund and Infrastructure Reserve, which is around $9 million per year, is about $6 million less than what is required to fund the $302 million infrastructure backlog or liability. Moreover, the Infrastructure Reserve balance currently stands at $6.4 million and is expected to decline to $2.7 million in FY 2011. New revenues or a reallocation of expenses are necessary to fund needed infrastructure work.

Offsetting these deficits, but not included in the LRFF, are the savings from certain benefit changes implemented for SEIU and management employees. These include a second tier retirement plan (2 percent at 60) for new employees and an employee contribution to medical expenses that is to take effect in FY 2011. Similarly, the City will need to seek salary and benefit savings from Fire and Police whose costs represent 39 percent of the GF's budget.

It should be noted that the CalPERS Board recently adopted a plan to share excess reserves in the preferred provider organization health plan with local agencies by providing a two month "premium holiday." This results in a savings to the General Benefit Fund of approximately $0.7 million citywide in FY 2010. Given the minimal balance in the GBF, staff proposes that these savings be used to bolster the Fund's balance in preparation for any year end unanticipated liability expenses.

The recommendations to balance the FY 2010 budget primarily consist of one-time adjustments (e.g. draw on reserves, vacancy savings) to get us through the current fiscal year. During this time, the Council, community, and staff will need to address the long-term deficits the City faces. In addition to further contributions by employees, expense reductions will be necessary and must involve prioritizing City programs. Also, additional revenues must be explored.

During the FY 2010 budgeting process, the Finance Committee discussed what has come to be known as "Tier Two" reductions (Attachment G). These reductions were placed in abeyance until such time as a clearer revenue picture emerged in FY 2010 and need now to be revisited. In addition, and because of the magnitude of the City's financial challenges, a list of near, medium, and long-term alternatives are presented to foster further discussion of how to balance the General Fund's budget (Attachment H). It is important to note that many of these options have significant policy ramifications and/or legal or other obstacles. They are being introduced at this time, however, as examples of issues to discuss and with the expectation that they will generate other related solutions. The Executive Leadership Team (ELT) has scheduled a retreat to take a comprehensive look at these initial recommendations and it is expected that this list will undergo further refinement before it is presented to the full Council.

ELT will examine the best practices identified in a recent League of California Cities publication ("Municipal Fiscal-Health Contingency Planning," Western City, pp. 18-23) to plan for the difficult cost reduction process ahead and for proposals to Council. General strategies recommended include, for example:

- Proposing reductions that reflect the fewest service impacts to the community
- Describe service impacts and make process transparent to all involved parties
- Crafting operating expenditure reductions that are real and feasible
- Reductions must be ongoing and net of any related revenues, fees or grants
- Maintain essential facilities, infrastructure and equipment at reasonable levels

Once ELT develops a process and identifies possible reductions, staff will propose these to Council.

Conclusion

Critical revenues sources have declined by a total of $9.3 million since FY 2008. The recovery in these revenues is expected to take multiple years, and it is entirely possible that some revenue sources never regain the levels reached in peak years. Beginning in FY 2010 the City has taken proactive measures to begin paring back its expenses. By establishing a two-tier retirement structure and requiring employees to contribute to medical expenses (still to be negotiated with Fire and Police unions), the City has taken a major step toward addressing its unsustainable expense structure. But there is considerable work ahead. Even with the current year deficit closed, expenses will outpace revenues in each future year. The City must decide how to cut those expenses back – which programs and services are lowest priority. This is likely a multi-year process.

RESOURCE IMPACT

The discussion in this report and the financial results depicted in the LRFF indicate impacts to the City's General Fund.

ENVIRONMENTAL REVIEW

This is not a project for the purposes of the California Environmental Quality Act.

PREPARED BY:

JOE SACCIO
Deputy Director of Administrative Services

DAVID RAMBERG
Assistant Director of Administrative Services

DEPARTMENT HEAD APPROVAL:

LALO PEREZ
Director of Administrative Services

CITY MANAGER APPROVAL:

JAMES KEENE
City Manager

ATTACHMENTS

Attachment A:	Long Range Financial Forecast
Attachment B:	CMR:394:09 Fiscal Year 2010 Budget Update CMR:358:09 Review of Preliminary FY 2009 Revenue Analysis
Attachment C:	Fiscal Year 2010 General Fund Financial Report as of November 20
Attachment D:	General Fund Revenue Changes for FY 2010 and 2011
Attachment E:	Police and Fire Departments Public Safety Overtime Analysis for Fiscal Years 2005 through 2009, with Fiscal Year 2010 Data through November 20, 2009
Attachment F:	FY 2010 Salary Savings by Department
Attachment G:	Tier 2 Reductions
Attachment H:	Budget Reduction Options

CITY OF PALO ALTO LONG RANGE FINANCIAL FORECAST General Fund ($000)

Attachment A

LONG RANGE FINANCIAL FORECAST MODEL 2009 ($000)

	FY 2009 Actual	FY 2010 Adopted Budget	FY 2010 Projected Budget	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Revenues													
Sales Taxes	$ 20,089	$ 19,650	$ 17,645	$ 17,982	$ 18,430	$ 18,983	$ 19,647	$ 20,434	$ 21,200	$ 21,941	$ 22,599	$ 23,051	$ 23,588
Property Taxes	25,445	25,752	25,778	26,379	27,325	28,379	29,689	31,136	32,735	34,337	35,936	36,804	37,879
Utility User Tax	11,030	11,250	11,417	12,513	13,156	13,676	13,973	14,703	15,486	16,328	17,200	18,071	18,966
Transient Occupancy Tax	7,111	7,000	6,850	6,987	7,140	7,344	7,656	8,019	8,420	8,799	9,085	9,344	9,631
Other Taxes, Fines & Penalties	5,440	5,633	5,274	5,390	5,510	5,656	5,828	6,016	6,187	6,338	6,418	6,484	6,592
Subtotal: Taxes	69,115	69,285	66,964	69,251	71,561	74,038	76,793	80,308	84,028	87,743	91,238	93,754	96,656
Service Fees & Permits	16,210	17,437	15,814	16,576	17,800	18,133	18,661	19,397	20,162	20,958	21,784	22,719	23,690
Joint Service Agreements (Stanford University)	7,796	7,857	7,857	8,166	8,529	8,940	9,356	9,818	10,306	10,820	11,360	11,932	12,533
Interest Earnings	2,008	1,900	1,662	1,646	1,676	1,724	1,785	1,852	1,923	2,002	2,053	2,095	2,163
Other revenues	17,246	15,352	15,235	15,484	15,764	13,977	14,330	14,695	15,070	15,456	15,854	16,264	16,686
Reimbursements from Other Funds	11,483	10,643	10,644	10,799	11,078	11,392	11,785	12,260	12,755	13,274	13,815	14,382	14,930
Total Revenues	123,858	122,474	118,176	121,922	126,408	128,204	132,710	138,330	144,244	150,253	156,104	161,146	166,658
Transfers from Other Funds	17,614	19,664	19,664	18,709	19,192	19,735	20,417	21,239	22,097	22,995	23,933	24,915	25,865
TOTAL SOURCE OF FUNDS	141,472	142,138	137,840	140,631	145,600	147,939	153,127	159,569	166,341	173,248	180,037	186,061	192,523
Expenditures													
Base Salaries	62,104	63,512	63,512	64,007	66,074	67,309	69,271	72,002	74,841	77,792	80,860	84,049	87,365
Salary & Benefit Reductions to be Negotiated (1)		(3,000)											
PAPOA Salary Increase Deferral (2)			(794)										
Negotiated Savings from SEIU			(1,222)	(1,222)	(1,246)	(1,271)	(1,310)	(1,362)	(1,416)	(1,473)	(1,532)	(1,593)	(1,657)
Negotiated Savings from Mgmt./Prof.			(806)	(806)	(822)	(839)	(864)	(898)	(934)	(972)	(1,010)	(1,051)	(1,093)
Benefits	29,477	32,205	32,205	32,935	34,713	36,772	38,715	40,769	42,943	45,243	47,668	50,245	52,963
Subtotal: Salaries and Benefits	91,581	92,717	92,895	94,914	98,718	101,971	105,813	110,511	115,433	120,590	125,986	131,650	137,578
Contract Services	10,100	9,076	10,076	9,804	9,951	10,120	10,373	10,684	11,005	11,335	11,675	12,025	12,386
Supplies & Materials	3,023	3,547	3,547	3,480	3,532	3,592	3,682	3,793	3,906	4,023	4,144	4,269	4,397
General Expense	9,008	10,193	10,193	9,870	10,121	10,385	10,681	11,002	11,330	11,670	12,020	12,381	12,665
Rents, Leases, & Equipment	1,014	1,212	1,212	1,213	1,231	1,252	1,283	1,322	1,362	1,402	1,445	1,488	1,532
Allocated Expenses	10,287	14,316	14,316	14,613	14,832	15,084	15,462	15,925	16,403	16,896	17,402	17,924	18,462
Total Expenditures	125,013	131,061	132,239	133,894	138,386	142,405	147,294	153,237	159,440	165,917	172,672	179,737	187,020
Transfers to Other Funds													
GF transfer for Infrastructure CIP	10,397	6,180	6,180	8,501	8,844	9,211	9,604	10,024	10,474	10,955	11,470	12,021	12,610
GF transfer for other capital projects	4,251	3,720	3,720	1,747	1,636	1,685	1,735	1,786	1,838	1,892	1,947	2,003	2,063
Debt Service	1,082	1,086	1,086	1,080	929	752	749	754	751	753	752	754	234
Other	84	42	42	42	44	45	47	49	51	51	51	51	51
TOTAL USE OF FUNDS	140,827	142,089	143,267	145,263	149,839	154,098	159,429	165,850	172,554	179,568	186,892	194,566	201,979
Net Operating Surplus/(Deficit)	645	49	(5,427)	(4,632)	(4,239)	(6,159)	(6,302)	(6,281)	(6,213)	(6,320)	(6,855)	(8,505)	(9,456)
Other Activities													
Additional Retirement Contribution Increase (3)					(1,031)	(2,774)	(4,963)	(5,389)	(5,756)	(6,140)	(6,542)	(6,963)	(6,963)
Retiree Medical Cost Increase				(735)	(735)	(735)	(735)	(735)	(735)	(735)	(735)	(735)	(735)
Library Operating Cost Increase					(250)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Infrastructure Contribution Increase					(1,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
Technology Fund Repayment			(1,225)	(1,225)	(1,225)	(1,225)							
Public Safety Bldg. Budget Savings			2,700										
Non-salary Reductions to be Determined			1,000										
Salary & Benefit Reductions to be Negotiated			173	967	986	1,006	1,036	1,078	1,121	1,166	1,212	1,261	1,311
Vacant Positions Salary Savings			1,500										
Drawdown on Budget Stabilization Reserve			1,279										
Subtotal - Other Activities	-	-	5,427	(993)	(3,255)	(6,728)	(7,662)	(8,046)	(8,370)	(8,709)	(9,065)	(9,437)	(9,387)
GRAND NET SURPLUS (DEFICIT)	$ 645	$ 49	$ 0	$ (5,625)	$ (7,493)	$ (12,887)	$ (13,964)	$ (14,327)	$ (14,583)	$ (15,029)	$ (15,919)	$ (17,942)	$ (18,842)

(1) In FY 2010, $2.8 million in budgeted salary savings realized, an additional $185 thousand in savings still needs to be achieved

(2) Police union (PAPOA) deferred their FY 2010 negotiated salary increase of $0.8 million to FY 2011

(3) Based on current 2.7% @ 55 formula

Note: Assumption of no salary increase for SEIU and Mgmt./Prof. in FY 2010 and FY 2011 and no salary increase for Firefighters (IAFF) in FY 2011

CITY OF PALO ALTO LONG RANGE FINANCIAL PLAN
General Fund ($000)

Attachment A

PERCENTAGE CHANGES IN FORECAST FOR REVENUES AND EXPENSES

	FY 2009 % Change	FY 2010 AB % Change	FY 2010 PB % Change	FY 2011 % Change	FY 2012 % Change	FY 2013 % Change	FY 2014 % Change	FY 2015 % Change	FY 2016 % Change	FY 2017 % Change	FY 2018 % Change	FY 2019 % Change	FY 2020 % Change
Revenues													
Sales Taxes	(11.20%)	(2.19%)	(12.17%)	1.91%	2.49%	3.00%	3.50%	4.01%	3.75%	3.50%	3.00%	2.00%	2.33%
Property Taxes	10.23%	1.21%	1.31%	2.33%	3.59%	3.86%	4.62%	4.87%	5.14%	4.89%	4.66%	2.42%	2.92%
Utility User Tax	7.24%	1.99%	3.51%	9.60%	5.14%	3.95%	2.17%	5.22%	5.33%	5.44%	5.34%	5.06%	4.95%
Transient Occupancy Tax	(10.85%)	(1.56%)	(3.67%)	2.00%	2.19%	2.86%	4.25%	4.74%	5.00%	4.50%	3.25%	2.85%	3.07%
Other Taxes, Fines & Penalties	(30.88%)	3.55%	(3.05%)	2.20%	2.23%	2.65%	3.04%	3.23%	2.84%	2.44%	1.26%	1.03%	1.67%
Subtotal: Taxes	(3.79%)	0.25%	(3.11%)	3.42%	3.34%	3.46%	3.72%	4.58%	4.63%	4.42%	3.98%	2.76%	3.10%
Service Fees & Permits	(5.43%)	7.57%	(2.44%)	4.82%	7.38%	1.87%	2.91%	3.94%	3.94%	3.95%	3.94%	4.29%	4.27%
Joint Service Agreements (Stanford University)	12.40%	0.78%	0.78%	3.93%	4.45%	4.82%	4.65%	4.94%	4.97%	4.99%	4.99%	5.04%	5.04%
Interest Earnings	(10.04%)	(5.38%)	(17.23%)	(0.96%)	1.82%	2.86%	3.54%	3.75%	3.83%	4.11%	2.55%	2.05%	3.25%
Other revenues	(4.36%)	(10.98%)	(11.66%)	1.63%	1.81%	(11.34%)	2.53%	2.55%	2.55%	2.56%	2.58%	2.59%	2.59%
Reimbursements from Other Funds	1.32%	(7.32%)	(7.31%)	1.46%	2.58%	2.83%	3.45%	4.03%	4.04%	4.07%	4.08%	4.10%	3.81%
Total Revenues	(2.86%)	(1.12%)	(4.59%)	3.17%	3.68%	1.42%	3.51%	4.23%	4.28%	4.17%	3.89%	3.23%	3.42%
Transfers from Other Funds	2.24%	11.64%	11.64%	(4.86%)	2.58%	2.83%	3.46%	4.03%	4.04%	4.06%	4.08%	4.10%	3.81%
TOTAL SOURCE OF FUNDS	(2.26%)	0.47%	(2.57%)	2.02%	3.53%	1.61%	3.51%	4.21%	4.24%	4.15%	3.92%	3.35%	3.47%
Expenditures													
Base Salaries	2.77%	2.27%	0.99%	2.06%	3.23%	1.87%	2.91%	3.94%	3.94%	3.94%	3.94%	3.94%	3.95%
Salary & Benefit Reductions to be Negotiated (1)		N/A	N/A										
PAPOA Salary Increase Deferral (2)			N/A										
Negotiated Savings from SEIU			N/A										
Negotiated Savings from Mgmt./Prof.			N/A										
Benefits	(4.54%)	9.25%	9.25%	2.27%	5.40%	5.93%	5.28%	5.31%	5.33%	5.36%	5.36%	5.41%	5.41%
Subtotal: Salaries and Benefits	0.30%	1.24%	1.43%	2.17%	4.01%	3.29%	3.77%	4.44%	4.45%	4.47%	4.47%	4.50%	4.50%
Contract Services	7.37%	(10.14%)	(0.24%)	(2.70%)	1.50%	1.70%	2.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Supplies & Materials	(0.10%)	17.33%	17.33%	(1.89%)	1.50%	1.70%	2.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
General Expense	(1.83%)	13.15%	13.15%	(3.17%)	2.55%	2.61%	2.85%	3.00%	2.99%	3.00%	3.00%	3.00%	2.30%
Rents, Leases, & Equipment	(10.58%)	19.53%	19.49%	0.12%	1.50%	1.70%	2.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Allocated Expenses	(30.39%)	39.17%	39.17%	2.07%	1.50%	1.70%	2.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Total Expenditures	(43.21%)	4.84%	5.78%	1.25%	3.36%	2.90%	3.43%	4.03%	4.05%	4.06%	4.07%	4.09%	4.05%
Transfers to Other Funds													
GF transfer for Infrastructure CIP	46.73%	(40.56%)	(40.56%)	37.55%	4.04%	4.15%	4.26%	4.38%	4.48%	4.60%	4.70%	4.80%	4.90%
projects	(9.96%)	(12.49%)	(12.49%)	(53.04%)	(6.35%)	3.00%	2.97%	2.94%	2.91%	2.94%	2.91%	2.88%	3.00%
Debt Service	(0.01%)	0.38%	0.36%	(0.54%)	(13.99%)	(19.07%)	(0.40%)	0.68%	(0.31%)	0.15%	(0.10%)	0.31%	(69.04%)
Other	115.38%	(50.00%)	(50.00%)	0.00%	4.00%	4.00%	4.00%	4.00%	4.00%	0.00%	0.00%	0.00%	0.00%
TOTAL USE OF FUNDS	(39.58%)	0.90%	1.73%	1.39%	3.15%	2.84%	3.46%	4.03%	4.04%	4.06%	4.08%	4.11%	3.81%

Attachment A

CITY OF PALO ALTO LONG RANGE FINANCIAL PLAN
General Fund ($000)

GENERAL FUND RESERVE SUMMARY ($000)

	FY 2009	Adopted FY 2010	Projected FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Budget Stabilization Reserve													
Beginning Balance	$ 26,102	$ 24,637	$ 24,637	$ 24,637	$ 19,012	$ 11,519	$ (1,369)	$ (15,333)	$ (29,660)	$ (44,243)	$ (59,272)	$ (75,192)	$ (93,134)
To/(From) Reserves	645	49	0	(5,625)	(7,493)	(12,887)	(13,964)	(14,327)	(14,583)	(15,029)	(15,919)	(17,942)	(18,842)
CAFR adjustments	1,581	0	0	0	0	0	0	0	0	0	0	0	0
One-time Only Increases/(Decreases)	(3,691)	0	0	0	0	0	0	0	0	0	0	0	0
Ending Balance	**$ 24,637**	**$ 24,686**	**$ 24,637**	**$ 19,012**	**$ 11,519**	**$ (1,369)**	**$ (15,333)**	**$ (29,660)**	**$ (44,243)**	**$ (59,272)**	**$ (75,192)**	**$ (93,134)**	**$(111,976)**
% of Total Expenditures	17.5%	17.4%	17.2%	13.1%	7.7%	(0.9%)	(9.6%)	(17.9%)	(25.6%)	(33.0%)	(40.2%)	(47.9%)	(55.4%)

ATTACHMENT B

TO: CITY COUNCIL

FROM: CITY MANAGER **DEPARTMENT: ADMINISTRATIVE SERVICES**

DATE: OCTOBER 5, 2009 **CMR: 394:09**

SUBJECT: Fiscal Year 2010 Budget Update

RECOMMENDATION

Staff recommends that Council review and provide input on the FY 2010 1st Quarter Update and structural budget issues identified in this City Manager Report (CMR).

BACKGROUND

As a consequence of the "Great Recession" and the decline in economically sensitive revenues such as sales and transient occupancy taxes (TOT), budget deficits were identified for FY 2009 and FY 2010. In the FY 2010 Operating Budget process, the City identified a General Fund $10 million budget gap. This projected deficit would have risen to $12 million had the City incorporated a pay raise for management and SEIU employees. Hence, the budget proposal assumed zero increases for these groups. To solve the $10 million deficit, the City implemented $3.7 million in savings from department and service reductions (this included the elimination of 20.3 Full Time Equivalents based on vacancies and retirements); a $1.4 million revenue enhancement; $2.2 million in temporary reductions in transfers to the Capital Improvement and Retiree Medical Liability Funds; and $3.0 million in employee compensation and benefit reductions. The latter category savings was dependent on the City negotiating compensation and/or benefit concessions from management and City unions.

The City is still in the process of negotiating with SEIU, discussing benefit changes with management, and finalizing a salary deferral with the Police union (approximately $800,000). The Fire union has decided to take its contracted salary increase this fiscal year. The Management and Professional Group has already made a contribution in the variable management compensation program (VMC) totaling $657,000 for the General Fund. The City's latest proposal to SEIU is available on the City's website at http://www.cityofpaloalto.org/labornegotiations

In the City Manager's FY 2010 Operating Budget transmittal letter, the possible need to revisit deeper service cuts and savings strategies was discussed. These deeper service cuts were described as the "Tier 2" list (Attachment C) and they included, for example: eliminating the disaster preparedness program; eliminating the Police traffic team; and contracting out golf and parks maintenance work. Layoffs could result with these recommendations, which the City has sectors, a permanent change in consumer spending would have a substantial effect on the City's General Fund finances.

Results to date for the transient occupancy and documentary transfer taxes have not changed since the September 8 report. TOT receipts from January to June in FY 2009 were -30 percent lower compared to the prior year period and July 2009 revenues were -21.3 percent under those in July 2008. As with sales tax, if receipts do not improve, midyear adjustments of between $0.2 and $0.5 million may be needed. Documentary transfer taxes, which fell from $5.4 million in FY 2008 to $3.1 million in FY 2009, continue to show weakness. Revenues through September 2009 were -36 percent below the same prior year period. At this time, however, staff does not foresee adjustments to the $2.8 million to be collected in this category for FY 2010.

Attachment B shows actual revenue receipts through the middle of September in comparison to the FY 2010 Adopted Budget. As mentioned, it is too early to draw firm conclusions from this information, but in addition to the areas cited above, those that bear further scrutiny and close monitoring are parking violations, plan checking fees, and building permits. These areas had especially weak results in FY 2009 which may continue into FY 2010. Property taxes, the General Funds' highest single revenue source, is expected to be close to budget at year end based on recent County projections.

<u>FY 2010 Expenses</u>
As with revenues, it is too early in the year to detect important expense variances. With the exception of overtime in the Police and Fire departments, which typically exceed their budgets due to minimal staffing requirements, there is no discernable expense trend causing concern at this time. If the City cannot achieve the $3 million in salary and benefit savings discussed above and incorporated into the FY 2010 budget, a deficit would result.

<u>"Tier 2" Items and Action</u>
Should revenues not perform as forecast or salary or benefit concessions by the unions and management not be realized, the City will be forced to utilize "Tier 2" expenditure reductions. During the FY 2010 Finance Committee budget hearings, these reductions were discussed at length and they were called to the attention of the full Council at budget adoption. Again, Attachment C lists these items and provides a description of the potential cuts. These include, for example:

- Eliminating the current Disaster Preparedness program
- Eliminating the City's shuttle service
- Contracting out parks and golf maintenance work
- Eliminating Police traffic control services

Tier 2 reductions will impact services to the community and will result in position reductions.

Structural or Systemic Budget Issues
To substantiate the position that the City faces structural budget issues, staff has modified the Long Range Financial Forecast (LRFF) presented in the FY 2010 Adopted Budget. Based on new data and known liabilities, the Net Surplus (Deficit) line in the forecast has been adjusted

The current rate of funding from the General Fund and Infrastructure Reserve, which is around \$9 million per year, is inadequate to meet the annual \$15 million needed to offset the \$302 million liability in any predictable or reliable way. The Infrastructure Reserve balance currently stands at \$5.2 million and is expected to decline to \$1.6 million next fiscal year. Without replenishment from General Fund surpluses over the next few years, which will not occur, the ability to sustain \$9-\$10 million of annual General Fund infrastructure work is unlikely. New revenues are necessary.

5. Although one-time in nature and supposedly to be repaid in 3 years, the City faces a \$2.5 million property tax takeaway by the State to solve its budget deficit. This cut will decrease the General Fund's Budget Stabilization Reserve, impact the City's cash flow and interest earnings (the City currently earns around 4 percent on its investments and the State has proposed repaying the principal with a 2 percent interest rate), and reduce flexibility in dealing with unforeseen needs. The City, with the League of California Cities is exploring our options. Even with statutory protections against State takeaways of local revenues, the State can withhold revenues in fiscal emergencies and the State's record on coping with such emergencies is well-documented. Having solid and substantial reserves protects the City from the State risk.

In addition to the structural issues cited above, the City faces additional threats on the revenue side. Outlined each year in the Long Range Financial Forecast, City revenues and the services they fund face an array of risks. These can include, for example, risks to sales tax and the TOT through: community opposition to new business and hotel development (e.g., the loss of Hyatt Rickey's); the potential exodus of automobile dealerships; surrounding big box stores that cause leakage of local spending and sales tax to surrounding jurisdictions; loss of sales tax to Internet sales; and, most recently, the threat of consumers spending less in retail areas such as the downtown and Stanford Shopping Center. It is important to note that nearly 50 percent of the General Fund's roughly \$20 million in annual sales tax is generated by 25 businesses. The loss of one of these enterprises can have a substantial impact on continuing services as we know them today.

Additionally, the impact of Statewide initiatives and legislation such as Proposition 13 (property tax); Proposition 218 (revenue thresholds); and required super majority (2/3) approval for General Obligation bond funding limit the City's revenue raising options. And of course, the financial markets crisis and impact on lending as well as the dysfunction of State government all impact the City.

Conclusions

Actual revenue and expenditure data to date do not definitively indicate new downward budget adjustments at this moment. As additional revenue and expenditure data materializes, however, further adjustments at midyear may be necessary.

As indicated in a prior report (October 2007) on maintaining a Sustainable Budget (CMR: 387:07), the City may be faced with determining its long-term service priorities. It must be recognized that the City provides a wide and high level of service and dedicates sizeable annual resources in such areas as the school district (\$6.6 million in FY 2009 for the Covenant Not to Develop as well as additional expenditures on field maintenance and outreach programs) and to

PREPARED BY: ______________________
JOE SACCIO
Deputy Director of Administrative Services

DEPARTMENT HEAD APPROVAL: ______________________
LALO PEREZ
Director of Administrative Services

CITY MANAGER APPROVAL: ______________________
JAMES KEENE
City Manager

ATTACHMENT A

City of Palo Alto
City Manager's Report

TO: FINANCE COMMITTEE

FROM: CITY MANAGER

DEPARTMENT: ADMINISTRATIVE SERVICES

DATE: SEPTEMBER 8, 2009

CMR: 358:09

SUBJECT: Review of Preliminary FY 2009 Revenue Analysis

RECOMMENDATION

Staff recommends that the Finance Committee review and discuss preliminary General Fund revenue performance for FY 2009.

BACKGROUND

As a result of the current recession and consequent decline of key General Fund revenue sources, the Finance Committee requested a late summer assessment of FY 2009 revenue performance. This assessment was to include a comparison of actual revenue receipts to the FY 2009 Adjusted Budget and to prior year results. The variance analysis could lead to necessary mid year budget adjustments and allow the City to be proactive in resolving unforeseen budget gaps.

It is critical to note that the FY 2009 numbers presented in this report are unaudited and that there are potential accruals that may result in subsequent changes. Staff is not presenting a year end expense analysis at this time. Since accruals and incurred, but not reported, expenses in such areas as workers' compensation and general liability have not been fully booked and allocated to departments, staff believes an expense report is premature and could be potentially misleading.

In addition, the Committee requested an earlier review of FY 2010 quarterly revenue and expense results. Staff anticipates presenting a full analysis in late October 2009, but offers the following insights into preliminary trends in this report.

DISCUSSION

The crucial backdrop to the results in this report is the dismal state of the economy. In what has come to be called the "Great Recession," the City's key and economically sensitive revenue sources have declined significantly since FY 2007-08. Rising unemployment rates, tightening credit markets, deteriorating residential and commercial property markets, and diving consumer confidence have driven down public revenue streams across the country. The City of Palo Alto has not been immune from the recession.

Documentary Transfer Tax
This important revenue source, which is based on the number and value of commercial and residential property sales, has moved down sharply during the recession. Rising to the mid $5 million level for the past 5 years, it retreated to $3.1 million in FY 2009. While close to the adjusted budget, this result was 42.5 percent or $2.3 million below FY 2008 results. The poor performance is a consequence of the commercial and residential markets coming to a virtual standstill. Commercial transactions decreased due to low occupancy rates and residential transactions were minimal due to sellers holding onto their homes during a period of market softness. In addition, credit conditions were abysmal due to the collapsing credit markets for commercial and jumbo home loans.

As with sales tax and TOT, documentary transfer tax revenue estimates for 2010 may require a midyear adjustment. Results for the month of July 2009 were nearly 40 percent under those for July 2008. Currently, the adopted budget for FY 2010 projects $2.8 million in transfer taxes, $0.3 million below actual FY 2009 revenues. With credit markets slowly returning to more normal activity, staff hopes this revenue source will rebound and obviate the need for a midyear adjustment.

Fines & Penalties
This revenue category consists primarily of parking violations and library fines. Revenues are below the FY 2009 Adjusted Budget by 16.6 percent or $0.5 million, and 4.7 percent or $0.1 million below prior year results. The negative variance is primarily due to parking violations, which came in 28 percent or $0.6 million below the adjusted budget. The combination of industrial injuries to Community Service Officers and fewer cars in violation of parking regulations have led to this drop. Should vacancies continue, an adjustment to adopted budget revenues may be necessary.

Permits & Licenses
The downturn in the economy has heavily and negatively impacted building related fees. Permit and license fees were 16.5 percent or $0.9 million below the adjusted budget and 17.4 percent or $0.9 million below the prior year. Compared to the budget, new construction permit fees are down 13.7 percent or $0.4 million while plan check fees were down $0.1 million.

In the new fiscal year, July 2009 building fee revenues are up by $0.1 million in comparison to July 2008. This may signal an upturn in this revenue category, which would preclude a midyear adjustment.

Return on Investment
Interest income came in higher than the adjusted budget for 2009, but was under prior year results by 6.9 percent or $0.2 million. With the Federal Reserve keeping interest rates low to stimulate the economy, the City's portfolio yield has declined to the low 4 percent range over the past two years. It is expected that yields will continue to decline as higher yielding instruments mature and the City continues to buy securities in the 3 to 4 percent range. An adjustment at midyear may be necessary if interest rates do not trend upward.

PREPARED BY: JOSEPH SACCIO
Deputy Director, Administrative Services

for - SHARON BOZMAN
Budget Manager, Administrative Services

DEPARTMENT HEAD APPROVAL: LALO PEREZ
Director of Administrative Services

CITY MANAGER APPROVAL: JAMES KEENE
City Manager

Attachment B

CITY OF PALO ALTO
REVENUE AND EXPENSE RESULTS THROUGH MID-SEPTEMBER
COMPARED TO THE ADOPTED FY 2009 BUDGET
GENERAL FUND
(In thousands of dollars)

	BUDGET		ACTUALS		(as of 9-16-09)	
Categories	Adopted Budget	Adjusted Budget	Pre Encumbr	Encumbr	Actual	% of Adjusted Budget
Revenues & Other Sources						
Sales Tax	19,650	19,650	-	-	1,682	9%
Property Tax	25,752	25,752	-	-	77	0%
Transient Occupancy Tax	7,000	7,000	-	-	578	8%
Utility Users Tax	11,250	11,250	-	-	2,357	21%
Other Taxes and Fines	5,633	5,633	-	-	1,204	21%
Charges for Services	20,238	20,238	-	-	2,613	13%
Permits & Licenses	5,056	5,056	-	-	943	19%
Return on Investment	1,900	1,900	-	-	5	0%
Rental Income	13,655	13,655	-	-	2,450	18%
From Other Agencies	92	92	-	-	15	16%
Charges To Other Funds	10,643	10,643	-	-	1,781	17%
Other Revenues	1,605	1,605	-	-	935	58%
Total Revenues	**122,474**	**122,474**	**-**	**-**	**14,640**	**12%**
Operating Transfers-In	19,664	19,664	-	-	3,808	19%
Encumbrances and Reappropriation	-	6,564	-	-	-	-
Total Sources of Funds	**142,138**	**148,702**	**-**	**-**	**18,448**	**12%***
Expenditures & Other Uses						
City Attorney	2,569	3,343	21	667	539	37%
City Auditor	999	1,143	-	246	152	35%
City Clerk	1,512	1,524	-	17	486	33%
City Council	296	309	-	35	70	34%
City Manager	2,395	2,646	33	61	487	22%
Administrative Services	6,761	6,910	5	187	1,296	22%
Community Services	21,876	22,770	203	2,839	4,173	32%
Fire	25,166	25,546	99	495	4,800	21%
Human Resources	2,837	2,970	-	126	501	21%
Library	6,385	6,668	-	164	1,169	20%
Planning and Community Environment	9,858	10,603	581	658	1,940	30%
Police	29,998	30,239	18	385	5,433	19%
Public Works	13,484	14,177	56	934	2,443	24%
Non-Departmental	6,925	8,778	2,000	-	1,953	45%
Total Expenditures	**131,061**	**137,624**	**3,016**	**6,814**	**25,442**	**26%**
Operating Transfers-Out	11,028	11,028	-	-	1,831	17%
Total Uses of Funds	**142,089**	**148,653**	**3,016**	**6,814**	**27,273**	**25%**
Net Surplus (Deficit)	**49**	**49**				
Beginning Reserves	22,176	22,176				
Projected Ending Reserves	**22,225**	**22,225**				

*** Excludes encumbrances, reappropriation and infrastructure reserve**

Attachment C

City of Palo Alto
Internal Budget Hearings - FY 2010 Summary
Tier 2 Items
General Fund

Department	Other Options	Revenue	Expense	FTE
FIR	Eliminate Disaster Preparedness Div	(33,400)	(442,826)	(1.00) Occupied
CSD	Park Maintenance - Contract out net expense		(122,957)	(5.00) Occupied
CSD	Golf Course Maint - Contract out net expense		(176,352)	(7.00) 7 Occupied
PLA	Eliminate Shuttle		(256,000)	
POL	Traffic Team	(100,000)	(626,433)	(4.00) Occupied
POL	School Res Officer Prg		(161,772)	(1.00) Occupied
POL	Pol Record Specialist - Front Desk Records		(82,773)	(1.00) Occupied
POL	Program Asst I - Crime Analysis		(94,037)	(1.00) Occupied
PWD	Eliminate Tree Trimming Contract		(379,000)	
PWD	Contract out Tree Trimming		(46,737)	(1.00) Vacant
	Subtotal	(133,400)	(2,388,887)	(21.00)

Additional Finance Committee "Parking Lot" Recommendations

FIR	Evaluate future organization of OES Consolidation/Coordination		
FIR	Regionalization options for Fire Services		
Police	Regionalization options for Police Services		
Police	Reduce the Police Department Budget by $500,000 - Police Chief to identify reductions		
Police	Reduce the Police Department Budget by $492,000 - Finance Committee recommended reductions		
	Add back 0.5 Fte Volunteer Coordinator (Salary & Benefits)	$	52,000
	Reduce the Traffic Team by one-half (instead of elimination)		
	1.0 FTE Police Officer (salary & benefits)		(154,000)
	1.0 FTE Police Agent (salary & benefits)		(158,000)
	Add back revenue		50,000
	Reduce positions listed below by one-half instead of elimination		
	School Resource Officer (0.5 FTE Police Agent)		(79,000)
	Crime Analyst Program (0.5 FTE Crime Analyst)		(56,000)
	Police Outreach (0.5 FTE Program Assistant I)		(47,000)

Planning & Community Environment - $ 256,000

Eliminate the City's shuttle service. There are not City FTE associated with this program and its termination would result in $256,000 in annual savings. Eliminating the shuttle program would reduce mobility and transportation alternatives within the City.

Police Department - $ 865,015

Eliminating the Traffic Team would result in the reduction of $626,000 in expenditures and $100,000 in revenue. Included is the reduction of four FTE. The duties normally assigned to the Traffic Team would be assumed by patrol units.

Eliminating the School Resource Officer (SRO) Program: During the FY 2010 budget hearings, one vacant SRO position was eliminated. The Tier 2 reduction would eliminate the remaining SRO position which is currently filled. The expenditure reduction is estimated at $ 162,000.

Elimination of the Crime Analysis Program. This would result in the reduction of one FTE with an estimated expenditure reduction of $94,000.

Elimination of Community Policing/Outreach program. This would result in the reduction of one FTE with an estimated expenditure reduction of $83,000.

The Finance Committee also discussed the possibility of evaluating the future of regionalization options for the Police Department. Staff has not reviewed the cost/benefit strips to property owners. It would require a change to policy and to the Municipal Code. It would not impact Utilities line or emergency tree trimming clearing.

The other alternative for the Public Works Department is the contracting out of Tree Trimming. This would result in the elimination of 1 FTE and a net expenditure reduction of $46,000.

The Public Works Department is recommending either/or for these options, not both.

Attachment C

CITY OF PALO ALTO
FY 2010 FINANCIAL REPORT as of 11-20-09
GENERAL FUND
(In thousands of dollars)

	BUDGET		ACTUALS	(as of 11-19-09)		
Categories	**Adopted Budget**	**Adjusted Budget**	**Pre Encumbr**	**Encumbr**	**Actual**	**% of Adjusted Budget**
Revenues & Other Sources						
Sales Tax	19,650	19,650	-	-	5,510	28%
Property Tax	25,752	25,752	-	-	3,140	12%
Transient Occupancy Tax	7,000	7,000	-	-	1,781	25%
Utility Users Tax	11,250	11,250	-	-	4,360	39%
Other Taxes and Fines	5,633	5,633	-	-	2,092	37%
Charges for Services	20,238	20,238	-	-	6,209	31%
Permits & Licenses	5,056	5,056	-	-	1,455	29%
Return on Investment	1,900	1,900	-	-	633	33%
Rental Income	13,655	13,655	-	-	4,780	35%
From Other Agencies	92	92	-	-	62	67%
Charges To Other Funds	10,643	10,643	-	-	3,540	33%
Other Revenues	1,605	1,605	-	-	959	60%
Total Revenues	**122,474**	**122,474**	**-**	**-**	**34,521**	**28%**
Operating Transfers-In	19,664	19,664	-	-	6,969	35%
Encumbrances and Reappropriation	-	6,564	-	-	-	-
Total Sources of Funds	**142,138**	**148,702**	**-**	**-**	**41,490**	**28%** *
Expenditures & Other Uses						
City Attorney	2,569	3,343	8	601	970	47%
City Auditor	999	1,143	-	229	296	46%
City Clerk	1,512	1,524	1	16	655	44%
City Council	296	309	-	31	107	45%
City Manager	2,395	2,646	6	62	814	33%
Administrative Services	6,761	6,910	-	156	2,267	35%
Community Services	21,876	22,770	86	2,308	7,993	46%
Fire	25,166	25,546	10	648	9,156	38%
Human Resources	2,837	2,970	5	104	911	34%
Library	6,385	6,668	48	145	2,110	35%
Planning and Community Environment	9,858	10,603	158	953	3,331	42%
Police	29,998	30,239	337	319	9,877	35%
Public Works	13,484	14,177	104	936	4,510	39%
Non-Departmental	6,925	8,778	-	19	2,772	32%
Total Expenditures	**131,061**	**137,624**	**763**	**6,527**	**45,769**	**39%**
Operating Transfers-Out	11,028	11,028	-	-	3,646	33%
Total Uses of Funds	142,089	148,653	763	6,527	49,415	38%
Net Surplus (Deficit)	**49**	**49**				
Beginning Reserves	22,176	22,176				
Projected Ending Reserves	**22,225**	**22,225**				

* Excludes encumbrances, reappropriation and infrastructure reserve

Attachment D

City of Palo Alto
General Fund Revenue Changes for FY 2010 and FY 2011 - Detail
($000)

Detail	2009 Actual	2010 Adopted Budget	2010 Revised Forecast	2010 Proposed Change	2011 Adopted In-Concept	2011 Revised Forecast	2011 Budget Change
Sales Taxes	$ 20,089	$ 19,650	$ 17,645	$ (2,005)	$ 20,050	$ 17,982	$ (2,068)
Property Taxes	25,445	25,752	25,778	26	26,102	26,379	277
Transient Occupancy Tax	7,111	7,000	6,850	(150)	7,300	6,987	(313)
Utility User's Tax							
City Utilities	7,718	8,180	7,966	(214)	9,218	8,993	(225)
Telephone	3,312	3,070	3,451	381	3,086	3,520	434
Sub-total - Utility User's Tax	*11,030*	*11,250*	*11,417*	*167*	*12,304*	*12,513*	*209*
Other Taxes and Fines							
Vehicle In-Lieu	216	200	200	-	208	205	(3)
Documentary Transfer	3,092	2,800	2,900	100	2,900	2,956	56
Parking Violations	1,683	2,020	1,560	(460)	2,020	1,599	(421)
General (Fines, Forfeitures & Penalties)	448	613	614	1	609	629	21
Sub-total - Other Taxes and Fines	*5,440*	*5,633*	*5,274*	*(359)*	*5,737*	*5,390*	*(347)*
Total Taxes and Fines	**69,115**	**69,285**	**66,963**	**(2,322)**	**71,493**	**69,250**	**(2,243)**
Charges for Services							
Stanford Fire/Police Service Reimbursement	7,783	7,832	7,832	-	8,166	8,166	-
Golf Related Fees	2,917	3,153	2,919	(234)	3,153	2,900	(253)
Class Program Fees	2,786	3,087	2,727	(360)	3,087	2,800	(287)
Paramedic Fees	1,866	1,754	1,754	-	1,753	1,678	(75)
Plan Checking Fees	1,630	1,763	1,460	(303)	1,788	1,600	(188)
Cable Franchise	541	600	600	-	600	600	-
Other Fees	2,013	2,050	1,841	(209)	2,050	2,050	-
Sub-total - Charges for Services	*19,536*	*20,238*	*19,134*	*(1,105)*	*20,596*	*19,794*	*(803)*
Permits and Licenses							
Street Cut Fee	805	553	703	150	553	703	150
Permits	3,663	4,431	3,835	(596)	4,506	4,100	(406)
Licenses	73	73	73	-	73	73	-
Sub-total - Permits and Licenses	*4,541*	*5,056*	*4,611*	*(446)*	*5,131*	*4,876*	*(256)*
Charges to Other Funds							
Cost Plan - Admin. Support to Other Funds	9,010	8,233	8,233	-	8,404	8,404	-
Communication - Utility Reimb. for 911 Support	512	512	512	-	512	512	-
Public Works Admin. Support to Ent. Funds	534	563	563	-	569	569	-
Other Reimbursements	1,112	1,335	1,252	(83)	1,472	1,472	-
Sub-total - Charges to Other Funds	*11,168*	*10,643*	*10,560*	*(83)*	*10,957*	*10,957*	-
Rental Income							
Utilities Facility Charges	9,860	10,311	10,311	-	10,311	10,462	150
Property Rental - Cubberley Tenants	2,280	1,719	1,801	82	1,719	1,719	-
Use of City Facilities	1,425	1,518	1,440	(78)	1,518	1,518	-
Other	82	106	81	(25)	106	106	-
Sub-total - Rental Income	*13,647*	*13,655*	*13,633*	*(21)*	*13,655*	*13,805*	*150*
From Other Agencies	168	92	92	-	92	92	-
Return on Investments (Interest Income)	2,008	1,900	1,662	(238)	1,900	1,646	(254)
Unrealized Gain/Loss on Investment	1,351						
Other Revenue	2,338	1,605	1,523	(82)	1,502	1,502	-
Total Revenues (Prior to Oper. T'fers-In)	**$123,858**	**$122,474**	**$118,176**	**$ (4,296)**	**$125,326**	**$121,922**	**$ (3,405)**
Operating Transfers-In							
Equity & Utility Transfers	15,798	17,040	17,040	-	16,502	16,502	-
Parking Districts	888	1,044	1,044	-	1,069	1,069	-
Other	928	1,580	1,580	-	1,138	1,138	-
Sub-total - Operating Transfers-In	*17,614*	*19,664*	*19,664*	-	*18,709*	*18,709*	-
Total Source of Funds	$141,472	$142,138	$137,840	$ (4,296)	$144,035	$140,631	$ (3,405)

Attachment E

Police and Fire Departments
Overtime Analysis for Fiscal Years 2005 through 2009
With Fiscal Year 2010 Data Through November 20, 2009

	Fiscal Year Ending June 30					
	2005	2006	2007	2008	*unaudited* 2009	*thru 11/20* 2010
POLICE DEPARTMENT						
Overtime Expense						
Original Budget	$974,426	$981,862	$1,015,620	$1,036,815	$999,900	$999,900
Current Budget	1,028,337	1,009,705	1,074,399	1,071,005	1,016,900	999,900
Net Overtime Cost - see below	1,096,077	780,647	1,025,718	1,096,894	886,568	215,550
Remaining Budget	($67,740)	$229,058	$48,681	($25,889)	$130,332	$784,350
Overtime Net Cost						
Actual Expense	$1,229,851	$1,405,155	$1,765,657	$2,009,542	$1,665,842	$567,870
Less Reimbursements						
Stanford Communications	30,941	30,937	39,342	65,079	42,160	17,468
Utilities Communications Reimbursement	17,404	17,402	22,130	36,607	23,715	9,826
Local Agencies **(A)**	32,617	34,565	36,457	41,770	37,413	13,413
Federal Grants						-
State Grants **(B)**	8,135	65,835	63,344	4,672	10,998	-
Police Service Fees	37,188	49,185	43,218	67,390	53,812	48,035
Other	7,489		12,447	18,157	15,982	
Total Reimbursements	133,774	197,924	216,938	233,675	184,080	88,742
Less Department Vacancies	375,515	426,584	543,001	678,973	595,194	263,578
Net Overtime Cost	$1,096,077	$780,647	$1,025,718	$1,096,894	$886,568	$215,550
Department Vacancies (number of days)	1,642	1,733	2,280	2,766	2,402	508
FIRE DEPARTMENT						
Overtime Expense						
Original Budget	$982,674	$959,389	$1,032,674	$892,674	$1,017,674	$1,017,674
Current Budget	982,674	959,389	1,032,674	996,674	1,353,058	1,017,674
Net Overtime Cost - see below	877,892	637,310	737,768	863,442	416,610	513,685
Remaining Budget	$104,782	$322,079	$294,906	$133,232	$936,448	$503,989
Overtime Net Cost						
Actual Expense	$1,956,529	$1,582,858	$1,860,757	$1,744,076	$1,591,261	$1,040,777
Less Reimbursements						
Stanford Fire Services **(D)**	592,828	479,606	563,809	528,455	482,152	315,355
Cal-Fire/FEMA (Strike Teams)		66,269	85,531	140,224	453,619	43,000
State Homeland Security Grant Program (SHSGP) **(C)**	17,203	72,254	40,897	10,164	4,342	
Urban Area Security Initiative (UASI)		26,782		1,150		
Department of Homeland Security **(E)**						5,800
Total Reimbursements	610,031	644,911	690,237	679,993	940,113	358,355
Less Department Vacancies	468,606	300,637	432,752	200,641	234,538	168,737
Net Overtime Cost	$877,892	$637,310	$737,768	$863,442	$416,610	$513,685
Department Vacancies (number of days)	1,980	1,230	1,740	810	780	636

NOTES:

(A) Includes Animal Services contract with Los Altos, Mountain View and Los Altos Hills.

(B) State Office of Traffic Safety and ABC grants.

(C) Included in the SHSGP and UASI reimbursements is a small amount of per diem reimbursement.

(D) Stanford reimburses 30.3% of Fire expenditures.

(E) Reimbursement from U.S. Department of Homeland Security for HazMat Continuing Challenge Training Conference (Sep 2009)

Attachment F

FY 2010 Salary Savings by Department

In Thousands

Department	Salary Adopted Budget	Projected Year End Salary Savings	Projected Year End Overtime Exceeding Budget	Projected Year End Net Salary Savings
City Attorney	1,374	124	-	124
City Auditor	487	25	-	25
City Clerk	593	67	-	67
City Council	65	5	-	5
City Manager	1,302	151	-	151
Administrative Services	3,709	147	-	147
Community Services	8,707	276	(137)	139
Library	3,297	156	-	156
Fire	14,182	1,539	(679)	860
Human Resources	1,544	193	-	193
Planning and Community Environment	4,531	390	(37)	353
Police	16,706	1,891	(691)	1,200
Public Works	4,831	337	(51)	286
Non-departmental	(1,313)	(2,206)	-	(2,206)
Total	**60,015**	**3,095**	**(1,595)**	**1,500**

ATTACHMENT G

"Tier Two" Reductions

Dept.	Other Options	Revenue	Expense	FTE
FIR	Eliminate Disaster Preparedness Div	(33,400)	(442,826)	(1.00)
CSD	Park Maintenance - Contract out net expense		(122,957)	(5.00)
CSD	Golf Course Maint - Contract out net expense		(176,352)	(7.00)
PLA	Eliminate Shuttle		(256,000)	
POL	Traffic Team	(100,000)	(626,433)	(4.00)
POL	School Resource Officer Program		(161,772)	(1.00)
POL	Program Asst I - Police Outreach Program		(94,037)	(1.00)
POL	Crime Analyst - Crime Analysis Program		(111,353)	(1.00)
PWD	Eliminate Tree Trimming Contract		(379,000)	
PWD	Contract out Tree Trimming		(46,737)	(1.00)
	Subtotal	(133,400)	(2,417,467)	(21.00)

Attachment H

Budget Reduction Options

Near-Term Cost Savings

1. Institute a hiring freeze except for positions absolutely required for public health and safety. The City will look at reorganization around vacant positions (short-term within departments and long-term among departments), but it must be noted that significant staff reductions and efficiencies have been implemented since the "dot-com" bust
2. Freeze or cut all travel and meeting budgets unless critical to immediate public health and safety issues
3. Institute furloughs
4. Review all consultant contracts, particularly those just starting, to determine if needed
5. Defer any Capital Improvement Projects (CIPs) that are not absolutely essential
6. Close public safety building design CIP and return funds to reserves
7. Evaluate need for temporary positions including retirees who have been hired back to work
8. Review staffing levels in departments where fee, fine or permit revenue has dropped, e.g., CSD classes, parking violations, and in development center. Design flexible budgets for these areas
9. Consider instituting a 2.5% reduction for small departments and 5% for remaining departments
10. Institute full cost recovery for programs that provide unique and limited service to small populations
11. Institute full cost recovery for adult classes. Revisit the non-resident fees and examine all programs where non-residents are not paying fees for use of City facilities.
12. Use the Budget Stabilization Reserve to balance the budget along with other initiatives in 2010. The goal would be to make longer term decisions during the fiscal year 2010 timeframe. The drawdown should not take the reserve lower than 15 percent of General Fund adopted budget expenditures

Medium Term

1. Institute a 5.0-7.5% equity transfer on dark fiber fund
2. Enhance and expand the Economic Develop Plan
3. Negotiate away minimum staffing levels in Fire Department
4. Have fire department use newest employees for OT work rather than most senior staff; same for police (i.e., staff according to reverse seniority)
5. Have Fire department complete an evaluation (funds have been budgeted) on need for current levels and configurations of fire service based on predominant number of calls for paramedic service
6. Institute a two-tier retirement plan for public safety personnel
7. Contracting out services such as parks and golf
8. Decrease rental subsidies at Cubberley or restart negotiations with Foothill College
9. Review all support to PAUSD to determine what the City can continue to provide
10. Review the Cubberley Lease and the Covenant Not To Develop agreement with PAUSD to determine affordability and course of action going forward.
11. Revisit all HSRAP services to non-Palo Alto institutions with new budget cycle and focus resources on needy seniors, children, and teens in trouble.
12. Revisit residents and businesses paying for cost for sidewalk work at 10% per year and cap at 50% in year 5
13. Revisit policy on property rental rates to be at or close to cost recovery as agreements come up for renewal.
14. Move all employee groups toward assuming greater share of PERs "employee" contribution and all groups contribute towards the cost of health care.
15. Consider assessment districts – parks, sidewalks, fire and/or public safety.
16. Begin GF service priority setting process with Council and community

Long-Term

17. Revisit new conference hotel in Palo Alto
18. Develop LATP site as a source of rent or sell the land to Enterprise Funds

19. Negotiate away no minimum staffing requirement for Police
20. Review all police services for efficiencies and potential reduction in least essential services
21. Contract out, with reasonable response time specifications, paramedic service to outside agencies e.g., AMR
22. Begin discussion with neighboring cities e.g., Mountain View on sharing public safety services e.g. dispatch center, SWAT, white collar units, border fire response
23. Explore and implement new revenue opportunities
24. Revisit land use policies to provide the most benefit to the community

ATTACHMENT B

ORDINANCE NO.XXXX

ORDINANCE OF THE COUNCIL OF THE CITY OF PALO ALTO AMENDING THE BUDGET FOR FISCAL YEAR 2010 TO REINSTATE A $809,000 TRANSFER FROM THE GENERAL FUND BUDGET STABILIZATION RESERVE TO THE TECHNOLOGY FUND.

The Council of the City of Palo Alto does ORDAIN as follows:

SECTION 1. The Council of the City of Palo Alto finds and determines as follows:

A. Pursuant to the provisions of Section 12 of Article III of the Charter of the City of Palo Alto, the Council on June 15, 2009 did adopt a budget for Fiscal Year 2010; and

B. On December 1, 2009, staff reported to the Finance Committee a one-time budget change to solve a $4.8 million deficit for the Fiscal Year 2009; and

C. The one-time budget change deferred a $4.8 million cost allocation transfer from the General Fund to the Internal Service Fund-Technology Fund in FY 2009; and

D. Pursuant to discussions with the Finance Committee, a motion was passed to approve staff's recommendation to close out the 2009 Fiscal Year by deferring the $4.8 million transfer to the Technology Fund; and

E. The Finance Committee also passed a motion recommending staff submit a Budget Amendment Ordinance to Council amending the FY 2010 Technology Fund Budget in the amount of $800,000, which was the excess from FY 2009 year end close, plus any amount necessary to fund all of the Tech expenditures that had been planned for FY 2010; and

F. City Council authorization is needed to transfer $809,000 from the General Fund to the Internal Service Fund-Technology Fund.

SECTION 2.

A. The Budget Stabilization Reserve is hereby decreased by the sum of Eight Hundred Nine Thousand ($809,000). As a result of this change the Budget Stabilization Reserve will be reduced from Twenty Two Million Twenty Two Thousand Three Hundred Sixty One($22,022,361) to Twenty One Million Two Hundred Thirteen Thousand Three Hundred Sixty One ($21,213,361).

B. The Internal Service-Technology Fund is hereby increased by the sum of Eight Hundred Nine Thousand ($809,000). As a result of this change the Internal Service-Technology Fund Reserve will be increased from Fifty One Thousand Four Hundred ($51,400) to Eight Hundred Sixty Thousand Four Hundred ($860,400).

SECTION 3.

As specified in Section 2.28.080(a) of the Palo Alto Municipal Code, a two-thirds vote of the City Council is required to adopt this ordinance

SECTION 4. The Council of the City of Palo Alto hereby finds that this is not a project under the California Environmental Quality Act and, therefore, no environmental impact assessment is necessary.

SECTION 5. As provided in Section 2.04.350 of the Palo Alto Municipal Code, this ordinance shall become effective upon adoption.

INTRODUCED AND PASSED:
AYES:

NOES:

ABSTENTIONS:

ABSENT:

ATTEST:	APPROVED:
City Clerk	Mayor
APPROVED AS TO FORM:	City Manager
City Attorney	Director of Administrative Services

ATTACHMENT B

FINANCE COMMITTEE

EXCERPT FROM THE REGULAR MEETING
DECEMBER 1, 2009

2. Fiscal Year 2009 General Fund Discussion and Fiscal Year 2010 Financial Results as of November 20, 2009.

City Manager, James Keene stated due to a higher than anticipated budget gap in Fiscal Year (FY) 2009, Staff will be presenting the year-end budget review earlier than usual, and would provide the final audited financial statements on another date. The intent was to call attention to the upcoming challenges in the forthcoming fiscal years. He spoke on the continuing economic downturn and declining revenues projected in the next four years, and beyond. In the FY 2010 budget, a $10 million General Fund deficit was identified by Staff. This gap was initially closed with a three pronged approach, but had proven insufficient to stem the tide of declining revenues. The City was facing an additional deficit. Staff would discuss in detail the shortfalls and issues in the closing of the FY 2009 Budget. In the wake of the FY 2009 issues, the City's Budget Manager voluntarily left, and the Administrative Services Department (ASD) had restructured creating an Office of Management and Budget within the ASD Department. The ASD Department was currently recruiting for a Budget and Management Officer. He spoke on the recommendation to balance the FY 2010 with one-time adjustments to get the City through the current fiscal year, and systemic adjustments would be required for future drop-offs in revenues.

Director of Administrative Services, Lalo Perez stated the purpose of the report was a follow-up to discussions with the Finance Committee on September 8, 2009 and October 5, 2009, to provide new information depicting a worsening financial condition, and to lay out plans for addressing the current projections and future deficits. He gave a PowerPoint presentation that highlighted the following topics: 1) background on Palo Alto's financial position; 2) four-year view on the challenges that lay ahead; 3) FY 2009 General Fund results; 4) FY 2010 General Fund results to date; 5) long range financial forecast; 6) future challenges; and 7) budget reduction options. He stated that Palo Alto has lost $9.3 million in revenues since the end of FY 2008.

He stated that the net deficit for 2008 was $4 million. He projected that in 2010 the deficit will be $5.4 million, driven by a decline in revenues. Staff recommended one-time adjustments for 2010. A $5.6 million structural adjustment to the General Fund Budget will be required and was subject to change. He stated the City would face an additional deficit of $1.9 million in 2012.

Mr. Keene added that the additional $1.9 million in 2012 was predicated on the $5.6 million in 2011 being systemic and ongoing.

Council Member Klein inquired whether the deficit projections in the four-year view were in addition to the $10 million deficit when the FY 2010 budget was prepared.

Mr. Perez stated that was correct. He spoke on FY 2009 General Fund results. The drop in key revenue sources in FY 2009 required midyear budget adjustments to the General Fund revenues and expenditures. The salary line item was over budget due to a miscalculation in the amount of expected salary savings. The General Fund deficit consisted of $2.1 million in employee salaries, $0.9 million in overtime, and $1.8 million in employee benefits. The miscalculations were not recognized in time to make additional expense adjustments. Staff had implemented enhanced monthly variance reports, a department restructuring, as well as other controls, to avoid such occurrences in the future. He stated that Staff's recommended solution was a one-time adjustment to the FY 2009 General Fund by eliminating the $4.8 million transfer to the Technology Fund. He said that given the downturn in revenues it was important to not draw on the Budget Stabilization Fund first. The result of the error was an overage of $2.1 million in salaries, a $900,000 overage in overtime, and a $1.8 million overage in benefits. He stated that the Fire Department and Police Department covered their overtime through vacancies and reimbursements. Regarding the benefits overage, he stated that in previous years the City was able to rely on the Benefit Fund Balance to cover overages. In recent years the balance has dried up as the City had used it to balance the budget and can not absorb the overage any longer. After the close of the year Staff realized that there was not going to be sufficient budget to cover the overages in the General Fund. The impacts of not transferring the $4.8 million to the Technology Fund will be delayed projects. This may be acceptable in the short term, but this was not a fund that could forego these projects. The money will need to be put back in order to support the organizations technology needs. Staff was recommending a pay back over a four year period. The projects being considered for deferral were the Radio Infrastructure Improvements, the Library Radio Frequency Identification, the replacement schedule for on-going items, and restrictions on any future technological initiatives until the funds were put back. After accounting for encumbrances and reappropriations there will only be $51,000 left in the Technology Fund.

Mr. Keene iterated that Staff was proposing an approach to close the books on FY 2009. And how to replenish, over a four-year period, the Technology Fund, if the City Council chooses that alternative to close the FY 2009 General Fund gap. He stated the FY 2010 deficit challenge contained $1.2 million from FY 2009, totaling a FY 2010 projected deficit that totaled $5.4 million. He spoke on the impact on the Technology Fund.

Chair Burt spoke on how the City Council should proceed with the subsequent discussions regarding this Agenda Item.

Council Member Klein stated the City Council Member's questions should be answered thoroughly before moving forward.

Vice Mayor Morton stated $4.8 million from the Technology Fund was a transfer, and not an expenditure that had been made. He inquired whether the City Council was asked to solve a booking in payroll savings error in FY 2009 by deferring to the Technology Fund.

Mr. Perez stated that was correct.

Vice Mayor Morton stated a draw of $800,000 from the Budget Stabilization Fund could be transferred to the Technology Fund to minimize the future impact on said fund.

Mr. Perez stated that was the intent of Staffs recommendation.

Vice Mayor Morton stated his preference to transfer $800,000 from the Budget Stabilization Fund this Fiscal Year. He requested clarification on how employee vacancy savings became a misidentification in General Fund deficit.

Mr. Perez spoke on the process leading up to the miscalculation. He spoke on the line item that was over budget, due to a miscalculation made on the expected vacancy salary savings.

Vice Mayor Morton inquired whether there was an option to not transfer funds from the General Fund to the Technology Fund to solve the FY 2009 Budget problem.

Mr. Perez stated yes and that the miscalculation was not a system error.

Vice Mayor Morton left the meeting at 7:54 p.m.

Council Member Schmid inquired whether the miscalculation in salary savings from vacancy rates was $2.1 million, and whether the error accounted for the overtime and benefit shortfall.

Mr. Perez stated the FY 2009 General Fund deficit consisted of $2.1 million, plus $900,000 for overtime costs.

Council Member Schmid inquired whether the benefits were a separate issue.

Mr. Perez stated this was correct because they were not covered under the General Fund. He indicated there were a number of variables that could be difficult to predict.

Council Member Schmid stated there were a growing number of vacancies during the time period contributed to the miscalculation.

Mr. Perez stated that was correct.

Council Member Schmid stated the vacancies should have created a budget positive. He inquired whether the issue was an overestimate.

Mr. Perez stated that was correct. He spoke on the three components that contributed to the miscalculation.

Council Member Schmid stated the miscalculation was not what was owed to the retired employees.

Mr. Perez stated the payroll was correct, and the amount that should have been paid out was in line with the adopted budget, with the exception of benefits.

Council Member Schmid stated the benefits showed a $1.8 million shortfall due to workers compensation and general liability costs. He requested clarification for the underestimation of funds to cover benefits.

Mr. Perez stated the City's actuarial consultant analyzed the existing and new claims and made a determination on what the payout would likely be. He stated the consultant's amount was booked against the General Benefits Fund. The benefit expenses at the end of FY 2009 came in at $1.8 million over budget due to a higher than anticipated cost of the claims.

Council Member Schmid stated Mr. Perez was implying there was an underestimation in the funding to cover benefits.

Mr. Perez stated that was correct.

Council Member Schmid stated $1.8 million was a sizable amount. He inquired on the total amount booked in a given year for workers compensation claims.

Mr. Perez stated $15 million.

Council Member Schmid stated the error was roughly 10%.

Mr. Perez stated the shortage was in benefits. He stated assumptions were made at the beginning of the Fiscal Year to book the liability in the General Benefits Fund, and that amount was not sufficient to cover the unanticipated expenses.

Council Member Schmid stated the amount requested at the beginning of the Fiscal Year was deemed as reasonable at the time. In addition, there was a sizable and growing vacancy in the City's workforce. He questioned whether something happened inside the workers compensation area that created larger payouts.

ATTACHMENT C

FINANCE COMMITTEE

Regular Meeting
February 16, 2010

Chairperson Schmid called the meeting to order at 7:02 p.m. in the Council Conference Room, 250 Hamilton Avenue, Palo Alto, California.

Present: Schmid (Chair), Espinosa, Klein, Scharff

Absent: none

1. Oral Communications

Roger Smith, 270 Tennyson Avenue Spoke regarding tax on internet sales. He suggested that Palo Alto should lead the trend towards collecting tax on internet sales.

2. Update to Long Range Financial Forecast, 2010-2020

Director of Administrative Services Lalo Perez spoke regarding the Long Range Financial Forecast. He said the goal was for Staff to hear the Committee's feedback so they could then present the forecast to the full Council. The purpose of the Long Range Financial Forecast was to create a balanced and sustainable General Fund budget. He said this was not a budget or a plan, nor a commitment to future increases. Rather, it was a model to start the conversations. The focus of the forecast was on 2011. He said that the local economy wasn't showing many signs of recovery. The FY 2010 gap was $6.3 million. With the report on March 2, 2010, Staff would provide specific details for addressing the gap. They would save $4.5 million through vacant positions with salary savings of $1.2 million not including benefit expense savings.

Council Member Klein said the fund covered the General Liability Insurance, but not pensions and healthcare.

Mr. Perez said any savings realized from the vacant positions benefit expense would build up that balance to cover unexpected expenses for the General Fund.

City Manager James Keene said Staff was not trying to earmark the salary savings. Rather it would be used to replenish the benefit fund.

Council Member Klein said it would be better to show an additional expense item to replenish the fund, and then show the total savings.

Mr. Keene said Staff would look at that.

Mr. Perez continued the presentation saying that additional savings would be met through non-salary, one-time reductions of $1.8 million, unspent Public Safety Building Design Funds of $2.7 million, and repayment to the Technology Fund of ($1.2 million), which would bring the gap to $1.8 million. He said that Staff was recommending Council draw on reserves. He said that what this meant for the FY 2011 through the FY 2020 forecast was between a $6.4 million and $19.6 million annual gap.

Mr. Keene said there would be an annual one-time budget balancing.

Mr. Perez said that if the $4.5 million in adjustments were made, and there was a draw out of $1.8 as projected in FY 2010 the budget would be balanced. He cautioned the budget assumed everything forecasted comes to fruition. Revenues deteriorating further than expected were would not be part of the formula. In 2011 there was a $6.35 million deficit projected. All the changes that would be reported on March 2, 2010 were one-time items. If permanent adjustments were considered, the City would only have to make up the difference between the $9 million and the $6.3 million.

Council Member Scharff asked if this meant they would make large cuts every year.

Mr. Perez said that both cuts and revenues have to be accounted for. He suggested revenue from the new hotels were not in the forecast, and no savings were included for the changes in the 2%@60 formula. There would be some numbers that would change and create some savings going forward.

Mr. Keene suggested salary increase of growth assumptions could be debated.

Mr. Perez said he would discuss PERS later in the presentation. He added this was a common amount in many surrounding cities. At least 40 cities are going through reductions. Staff was formulating information for the Council.

Deputy Director of Administrative Services, Joe Saccio discussed the deficits of neighboring cities.

Council Member Klein said the Committee had asked Staff to show them percentages of the budget.

Mr. Keene said it was about 10% of San Francisco's budget.

Mr. Perez stated that well known Economist, Steven Levy, has said that the outlook for local cities was not good. He said the recovery for government revenue would be more at the state level. The impact of the current economic conditions on the City's revenues meant the current portfolio of services was in jeopardy.

Mr. Saccio said that the California economy was among the worst in the nation. He said that 90,000 jobs had been lost in the Silicon Valley Region alone. Unemployment reached 12.4% in December 2009. He said that temporary workers were being increased and held longer than in the past. An upward trend of temporary workers previously indicated that full-time jobs would come soon, but the current trend was concerning, he said, because organizations were holding onto temps rather than hiring benefitted employees. The state deficits totaling $20.7 billion may impact the City, but it was still unclear how. He stated that the Bay Area Business Confidence Index was positive in November, with 53% of the respondents expressing optimism. He said that economic forecasts pointed to a slow growth trend over the next one to two years. Federal stimulus programs had given signs of an upturn, but it was unclear what those impacts would be when the programs expire. He said that since FY 2009, sales tax revenues had dropped $2.9 (14%), property tax revenues increased $0.35 million (1.3%), Transient Occupancy Tax was down $.5 million (7%), Documentary Transfer Tax was up $.2 million (5%), Joint Service Agreements were down $.2 million (2%).

Council Member Klein said he heard recently that revenues were up. He asked if that data was included in the analysis.

Mr. Saccio said they had been looking at the data. The Transient Occupancy Tax (TOT) was bottoming out; perhaps pointing to increases. He said the Documentary Transfer Tax was similar, but Sales Tax was down 9%. It would take some time for that to affect spending habits.

Mr. Keene said the State Controller recently wrote a letter saying the State would be out of cash by April if revenues continued at the same level.

Council Member Espinosa asked when the Revenue Plan would come into this discussion.

Mr. Keene said he thought there would be many variables, some due to policy direction from Council. It should be looked at as a package of solutions, or mitigations the Finance Committee would look at. He asked if there were new revenues they would want to look at.

Mr. Perez said the budget calendar would also indicate an opportunity for such discussions.

Council Member Scharff asked if Staff was looking at methods to increase sales tax.

Mr. Keene said he thought a more focused economic development strategy would be a Finance Committee agenda item. It was difficult to predict what would forestall 2011 decisions. It could come into play for a long range forecast.

Council Member Scharff said the City couldn't make that level of cuts every year realistically. He stated that the City could not tax themselves out of this and that some growth would be required. He asked if there was a way to increase property taxes.

Chair Schmid said this was a 10 year outlook that outlined assumptions about where revenues would come from. He said the fastest growing revenue stream was the Utilities User Tax. The Utilities User Tax depended on usage rates, and the wholesale gas prices were currently level with 2002-2003, oil prices were the same as they were in 2007 yet there was an assumption that the biggest source of future revenue would be through the Utility User Tax. He asked if this forecast would push reality.

Mr. Perez said the gap between the electric commodity market and the City was narrowing.

Council Member Klein said that had not been demonstrated in the report.

Mr. Perez said the gap was at the high 20%. Staff was concerned about not having enough wet years. With less brown power and increased green there was a potential for the cost to go up.

Mr. Keene said the situation in Palo Alto was not a unique situation; many other purveyors of utilities are dealing with drought.

Chair Schmid said more of an uptick in utilities was being built into the Long Term Financial Forecast than anything else.

Mr. Saccio said this was primarily driven by Utilities own forecast. There could be more hydro power available, and the forecast would be revised.

Mr. Saccio said water rates were driving much of the forecast. Gas and electric prices fluctuated regularly.

Chair Schmid said the City could carefully look at that.

Council Member Klein said property tax forecasts were being based off of macro numbers provided by the State and the County instead of a more granular base. Commercial projects coming on-line such as Tesla should be factored into the forecast.

Mr. Perez said the School District did a more comprehensive analysis through a consultant; Staff could look into providing additional analysis.

Mr. Keene said Staff could target the big projects.

Mr. Perez agreed and suggested something similar to the SEA with Cisco.

Council Member Scharff asked if buying less hydroelectricity, and more green would raise the bills

Mr. Perez said that it was a higher cost for the green.

Council Member Scharff asked if that meant the City collects more tax because the bills go up.

Mr. Saccio said the tax was 5% on gas, water, and electric bills. Anything that drove up the bill for the customer would drive up the revenue for the City.

Mr. Keene said the CIP needed to be looked at as well.

Council Member Klein said the Staff Report referred to a narrow tax base for the City, but previously Staff had reported to Council that the City had a broad tax base.

Mr. Perez said that comment had to do with the discussion with Mr. Levy who felt there was less of the type of positively impacting revenues.

Mr. Keene said compared to some cities Palo Alto had a more diversified tax base. Most cities didn't have many tools available for their tax base. The taxes Palo Alto had have been limited in some ways by legislation and the more elastic taxes were not currently there.

Council Member Klein stated that the CMR was a public document and he didn't want that comment to be circulated giving the impression that Palo Alto had a narrow tax base. He then spoke regarding the comment in the CMR that referred to the delayed response to the housing market. He said that language was inconsistent with the fact that Palo Alto's tax base had outpaced every other city in the county.

Mr. Perez agreed and mentioned the negative CPI adjustment expected from the County.

Council Member Klein asked Staff to rewrite that entire sentence.

Mr. Saccio said that housing had seen robust growth but currently it was leveling off.

Council Member Klein said that the sentence in question was still comparing Palo Alto to other cities. Other cities would be delighted to be where Palo Alto was.

Mr. Perez said that salaries and benefits were up $0.2 million rather than $1.3 million in the adopted FY 2010 budget. That expenditure number included the following; Benefits costs increased by $2.8 million, base salaries increased by $1.6 million, SEIU and Management savings, plus PAPOA salary deferral saved $2.8 million, and vacant positions saved $1.2 million. The net change was a $.2 million increase. Salaries and benefits attributed to 65% of expenditures. He said that in FY 2000 the benefits were $16.3 and in FY2010 they were $28.5. One of the main reasons it had gone up was health care. The infrastructure funding problem was not fully addressed in the forecast. The infrastructure had a 20-year backlog estimated at $302 million for existing structures, plus $208 million for replacing and updating facilities. The first five years of the $510 million 20-year need was estimated at $152 million. The Forecast includes funding for just $62 million or 40% of that.

Council Member Espinosa how it was decided what was included in the 40%.

Mr. Perez said it was based on the available dollars. Council approved the level of funding which met prior policy directions. Staff was requesting a revisit of those directions. Otherwise the backlog will grow and maintenance needs will grow.

Council Member Espinosa asked if the formula would get to the 40%.

Mr. Perez said the City averaged $10 million a year in transfers from the General Fund to the Infrastructure Capital Program. That was not enough; he said it needed to be approximately $15 million. The majority grew by about 7% based on the formula.

Council Member Scharff asked if the graph on page 12 of the Long Range Financial Forecast was indicating that this was to not fall further behind or if it was to catch up.

Mr. Perez said that with a 20 year plan this was what it would take to address the infrastructure.

Council Member Scharff asked if that meant the $500 million would be fully addressed if they put in $25 million.

Mr. Perez said yes.

Council Member Scharff asked how much would have to be put in to not have the gap grow. He said that currently there was a $500 million gap; he asked how much money they would have to put in to make sure it's not $505 million next year.

Mr. Keene said Staff would have to research that.

Mr. Perez said the City was $5 million behind in maintenance. He said that if the facilities were not maintained the deficit would grow.

Chair Schmid said this study was done three years ago, at the height of the escalated numbers. He said there was a unique opportunity in the next few years to get this work done for less money than previously.

Council Member Espinosa said this would be addressed in other ways as well. He said he was concerned about Staff using the term "some maintenance." At the retreat he thought they were discussing all maintenance as well as a dream building.

Mr. Keene said his understanding was that this would address that backlog and projected funding for maintenance needs in that 20 year period.

Chair Schmid said in addition to the $10 million in 2010, Public Works had a Maintenance Budget, for a total of $15 million for 2010.

Mr. Perez said there was an Operating Budget for maintenance.

Council Member Klein said it would be better to say "deferred maintenance."

Council Member Scharff said that in 2009 it was $15 million on infrastructure, in 2010 it would be $8 million.

Mr. Keene said other funding sources for infrastructure were included in the CIP, such as the General Fund transfer.

Mr. Perez said there was also money from the prior years that will have accumulated.

Mr. Keene said a few years ago the Council decided to increase the amount of money put into infrastructure funding. It would fall short of what would be needed.

Council Member Klein said the Council increased the amount by $3 million in 2006 and any surplus was added to the Capital Infrastructure Program. One way to balance the budget was to not put it in infrastructure.

Council Member Scharff said that was in essence what had been done in 2010, the infrastructure had been cut by $2 million.

Mr. Keene said the contribution to the infrastructure had been cut by approximately $1 million. But Council's thought was that given the currently lower prices for services the City could get the same amount of work for less money. He said the $3 million was a combination between some Capital Funds and some additional funding.

Chair Schmid recalled a report from 2009 on retiree medical actuarials, which laid out a series of assumptions built into the model currently being used. Those assumptions included a CalPERS number that indicated reserves earned 7.75% per year. Palo Alto's pension liability was the same. He said that CalPERS would have a major loss in their investments. A comparable investment was CIAA credit, without the property investment. Their 10 year rate of return was 4.4%, using a 7.75% future would be unrealistic if Palo Alto kept some control from CalPERS. He stated that the numbers on the benefits side were understated. Staff forecasted the benefits would grow 60% faster than salaries and salaries would grow at the same rate as total revenue. If CalPERS was overstated then Staff was understating the deficit.

Mr. Perez said that was the discussion in Sacramento and in Staff's working groups. It would be a challenge because the real estate holdings at PERS would take a hit which would include assets. The City had less control of the state assumptions from the pension side.

Chair Schmid said Staff was basing assumptions on the future that salaries and benefits would grow faster than revenues.

Mr. Perez said that would be correct if nothing was changed. Staff was recommending changes. The City could not have 40.3% growth in revenue and 52.4% growth in expenditures. The City was required to go by the PERS report assumptions. The City would need to push PERS on a charge to the assumed rate of return. He said that Mr. Levy expressed concern about the same issue.

Chair Schmid said CalPERS would want to avoid changing but Palo Alto still had decisions to make.

Mr. Keene said that an alternate scenario of a lower return on CalPERS investments could be built into the model. He said the Committee should consider this to be a long range forecast, each year would still require a budget. There will always be some trade offs for risk assessments.

Council Member Klein asked why there was a projected salary increase when there was a decrease in head count. He said that if increases were eliminated between 2011 and 2020 the budget would be balanced with a surplus. Given that benefits are going up, without our control, there was no justification for building in salary increases.

Mr. Keene said the model was based on historical data.

Council Member Klein said they declined to use that model on the revenue side. He suggested a different model on the expense side as well. He said he did not approve of excessive conservatism. Those increases would never be allowed during a time when services will be cut.

Mr. Keene said that the Finance Committee could recommend what the percentage increase should be.

Chair Schmid said the sum would be the total compensation in the long run with equal gain in total revenue.

Council Member Klein said that was a reasonable assumption. The salaries and benefits were outpacing the revenues. If the Council accepted these assumptions dramatic cuts in programs would be required.

Mr. Keene said Staff was looking at the trade-off between program cuts and salary reductions. The policy choice would be the City could not have this level of salary increases. He said there should be some rational in the forecast.

Council Member Klein said there could be several different models.

Council Member Scharff said that if the City grew the revenues there could be money left-over for salary increases. Projections should have the understanding that Staff had a good economic development plan.

Mr. Perez said the forecast did not include the 2%@60 pension going forward, which would need to be added. Retiree medical liability would be an additional $1.4 million per year. There was an additional $1.0 million per year for operating library and community center expansions. CalPERS was two years in a rears on the contribution assumption and the funding plan for the upcoming years was $0.4 million for 2011 and $1.7 million for 2012. He said that Staff asked CalPERS what the loss of over 25% of the value meant. Their response was that the City would have an expense of about 7% of the miscellaneous and 11% for Safety employees. Those numbers had been included in the forecast. That meant $0.1 million in 2012 to $5.4 million in 2015 to fund these lost dollars. 2010's structural changes add up to $7 million. Structural changes will need to be made in 2011 and 2012 that add up to $9.2 million.

Council Member Klein asked where the 2%@60 and the health care would get added in.

Mr. Perez said that no significant savings from those would be achieved in 2011 or 2012 because the medical part in January 2011 will have about half a year. He said that if the City made the assumption that health care premiums would grow about 5% it would be approximately $230,000 for half the year. CalPERS claimed that the 2%@60 wouldn't save the City any money for the first five years.

Council Member Klein said that was based off of generalized trends toward hiring in the last few years.

Mr. Perez agreed. He said there would not be a return in the first few years.

Council Member Klein said the forecast needed to be based on Palo Alto's data, not generalized data.

Mr. Perez said CalPERS uses the system experience, not the Palo Alto experience. He said he would discuss that with them.

Mr. Keene said that at the League City Manager meeting recently the change was figured to save about 5% on the cost on the pension side. That was a generalized model. The numbers could be adjusted as the actual experience passed.

Mr. Perez said that difficult choices would be coming. Stakeholder involvement would be required to develop options for the Council to consider. That was the reason for the Long Range Forecast so Staff could start to prepare for 2011.

Herb Borock, PO Box 632 spoke regarding structural deficit. He said the voters approved a general user tax but while the school district was using their money they couldn't fix the streets. He wanted to see a break down on how much money had been given to the school district.

Chair Schmid asked if the goal was to pass the report onto Council with comments. He wanted to go over the suggestions and if two members agreed they would pass the recommendation onto the Council. He said that the recommendations they've discussed so far were Revenue Generation, Economic Development Strategy, Infrastructure Update, Compensation Assumptions, and 2%@60 Scenarios.

Council Member Scharff added that 2%@60 scenarios should be explored across all employee groups.

Council Member Klein spoke regarding Menlo Park who was putting together a ballot measure to create a 2%@60 pension structure for all non-public safety employees.

Council Member Schmid asked if that should be a recommendation from the Finance Committee.

Mr. Keene said that could be a recommendation. Public Safety employees are typically at a different formula.

Council Member Scharff said he didn't mean to presume it would happen; he just wanted to see what it would look like.

Chair Schmid said the suggestion was to see a scenario.

Mr. Perez said that some jurisdictions have changed the formula from 3% at 50 to 3% @ 55.

Council Member Espinosa asked for clarification. He asked if changes were being made to this document.

Chair Schmid said this document would be presented to Council to be voted on, but for now the Committee was making suggestions for Staff to bring to Council in the presentation.

Mr. Keene asked if they are able to incorporate some suggested changes prior to going to Council. Cost savings on insurance and the pension piece could be added. Some of the other things were more variable and more difficult to incorporate.

Chair Schmid suggested they determine which suggestions have a group of members interested. He asked if another Committee Member was interested in the 2%@60 scenario or the Revenue Generation suggestion proposed by Council Member Espinosa.

Council Member Klein said he didn't think it was part of the forecast.

Chair Schmid said it was not part of the forecast. He said the Economic Development Strategy was part, of the same category.

Council Member Scharff asked if Staff was going to adjust the hotel forecasts at all.

Mr. Perez said they could use their current experience to make some assumptions on the rates.

Council Member Klein said they should consider looking at trends on that one. He said it was reasonable to assume there will be a 4-5% increase in the number rooms per year.

Mr. Perez suggested that adjustments more similar to the compensation should be looked at.

Mr. Keene asked if CalPERS would be in that category

Chair Schmid said that would be helpful for the Committee to see what impact might happen. Alternative compensation would be good to see. And an infrastructure update would be helpful.

Council Member Espinosa these are good to talk about during the year.

Chair Schmid said they are an integral part of the forecast.

Council Member Klein agreed but added that they didn't have enough information.

Mr. Perez said Staff has done a partial analysis.

Chair Schmid said before working on the 2011 budget it would be helpful to know how much was being spent.

Mr. Keene said whatever the City does will put more pressure on the Long Range Forecast and widen the gap.

Council Member Klein said a bond measure on the 2011 ballot would wipe out the infrastructure deficit completely.

Chair Schmid asked if there were any other suggestions they should pass on.

Mr. Keene said that his view of the Long Range Forecast was that it was just a forecast. There was value in keeping drivers to create enough possible tension to force the City to look at things. Seeing shortages would make the City look at those items. Looking at this wasn't going to give the City a rebound. Staff and Council must acknowledge the difficulty communicating the financial situation to the public, so the public can offer their input regarding the trade offs and choices. His thought was they wouldn't have a linear budget process but rather one that would have some parallel processes. The City Manager's budget would be a tentative proposed or trial budget. He suggested pushing the adopting of the budget up to the end of the fiscal year to maximize the amount of time to work on it and gather public and Staff input.

Chair Schmid said a key point on community outreach was Staff would be engaged with the community and with Council as well.

Mr. Keene agreed. The Staff as a whole would be engaged. The City would have to find ways to be more effective than in the past.

Mr. Keene said neighborhood meetings could take place in living rooms.

Council Member Klein asked if the outreach on the 30th would have a list of cuts to discuss.

Mr. Keene said that was the thought. Before presenting the budget Staff would discuss cuts with the community. He said that the Baron Park Neighborhood Association organized a meeting and 75-100 people attended. He said they talked for over an hour about the budget. They actually discussed how they can tax themselves to raise more money for the City.

Council Member Espinosa asked if this was going to the Policy and Services Committee.

Mr. Keene said the Chairs of each Committee and the Mayor would discuss ideas for designing the outreach. He suggested they try to host the meeting where people would be more likely to attend.

Council Member Espinosa said more public outreach on the budget was great. He asked if it was an exercise where the City would really ask people to choose, giving them information before hand to study, or would it be the public rallying around a particular community service they want to make sure is protected.

Chair Schmid the goal should be to get participation and involvement. The City couldn't guarantee results.

Council Member Klein said to list cuts that are two times the cuts needed. Make it clear that something has to be chosen. It's not enough for the public to communicate what they don't want to be cut, Council needs to know where they want it taken from. Palo Alto citizens are smart enough to know some changes will have to be made.

Council Member Espinosa said additional information needed to be provided, such as how many people participate in a program, or if it's a service that would have ancillary effects.

Mr. Keene said the outreach would need to be well designed. Council would need to know they have the best information from Staff and the Community. Demand could be significant enough to have to spread the cuts around.

Chair Schmid said that in the previous year Staff did a great job in an almost emergency situation. This year Staff and Council has more information and can better design a program.

Mr. Keene said to be cautious about cuts that would not be able to be implemented on July 1, 2010.

Chair Schmid said that last years issues were one year delays, but now structural changes are being discussed.

Council Member Espinosa it could be a process where the structural changes occur over time.

Council Member Scharff agreed. Interim cuts would not work, structural changes allow the community to move on.

Administrative Services Director Lalo Perez introduced the new Budget Manager Marc Puckett to the Committee.

3. Auditor's Office Quarterly Report as of December 31, 2009

City Auditor Lynda Brouchoud spoke regarding the Auditor's Office Quarterly Report. She said the Municipal Code required quarterly reports to the City Council on the status of the annual work plan. She stated that notable reports were the Status of Audit Recommendations issued in October 2009, which reported that 45% of the open audit recommendations were resolved and the Service Efforts and Accomplishments (SEA) report. During the first half of FY 2010, the Auditor's Office revenue recoveries and other audit savings have resulted in a total economic benefit of $452,681. The Auditor's Office has also been involved in several internal control activities, listed in the Quarterly Report. With this Quarterly Report, the Auditor's Office was also providing a detailed update on the monitoring of the Utilities portion of the SAP upgrades. Her office monitored Phase 1 of the upgrades (the ESS/Mss module) and the implementation of Phase 2 of the upgrades (the Utilities module). She did not audit the system, she basically advised on best practices, monitored the implementation of the system, and coordinated the external auditor's external scan of the system. Improvements occurred. She said that Staff had been receptive to best practice suggestions. Three areas are still outstanding. These include: (1) ensuring the system was compliant with the purchasing card industry (PCI) standards; (2)security procedures and processes were in-place and updated, and processes for patches were institutionalized; and (3) Staff was resolving post implementation areas, and manual work arounds were being minimized, and internal controls were functioning. She said the system was fully operational and the on-line payment portion activated in January. Her department's monitoring would end. The next phase will include audit sampling in the SAP system.

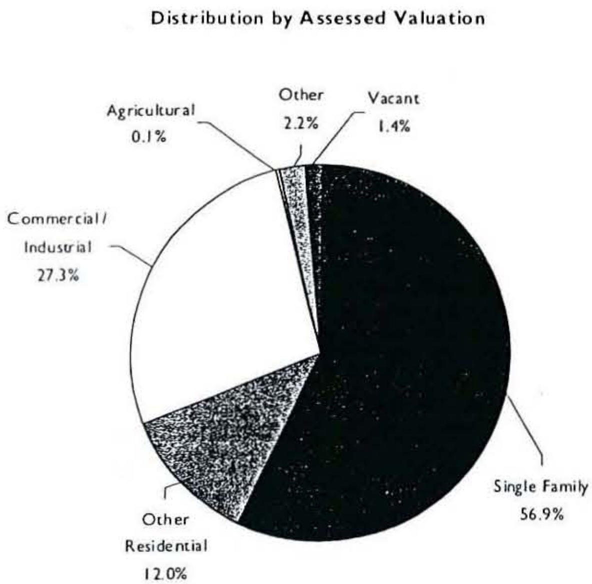
Administrative Services Director Lalo Perez said that the 17 items they needed to address had been successfully addressed. He said that a third party would be able to determine the scope of service on the contract and provide feedback. The issues outstanding were limited in scope and not significant. He said they were not hitting the thirty day mark because when a patch was implemented it could have adjustments to the configuration and code and they wanted to test these in back up systems under test scenarios prior to implementing the patches. He said they were searching for tools to do the back up. Staff will come forward to the Council if there was a desire to change the billing format or if Staff would like to see any enhancements going forward.

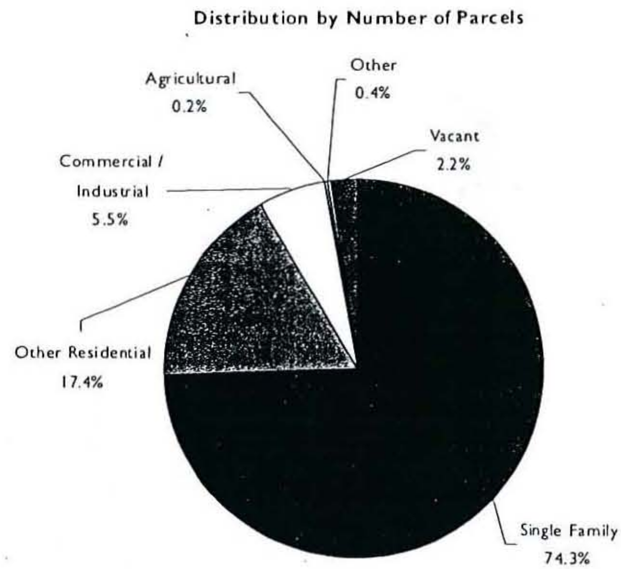
Attachment D: Property Tax Data

(excerpted from Stone & Youngberg presentation on Library Bonds)

Assessed Value Composition – Primarily residential

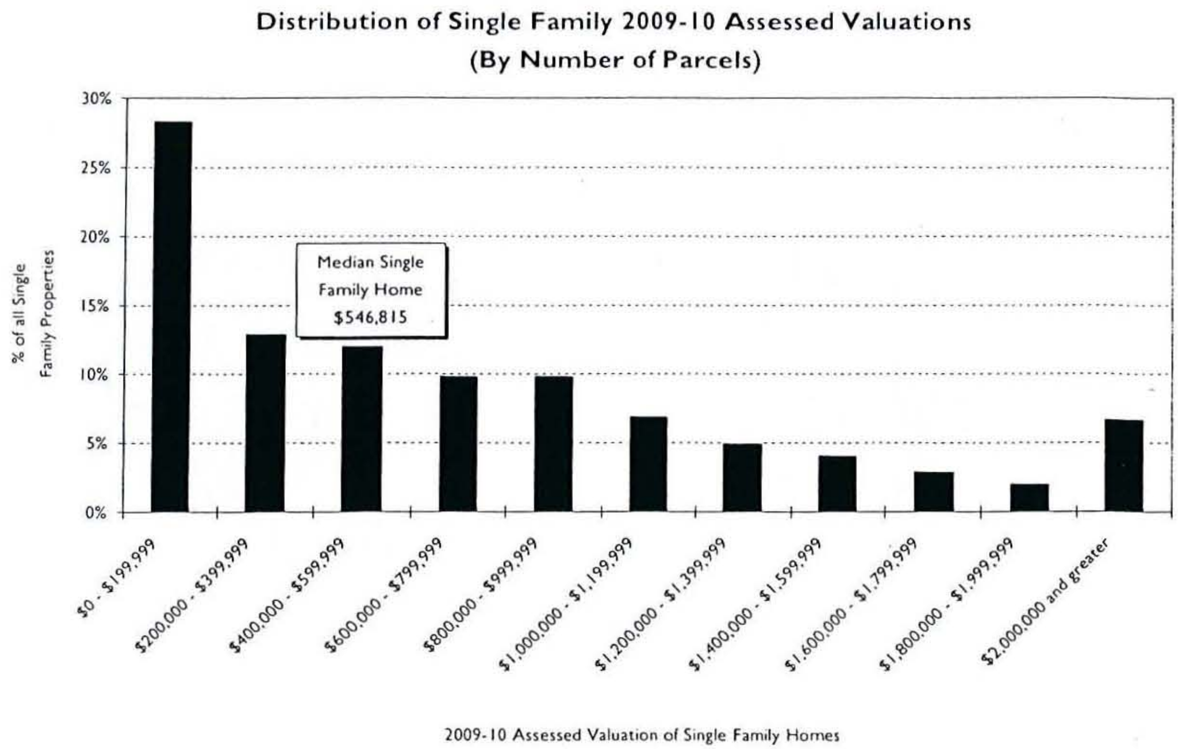
2009-10 Land Use Distribution by Assessed Value and Parcel





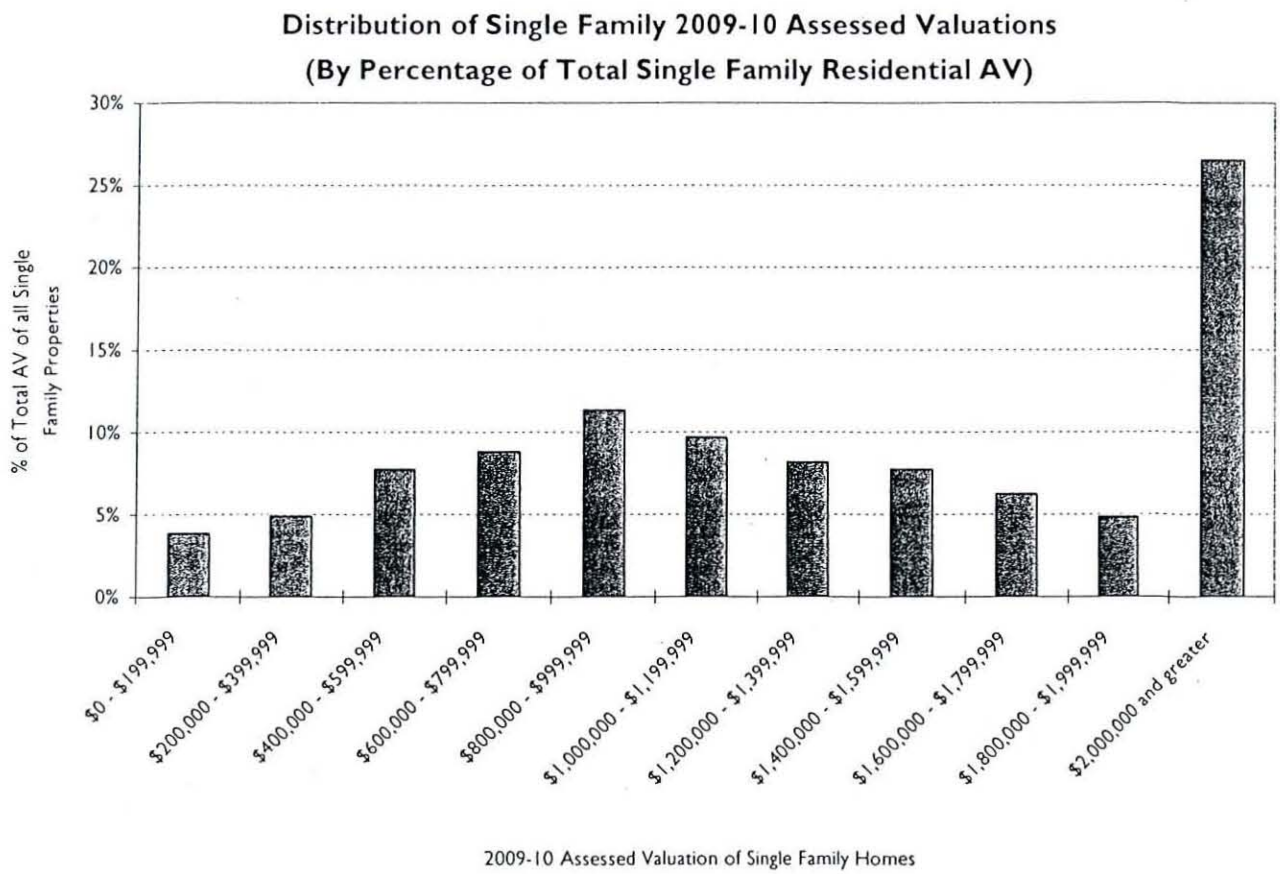
Attachment D: Property Tax Data (cont'd)

Single Family Assessed Value by No. of Parcels



Attachment D: Property Tax Data (cont'd)

Single Family Assessed Value by Value Category



Attachment E

IBRC Future Meeting Schedule and Possible Agenda Topics

Nov. 18th	5PM	Overview of Infrastructure Needs, Projects, Costs
Dec. 2th	5PM	Overview of Infrastructure Needs, Projects, Costs
Jan. 13th		Overview of Infrastructure Needs, Projects, Costs
Jan. 27th		Infrastructure Priorities
Feb. 10th		Infrastructure Priorities
Feb. 24th		Project Costing
March 10th		Project Costing
March 24th		Financing
April 14th		Committee Deliberations
April 28th		Committee Deliberations
May 12th		Committee Deliberations
May 26th		Committee Deliberations
June 9th		Preparation of Report to City Council
June 23rd		Preparation of Report to City Council
July 14th		Preparation of Report to City Council
July 28th		Public Communications/Outreach
August 1st/Sept. 12th		Report to City Council

Note: Meeting schedule assumes IBRC will meet 2nd and 4th Thursdays of each month.