Infrastructure Blue Ribbon Commission
AGENDA
Thursday, April 28, 2011
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 an agenda item or speak during oral communications on a topic not on the agenda, please complete a speaker's card and give it to City staff. The Chair will recognize you at the appropriate time. No cards will be accepted after 5:30pm.

1. Call to order
2. Approval of the 3/31/2011 and 4/14/2011 action meeting notes **(Attachment A)**
3. Committee reports
4. Finance Committee interim report **(Attachment B)**
5. Oral communications
    - Members of the public may address the IBRC on any subject not on the agenda for a maximum of three minutes. If a speaker wishes to address the IBRC on any subject on the agenda he or she will be given the opportunity to do so for a maximum of three minutes at the time that agenda item is addressed. Speaker cards are to be submitted prior to 5:30pm.
6. Possible future agenda topics and schedule
7. Committee work time
8. 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, email ibrc@cityofpaloalto.org or call (650) 617-3174 for more information.

A

Infrastructure Blue Ribbon Commission Action Notes
Thursday, April 14th, 2011
Meeting No. 11

IBRC members present:

Ray Bacchetti-Commission Co-Chair
David Bower-Above Ground
Ralph Britton-Surface
Brent Butler-Above Ground
Mark Harris-Finance Chair
Leland Levy-Commission Co-Chair
Stephen Levy-Finance
John Melton-Finance
Mark Michael-Above Ground Chair
Jim Olstad-Finance
James Schmidt-Surface Chair
Robert Stillerman-Above Ground
Greg Tanaka-Finance
Gary Wetzel-Above Ground

IBRC members not present:

Marc Berman-Surface
Patricia Markevitch-Surface
Alex Panelli-Finance

IBRC staff present:

Elizabeth Ames
Phil Bobel
Steve Emslie
Richard Hackmann
Larry Klein
Lalo Perez
Joe Saccio
Mike Sartor

1. The meeting was called to order at 5:05 pm by Co-Chair Le Levy

2. The 3/24/11 action meeting notes were approved.

3. Ray Bacchetti reported on the City Council Study Session on Emergency Readiness which was held recently. It has been suggested that the IBRC consider Infrastructure needs relative to emergency preparedness.

4. Public Services Building:
   Council member Larry Klein briefed the IBRC on the history of City Hall and the consideration of a Public Safety Building. Deficiencies in the current Police Building include evidence storage, locker rooms, security, and a large number of other features. The leading location idea for a new building was a location near California Avenue. An idea was to use Certificate of Participation financing, but the declining economy and City revenues made it impossible to proceed when last considered several years ago. Certificates of Participation would have to be paid off from the existing stream of City General Fund revenues without a new revenue stream being provided.

5. City Staff presented the Draft Needs Assessment Spreadsheet to the IBRC. It is roughly 80% complete, but does not yet show total numbers for the various categories. However it can be used by the committees to review facility-specific projects. All of the members were given electronic versions of the data.

6. Oral communications:
   There were no oral communications from the public.

7. Future schedule:
   a) Committees are to prepare priorities by June 23, 2011.
   b) Committee reports are due by July 7, 2011.
   c) Ralph Britton will help with visuals for the report.

8. Committee work time
   The Committees met from 6:50 pm through 7:30 pm.

9. Adjournment
   The meeting was adjourned at 7:30 pm.

B

April 28, 2011
IBRC Finance Committee

Interim Report

Presentation Agenda

● Introduction	Mark
● Financial Model	Al & Jim
● Financial Tool Box (fin. options)	
○ Plain Vanilla	John
○ Out of the Box	Greg
● Benchmark Comparisons	
○ Tax Rates and Ballot Issues	Steve
○ Survey of Comparable Cities	Mark
● Wrap-Up	All
○ Questions and Discussion	
○ Next Steps	

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Model Subcommittee

Jim Olstad & Alex Panelli

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OVERVIEW: FINANCIAL MODEL ("SLIDE RULE")

- incorporates "toolbox" alternatives & sensitivities-capabilities for "scenarios" testing
- incorporates "uses" inputs as feed-ins from "above" and "surface" spreadsheets
- incorporates "sources" inputs from standard City Long Range Financial Forecast, and other relevant "city-based" accounting data sources
- to be housed ("owned by") on city/staff computing systems for potential/updated continuing planning/auditing information use

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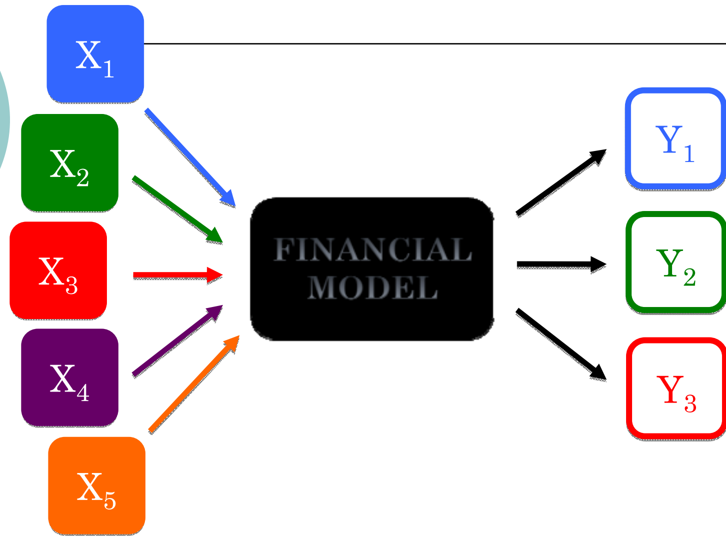
OVERVIEW: FINANCIAL MODEL



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INPUTS

- X_1: INFLATION FACTORS
- X_2: NEW SALES TAX, TOT TAX, UUT TAX RATES, ETC.
- X_3: BOND FINANCING (G.O., C.O.P. ETC.)
- X_4: ANNUAL CAPITAL EXPENDITURES
- X_5: OTHER (ASSET SALE / LEASE)...

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OUTPUTS: THE "GAP"

- GAP is actually three separate gaps
- Y_1: deferred maintenance to date
- Y_2: future capital projects
- Y_3: annual maintenance for existing and future capital

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OTHER TOPICS & CONSIDERATIONS

- What is "minimum threshold" for Revenue Increase or Expense Decrease to be meaningful?
- How will "mini-gaps" and "mini-mini-gaps" be defined to aggregate to "Big Gap" in Model?
- How are "dedicated reserves" treated / restored?
- Which individual "Revenue" and "Expense" lines do we collapse vs. highlight in the Model?

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IBRC Preliminary Model Template

Open IBRC Preliminary Model Template PDF File

-See last page of handout

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Toolbox Subcommittee

John Melton & Greg Tanaka

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IBRC Financial Plain Vanilla Toolbox

- Existing Taxes
  - Increase with 50+% vote if general purposes/67% vote if dedicated

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IBRC Financial Plain Vanilla Toolbox

- Sales tax
  - Currently 9.25% of which the City receives 1%
  - ¼ cent increase produces ~$4M per year
  - Paid predominately by consumers, both resident and non-resident shoppers

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IBRC Financial Plain Vanilla Toolbox

- Hotel tax (TOT)
  - Currently 12% - recently increased and at the high end of nearby cities
  - 2 point increase produces ~$1M per year
  - Paid predominately by non-residents

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IBRC Financial Plain Vanilla Toolbox

- Documentary Transfer Tax
  - Currently $3.30 per $1000 of property sale value – not increased in ~25 years
  - 0.83 increase produces $1 M
  - Paid approximately 70% residential and 30% business

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IBRC Financial Plain Vanilla Toolbox

- Utility Users Tax (UUT)
  - Currently 5% - adopted in late '80's and never increased
  - ½ point increase produces ~$1M
  - Paid approximately 60% business and 40% residential

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IBRC Financial Plain Vanilla Toolbox

- Return on Investment transfers from gas and electric utilities (not a tax)
  - Current formula produces ~$18M per year to general fund
  - 5% increase in transfer required to produce another ~$1M, or 0.7% electric and gas rate increase
  - Formula tied to net assets and CPUC factors, so not easy to change
  - Paid approximately 60% business and 40% residential

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IBRC Financial Plain Vanilla Toolbox

- New Taxes

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IBRC Financial Plain Vanilla Toolbox

- Business License Tax (BLT)
  - Only city in California with no BLT
  - Could produce $3-5M per year
  - Paid 100% by businesses

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IBRC Financial Plain Vanilla Toolbox

- Parcel Tax
  - $50 per parcel produces ~$1M per year
  - Paid approximately 80% residential and 20% business

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IBRC Financial Plain Vanilla Toolbox

- Assessment District
  - Streets and sidewalks (example)
  - Special assessment (tax) to provide for maintenance and repair of all streets and sidewalks in the City
  - Annual assessment is set by planned expenditures each year – similar to utility bills
  - Total assessment is allocated to properties based on benefit received. Formula for determining benefit could be lineal feet of streets and sidewalks passing each property. Benefit/cost not ascribed to a specific property would be paid by General Fund
  - Larger lots pay more than smaller lots; corner lots pay more than center block lots

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IBRC Financial Plain Vanilla Toolbox

- Special District
  - Special tax to provide for operations, maintenance and minor capital improvements of a specified city operation thus freeing up general fund resources to fund infrastructure
  - Examples
    - Menlo Park Fire Protection District
    - Berkeley Library tax – residential and commercial properties based on square footage produce ~$14M per year

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IBRC Financial Plain Vanilla Toolbox

- Bonds

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IBRC Financial Plain Vanilla Toolbox

- General Obligation (G.O.) bonds
  - For each $10M of bond principal (based on estimates for Measure N library bonds)
  - Tax rate is ~$3.50 per $100,000 assessed valuation per year
  - Payment of principal + interest is ~$670K per year for 30 years
  - Paid approximately 60% residential and 40% business

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IBRC Financial Plain Vanilla Toolbox

- Certificates of Participation (COPs)
  - Up to 1% higher interest rate than G.O. bonds
  - No dedicated tax assessment to pay principal and interest
  - For each $10M of bond principal, payment of principal + Interest is ~$725K per year for 30 years
  - Have to reduce general fund costs elsewhere or produce a new/increased general fund revenue stream to pay principal and interest

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IBRC Financial Plain Vanilla Toolbox

- Mello-Roos Bonds
  - Used almost exclusively for new residential developments (brown field)
  - Rarely used for projects of general benefit in a fully built-out city (green field)

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IBRC Financial Plan "Out of the Box" Toolbox

- Sale or Lease of City Hall
- Mortgage Assets - General Fund or Enterprise Facilities
- Commercial Joint Venture to Expand or Redevelop City Hall
- Sale of Utilities
- Joint Venture Development or Expansion of Utility Assets
- "Stress" Transfers from Utilities (annual revenue generator)

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Benchmark Subcommittee

Steve Levy and Mark Harris

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Tax Rate Comparisons and Recent Bond and Tax Votes

- Agenda
  - Selected tax rate comparisons among California and nearby cities
  - Recent bond and tax votes with emphasis on non-school votes

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Transient Occupancy Taxes

- Anaheim 15%
- 6 cities at 14%
- 7 cities 13-14%
- 50 cities 12-13%
- 9 cities 11-12%
- 221 cities 10-11%
- 135 cities below 10%
- 51 cities no tax

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Nearby TOT Rates

- Palo Alto 12%
- Menlo Park 10%
- Mountain View 10%
- Redwood City 10%
- Sunnyvale 9.5%

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Property Transfer Taxes as % of AV

- 11 cities 0.5-1.3%
- 5 cities 0.3-0.5%
- 7 cities 0.2-0.3%
- 36 cities 0.1-0.2%
- 394 cities 0-0.1%
- 28 cities no tax

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Nearby Cities PTTM

- Mountain View 0.509%
- Palo Alto 0.446%
- Sunnyvale 0.094%
- Menlo Park 0.071%
- Redwood City 0.058%

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Utility Tax on Electricity and Gas

- 10 cities 10-11%
- 6 cities 8-10%
- 20 cities 7-8%
- 24 cities 6-7%
- 41 cities 5-6%
- 33 cities 3-5%
- 14 cities 1-3%
- 335 cities no tax

Nearby City Utility Tax on Electricity & Gas

- Palo Alto 5%
- Redwood City 5%
- Mountain View 3%
- Sunnyvale 2%
- Menlo Park 1%

Business License Tax

- 36 cities with no tax in 2007-08
- 440 cities with tax
- Money raised in 2007-08
- Menlo Park $1.5M
- Redwood City $1.4M
- Sunnyvale $1.1M
- Mountain View $.2M

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Recent Palo Alto Votes

- 5/10 PAUSD parcel tax raised $96 to $589 passed with 79%
- 11/09 Business License Tax failed 43%
- 11/08 Library bond $76M passed 70%
- 6/08 PAUSD bond $378M passed 78%
- 11/07 TOT to 12% from 10% passed 80%

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Nearby Non School Votes

- 11/10 Half Moon Bay 1% sales tax increase failed 47%; Campbell, Pacifica raised TOT to 12%; Campbell BLT passed; San Mateo, Santa Clara $10 VLF passed
- 6/10 SCC library parcel tax $76, yes 77%; San Jose card room tax, yes 76%
- 11/09 San Mateo ¼ % sales tax increase, passed 61%; San Carlos ½ % tax increase failed 44%, 6 TOT increases passed; Redwood City BLT failed

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Nearby Non School Votes

- 6/09 Pacifica 1% sales tax increase yes 38% failed
- 11/08 Campbell ¼ % sales tax increase yes 70%; SCC 1/8 % sales tax increase yes 67%; Brisbane BLT yes 70%; SCC hospital bond and Gilroy library bond passed 78% and 68%; San Mateo County vehicle taxes (2) failed
- 11/07 SSF BLT passed 73% and library bond passed 74%

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One Issue to Consider

- There are active discussions about broadening the tax base for ALL cities. Should PA actively participate in these in addition to or instead of local city tax increases:
- Broadening the sales tax base
- Commercial (and/or) residential property tax assessment reform

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Input Variables A-F							calculated automatically
	A	Sales Tax Average Rate of Increase		D	Construction Inflation Costs (A		
	B	Property Tax Average Rate of Increase		E	Bond Interest Rate		
	C	Transient Occupancy Tax Average Rate of Increase		F	Other Debt Instrument Factor(s		

2011-2041 INFRASTRUCTURE BLUE RIBBON COMMISSION MODEL

Sources, 2009-10 and 2008-09 CAFRs. Year-end reserve balances assumed to be start-of-year balances for following FY

	FY 2010 Actual	FY 2011 Adopted	FY 2011 Projected	FY 2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2041
Sources														
STARTING CASH IN RESERVES														
Budget Stabilization Reserve	24,747		27,396											
Infrastructure Reserve	7,016		8,648	3,808										
Total Starting Cash in Reserves	31,763		36,044	3,808										
CASH FROM OPERATIONS														
Revenues														
Sales Taxes	17,991	18,218	19,507	19,646	20,320	21,085	21,888	22,750	23,649	24,594	25,295	25,940	26,638	49,673
Property Taxes	25,982	25,907	25,323	25,830	26,699	27,665	28,734	29,914	31,177	32,581	34,114	35,227	36,186	73,891
Transient Occupancy Tax	6,858	7,021	7,400	7,704	7,946	8,196	8,470	8,771	9,091	9,432	9,701	9,968	10,237	19,591
Utility Users Tax - Utilities														
Utility Users Tax - Telephone														
Documentary Transfer Tax														
Other Taxes and Fines	17,049	17,372	16,961	17,462	17,902	18,404	18,982	19,299	19,843	20,408	20,964	21,510	22,112	37,584
Subtotal: Taxes and Fines	67,881	68,518	69,191	70,642	72,866	75,350	78,074	80,734	83,760	87,016	90,074	92,644	95,173	180,739
Utility Rental Income														
Non-Utility Rental Income														
Other Non-Tax Revenues														
Subtotal Non-Tax Revenues	55,055	52,230	53,066	53,913	53,228	54,803	56,430	58,108	59,842	61,643	63,477	65,364	67,304	108,264
Operating Transfers-In														
Equity Transfer														
Other Operating Transfers-In	22,011	18,684	18,705	19,453	20,232	21,041	21,882	22,758	23,668	24,615	25,599	26,623	27,688	60,668
Subtotal Operating Transfers-In														
TOTAL REVENUES	144,947	139,433	140,962	144,009	146,326	151,193	156,387	161,601	167,270	173,273	179,150	184,632	190,165	349,672
Expenditures														
Salaries														
Benefits	93,980	88,545	89,648	94,254	98,934	103,527	107,637	112,391	117,319	122,485	127,818	133,527	139,436	338,234
Subtotal Salaries and Benefits														
Contract Services														
Allocated Charges														
PAUSD Payment														
Other Non-Salary Expenditures	38,008	39,930	40,787	40,430	41,981	41,978	43,236	44,533	45,869	47,245	48,662	50,122	51,626	213,006
Total Expenditures Before Transfers	131,988	128,475	130,435	134,684	140,915	145,505	150,873	156,924	163,188	169,730	176,480	183,649	191,062	551,239
Transfers to Other Funds														
Operating Transfers Out	4,737	1,122	1,662	1,167	1,214	1,263	1,314	1,367	1,422	1,479	1,538	1,600	1,664	1,668
Transfer to Infrastructure	9,900	9,802	9,802	10,438	10,852	11,294	11,747	12,217	12,706	13,214	13,743	14,293	14,865	34,187
TOTAL EXPENDITURES	146,625	139,399	141,899	146,289	152,981	158,062	163,934	170,508	177,316	184,423	191,761	199,542	207,591	587,095
GRAND NET OPERATING SURPLUS (DEFICIT)	(1,678)	33	(937)	(2,280)	(6,655)	(6,869)	(7,547)	(8,908)	(10,046)	(11,150)	(12,611)	(14,911)	(17,426)	(237,423)
CASH FROM FINANCING														
New Debt instruments														
Instrument A														
Instrument B														
Instrument C														
Subtotal New Debt Instruments:														
New Debt service requirements														
Debt Svc for Inst. A														
Debt Svc for Inst. B														
Debt Svc for Inst. C														
Subtotal New Debt Svc:														
Net Cash from Financing														
CASH FROM ASSET MONETIZATION														
Rent														
Asset sales														
Net Cash from Monetization														
CASH FROM ADDITIONAL INTERFUND TRANSFERS														
Loan from Fund A														
Transfer from Fund B														
Total Cash from Additional Transfers														
TOTAL ENDING CASH AVAILABLE														
Uses														
Capital Projects Catch-up														
Deferred Maintenance														
New Capital Projects														
Maintenance/Depreciation Reserves Build-up														
TOTAL USES														
Gap														

CITY OF PALO ALTO
INFRASTRUCTURE BLUE RIBBON COMMISSION

STATEMENT OF SCOPE

APRIL 28, 2011

1. PRIMARY FOCUS: The infrastructure itself; its condition, its cost; recommendations to catch up, keep up, and improve.

2. LESSER FOCUS: Current uses; plausible alternative uses.

3. "APPENDIX" MATERIAL: Imaginative but untried ideas that demand further assessment financially, politically or engineering-wise.

4. OUTSIDE OF SCOPE: Matters core to Council responsibility on which they are clearly focused, unrelated or but distantly related to the infrastructure itself.

Ray Bacchetti
Le Levy