CITY OF PALO ALTO

2009-19

Long Range Financial Forecast

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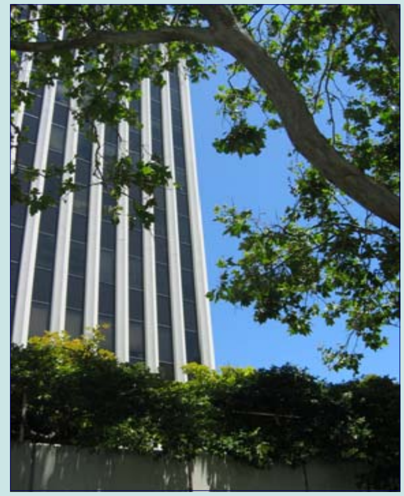

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The City of Palo Alto is located in northern Santa Clara County, approximately 35 miles south of the City of San Francisco and 12 miles north of the City of San Jose. Spanish explorers named the area for the tall, twin-trunked redwood tree they camped beneath in 1769. Palo Alto incorporated in 1894 and the State of California granted its first charter in 1909.

30% post-consumer recycled

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INTRODUCTION

PURPOSE OF THE FORECAST

The Long Range Financial Forecast takes a forward look at the City's General Fund revenues and expenditures. Its purpose is to identify financial trends, shortfalls, and issues so the City can proactively address them. It does so by projecting the future fiscal results of continuing the City's current service levels and policies, and providing a snapshot of what the future will look like as a result of the decisions made in the recent past. Any needed course corrections are thereby illuminated.

This Long Range Financial Forecast is not intended as a budget, or as a proposed plan. The City has changed the name of the report from "Long Range Financial Plan" to "Long Range Financial Forecast" to make it clear that this document does not present a comprehensive financial plan for achieving City or Council objectives.

The purpose of this Forecast is to identify financial trends and issues so they can be proactively addressed by the City.

The Long Range Financial Forecast sets the stage for the upcoming budget process, aiding both the City Manager and Council in establishing priorities and allocating resources appropriately. This year's forecast addresses the current economic turmoil that is being felt both nationally and worldwide. The consequences of these events may affect the City's ability to sustain the current level of services and programs over a long period of time within its revenue constraints.

EXECUTIVE SUMMARY

It was a short while ago that the City addressed the effects of the dot-com bust of 2001-2004 by instituting long-term structural cost controls that resulted in reductions of $20 million. These cost reductions included the elimination of 70 General Fund positions or 10 percent of staffing. Other long-term cost control efforts included the capping of the City's liability for health care premiums, instituting employee contributions to their PERS retirement fund, and raising the eligibility requirement for full retiree medical benefits to 20 years of service.

Now the City is faced with an equally difficult and potentially protracted downturn that will result in a decline in tax revenues that support City programs and services. The majority of economic experts forecast the length of the economic downturn to last at least two years. Given the length and unknown extent of the economic downturn, the City will need to focus on and prioritize the significant financial challenges that lie ahead in order to maintain solid financial health.

Existing funding deficits or needs that present special challenges include:

- To maintain and enhance funding for infrastructure due to a backlog in projects
- To deal with threats to the City's economic base such as: declining sales tax revenues due to decreasing consumer spending and confidence, taxable sales competition from surrounding malls and internet purchases, and the erosion of the City's Utility Users Tax (UUT) telephone revenue stream by Voice Over Internet Protocols (VOIP), and the potential loss of key revenue generators such as an automobile dealership
- To provide for the annual debt service obligation for the Public Safety Building Certificates of Participation, and the additional ongoing operating expenses
- To provide for additional ongoing operating expenses for the libraries and Mitchell Park Community Center
- To maintain annual funding for the retiree medical liability

Over the past year the City has been active in maintaining and enhancing revenues. Last year voters approved a rate increase for the Transient Occupancy Tax (TOT) from 10 to 12 percent. Additionally the City has instituted "Destination Palo Alto" in an effort to increase Palo Alto's visibility for tourism and business travel. These efforts will help to generate revenue and increase or hold steady hotel occupancy rates.

The City has continued working with automobile dealerships to identify sites that will allow the businesses to stay in Palo Alto. Negotiations are underway for a tentatively identified site of City-owned land along the freeway for a dealer, which will hopefully result in the space and visibility required by modern dealerships and in additional revenues for the City.

This ten-year forecast assumes:

- That the City will continue to invest an additional $4 million annually in the Infrastructure Reserve. Budgeted General Fund transfers to the Infrastructure Reserve total $12.1 million in fiscal year 2009 and $12.5 million in fiscal year 2010
- Monies to fund the annual required contribution for the retiree medical liability
- The local economy and City revenues will decline beginning in fiscal year 2009 through fiscal year 2010, and begin to slowly grow in fiscal year 2011

The ten-year forecast does not include:

- Additional ongoing expense for the Public Safety Building and Libraries/Community Center
- Debt service obligations of $5.2 million for Public Safety Building Certificates of Participation
- Possible increases in PERS pension expense
- Funding for new unknown initiatives

Based on assumptions in this forecast, the General Fund projects annual deficits until fiscal year 2015. A deficit of $2.6 million is forecast for fiscal year 2009; followed by a deficit of $5.3 million in fiscal year 2010 and a $4.2 million deficit in fiscal year 2011. Efforts to correct these imbalances are currently underway. These deficit figures assume annual one-time budget adjustments. If systemic, ongoing budget reductions or revenue increases occur in fiscal year 2010, estimated at $5.3 million, then the deficits are reduced in subsequent years.

As revenues continue to decline, it will be important for the City to review and prioritize its services and programs. Projected annual deficits would draw the General Fund Budget Stabilization Reserve (BSR) below the Council adopted minimum guideline of 15 percent of annual expenditures if reductions are not made to expenditures or revenues do not increase. The BSR is not intended to fund ongoing operating expense and minimum reserve levels are necessary to maintain the City's credit worthiness and to adequately provide for one-time unexpected needs that arise out of the regular budget process.

Staff will bring forward FY 2009 midyear and FY 2010 budget recommendations for revenues and expenditures that strive to maintain the 15 percent BSR guideline. The estimated expenditure reductions are $2.6 million and $5.3 million respectively. The midyear process will begin in February 2009 and the budget process in May 2009.

To reduce the body of this report, information has been moved to the Appendices. The Appendices include: the definitions of the revenue and expenditure categories; a general summary of the Forecast's methodology; a variety of professional economic forecast information; and historical trends in City revenues, expenditures, population, and other demographic information.

TEN-YEAR FORECAST

KEY POINTS

The following highlights the significant issues incorporated into the 2009-19 Long Range Financial Forecast:

Revenues

- Sales tax revenues reflect a decline of 5.8 percent in the projected budget for fiscal year 2009 and a further 2.4 percent decline in fiscal year 2010. A growth rate of 2.5 percent is projected for fiscal year 2011 followed by modest growth rates through fiscal year 2013. This is supported by the actual first quarter results for fiscal year 2009 received in September 2008
- Transit Occupancy Tax growth rate declines 5.9 percent in the projected budget for fiscal year 2009 as compared to the adopted budget, as a consequence of the economic slowdown
- Total City revenues are projected to decline 1.1 percent in fiscal year 2009 as compared to fiscal year 2008 actual revenues and 2.2 percent as compared to the fiscal year 2009 adopted budget. Revenues remain flat for fiscal year 2010 and are then anticipated to slowly grow over the next few years

Expenditures and Transfers to Other Funds

- $3.3 million has been included in the budget for fiscal year 2009, to meet the Retiree Medical liability expense. This is funding for the General Fund portion of the Citywide annual required contribution of $7.8 million
- An additional $4 million is transferred to the Infrastructure Reserve beginning in fiscal year 2008 and is inflated through fiscal year 2019. The total transfer from the General Fund to the Infrastructure Reserve is $11.8 million for fiscal year 2008 and $12.1 million in fiscal year 2009

Also included in this year's General Fund Reserve Summary is a line showing the anticipated non-operating items that will either draw down or add to the General Fund Budget Stabilization Reserve (BSR). By year, they are as follows:

Fiscal Year 2009

- $0.3 million drawdown on the BSR for the second payment of the purchase option at Park Boulevard for the new Public Safety building
- $3.4 million drawdown on the BSR for the design phase expense of the new Public Safety building

Fiscal Year 2010

- $0.2 million drawdown on the BSR for the final payment on the purchase option at Park Blvd for the new Public Safety building
- $0.5 million add back to the BSR for the loan re-payment from the Storm Drainage Fund

Fiscal Year 2011

- $0.5 million add back to the BSR for the loan re-payment from the Storm Drainage Fund

Finally, the narrative includes last year's timely discussion on a "Sustainable Budget" as well as an update on the status of the Enterprise Utility Funds.

LONG RANGE FINANCIAL FORECAST MODEL 2008 ($000)

	FY 2008 Actual	FY 2009 Adopted Budget	FY 2009 Projected Budget	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Revenues													
Sales Taxes	22,622	22,402	21,100	20,588	21,103	21,894	22,901	24,046	25,248	26,385	27,506	28,538	29,612
Property Taxes	23,084	23,487	25,075	25,729	26,079	27,416	29,097	30,886	32,710	34,318	35,750	37,335	38,976
Utility User Tax	10,285	10,783	10,943	11,633	12,304	12,990	13,672	14,321	15,006	15,709	16,330	16,941	17,609
Transient Occupancy Tax	7,976	8,424	7,919	7,880	8,297	8,754	9,235	9,812	10,426	11,051	11,549	11,982	12,431
Other Taxes, Fines & Penalties	7,870	8,839	7,329	7,315	7,514	7,940	8,430	8,973	9,525	10,068	10,512	10,943	11,392
Subtotal: Taxes	71,837	73,935	72,366	73,145	75,297	78,994	83,335	88,038	92,915	97,531	101,647	105,739	110,020
Service Fees & Permits	17,140	18,938	17,988	18,533	18,847	19,217	19,575	20,145	20,937	21,762	22,620	23,511	24,513
Joint Service Agreements (Stanford University)	6,936	7,602	7,602	8,225	8,624	8,980	9,388	9,794	10,247	10,724	11,227	11,752	12,308
Interest Earnings	2,232	2,348	2,025	1,981	2,012	2,090	2,174	2,268	2,370	2,484	2,605	2,727	2,855
Other revenues	18,032	15,037	15,037	15,276	15,526	15,807	14,021	14,376	14,742	15,118	15,506	15,905	16,316
Reimbursements from Other Funds	11,333	11,034	11,034	11,590	11,780	12,088	12,424	12,850	13,371	13,929	14,503	15,101	15,714
Total Revenues	127,510	128,894	126,052	128,750	132,086	137,176	140,917	147,471	154,582	161,548	168,108	174,735	181,726
Transfers from Other Funds	17,228	17,677	17,677	18,569	18,873	19,366	19,904	20,587	21,422	22,315	23,235	24,194	25,175
TOTAL SOURCE OF FUNDS	144,738	146,571	143,729	147,319	150,959	156,542	160,821	168,058	176,004	183,863	191,343	198,929	206,901
Expenditures													
Salaries & Benefits	91,308	91,263	91,263	96,623	100,317	103,308	106,548	110,377	115,094	120,034	125,204	130,589	136,251
Contract Services	9,407	11,184	11,184	11,632	11,981	12,220	12,465	12,839	13,352	13,886	14,442	15,019	15,470
Supplies & Materials	3,026	3,609	3,609	3,754	3,866	3,944	4,022	4,143	4,309	4,481	4,660	4,847	4,992
General Expense	9,176	9,565	9,565	9,865	10,144	10,399	10,659	10,961	11,304	11,601	11,907	12,223	12,547
Rents, Leases, & Equipment	1,134	1,158	1,158	1,205	1,241	1,265	1,291	1,330	1,383	1,438	1,496	1,555	1,618
Allocated Expenses	14,779	15,229	15,229	15,838	16,313	16,640	16,972	17,481	18,181	18,908	19,664	20,451	21,269
Total Expenditures	128,830	132,008	132,008	138,916	143,862	147,776	151,958	157,131	163,622	170,349	177,373	184,684	192,147
Transfers to Other Funds													
GF transfer for Infrastructure CIP	7,086	7,880	7,880	8,180	8,501	8,844	9,211	9,604	10,024	10,474	10,955	11,470	12,021
GF transfer for other capital projects	4,721	4,251	4,251	4,357	1,589	1,636	1,685	1,735	1,786	1,838	1,892	1,947	2,003
Debt Service	1,082	1,082	1,082	1,177	1,173	929	752	749	649	763	763	763	763
Other	39	87	87	9	9	10	10	11	11	11	11	11	11
TOTAL USE OF FUNDS	141,758	145,308	145,308	152,639	155,134	159,195	163,616	169,229	176,092	183,434	190,995	198,875	206,945
To Public Safety Building Reserve	0	(1,000)	(1,000)	0	0	0	0	0	0	0	0	0	0
Net Operating Surplus/(Deficit)	2,980	263	(2,579)	(5,320)	(4,175)	(2,653)	(2,795)	(1,171)	(88)	429	348	54	(44)

PERCENTAGE CHANGES IN FORECAST FOR REVENUES AND EXPENSES

	FY 2008 % Change	FY 2009 AB % Change	FY 2009 PB % Change	FY 2010 % 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
Revenues													
Sales Taxes	1.92%	(0.97%)	(5.81%)	(2.43%)	2.50%	3.75%	4.60%	5.00%	5.00%	4.50%	4.25%	3.75%	3.76%
Property Taxes	7.53%	1.75%	6.76%	2.61%	1.36%	5.13%	6.13%	6.15%	5.91%	4.92%	4.17%	4.43%	4.40%
Utility User Tax	9.93%	4.84%	1.48%	6.31%	5.77%	5.58%	5.25%	4.75%	4.78%	4.68%	3.95%	3.74%	3.94%
Transient Occupancy Tax	18.90%	5.62%	(5.99%)	(0.49%)	5.29%	5.51%	5.49%	6.25%	6.26%	5.99%	4.51%	3.75%	3.75%
Other Taxes, Fines & Penalties	(10.13%)	12.31%	(17.08%)	(0.19%)	2.72%	5.67%	6.17%	6.44%	6.15%	5.70%	4.41%	4.10%	4.10%
Subtotal: Taxes	4.90%	2.92%	(2.12%)	1.08%	2.94%	4.91%	5.50%	5.64%	5.54%	4.97%	4.22%	4.03%	4.05%
Service Fees & Permits	(4.33%)	10.49%	(5.02%)	3.03%	1.69%	1.96%	1.86%	2.91%	3.93%	3.94%	3.94%	3.94%	4.26%
Joint Service Agreements (Stanford University)	1.67%	9.60%	0.00%	8.20%	4.85%	4.13%	4.54%	4.32%	4.63%	4.66%	4.69%	4.68%	4.73%
Interest Earnings	(5.62%)	5.20%	(13.76%)	(2.17%)	1.56%	3.88%	4.02%	4.32%	4.50%	4.81%	4.87%	4.68%	4.69%
Other revenues	10.15%	(16.61%)	0.00%	1.59%	1.64%	1.81%	(11.30%)	2.53%	2.55%	2.55%	2.57%	2.57%	2.58%
Reimbursements from Other Funds	14.52%	(2.64%)	0.00%	5.04%	1.64%	2.61%	2.78%	3.43%	4.05%	4.17%	4.12%	4.12%	4.06%
Total Revenues	4.64%	1.09%	(2.20%)	2.14%	2.59%	3.85%	2.73%	4.65%	4.82%	4.51%	4.06%	3.94%	4.00%
Transfers from Other Funds	10.13%	2.61%	0.00%	5.05%	1.64%	2.61%	2.78%	3.43%	4.06%	4.17%	4.12%	4.13%	4.05%
TOTAL SOURCE OF FUND	5.27%	1.27%	(1.94%)	2.50%	2.47%	3.70%	2.73%	4.50%	4.73%	4.47%	4.07%	3.96%	4.01%
Expenditures													
Salaries & Benefits	5.02%	(0.05%)	0.00%	5.87%	3.82%	2.98%	3.14%	3.59%	4.27%	4.29%	4.31%	4.30%	4.34%
Contract Services	2.98%	18.89%	0.00%	4.00%	3.00%	2.00%	2.00%	3.00%	4.00%	4.00%	4.00%	4.00%	3.00%
Supplies & Materials	13.93%	19.27%	0.00%	4.01%	3.00%	2.00%	2.00%	3.00%	4.00%	4.00%	4.00%	4.00%	3.00%
General Expense	5.06%	4.24%	0.00%	3.14%	2.83%	2.51%	2.50%	2.83%	3.13%	2.63%	2.64%	2.65%	2.66%
Rents, Leases, & Equipment	15.13%	2.12%	0.00%	4.02%	3.00%	2.00%	2.00%	3.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Allocated Expenses	4.81%	3.04%	0.00%	4.00%	3.00%	2.00%	2.00%	3.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Total Expenditures	5.12%	2.47%	0.00%	5.23%	3.56%	2.72%	2.83%	3.40%	4.13%	4.11%	4.12%	4.12%	4.04%
Transfers to Other Funds													
GF transfer for Infrastructure CIP	1.42%	11.21%	0.00%	3.80%	3.92%	4.04%	4.15%	4.26%	4.38%	4.48%	4.60%	4.70%	4.80%
GF transfer for other capital projects	169.93%	(9.96%)	0.00%	2.49%	(63.53%)	2.96%	3.00%	2.97%	2.94%	2.91%	2.94%	2.91%	2.88%
Debt Service	(0.95%)	(0.01%)	0.00%	8.77%	(0.29%)	(20.84%)	(19.07%)	(0.40%)	(13.34%)	17.54%	0.00%	0.00%	0.00%
Other	105.26%	123.08%	0.00%	(89.66%)	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	0.00%	0.00%	0.00%
TOTAL USE OF FUNDS	7.07%	2.50%	0.00%	5.04%	1.64%	2.62%	2.78%	3.43%	4.06%	4.17%	4.12%	4.13%	4.06%

GENERAL FUND RESERVE SUMMARY ($000)													
		Adopted	Projected										
	FY 2008	FY 2009	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Budget Stabilization Reserve													
Beginning Balance	27,480	26,100	26,100	19,830	14,810	11,153	8,500	5,706	4,535	4,447	4,875	5,224	5,278
To/(From) Reserves	2,980	263	(2,579)	(5,320)	(4,175)	(2,653)	(2,795)	(1,171)	(88)	429	348	54	(44)
CAFR adjustments	(4,360)	0	0	0	0	0	0	0	0	0	0	0	0
One-time Only Increases/(Decreases	0	0	(3,691)	300	518	0	0	0	0	0	0	0	0
Ending Balance	26,100	26,363	19,830	14,810	11,153	8,500	5,706	4,535	4,447	4,875	5,224	5,278	5,234
% of Total Expenditures	18.4%	18.1%	13.6%	9.7%	7.2%	5.3%	3.5%	2.7%	2.5%	2.7%	2.7%	2.7%	2.5%

KEY DRIVERS AND ASSUMPTIONS AFFECTING THE FORECAST

The Long Range Financial Forecast (LRFF) is based on assumptions regarding what will happen in the national, state and regional economies over the next few years, and on near-term and long-term revenue and expenditure drivers.

Given the major day to day changes that we are currently experiencing in the economy, it is important to know that the majority of the economic data gathered to complete the LRFF was published in September and October 2008.

Economic Assumptions

The LRFF assumes a sizeable economic downturn during fiscal years 2009 and 2010. This assumption is based on the financial dislocations currently affecting the state, national and global economies and on outside expert forecasts. On the local level, evidence is building that economically sensitive revenue sources such as sales, transient occupancy and documentary transfer taxes are trending downward. It is anticipated that an economic recovery will begin sometime in fiscal year 2011.

The Forecast assumes a decline in economic growth

The current major and deep-seated issues facing the national, state, and local economies include:

- A severe housing market downturn
- Tightening credit markets and weakened financial institutions
- Freefalling consumer confidence and spending
- Rising unemployment
- Failing financial institutions
- Significant decreases in the stock market

Housing Market Downturn

The housing market slowdown that started in 2005 has worsened and could continue well into 2010. The National Association of Realtors reported in September 2008 that the national median price for existing-homes for all housing types was

$191,600 in September. This is down 9 percent from a year ago when the median was $210,500. In California, the median price paid for a home during the same timeframe was $283,000, down 6 percent from the month prior, and down 34.2 percent from September 2007 (www.dqnews.com). In its most recent annual report, the Santa Clara County Assessor's office noted that the countywide annual rate of growth in residential and commercial value declined in the past three years. As the inventory of for-sale homes increases, downward pressure on both housing prices and construction occurs. This in turn leads to real and perceived drops in equity values that typically have a negative effect on consumer spending and sales tax revenues.

Tight Credit Market

The credit market crisis is largely due to the collapse of collateralized debt obligations that were based on risky mortgages. Financial institution's investments in these and other ill-considered financial instruments, such as credit default swaps, have led to insolvency and illiquidity among lenders. Central banks around the globe have taken measures to lower interest rates and directly inject huge amounts of capital into banking systems, in an effort to inspire confidence in banks and to encourage lending. Preliminary indications are that banks have been slow to lend money and that considerable damage to the economy has already occurred.

While governments and central banks have taken and are expected to take further dramatic action to prop up the global financial system, there is consensus that it will take a long time to return to normal lending practices. The actions to date are not sufficient to prevent companies from slashing production and jobs, as loans are hard to come by and consumer confidence is low. The precipitous declines in automobile production, employment, and sales exemplify this unfortunate trend.

Consumer Driven Recession

Consumer spending is a key driver for business activity and local revenue generation. Such spending comprises about two-thirds of the U.S. economy. As consumers face rising unemployment concerns, tied with equity and investment losses, they are reducing their spending. Consumer confidence has hit a forty-one year low. This holiday shopping season may be dismal for retailers and hence debilitate local governments that depend on the sales tax generated.

Taxes generated from the sale of new automobiles are declining. A recent report from the California New Car Dealers Association shows that new vehicle registrations declined 18.3 percent from June 2007 to June 2008. The reduction in car sales has resulted in the closure of several long-established dealerships in the Bay Area.

Local governments will be challenged to replace lost sales tax revenue with other sources until an upturn in the economy is realized.

Rising Unemployment

According to the Bureau of Labor Statistics, nationwide unemployment reached a five-year high of 6.5 percent in October 2008. This equates to over 10.1 million people officially counted as unemployed. Employment has fallen by 1.2 million in the first 10 months of 2008; over half of the decrease occurred in the past three months. More recent annualized numbers indicate one of the largest job losses since 1974. Some economists forecast that the unemployment rate could be as high as 9 to 10 percent in the near future.

While layoffs are taking place throughout the economy, manufacturing, construction, retail and financial sectors are experiencing the largest declines. Unemployment has steadily increased over the last several months and economists expect unemployment rates to continue rising.

In contrast to the national unemployment rate of 6.5 percent, the October unemployment rate for the State of California was 8.2 percent. The state has been hit hard by the housing crisis and the subsequent effect on supporting industries.

These expert forecasts provide the basis of the Long Range Financial Forecast's growth assumptions

In Santa Clara County the unemployment rate is at the same level as the national statistic of 6.9 percent. Overall unemployment for Santa Clara County has increased 1.6 percent from a year ago. The unemployment rate for Palo Alto has risen 0.9 percent from September 2007 to a current rate of 3.5 percent.

As the technology sector weakens the countywide rate can be expected to increase. Recent layoff notices from Sun Microsystems, Applied Materials and Hewlett-Packard support this assumption.

Expert Economic Forecast

In the first week of December 2008 the official body that declares a recession, the National Bureau of Economic Research (NBER), pronounced that a recession began in December 2007. Information from forecasts prior to the NBER's declaration is, however, instructive. Even with the ongoing waves of bad economic news on the national front, the UCLA Anderson Forecast did not forecast a recession in its September 2008 report; neither did they believe that the economy had met the requirements as defined the NBER. The Anderson Forecast expected real GDP growth to be about 1.0 percent in the third quarter of 2008 and essentially zero in both the fourth quarter of 2008 and the first quarter of 2009.

According to UCLA Anderson Forecast Senior Economist David Shulman, who authored the September 2008 forecast, "What we are describing is an economy operating at its 'stall speed' where any modest shock can trigger a full-blown recession." Another UCLA Anderson Forecast economist, Jerry Nickelsburg, included analysis that indicated the California economy would be weaker than the US economy. He is forecasting lethargic statewide conditions until the real estate market and associated sectors reach bottom and begin to recover. California's employment conditions are of particular concern as Mr. Nickelsburg forecasts statewide unemployment to remain in the mid 7.0 percent range through calendar year 2009, with minimal improvements in 2010. Mr. Nickelsburg writes that "The California economy is not producing the jobs required for new entrants to the labor force to prevent elevated levels of unemployment," and "our near term quarterly forecast has things getting worse before better."

The Chairman of the Federal Reserve, Ben S. Bernanke, in his testimony before the Committee on the Budget, U.S. House of Representatives in October 2008, stated, "Even before the recent intensification of the financial crisis, economic activity had shown considerable signs of weakening." Mr. Bernanke noted the decline in the labor market with statistics that showed private employers eliminated 168,000 jobs in September. Current labor statistics for October have added an additional 240,000 lost jobs. The total jobs lost for 2008 is 1.2 million. The unemployment rate has risen 1.7 percent from the beginning of the calendar year bringing it to the current level of 6.5 percent.

Included in his report were current data on consumer spending, housing, and business investment which had "significant slowing over the past few months, and some key determinants of spending have worsened." Particularly hard-hit has been motor vehicles purchases. Mr. Bernanke said, "increased difficulty in obtaining auto loans appears to have contributed to the decline in auto sales," and "consumer sentiment has been quite low, reflecting concerns about jobs, gasoline prices, the state of the housing market, and stock prices."

Mr. Bernanke also reported on the decline in sales and construction of new homes. "With demand for new homes remaining at a low level and the backlog of unsold homes still sizeable, residential construction is likely to continue to contract into next year."

On a positive note, Mr. Bernanke reported that over time, "a number of factors are likely to promote the return of solid gains in economic activity and employment. Among those factors are the stimulus provided by monetary policy, the eventual stabilization in housing markets, improvements in the credit markets as the new programs take effect and market participants work through remaining problems."

In February 2008, the California Legislative Analyst's Office (LAO) forecasted very modest state and national economic growth for the year 2008 as a whole. They expect that state performance will generally be similar to the nation's, although somewhat weaker in areas directly affected by the housing market's problems. (See Appendix D for details on LAO and other projected growth rates.)

On a more local level, Mr. Stephen Levy, Director of the Center for Continuing Study of the California Economy, stated, "We tend to feel we are special here in the Silicon Valley. But that feeling should not be confused with thinking that we are disconnected from the forces around us. We are connected in the big picture to forces such as the worldwide financial paralysis and global warming. The idea that Palo Alto and Silicon Valley are protected from the worldwide economic meltdown is poorly reasoned. Our local economy's fate is connected to the fate of the national and world economies and financial markets." (Palo Alto Weekly, October 17, 2008)

The Long Range Financial Forecast reflects a weakening economy over the next two years with a corresponding decline in several major revenue sources. A key point to be gleaned from the forecast information above and the recent events is that the nation is in uncharted economic territory. Both policymakers and economists are uncertain about what lies ahead. In conclusion, the assumptions used in the LRFF are based on the best available information, but they are subject to change. Staff will monitor revenue flows most carefully in the coming months to test those assumptions.

Revenue Drivers

Overall, revenues remained stable in fiscal year 2008. Total revenues grew by 4.6 percent over the prior year. Sales taxes showed anemic growth while transient occupancy and property taxes displayed more normal growth. Somewhat shielded from the decline in the State's economic woes, Silicon Valley held steady as technology sales and exports remained strong. The forecast assumes a 3.7 percent compound annual growth rate for total revenues from 2009-2019.

Evidence is beginning to emerge in fiscal year 2009, however, that consumer and business confidence is eroding and that economically sensitive revenue sources such as sales, documentary transfer, and transient occupancy taxes are at risk.

Sales taxes in the City of Palo Alto and surrounding cities have weakened in recent quarters; hotel days are moving downward; and growth in assessed property values is slowing. Based on these trends, fiscal year 2009 will likely present revenue challenges which will likely require adjustments at midyear, as well as in fiscal year 2010.

The following describes the trends in the City's major revenue sources.

Sales Tax

Sales taxes in fiscal year 2008 rose by $0.4 million or 1.9 percent over fiscal year 2007 levels. The second and third quarter results for fiscal year 2008, unadjusted for one-time events, showed 1.7 percent and 3.5 percent declines, respectively. Sales tax results since then have been mixed with the fourth quarter showing a gain and the first quarter of fiscal year 2009 a decrease. Department store and auto dealership sales were noticeably weak, while apparel stores, restaurants, and service stations showed some strength. With American consumer confidence at its lowest point in decades, consumers are likely to scale back their spending plans for major purchases. Based on economic indicators, trend data for key sales tax segments and consultant projections, a decline in receipts for fiscal years 2009 and 2010 is expected.

Property Tax

Property taxes increased by $1.6 million or 7.5 percent from fiscal year 2007 to fiscal year 2008. Although Palo Alto's assessed values remain healthy for fiscal year 2009, preliminary data indicates the growth in assessed values will be moderating significantly. The Santa Clara County Assessor recently said that the "assessment roll contains clear evidence that Silicon Valley is not immune to the national recession and economic meltdown in the residential real estate market." Still a growth rate of around 8.6 percent and 2.6 percent in property tax revenues is estimated for fiscal years 2009 and 2010, respectively.

Transient Occupancy Tax

Transient Occupancy Tax (TOT) receipts rose to $8.0 million in fiscal year 2008, a $1.3 million or 18.9 percent increase over the prior year. However, 59 percent or $760 thousand of the $1.3 million increase is attributable to the TOT rate increasing from 10 percent to 12 percent in January 2008. Average occupancy rates increased over the prior year from 72.4 percent to 75.5 percent, while room rates increased from $140 to $149. This economically sensitive revenue source is anticipated to soften in fiscal year 2009 due to the economic downturn. For example, occupied days dropped by 2,400 in July 2008 and 4,000 in August 2008, as compared to the same month in the 2007. Jurisdictions in the San Jose – South Bay area are experiencing similar declines in occupancy rates.

Documentary Transfer Tax

After two years of solid results, the Documentary Transfer Tax (DTT) for fiscal year 2008 came in at $5.4 million, a decline of 7.8 percent from the prior year. This revenue source is highly dependent on sales volume and the mix of commercial and residential sales. As with other economically sensitive revenues, a decline in this sector is anticipated. The cooling of the real estate market will result in near term declines in DTT revenue; therefore, annual declines of 16.4 percent and 2.4 percent are projected for fiscal years 2009 and 2010, respectively.

Refuse Fund Rent

In January 2007, Council established a policy to extend the annual rental payments from the Refuse Fund to the General Fund through fiscal year 2021 based on an updated analysis of the landfill area (CMR: 104:07). With the landfill expected to close in fiscal year 2011, annual rental payments will drop from $4.3 million to $2.1 million starting in fiscal year 2013 and continue at that reduced level to fiscal year 2021. The Forecast incorporates this expected revenue decrease.

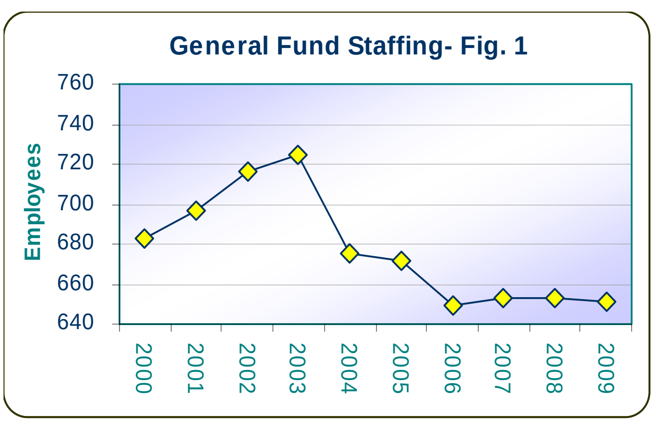
Expenditure Drivers

Salaries and Benefits

Salaries and benefits represent approximately 63 percent of the fiscal year 2009 General Fund adopted budget. Upward pressure on salary and benefits is continual, due to the cost of living in Silicon Valley and the labor market in which the City negotiates with its bargaining units.

In fiscal year 2009 the City completed negotiations with the Fire Chiefs' Association (FCA), which will be effective through fiscal year 2010. The overall salary and benefits increase for the term of this agreement is 3 percent. Retroactive salary increases for fiscal years 2007 and 2008 amounted to $114,000 in total and were budgeted in fiscal year 2009. Other provisions to this agreement include: measures to reduce the healthcare premiums to future retirees, dental plan improvements and changes to management annual leave.

Contract negotiations were concluded last year with the Palo Alto Peace Officer's Association (PAPOA) for the contract scheduled to expire June 2010. Council approved an average annual 3.5 percent increase for PAPOA over the three-year contract.



The contract with the Service Employees International Union (SEIU) is set to expire at the end of fiscal year 2009, with average annual salary and benefit increases of 3.7 percent.

The contract with the International Association of Fire Fighters (IAFF) is scheduled to expire June 2010. Council approved an average 3.25 percent increase over the four-year contract.

The Management/Professional group is not represented by a union and Council approved a 3.5 percent increase for fiscal year 2009 for this group.

In the past few years General Fund staff has been reduced by 70 positions or 10 percent (see figure 1). The average annual growth for salaries and benefits over the next ten years is projected at 4.1 percent. Within that category, average salary and overtime growth are assumed at 3.4 percent per year. Average benefits are assumed to grow by 5.4 percent, including retiree medical benefits.

Within the benefits category, the largest drivers are pension and healthcare costs.

Pension Expense

CalPERS retirement system pension costs have increased substantially since 2000. However, the rapid growth of these costs had subsided in the past few years. CalPERS contribution rate changes are based on investment earnings from three years prior to the current year. For example, fiscal year 2010 rates are based on the investment returns from fiscal year 2007. For the one-year period which ended June 30, 2008, CalPERS investments earned a negative 5.1 percent return. Leading up to fiscal year 2008, CalPERS experienced double-digit returns on their investment portfolio and since market gains and losses are spread over 15 years, CalPERS was able to net out annual increases to employers and project stable contribution rates through fiscal year 2011.

However, since July 1, 2008, the CalPERS fund has lost more than 20 percent of its value and over 30% since the market peak in the fall of 2007. CalPERS has projected that if the loss in value continues, increases in employer rates of an estimated 2 to 5 percent of payroll could be realized beginning fiscal year 2012. This could translate to a additional $3 to $4 million in annual pension expense for the General Fund, until CalPERS portfolio returns improve.

In fiscal year 2007 Management/Professional and SEIU employees began contributing 2 percent of their salary to their PERS retirement plan. This was a consequence of receiving the 2.7 percent at 55 package. With this change, as with the containment of costs on medical plans, the concept is emerging that future retiree benefit and medical costs may no longer be fully borne by the City and need to be shared with employees. Staff will work with its labor groups to explore options to reduce costs.

Healthcare and Retiree Medical Costs

The City of Palo Alto had been one of the few remaining jurisdictions that fully funded employee health insurance premiums and retiree medical costs. This long-held practice was amended in fiscal year 2007 by limiting the City's contribution to medical premiums for both active and retired employees.

In its attempt to limit healthcare costs, the City has accomplished the following:

- Placed a limit on the employer's contribution to medical premiums for both active and future retirees, eliminating the most expensive health plan the PERS system offers, and reversing its long-held practice of funding 100 percent of every available PERS healthcare plan for employees and retirees
- Raised the full vesting requirement for retiree medical eligibility from 5 to 20 years for new employees

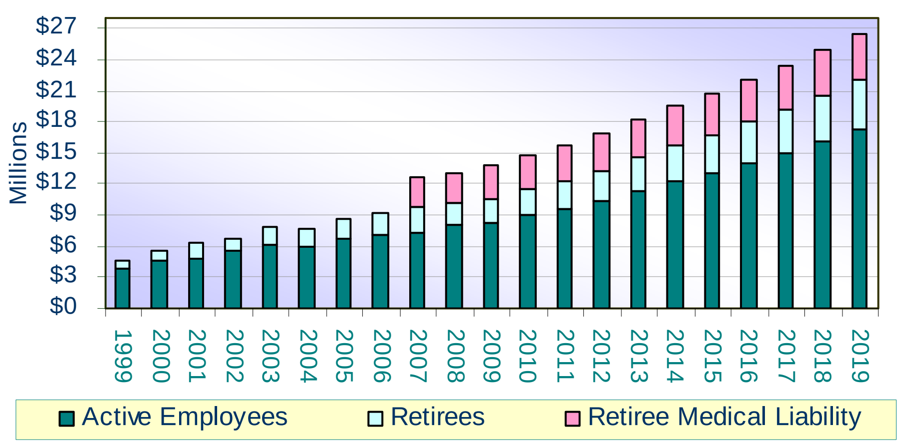
Healthcare

In fiscal year 2009, healthcare costs are projected to be $8.3 million. Increases in healthcare costs have averaged 10 percent in the last two years. Heathcare costs are projected to grow an average 9.2 percent through fiscal year 2019.

Retiree Medical

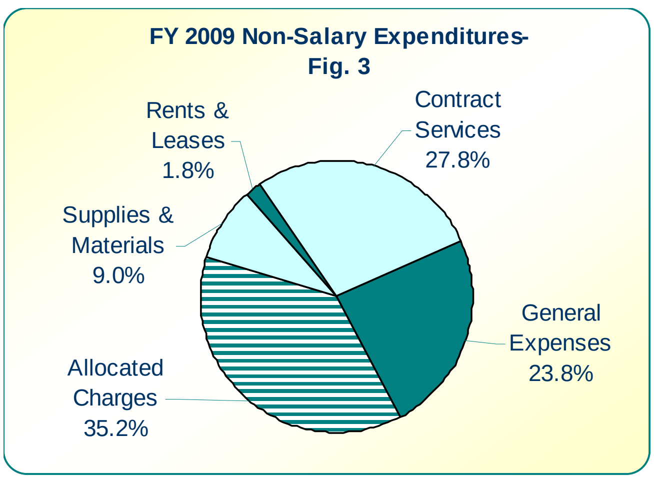
To value and fund for this future liability, an actuarial study was completed in January 2008, with a valuation date of January 2007. From that study, a Citywide future retiree medical liability of $102.2 million was determined. The City elected to participate in an irrevocable trust administrated by

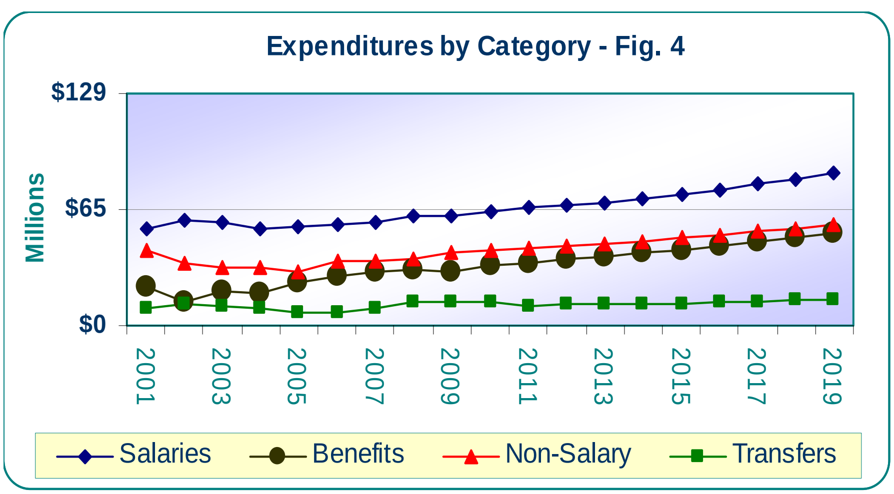
Healthcare Expenses- Fig. 2



CalPERS, which acts as a funding mechanism for this future liability. To this trust, the City transferred $33.8 million from the Retiree Health Benefit reserve, which decreases the City's unfunded portion of the liability to $68.4 million. In fiscal year 2009, the City budgeted $5.5 million for the General Fund's annual required contribution. Of the $5.5 million, $3.3 million is the General Fund's future liability accrual, as required by the Governmental Accounting Standards Board (GASB) pronouncement 45.

Going forward, the City will continue to explore strategies to reduce healthcare and retiree medical costs.





Non-salary Expenditures

Non-salary expenditures represent 28 percent of the fiscal year 2009 General Fund adopted budget total use of funds. These expenditures include contract services, supplies and materials, general expense, rents and leases, allocated expenses. Consistent with last year's LRFF, this forecast assumes no program growth beyond general cost inflation plus population growth over the next ten years. Figure 3 shows the breakdown of non-salary expenditures.

Budgeted allocated expenses increased $.5 million in fiscal year 2009 as compared to the actual expenditures for fiscal year 2008. This is primarily attributed to an increase in allocated charges from the Vehicle Replacement/Maintenance Fund and from utility charges due to rate increases.

Expenditure Trends by Category and Function

Figure 4 depicts the projected trend lines for salaries, benefits, non-salary expenses, and transfers.

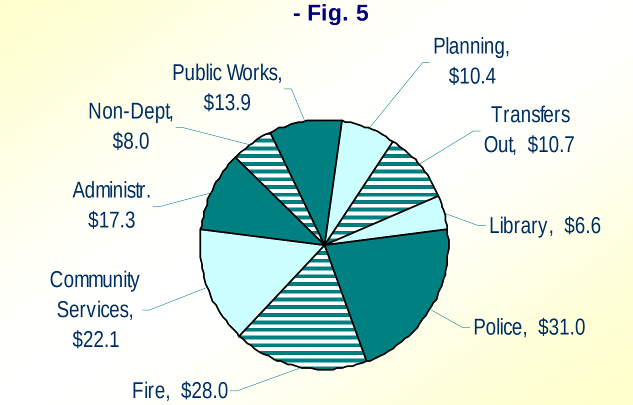
Please note the following:

- Salaries, while trending upward, remain at about 43 percent of total expenditures from fiscal year 2009 through fiscal year 2019
- Benefits increase from 22 to 24 percent of total expenditures from fiscal year 2009 to fiscal year 2019, primarily due to the inclusion of the retiree medical liability starting in fiscal year 2008
- Total expenditures increase an average of 3.8 percent per year from fiscal year 2009 through fiscal year 2019

- Non-salary/benefit expense and transfers represent about one-third of General Fund expenditures

Figure 5 displays the budget by functional area:

- The largest functional areas of the General Fund budget are Police, Fire and Community Services. Respectively, these departments comprise 21 percent, 17 percent and 15 percent for a total of 53 percent of budgeted expenditures in fiscal year 2009.
- The Administrative functional areas include Administrative Services, the City Attorney, City Auditor, City Clerk, City Council, City Manager, and Human Resources. These functions represent 10 percent of total expenditures. In fiscal year 2009, 41 percent of the services that the administrative departments provide are reimbursed by the Enterprise Funds.



FY 2009 GF Expenditures by Functional Area - Fig. 5

RISKS

The City continues to face fiscal challenges and opportunities which create upside potential and downside risks in the LRFF. Some of these challenges and prospects are immediate and others can be viewed as longer term as the City works toward a "Sustainable Budget".

Downside Risks

The primary downside risks on the revenue side are the housing market downturn, rising unemployment, the tightening credit markets and the effect of contracted consumer spending. Sales Tax, Documentary Transfer Tax (DTT), Transient Occupancy Tax (TOT) and permit fee revenues will move downward as these areas worsen. Revenue declines are projected through fiscal year 2010 with an upturn emerging in fiscal year 2011.

The following are some additional downside risks related to **revenues** forecasted in the model.

Economic Base

The City continues to move proactively to maintain and grow its economic base. Ongoing efforts to retain and grow automobile dealers and other key revenue generators, the planned expansion of the Stanford Shopping Center, efforts to build a new hotel in the Shopping Center, and the exploration of instituting a business license tax, have all been part of a heightened awareness and action plan to secure the City's economic base. (Further details appear below in "Upside Potential"). These efforts are vital given the following threats to City businesses:

- Big-box stores such as Best Buy, Home Depot, Costco, REI, and supermarkets in Mountain View and East Palo Alto continue to draw business and sales taxes away from Palo Alto
- Nearby cities' efforts to attract automobile dealerships. Given the lack of suitable space in Palo Alto, this could lead to the departure of key local dealerships. The City has already

lost three auto dealerships in the past five years: Ford, Nissan, and Porsche

- Retail competition from regional shopping centers such as Valley Fair and Santana Row
- Increased loss of businesses due to the growing economic downturn
- The emergence of high-end hotels in Los Altos, Menlo Park and East Palo Alto, generating increased competition for Palo Alto hotels and for TOT dollars
- The transformation of Stanford Research Park from firms producing taxable sales to those providing non-taxable research, administration, and business services
- Opposition to certain types of business and hotel development within the City

The LRFF incorporates the most recent loss of automobile dealerships and hotels as well as the downturn in the economy; however, should any of these trends become more significant, the City's revenues will decline accordingly. The City may want to review in any case, its ability to provide services without more aggressive and competitive business attraction and retention strategies.

Telephone UUT Threat

Voice-Over-Internet Protocols (VOIP) technology will impact telephone Utility Users Tax (UUT) revenues as it penetrates homes and businesses. Based on a recent Federal Communications Commission ruling, the City will no longer have the authority to tax VOIP service; thus the $2 million telephone UUT revenue source may erode over time. In addition, since the telecommunications industry was successful in relocating local franchise authority to the State level, it is possible they will attempt to do the same for UUT. A State UUT could result in further diminution of the City's telephone UUT revenues.

The following are some additional downside risks on the **expenditure** side.

Pension Expense

As stated in the expenditure driver section of the LRFF, CalPERS has recently suffered significant investment losses due to the stock market upheaval. CalPERS reported a 20 percent loss on its portfolio as of October 2008. CalPERS currently receives enough funding from employers to cover its monthly retiree benefit obligations. However, they are estimating that employer contributions may raise 2 to 5 percent of payroll beginning in fiscal year 2012, if investment losses continue. If CalPERS investments are able to return to its anticipated 7.75 percent annual return after fiscal year 2009, employer rates would likely continue to rise slowly over time. Returns in excess of 7.75 percent in subsequent years would be required to prevent a rise in employer rates.

Debt Service Obligations

In fiscal year 2008, the City Council approved the concept of funding the Public Safety Building project with the issuance of Certificates of Participation (COP). The current estimated amount of COP to be issued is $81.2 million dollars. The annual General Fund debt service obligation for the COP is estimated to be $5.2 million. Several one-time and ongoing future revenue resources in the amount of $4.3 million were identified to pay for the COP. Additionally, as part of the fiscal year 2009 budget process, departments were asked to identify revenue enhancements and expense reductions in the amount of $1 million to close the funding gap.

Currently, the estimated timeframe to issue the COP is Fall 2009 and the first payment on the debt service would be due in fiscal year 2012. Existing economic conditions could affect this issuance and its timing. The ability to issue COP will need to be reviewed.

Tight credit markets, potentially higher interest rates and challenges to City revenue sources, may impact the General Fund's ability to maintain current service levels and meet new debt obligations.

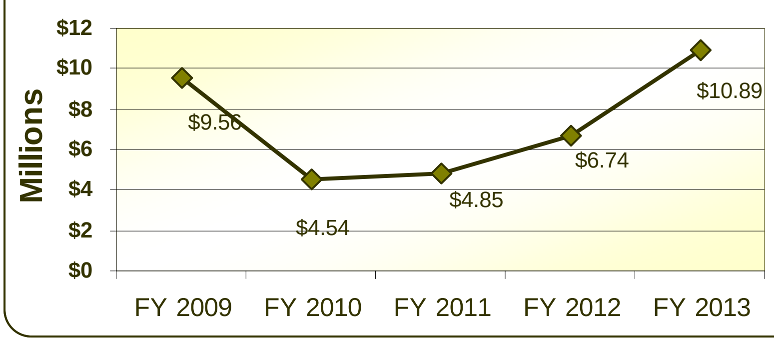
Increased Salary Pressures

If higher prevailing labor market differentials surface as comparisons are made with benchmark cities, more complex labor negotiations may ensue in the next 2-3 years. Budget-balancing requirements will be weighed against the need to match regional wage standards. This could drive salaries and benefits expenditures above the LRFF.

New Projects and Priorities

If the City identifies new projects or priorities that are not included in this LRFF, new revenue sources and/or expenditure cuts would have to be identified to fund them. Capital and other costs not funded through debt financing will require alternative resources. For example, should new library and public safety facilities be constructed, additional maintenance expenditure will be required.

Infrastructure Reserve Balance with Additional $3 Million Per Year Investment-Fig. 6



Moreover, as the City utilizes new or existing resources to fund expanded facilities or programs, it reduces its flexibility to cover increasing expenses in other programs. Adhering to Sustainable Budget tenets will require a mechanism for prioritizing project and program needs.

Infrastructure Reserve Funding

One of Council's top priorities is to restore and maintain the City's General Fund infrastructure.

On April 2008, staff provided Council with an update of the General Fund infrastructure backlog for the next twenty years (CMR: 167:08). The report indicates that $307 million (in 2008 dollars) is needed to address infrastructure repairs and renovations in the areas of streets, sidewalks, bridges, parks and open space, and City buildings and facilities. Another $148 million (in 2008 dollars) is needed to address future infrastructure needs at major City facilities such as building replacements at the Municipal Service Center (MSC), Fire Station 3 and 4, the Animal Shelter, replacement of the Civic Center plaza deck, and completion of Charleston Arastradero Corridor and Byxbee Park Phase II projects. The estimated total cost of the infrastructure backlog in the next twenty years is $455 million (in 2008 dollars). Construction cost is expected to increase over time, and will add to the cost of the backlog.

In April 2006, the City Council directed staff to review options to increase funding by $3 million per year through a combination of expenditure reductions and revenue enhancements. The LRFF assumes that the transfer of $3 million per year will increase by an inflation factor of 7.0 percent per year. The fiscal year 2009 total budgeted transfers from the General Fund equals $12.1 million to the IR. This leaves an unfunded deficit of $442.9 million. The LRFF does not include the funding of the infrastructure backlog as staff is working on a funding plan for the Council to consider. Figure 6 represents the forecasted ending Infrastructure Reserve Balance for fiscal years 2009 through 2013, after transfers in and annual anticipated project expenditures.

State Budget Difficulties

In the last week of November 2008, Governor Arnold Schwarzenegger declared a fiscal emergency for the State of California. The state has identified a budget deficit of $11.2 billion that is projected to grow to $28 billing over the next 19 months. Additionally, without action the state could run out of cash by February 2008. Although the passage of Proposition 1A includes protections from State raids on local jurisdiction resources, there is a provision that in emergency situations these controls can be sidestepped. The State's ability to borrow its way out of the looming budget dilemma is limited, and local governments should be prepared for potential takeaways.

UPSIDE POTENTIAL

Possible developments that would positively impact the City's bottom line include:

Successful Economic Development Efforts

In the past few years, the City has engaged in several efforts to encourage business development. As a result of the Mayor's Committees on Retail and Business Attraction, several key strategies have been implemented:

- Partnering with the Simon Group in efforts to expand the Stanford Shopping Center and maintain its competitive position in the marketplace. This includes a hotel that would enhance TOT revenue
- Working with an auto dealership to identify potential land near Highway 101 to provide greater visibility and space
- Contracting with the San Mateo Visitor and Convention Bureau and the Palo Alto Weekly to execute the two-year pilot program "Destination Palo Alto." This program has the goal of showcasing Palo Alto as a business and tourist destination

To the extent that these efforts counteract the negative competitive pressures facing the City's business community, City revenues may exceed those forecasted.

LOOKING BACKWARD AND FORWARD

Over the past years, the LRFF has summarized the expense and position reductions along with revenue enhancements that the City has taken to address its financial challenges. Additionally, the City can point to major accomplishments such as increased infrastructure spending and funding of its retiree medical liability. Few jurisdictions can lay claim to these achievements, given the financial pressures cities face. This City, however, continues to have a plethora of existing and new infrastructure needs, enhanced program requests, and new demands such as in the area of climate protection. The myriad of expenditure pressures on General Fund resources prompted a discussion in fiscal year 2008, of developing a "Sustainable Budget" whereby sources and uses of available funds are in equilibrium over time. This concept and goal were explored in CMR: 387:07 which was presented to the Council's Finance Committee in October, 2007.

With deteriorating economic conditions pressuring key revenue sources and major new spending initiatives, revisiting the "Sustainable Budget" concept is relevant, timely, and important.

A copy of CMR:387:07 has been included as an attachment to this report and additionally highlights of the report are summarized in the next section titled "Sustainable Budget".

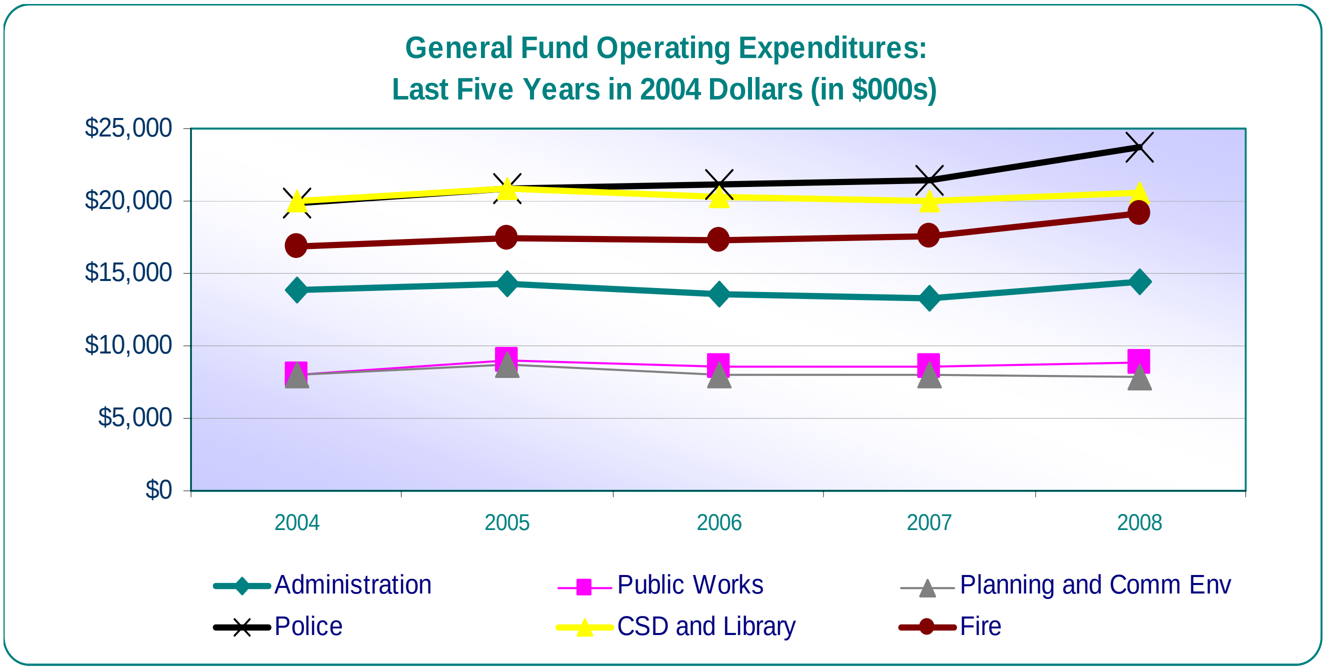
Sustainable Budget

The idea of a "Sustainable Budget" emerged from the financial disruptions of the dot-com bust and the concern that the City cannot continue to support the variety and level of current services over the long term. This concern is compounded by emerging new program and facility needs that must compete with existing services for resources.

A "Sustainable Budget" is a plan to keep spending within one's means over the long-term. Another definition of this type of budget is an expenditure plan that meets the needs of the present without compromising the ability to provide services to future generations.

As the above Risks section states, the goal of budget sustainability is not as simple as it appears, since dynamic forces such as economic cycles, changing demographic and social needs, rising medical and energy costs, new facility needs, and other factors impact the best of budget strategies. Tough questions must be addressed to provide the flexibility necessary to achieve a balanced budget over time. These include, for example:

- What are the City's basic program and spending priorities now and in the future? Balancing a rich and wide level of services with expanding infrastructure, for example, will present a difficult trade-off
- How long can current expenditure patterns continue and what costs can be reduced or eliminated to achieve a balanced budget?
- Can current services and service levels be provided in a more efficient and cost-effective manner?



- What revenue sources can be counted upon now and in the future, and which are likely to decline?
- To what extent are the City and community able and willing to maintain and grow revenue resources when needed?

A critical component of developing a sustainable budget is that the City discuss the above questions on an ongoing basis, preferably annually. This provides for a realistic approach to new initiatives and expectations as they arise, given available resources and competing priorities. Maintaining such a budget takes considerable discipline. By being proactive in finding answers to the difficult questions raised above, the City can avoid the painful, abrupt and potentially near-sighted solutions that are typically necessary to solve budget shortfalls.

As stated in this report, the City has capably addressed a number of structural and long-term funding issues such as infrastructure replacement, the loss of revenues during the dot-com downturn, and the retiree medical liability. It has solved these problems primarily by reducing General Fund costs. As the City grapples with the rising cost trends cited in this report, the option of reallocating resources has become more problematical.

An analysis of expenditure growth by department (see table below) shows that budgeted resources for administrative departments have dropped in real dollar terms over the past five years while those providing community and public safety services have either remained constant or increased. As a proportion of the City's budget, the public safety and community service functions have grown from 58.3 percent of the total in 1997 to 61.5 percent in 2007. These numbers make sense in light of the reductions made in the administrative departments, but they indicate that if the City is to sustain its budget, difficult decisions may be necessary in areas that the public and Council see as "basic" services. This is especially important as the City endeavors to fund new public safety and library/community center facilities. In addition to the capital costs expected to be debt financed, there will be incremental equipment, maintenance, and operating costs associated with these new facilities.

To maintain a Sustainable Budget, the City has taken several actions including:

- Reallocating of resources - e.g. recent $3 million shift of operating resources to infrastructure spending
- Increasing revenues or resources - e.g. recent 2 percent increase in TOT rate
- Reducing or shifting benefit expense – e.g. recent capping of medical premium costs and having employees pay a share of retirement plan contribution
- Increasing use of debt versus pay-as-you-go funding for capital projects so as to spread costs and benefits over time

As with most budget decisions, the City will have to make hard choices as it develops a Sustainable Budget. To facilitate the decision-making process, the following complex questions (in addition to those raised earlier) need further analysis, discussion, and action:

- What is the optimal balance between infrastructure and operating expenses that will sustain the delivery of services?
- Should the City incur more debt for capital projects so as to spread the cost burden of improvements over current and future users?

The City has generally used a conservative, pay-as-you go approach for capital projects.

- How can the City control expenditures growing at greater than inflation rates yet preserve core services?
- What opportunities does the City have to maintain and expand revenue sources when necessary?
- To what extent is the community willing to balance its desire for services and the revenues that support them with its desire to restrict business growth and its associated traffic impacts?
- What degree of risk is the City willing to incur as it seeks to control expenses?
- Can a meaningful dialogue be initiated with City employees and unions on sharing medical premium expenses?
- What framework will the City use to evaluate and fund new programs versus ongoing services?

As the Finance Committee indicated in October, 2007, these questions must be vetted by the community and Council. They will require considerable discussion and consensus since they involve real, competing interests. The City's practice is to conservatively and judiciously manage its resources. With the development of a sustainable budget it will continue this practice into the future.

CONCLUSION

In conclusion, this year's LRFF incorporates many significant changes and challenges. As the financial forecast's bottom line shows, the City is anticipating declines in revenue that result in operating deficits. Without a corresponding reduction in expenditures these deficits are projected to continue through fiscal year 2015 and draw the General Fund Budget Stabilization Reserve well below the Council approved 15% of budgeted expenditures. Prudent fiscal management will be required by City staff and Council to avoid this scenario.

Staff will bring forward FY 2009 midyear and FY 2010 budget recommendations for revenues and expenditures that strive to maintain the 15 percent BSR guideline. The estimated expenditure reductions are $2.6 million and $5.3 million respectively. The midyear process will begin in February 2009 and the budget process in May 2009.

ENTERPRISE FUNDS

ENTERPRISE UTILITY FUNDS

Although the Long Range Financial Forecast's main focus is the General Fund, the financial outcomes of the Enterprise Utility Funds affect the City as a whole. The addition of information on the Utility Funds represents a step toward a comprehensive, citywide Long Range Financial Forecast.

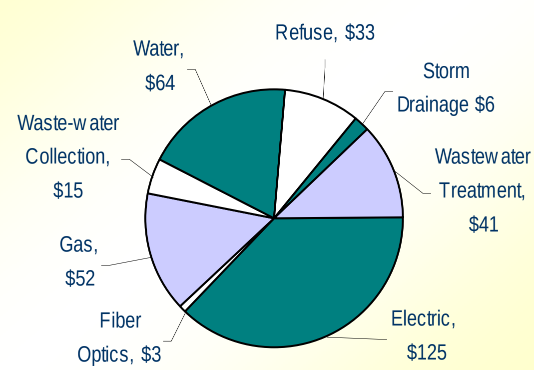
The City of Palo Alto has provided utility service to its citizens and businesses for over 100 years and is the only city in California to offer a full array of utility services. The Enterprise Utility Funds are comprised of the Electric, Fiber Optics, Gas, Refuse, Storm Drainage, Wastewater Collection, Wastewater Treatment and Water Funds. Beginning in fiscal year 2009, the Fiber Optics Fund exists as its own entity. Previously, fiber optic activities were accounted for in the Electric Fund. Each of these Funds is managed independently, and a summary of the Funds is presented below.

The basic principle of the Enterprise Utility Funds is that customers pay the full cost of the services they receive.

REVENUES

Revenues for the Enterprise Utility Funds are primarily generated through rates charged to customers and are designed to cover the full cost of delivering services. Those costs include the cost of commodities, replacement and maintenance of capital infrastructure, debt service coverage and operation expense. Overall utility rates increased by 8.7 percent in fiscal year 2009, and additional increases will be considered in the upcoming budget process for fiscal year 2010.

FY 2009 Enterprise Utility Fund Revenue - Fig.1 (in millions of dollars)



The total combined revenue for the Enterprise Utility Funds in the fiscal year 2009 budget is $338 million.. This includes $251 million in revenue collected from ratepayers and one-time revenue of $55 million- $35 million of revenue bonds to be issued for the Water Fund Emergency Water Supply Project and $20 million in reimbursements from state and local agencies for the Wastewater Treatment Fund Disinfection Facility Improvement Program and Plant Equipment Replacement Projects. Figure 1 shows revenues by fund.

EXPENSES

Expenses for the Enterprise Utility Funds are driven by commodity, capital infrastructure, debt service and operational costs.

The total combined expense for the Enterprise Utility Funds in the adopted budget for fiscal year 2009 is $330 million. Figure 2 shows expense by fund. Figure 3 shows combined expense by category.

EXPENSE DRIVERS

Commodity Costs

Fluctuating commodity and transmission costs continue to be a challenge for the Electric, Gas and Water Funds, since commodity purchases represent the largest expense for these three funds.

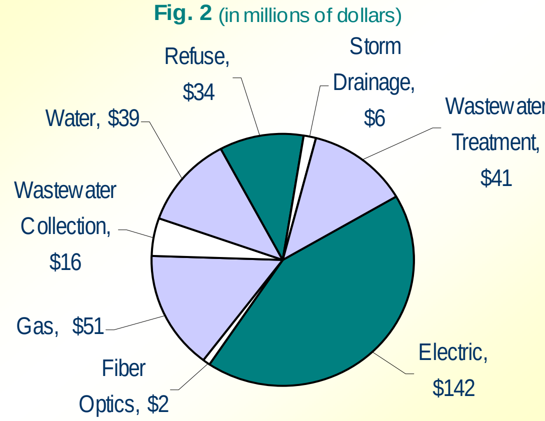
In fiscal year 2009, total budgeted commodity expense is $136 million or 41 percent of total Enterprise Utility Fund expense.

Commodity pricing is driven by weather, supply availability, changes in demand, regulatory policies and, in the case of water, Hetch-Hetchy infrastructure improvements. Increases in commodity expenses may cause customer rate increases. To mitigate marketplace volatility and dramatic customer rate changes, staff uses a Council-approved three-year laddered purchasing strategy for electric and gas supplies.

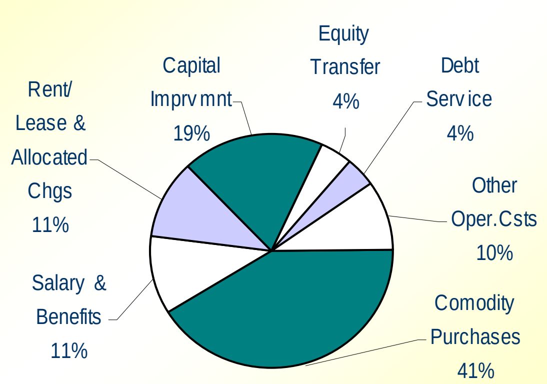
Capital Infrastructure

The investment in capital infrastructure is a major priority for the Enterprise Utility Funds. Replacing, maintaining and upgrading

FY 2009 Enterprise Utility Fund Expense - Fig. 2 (in millions of dollars)



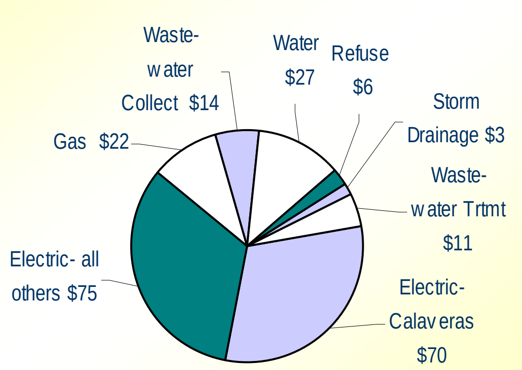
FY 2009 Enterprise Utility Fund Expense by Category - Fig. 3



- The replacement and upgrade of gas mains-$6.7 million
- The rehabilitation of wastewater collection systems-$3 million
- Water main replacement, reliability upgrades, and emergency water supply- $13.9 million
- The construction of a new storm water pump station and citywide storm drainage system repairs- $2.2 million
- Improvements to the disinfection facility at the wastewater treatment plant- $20 million

Multi-year projects included in the fiscal year 2009 adopted budget are the construction of the ultraviolet disinfection facility at the Wastewater Treatment Plant with an estimated total cost of $21 million, and the Emergency Water Supply Project with an estimated four-year cost of $40 million. Revenues from an anticipated $33.5 million bond issuance will help fund the Emergency Water Supply project. State of California loans and grant funding may assist with the disinfection facility along with reimbursements from Wastewater Treatment Plant partners.

FY 2008 Enterprise Utility Fund Reserves- Fig. 4 (in millions of dollars)



Operational Costs

Increases in operational costs also may drive increases in customer rates. Many of the cost pressures described in the Expenditure Drivers section of the General Fund LRFF also apply to the Enterprise Utility Funds.

Salary and benefits expense represents 11 percent of total budgeted expense for all Enterprise Utility Funds in fiscal year 2009. Included in this figure are negotiated salary increases and the rising cost of health care and retiree medical benefits.

Allocated charges and rent represent 11 percent of total budgeted expense for all Enterprise Utility Funds. The utility funds reimburse the General Fund for administrative services such as attorney and payroll services, and pay market-based rents for the use of General Fund land. Increases in General Fund expenditure are allocated to the utility funds based on various measures, and rent is adjusted annually after an independent appraisal.

The equity transfer to the General Fund from the Electric, Gas and Water Funds represents 4 percent of the expense for the Enterprise Utility Funds.

Reserves

In addition to commodity purchasing strategies, Utility Fund reserve balances are also used to mitigate the effect on customer rates of commodity market price swings and operational cost increases. These mitigations are typically used on a one-time basis, since ongoing higher costs must eventually be borne through the rate structure. Additionally, Enterprise Utility Fund reserves provide cash for emergency equipment replacement and planned capital expenditures.

The total combined reserves for the Enterprise Utility Funds per the fiscal year 2008 Comprehensive Annual Financial Report (CAFR) are $228 million. Figure 4 shows the reserves by fund.

Risks

The Enterprise Utility Funds, like the General Fund, face significant fiscal challenges and opportunities that will impact future financial outcomes.

Downside Risks

Commodity Markets

Volatile markets for commodity and transmission costs will continue to present significant challenges for the Enterprise Utility Funds. Between fiscal years 2004 and 2008, wholesale electric supply costs increased 90 percent, gas supply costs 71 percent, and water supply costs 12 percent.

Currently, staff is able to mitigate the market volatility for gas and electric purchases with its three-year laddered purchasing strategy. However, if a supplier defaults or staff is unable to negotiate long-term contracts, energy supplies will need to be purchased at the then-current market price.

Weather-Related Concerns

Approximately 36 percent of the City's electric supply comes from hydroelectric projects. The availability of hydroelectric supply is dependent on the weather; the cost to purchase electric commodities may increase dramatically in a dry year. The City tries to maintain sufficient cash reserves to buy energy on the market during periods of drought and replenishes the cash reserves during wet periods when production is high and purchase costs are lower. This use of reserves to balance the hydroelectric supply uncertainty enables the City to provide relatively stable rates to customers.

Regulatory Concerns

Regulatory concerns include proposed changes to the electric industry structure by the Federal Energy Regulatory Commission (FERC) and the California Independent System Operator (ISO) as well as several State of California legislative bills. If passed, the new regulations and laws would increase transmission, local capacity and reporting costs.

Funding for Capital Improvement

In recent years the cost of construction materials has risen sharply, outpacing the general rate of inflation. As the costs of material and labor rise, planned projects are being reevaluated, delayed or scaled down.

The Storm Drainage Fund has been particularly impacted by these concerns. In fiscal year 2005, property owners voted to approve a fee increase to fund specific storm drain improvement projects. Per the terms of the approved ballot measure, annual Council-approved rate increases cannot exceed the local rate of general inflation (which is significantly lower than the rate of increase in con-

construction costs) or 6 percent, whichever is less. Due to rapid increases in construction costs, the Storm Drain Fund will be unlikely to complete all of these projects without additional funding from the General Fund. Staff is working closely with the Storm Drain Oversight Committee to develop strategies and recommendations on which projects to implement with the available funds.

As Water, Gas and Electric Fund capital improvement projects are impacted by the cost of construction labor and materials, changes to these costs will have an effect on customer rates.

Upside Potential

The Enterprise Utility Funds have several programs and processes in place that may positively impact the Funds.

Renewable Resources

The Enterprise Utility Funds are committed to the implementation of renewable energy programs. Recently the Environmental Protection Agency (EPA) designated Palo Alto as the first Green Community in California. Palo Alto's renewable portfolio standard has set a goal of purchasing 20 percent of the electric commodity supply from renewable sources by fiscal year 2008 and 33 percent by fiscal year 2015.

The inclusion of "green" electricity produced by landfill gas and wind power will diversify the electric commodity portfolio and allow for greater purchasing flexibility. The current renewable energy contracts are long-term, fixed price contracts with a 10 to 20 year commitment. These contracts will provide relatively low-cost and stable electric supplies if market prices continue to rise in the future.

Customer Energy Efficiency Programs

The Enterprise Utility Funds offer their customers a wide array of energy and water efficiency programs. Efficiency rebates, energy and water usage analysis and efficiency education allow customers to implement measures that will save them money and reduce the demand to purchase commodity resources.

CONCLUSION

In conclusion, the financial health of the Enterprise Utility Funds will drive rate changes for the public and has significant impact on the financial health of the City as a whole. Some of the challenges facing the Utilities parallel those faced by the General Fund – such as rising salary and benefit costs. Others are unique to the nature of the Utilities' business – such as commodity availability and price fluctuations. Like the General Fund, the financial health of the Enterprise Funds must also be monitored.

APPENDIX A

DEFINITIONS OF REVENUES AND EXPENDITURES CATEGORIES

REVENUES:

Sales Tax

is a tax collected from customers by retailers on sales of tangible personal property and services. In fiscal year 2009, sales tax represents 17 percent of total projected General Fund revenues.

Property Tax

is a tax that the owners of real and personal property pay, equal to one percent of the assessed value of the property. Of the one percent, the City receives 9 percent, or 0.09 percent of the assessed property value. Note that the bulk of Vehicle License Fees are now remitted to the City via property tax payments from the County.

Utility Users Tax (UUT)

is a tax based on the usage of telephone, electric, water and gas utilities. The tax rate is 5 percent of the usage, with discounted rates available for very large users.

Transient Occupancy Tax (TOT)

is a tax levied on short-term (30 days or less) rental of lodging. The current TOT rate is 12 percent of the price of the rental.

Other Taxes, Fines, & Penalties

consists of remaining Vehicle License Fees paid directly by the State, parking violations, library, administrative citations, and other fines and penalties. Among these components, parking violations is the largest, with projected revenues in fiscal year 2009 of $1.9 million. Additionally, Documentary Transfer Tax, described next, is included in this category.

Documentary Transfer Tax

is a tax levied on real property bought or sold in the City at the rate of $3.30 per $1,000 of value. These one-time revenues can vary significantly from year to year since they are sensitive to the volume and value of property sales.

Service Fees & Permits

are generated from golf course fees and class registration and admission fees in the Community Services Department; permits and plan check and zoning fees in the Planning and Community Environment Department; and paramedic service fees in the Fire Department. Plan check fees are the most significant in this area, projected to be $2.3 million in fiscal year 2009.

Joint Service Agreements

are primarily comprised of the Stanford University contract for fire and communication services, which funds 30 percent of the Fire Department's budget--approximately $7.6 million in fiscal year 2009.

Reimbursements

refer to payments received by the General Fund for services rendered to the Enterprise Funds, such as accounting, payroll, purchasing, human resources, and legal advice.

Transfers

between Funds are a common way of moving resources for both general operations and capital projects. The main component of this source of funding is the equity transfer from the Enterprise Funds ($15.1 million projected for fiscal year 2009). This represents a return on the City's original capital investment in the Utility Department's operations more than 100 years ago.

Other Revenues

are primarily comprised of the rent received for land and facilities used by the Utilities and Public Works Enterprise Funds.. They comprise 12 percent of the total sources of General Fund revenue in fiscal year 2009.

EXPENDITURES

Salaries & Benefits

consist of salaries (regular, temporary, and overtime) and benefits (healthcare, retirement and others). Salaries and Benefits account for approximately 63 percent of fiscal year 2009 total projected total use of funds.

Non-Salary Expenditures

include contract services, supplies and materials, general expenses, rents and leases, and allocated expenses. They are projected to be 28 percent of General Fund total use of funds in fiscal year 2009.

Contract Services

include contracts for Children's Theatre, golf professional services, park maintenance, class instructors, traffic studies, outside legal counsel, auditing, and financial services. In fiscal year 2009, contract services are projected at 8 percent of the General Fund total use of funds.

Supplies & Materials

include office supplies, recreational and housekeeping supplies, City employees' uniforms, construction and planting materials, and library circulation. Supplies and materials expense represents 9 percent of non-salary projected expenses in fiscal year 2009.

General Expense

is mainly comprised of the annual Cubberley lease payment to Palo Alto Unified School District (PAUSD) in the amount of $6.8 million. General expense is 23 percent of projected total non-salary expense in fiscal year 2009.

Rents, Leases & Equipment

consists mainly of land and facility rentals, other rents, and leases. It comprises only 3 percent of total projected non-salary expense in fiscal year 2009.

Allocated Expenses

include printing and mailing, vehicle replacement, technology, and benefits costs incurred by internal service funds, which are allocated to various departments based on a prescribed usage methodology.

Transfers to Other Funds

are transfers between Funds as reimbursement for services, overhead expenses, or other payments. The LRFF includes four main transfer categories: Infrastructure capital projects, other capital projects, debt service, and other transfers.

Debt Service

is the interest and principal payments made to bond holders on the outstanding debt principal balance. The City of Palo Alto's total current outstanding debt principal is $9 million - one of the lowest debt levels of any city in the Bay Area.

Other Capital Projects

include projects for traffic calming, public art, and technology. They are estimated to increase by an average annual rate of 3 percent over the next ten years.

APPENDIX B

BASIC FORECAST METHODOLOGY

Revenue Projection Methodology

A variety of tools and information are used to forecast revenues. These include, for example:

- Determining the compound annual rate of growth (CAGR) of each revenue category over the past ten years
- Recent revenue trend information
- The condition of the local, state and national economies with particular focus on changes in per capita income levels, employment, and State GSP
- The status of key market segments affecting each revenue stream such as retail sales, residential and commercial property sales, hotel occupancy and daily rates
- The condition of major businesses and tax generators in the City

Forecasting involves a mix of quantitative and qualitative inputs. Revenue growth assumptions are compared to those of other forecasters and surrounding cities to ensure they are realistic.

Included in the forecast is the current economic downturn beginning in fiscal year 2009. Anticipating an extended economic downturn required prudent planning and fiscal management. At this time, staff believes that the downturn will be shallow but extended through fiscal 2011 when slow revenue growth is projected. Due to the downturn, a deficit in the General Fund of $2.5 million is projected for fiscal year 2009, and a deficit of $5.3 million is projected for fiscal year 2010. Deficits are projected to continue in the General Fund until fiscal year 2015 unless expense reductions or revenue increases are realized.

Expenditure Projection Methodology

Similar to revenue projections, expenditure projections are based on a combination of the average annual growth rate of the Consumer Price Index (CPI) and population growth, assumptions about future growth rates, and other judgments as deemed appropriate. Salary projections are based primarily on existing labor agreements. For timelines beyond existing contracts, salary growth is projected using a weighted average of historical trends and regional labor cost increases.

Due to GASB 45, we have budgeted for retiree medical liability based on our most recent actuarial study and assumptions. Since healthcare and pension costs have risen so rapidly over the past several years, we expect these rates to moderate over the next ten years. The City will continue to explore methods of controlling the growth of these expenses, but such controls are not assumed in the plan.

Operating transfers are primarily generated in relation to capital projects. The five-year capital improvement plan is the basis for the first half of the LRFF’s capital transfer projections. The last 5 years are estimated based on historical spending patterns.

APPENDIX C

LEGISLATIVE ANALYST OFFICE'S AND OTHER ECONOMIC FORECASTS

The following table summarizes the California Legislative Analyst Office's (LAO) economic projections, as published in its February 20, 2008 report entitled "2008-09 Budget Bill: Perspectives and Issues".

The LAO also compared its projections with other expert projections available at the time of publication. The following table summarizes projections made by the UCLA Business Forecast Project in December 2007, the 2008-09 Governors' Budget Forecast, and the consensus forecasts published in the Blue Chip Economic Indicators in January 2008. To varying degrees, all of the projections currently call for slowing growth in 2008 and a partial rebound in 2009.

The second chart shows that, in real dollars, property tax revenue is now higher than sales tax revenue in fiscal year 2008. This is due to Vehicle License fees shifted to being paid through Property Tax remittances. UUT and TOT have remained relatively unchanged since 1998.

LAO February Report	2008 (forecast	2009 (forecast)	2010 (forecast)
National Figures:			
Real GDP	1.60%	2.70%	2.90%
Unemployment	5.20%	5.20%	5.00%
Job Growth	0.70%	1.10%	1.40%
Personal Income	4.70%	4.80%	5.30%
CA Figures:			
Unemployment*	6.10%	6.00%	5.80%
Job Growth	0.60%	0.90%	1.30%
Personal Income	4.70%	5.10%	5.80%

Comparisons of Recent Economic Forecasts

(% Changes)

	Forecast 2007	2008	2009
United States Real GDP:			
UCLA December	2.1	1.9	2.9
DOF January	2.1	1.9	2.9
Blue Chip Consensus [b] January	2.2	2.2	2.7
LAO February	2.2	1.6	2.7
California Payroll Jobs:			
UCLA December	1.3	0.5	0.9
DOF January	0.8	0.7	1
Blue Chip Consensus [c] February	0.7	0.6	1.1
LAO February	0.7	0.6	0.9
California Personal Income:			
UCLA December	5.6	4.8	5.2
DOF January	5.6	4.8	5.2
Blue Chip Consensus [c] February	5.9	4.3	5.1
LAO February	5.9	4.7	5.1
California Taxable Sales:			
UCLA December	3	3.2	4
DOF January	0.9	3.4	4.6
Blue Chip Consensus [c] February	0.8	2.7	3.7
LAO February	0.8	3.6	3.8

a Acronyms used apply to Legislative Analyst's Office (LAO); University of California, Los Angeles (UCLA); and Department of Finance (DOF).

b Average forecast of about 50 national firms surveyed in January by *Blue Chip Economic Indicators* .

c Average forecast of organizations surveyed in February by *Western Blue Chip Economic Forecast* .

APPENDIX D

HISTORICAL TRENDS

Historical trends help portray the context in which the City operates and are carefully considered in preparing the long-range financial plan. Please note that the total revenue and expenditure figures in this section may differ from those of other financial documents published by the City. This is due to differences in reporting formats which may result in the exclusion or inclusion of certain components.

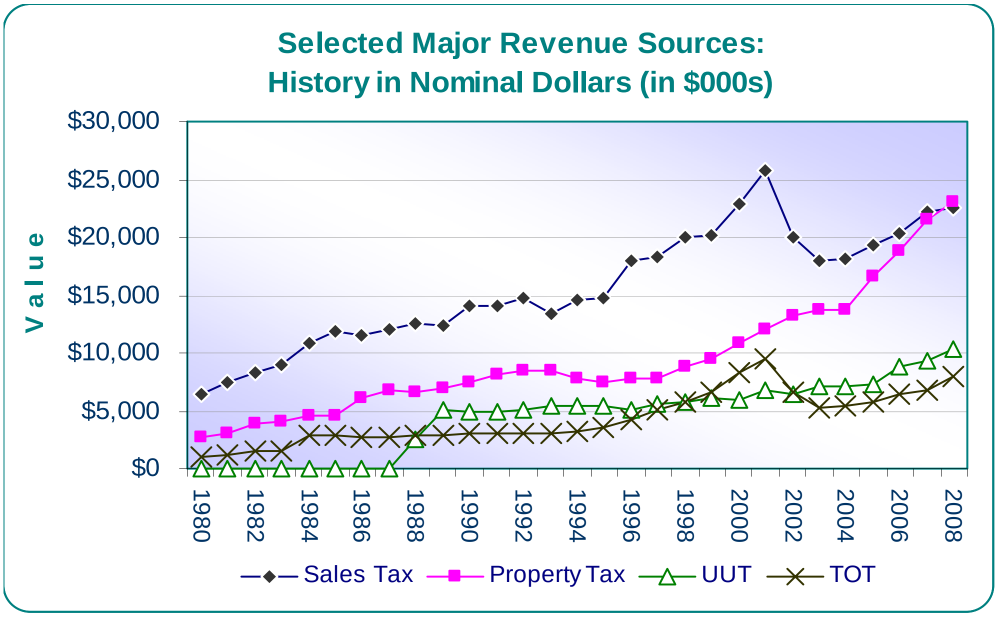
General Fund Revenue Sources

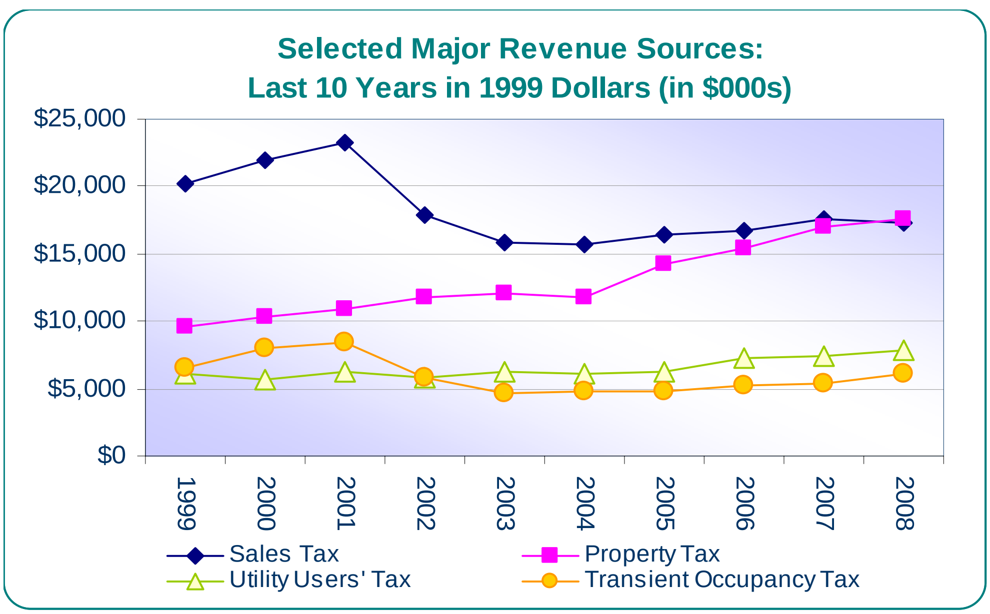
The charts below show the major sources of General Fund revenues first in nominal dollars (not adjusted for inflation) and then in constant dollars (adjusted for inflation). Both illustrate that Sales Tax revenue reached a high in fiscal year 2001 and has since declined markedly, while Property Tax revenue has increased steadily over the past ten years. Utility Users Tax (UUT) revenue has remained relatively stable, and Transient Occupancy Tax (TOT) revenue has followed the swings of the economy during the past ten years.

The second chart shows that, in real dollars, property tax revenue is now higher than sales tax revenue in fiscal year 2008. UUT and TOT have remained relatively unchanged since 1998.

Selected Major Sources: Average Annual Growth Rate

	Property Tax	Sales Tax	UUT	TOT
From 2006 to 2008	7.0%	1.7%	4.4%	7.6%
From 2003 to 2008	7.8%	1.8%	4.9%	5.4%
From 1999 to 2008	7.1%	-1.7%	3.0%	-0.8%

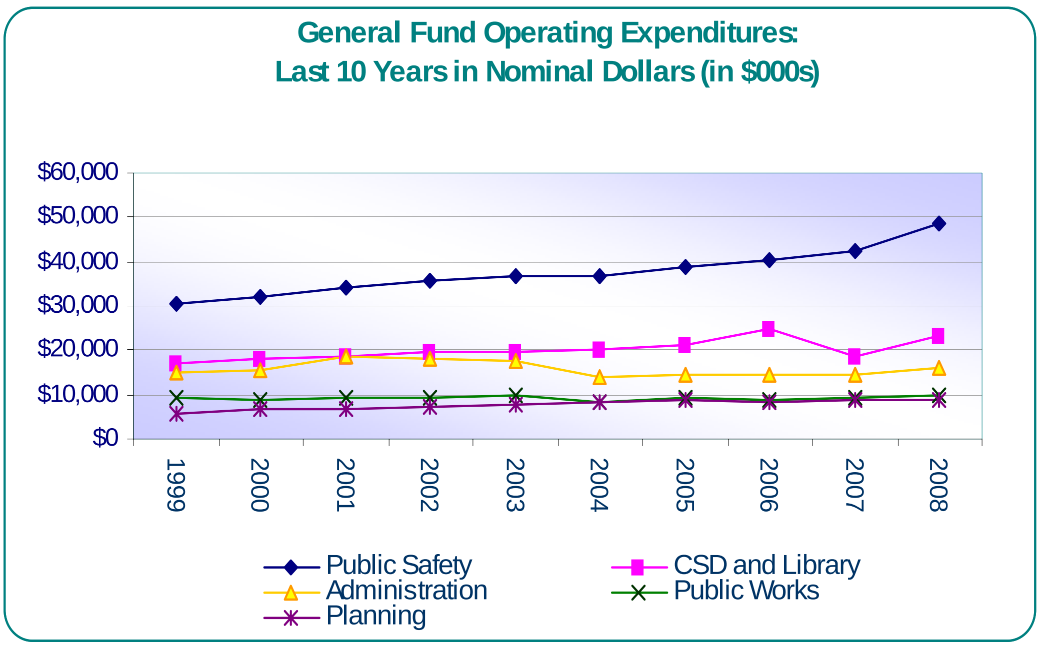




Note: Administration is comprised of City Council, City Manager, City Attorney, City Auditor, Administrative Services, and Human Resources. Chart does not show separation of Library from Community Services beginning in 2005.

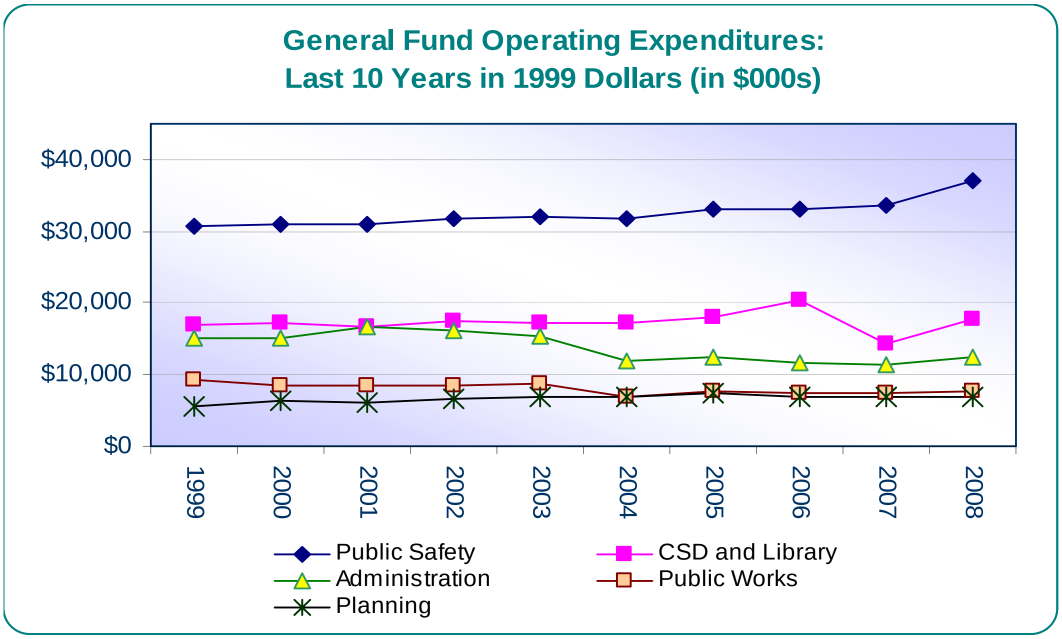
General Fund Operating Expenditures

General Fund operating expenditures are also shown in both nominal dollars (not adjusted for inflation) and constant dollars (adjusted for inflation). The largest percentage of total expenditures has been devoted to Public Safety where expenditures have increased over the last ten years. Also, expenditures for Administration reached a peak in fiscal year 2001 and have since decreased.



(Table Revised January 5, 2009)

Why Look at Past Trends?
Understanding where we've been helps us understand where we're headed.



General Fund Operating Expenditures: Average Annual Growth Rate					
	Public Safety	CSD and Library	Admin	Public Works	Planning
From 2006 to 2008	5.6%	-6.7%	2.7%	5.4%	-0.6%
From 2003 to 2008	2.9%	0.6%	-4.2%	-2.3%	0.2%
From 1999 to 2008	2.1%	0.6%	-2.1%	-2.0%	2.1%

Consumer Price Index Trends

Tables for U.S. and Bay Area CPI indices are presented below.

U.S. Consumer Price Index			Bay Area Consumer Price Index		
Fiscal Year	Amount	Percent Change	Fiscal Year	Amount	Percent Change
1998	163.0		**1998**	165.5	
1999	166.2	2.0%	**1999**	171.8	3.8%
2000	172.4	3.7%	**2000**	179.1	4.2%
2001	178.0	3.2%	**2001**	190.9	6.6%
2002	179.9	1.1%	**2002**	193.2	1.2%
2003	183.7	2.1%	**2003**	196.3	1.6%
2004	189.7	3.3%	**2004**	199.0	1.4%
2005	194.5	2.5%	**2005**	201.2	1.1%
2006	202.9	4.3%	**2006**	209.1	3.9%
2007	208.4	2.7%	**2007**	216.1	3.3%
2008	218.8	5.0%	**2008**	225.2	4.2%

Source: U.S. Department of Labor
Bureau of Labor Statistics
June of each year

Average Annual Growth Rate		Average Annual Growth Rate	
Last 2 Years	3.8%	**Last 2 Years**	3.8%
Last 5 Years	3.6%	**Last 5 Years**	2.8%
Last 10 Years	3.0%	**Last 10 Years**	3.1%

Bureau of Labor Statistics
June of each year

What do these charts show?
Population, housing and inflation trends for the last 10 years. These are considered in making revenue and expenditure forecasts.

City Housing Units and Population Trends

Tables for Palo Alto Housing Units and Population trends are presented here.

City of Palo Alto Housing Units			City of Palo Alto Population		
Fiscal Year	Amount	Percent Change	Fiscal Year	Amount	Percent Change
1998	25,701		**1998**	57,900	
1999	25,708	0.0%	**1999**	58,300	0.7%
2000	25,732	0.1%	**2000**	58,500	0.3%
2001	26,048	1.2%	**2001**	60,200	2.9%
2002	26,841	3.0%	**2002**	60,500	0.5%
2003	26,934	0.3%	**2003**	60,465	-0.1%
2004	27,019	0.3%	**2004**	60,246	-0.4%
2005	27,522	1.9%	**2005**	61,674	2.4%
2006	27,767	0.9%	**2006**	62,148	0.8%
2007	27,763	0.0%	**2007**	62,615	0.8%
2008	27,938	0.6%	**2008**	63,367	1.2%

Average Annual Growth Rate		Average Annual Growth Rate	
Last 2 Years	0.3%	**Last 2 Years**	1.0%
Last 5 years	0.7%	**Last 5 years**	0.9%
Last 10 Years	0.8%	**Last 10 Years**	0.9%

State of California, Department of Finance
Demographic Research Unit

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