LONG RANGE

FINANCIAL FORECAST

FISCAL YEARS 2013 TO 2023






CITY OF
PALO ALTO

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EXECUTIVE SUMMARY

This forecast summarizes the General Fund outlook for Fiscal Years (FY) 2013 through 2023. Rather than a prediction or commitment, a forecast is a financial snapshot based on a number of assumptions. This Long Range Financial Forecast (LRFF) is a tool to allow staff and Council members to see the longer-term results of choices made to date, and identify issues that must be addressed in the near term in order to improve the City's long-term outlook.

The national and state economies continue to show improvement, and for the City, FY 2011 and 2012 ended with net positive results. FY 2011 ended with a $3.2 million General Fund surplus, and FY 2012 financial results included a $4.5 million surplus.

The LRFF Base Model shows a continuing positive trend. FY 2013 is projected to end with a $3.1 million surplus. In the LRFF Base Model, the combined shortfall for FY 2014 to 2023 (ten years) is $34.8 million. The Base Model can be found on page 20 of this report. Table 1, below, summarizes the Base Model.

The Base Model includes increased pension rates due to impending changes in CalPERS methodologies as well as possible additional rate increases in the future. One impending change is a switch from a fifteen-year smoothing period for recouping PERS portfolio gains and losses down to a five-year period. A second is due to increased life expectancy among retirees, and the third is the likely lowering of the assumed discount rate on the PERS portfolio from 7.5 percent to 7.25 percent. In addition, staff has added an additional 1 percent per year beginning in FY 2017 for unforeseen pension cost increases.

Staff included an alternate scenario that assumes the discount rate declines by 0.5 percent rather than 0.25 percent—adding an additional $14.5 million in costs over the eight-year period from FY 2016-2023.

Staff will be hiring and working with an actuary in the coming months to help validate the cost estimates and assumptions discussed in this report.

Table 1: BASE MODEL Fiscal Years 2013 to 2023

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Revenues	159,979	162,802	170,498	176,217	181,994	188,351	194,962	200,540	206,723	214,026
Total Expenditures	159,758	162,600	172,918	179,180	185,725	193,558	199,692	205,886	212,374	219,182
Net Surplus (Gap)	220	202	(2,420)	(2,963)	(3,731)	(5,208)	(4,729)	(5,345)	(5,651)	(5,156)
Cumulative Deficit FY14-23										**(34,780)**

Note: The forecast does not include the savings from the new third pension tier implemented as of January 2013 as part of the California Public Employees' Pension reform Act (see page 26). At the moment, the dollar impact of this legislation is unknown, and staff will provide Council with updates as new information emerges.

The Base Model also includes savings from the recent agreements with the Palo Alto Police Officers' Association (PAPOA), the Service Employees International Union (SEIU) and the Management/Professional group. The savings from these three agreements add to $2.7 million in FY 2013.

Additional assumptions incorporated into the Base Model are detailed beginning on page 7.

The following pages of this report provide a summary of the national, state, and local economic outlook; a detailed look at the ten-year Forecast; the alternate scenario with higher pension rates; and a discussion of the challenges and conclusions derived from the Forecast.

ECONOMIC OUTLOOK

Economic growth – on national, state, and local levels – has begun to look more robust in the past year. The following indicators contribute to the impression that the economy is on a more stable footing:

NATIONAL

- The national unemployment rate was 7.6 percent in March, down from 7.9 percent in January 2013 and 8.2 percent in March 2012.[1]
- Beacon Economics is expecting the U.S. economy to grow by 3% through 2013, and the unemployment rate to drop to 7% by the end of the year.[2]

According to Beacon Economics:

- "Optimism for the rest of 2013 is being partly driven by a resurgent housing market. Home prices have been climbing at a significant pace and will continue to rise through this year and 2014, at a minimum. The reason for the jump in prices is simple—tight inventories and incredible affordability.
- "Overall, the US economy is on the mend. But there are many longer-term issues the nation must address including working through changes to the national healthcare system and tackling fundamental issues related to underfunded Federal entitlements and state and local pesnions."[2]

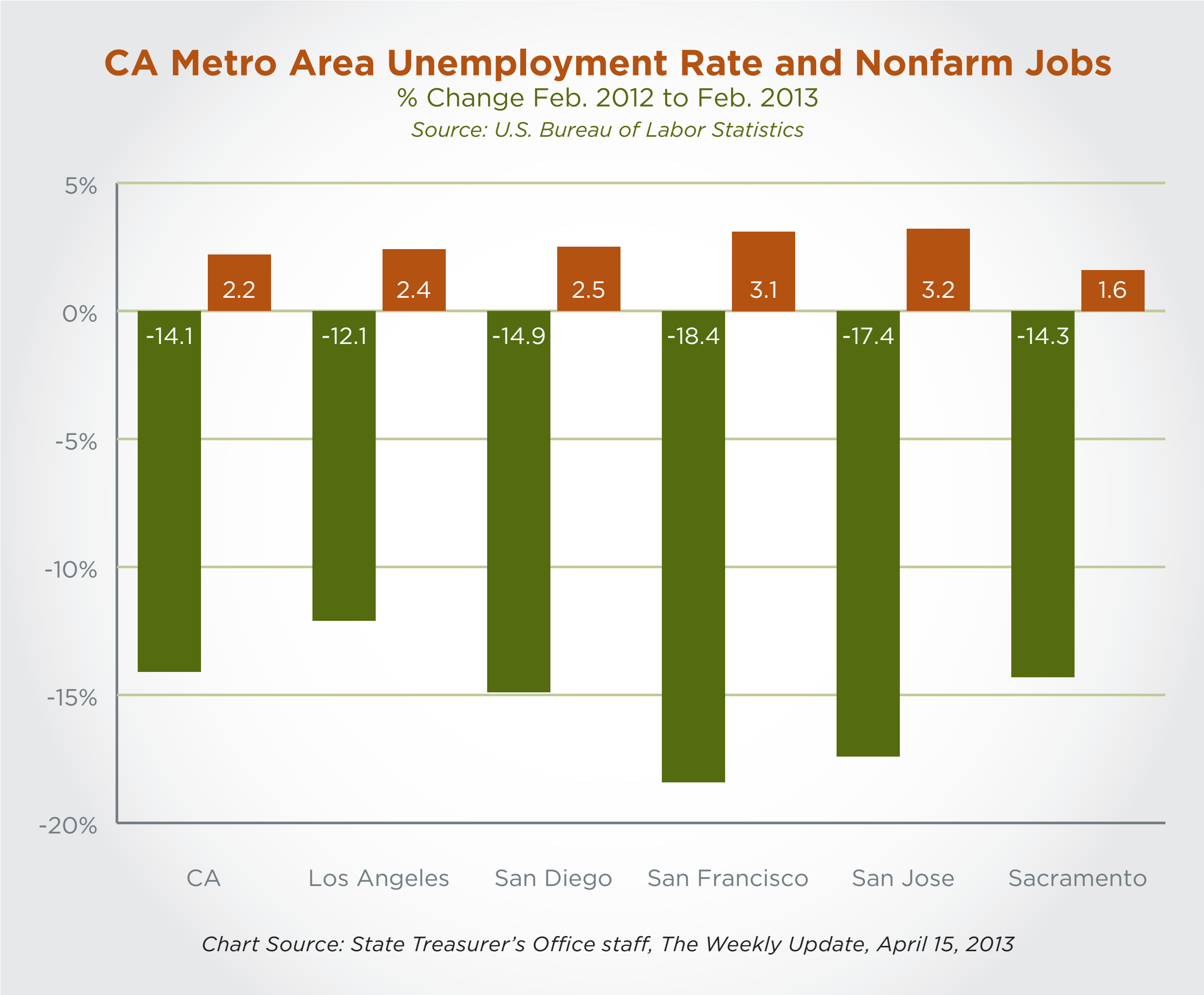
STATE

- The state's unemployment rate fell to 9.6 percent in February—its lowest level in over four years.
- The median price of existing single-family homes sold in March was $313,000, up 8.3 percent from February and 24.7 percent from March 2012.
- The Bay Area median home price was $436,000 in March, up 7.7 percent from February and 21.8 percent from March 2012.[3]

From The Weekly Update, State Treasurer's Office April 15, 2013

"One bright spot in the February jobs report from the Employment Development Department was the decline in long-term unemployment over the past year. Californians out of work for a year or longer dropped both in number and as a share of the unemployed more than any other category of jobless duration.

- In February, 617,000 Californians were jobless for 52 weeks or longer, compared to 728,000 in February 2012. That's a decline of 111,000, or 15.2 percent.
- Over the same period, as a share of total unemployed, workers jobless for 52 weeks or longer fell from 34.7 percent to 32.8 percent.[4]



LOCAL

- Caltrain Annual Passenger Counts show a 15.7% increase in ridership to Palo Alto between February 2011 and February 2012.[5]
- Palo Alto is seeing a noticeable increase in commercial activity, as evidenced by the opening of several new retail stores, and a renewed dearth of parking capacity, with Council and staff now weighing a range of solutions.
- The last two years have been a period of steady growth in revenues for local hotels, and five hotels are in the pipeline, including:
  - Hilton Garden Inn: 175 Rooms. Expected opening: 2014
  - Hilton Homewood Suites: 138 Rooms, Expected opening, 2014
  - Casa Olga: 86 rooms. Approved July 23, 2012. Renovations are currently under construction. Expected opening, summer 2013.
  - Mings (1700 Embarcadero): 147 Rooms. Council approval requires that building permits must be obtained and construction commence must start by April 2014.
  - Westin annex (711 El Camino Real) (Clement): 23 room expansion. Preliminary architectural review occurred in May 2012. No formal application has been received.

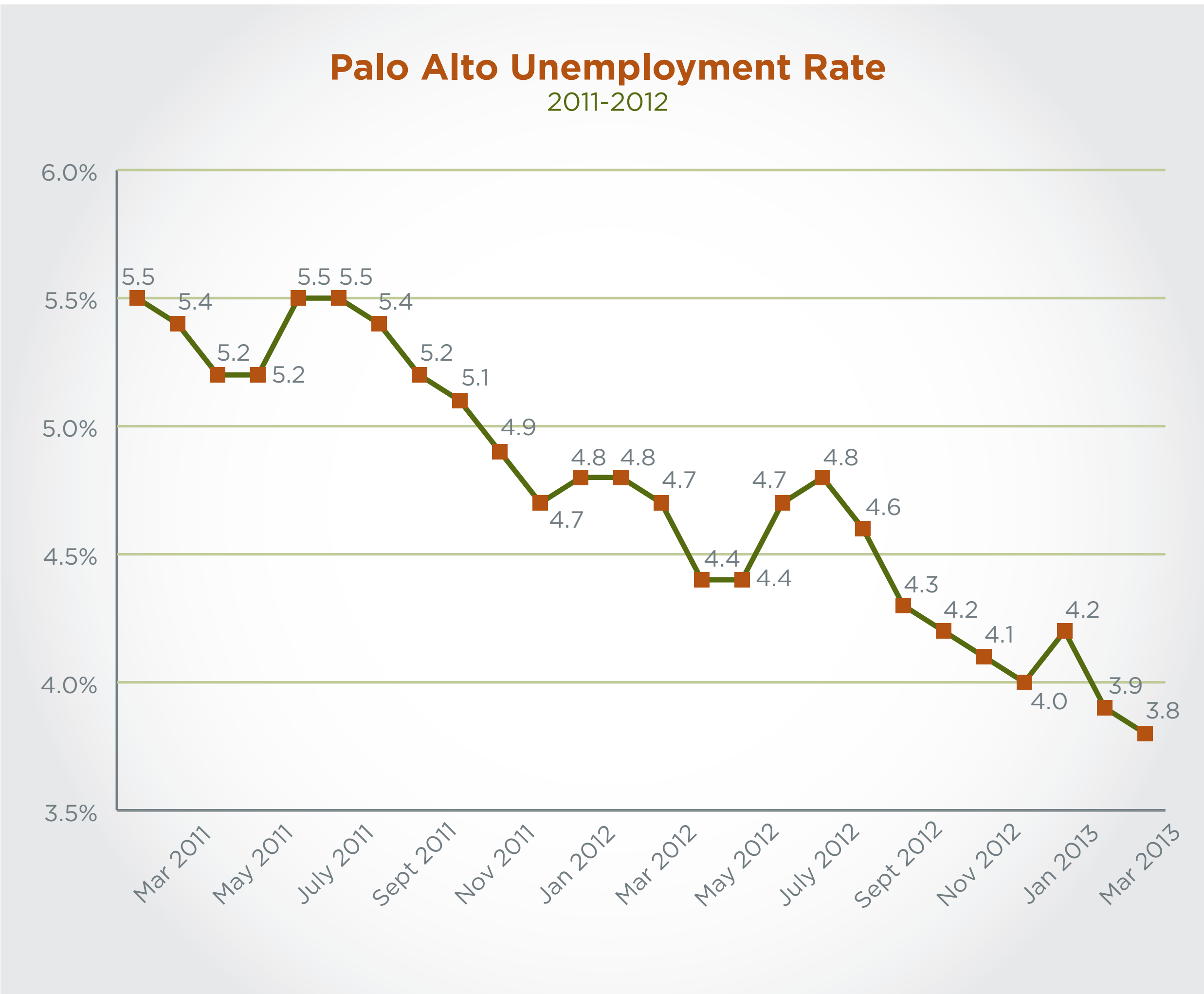
IMPACT OF ECONOMIC OUTLOOK ON ASSUMPTIONS USED IN MODEL

As a result of the factors discussed above, the Forecast includes relatively healthy growth in sales, property, transient occupancy and documentary tax revenues. The following chapter discusses each revenue source in detail.

State & Local Unemployment Rates, January 2012–2013

	Jan. 2012	Jan. 2013
Palo Alto Civilian Unemployment Rate	4.8%	4.2%
Santa Clara County Unemplyment Rate	9.0%	8.0%
California Unemployment Rate	11.0%	9.8%

Source: EDD Labor Market Information Division, April 9, 2013



UPDATED MODEL

ASSUMPTIONS INCLUDED IN THE MODEL

The following describes factors assumed in the Base Model.

The FY 2013 revenues and expenditures include a number of one-time expenditures and savings. The Base Model excludes these one-time items from the succeeding years, beginning in FY 2014:

- $1.3 million in salary savings due to frozen positions (increasing FY 2014 expenditures)
- $0.2 million in one-time, non-salary costs, including $80,000 for a Police Service Study; $50,500 for Comprehensive Plan funding; and $70,000 for an organizational study of the Planning and Community Environment department (decreasing FY 2014 expenditures)
- The payback of a $4.9 million loan to the Technology Fund. The last payment of $1.2 million on this loan was completed in FY 2013 (decreasing FY 2014 expenditures)

In addition to these items, the FY 2014 projected budget assumes a one-time net decrease in revenues of $1.4 million for the Golf Course Reconfiguration project. The entire ten-year period includes $1 million in additional annual operational expenses attributable to the Library renovations.

Recent agreements with the Palo Alto Police Officers' Association (PAPOA), the Police Management Association (PMA), Service Employees International Union (SEIU), and the Management/Professional group – resulting in a combined savings of $1.9 million in FY 2013 – are included in the Base Model.

Total revenues are projected to grow at annual rates ranging from 1.7 to 4.7 percent over the next ten years. Although this is a sign of improved city resources, looming pension and retiree medical obligations and infrastructure needs exceed available resources. The most recent valuation report from CalPERS increased the FY 2014 City pension rates, resulting in $1.9 million in additional General Fund expense for FY 2014 compared to FY 2013. Furthermore, the General Fund's retiree medical obligation is $9.1 million in the coming fiscal year and is expected to grow 3.25 percent annually.

Staff performed an analysis on revenue growth going back to 1992, reviewing overall General Fund revenues as well as growth rates in the five major tax categories (Property Tax, Sales Tax, Documentary Transfer Tax, Transient Occupancy Tax, and Utility User Tax). To ensure that the compound annual growth rates (CAGR) for each analysis reflected real changes rather than re-categorizations, adjustments to prior year actual collec tions were made where appropriate.

A historical twenty-year CAGR analysis for all General Fund revenues shows average annual growth of 4.56 percent. Within that figure, there are significant variances between the CAGRs for each of the tax categories. For instance, the 20 year CAGR for Property Tax (the largest tax category) is 4.67 percent, while the CAGR for Sales Tax (the second largest tax category) is 2.07 percent.

In the Base Model, the CAGR for projected overall General Fund revenues is 3.27 percent, well below the adjusted 20-year historical CAGR of 4.56 percent. One of the primary reasons for the decrease is a $0.7million reduction in the equity transfer.

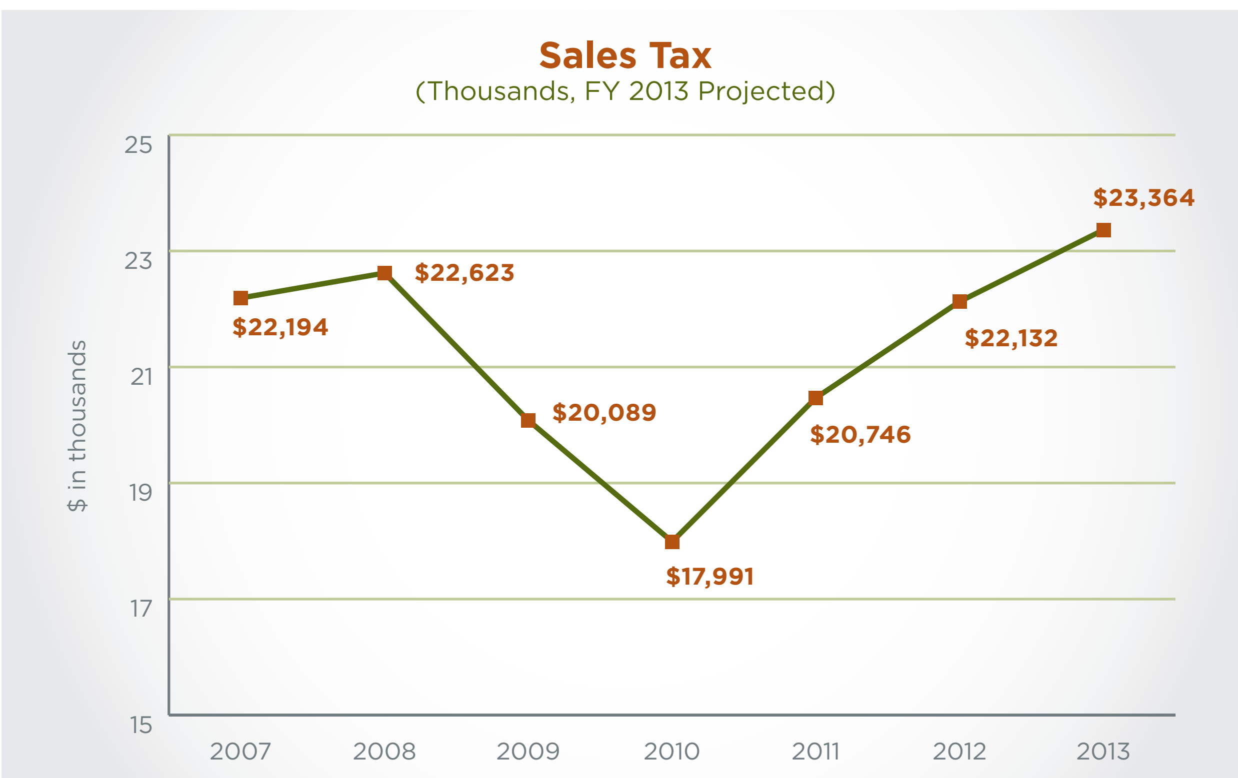
As recommended by the Infrastructure Blue Ribbon Commission (IBRC) report (December, 2011), and approved by Council beginning in FY 2013, the Base Model incorporates an additional $2.2 million in annual capital operating and maintenance funding ("keep-up"). The IBRC report recommended that an additional $4.2 million be contributed annually towards the City's infrastructure "catch-up" needs and that funding be found for other project and construction needs totaling approximately $210 million. These needs, including a new Public Safety Building and rebuilding the Municipal Service Center, and the "catch-up" funding are not included in the Base Model.

REVENUES

Tax revenues in Palo Alto have improved markedly since the beginning of the Great Recession and are expected to continue their upward trend in the near future. Since the December forecast presented to the Finance Committee, several tax revenue categories have been adjusted for FY 2013 and in out years. These changes are based on data available since the December forecast and on the alignment with historical growth rate trends.

Sales Tax

This economically sensitive revenue source is bouncing back from its recession low of $18.0 million in FY 2010. Receipts rose to $20.7 million in FY 2011 and to $22.1 million in FY 2012. Staff is currently projecting sales tax revenues of $23.4 million in FY 2013, nearly $0.8 million above the adopted budget. Receipts in the first quarter of FY 2013, which are 6.7 percent above the prior year's first quarter, support this change. Robust economic segments include electronic equipment, apparel stores, restaurants, and service stations. Weak performers include furniture/appliance stores and business services. Staff's forecast is in line with that of the City's sales tax consultant, Muni-Services, for the next two years. As a consequence of recent data, estimated revenues for FY 2014 were raised $0.5 million above projected FY 2013 revenues.



The sales tax growth rate used for the next ten years of 2.3 percent is slightly more optimistic than the 20 year historical growth rate of 2.07 percent. While there are many challenges to sales tax growth, such as growing Internet sales, the proliferation of big box stores outside City limits, and the rise of consumer services (not subject to tax), the City's efforts in economic development (e.g. Tesla auto sales) and maintaining high profile retailers could boost the future growth rate. Sales tax growth must be monitored carefully since this revenue source represents 14 percent of General Fund resources.

Property Tax

Unlike many California jurisdictions, Palo Alto's property taxes did not take a material "hit" as a consequence of the Great Recession. Revenues have remained relatively stable as shown below:

Fiscal Year	Property Tax Revenues
2009	$25.4 million
2010	$26.0 million
2011	$25.7 million
2012	$26.5 million

For the past several years, staff has primarily relied on County estimates to develop its property tax budget. The County has regular meetings to inform cities and school districts on assessment roll growth and events that can impact revenues (e.g. appeals from commercial and residential properties). Based on recent County data, it is likely that receipts will exceed the FY 2013 adopted budget of $27.3 million by some $0.6 million.

As stated in the previous chapter, housing values in Silicon Valley are rising at a faster rate than the rest of California and the country. According to a November "Intero Real Estate Services" update, "While the rest of the country has been recovering…the Bay Area housing market has exploded over the last 18 to 24 months. Most listings are selling with multiple offers and considerably over list price." This prognosis for the Palo Alto real estate market will likely translate into higher documentary transfer and property taxes. For FY 2014, property tax revenue is projected at $29.1 million, a $1.2 million or 4.3 percent increase above the current fiscal year estimate of $27.9 million.

Transient Occupancy Tax (TOT)

Since declining to $6.9 million in FY 2010 due to the Great Recession, TOT revenues have steadily risen. In FY 2011 receipts totaled $8.1 million and in FY 2012 they moved to $9.7 million. Staff now estimates they will increase to $10.4 million in FY 2013 and to $11.5 million in FY 2014. Average occupancy and daily rates, respectively, have surged from 66 percent and $139 per day in FY 2010 to 85 percent and $174 in the first quarter of FY 2013. With increased business activity and visitors to Palo Alto, staff will adjust the FY 2013 budget upward by approximately $0.8 million. The out years of the Forecast include a CAGR of 4.79 percent.

Note that the forecast includes future revenues from the Casa Olga hotel, expected to open this winter. Revenues from other hotels in the planning stages are not included.

Documentary Transfer Tax (DTT)

This revenue source is based on the number and value of commercial and residential property sales. In the last decade, revenues have averaged $4.8 million per year. During the recession period, DTT revenues fell to $3.1 million in FY 2009 and to $3.7 million in FY 2010. Results for FY 2011 and 2012 were $5.2 million and $4.8 million, respectively. With revenue stabilizing in the last two fiscal years, the rising value of commercial and residential transactions in the first quarter of FY 2013, and several extraordinary remittances, staff is projecting receipts in FY

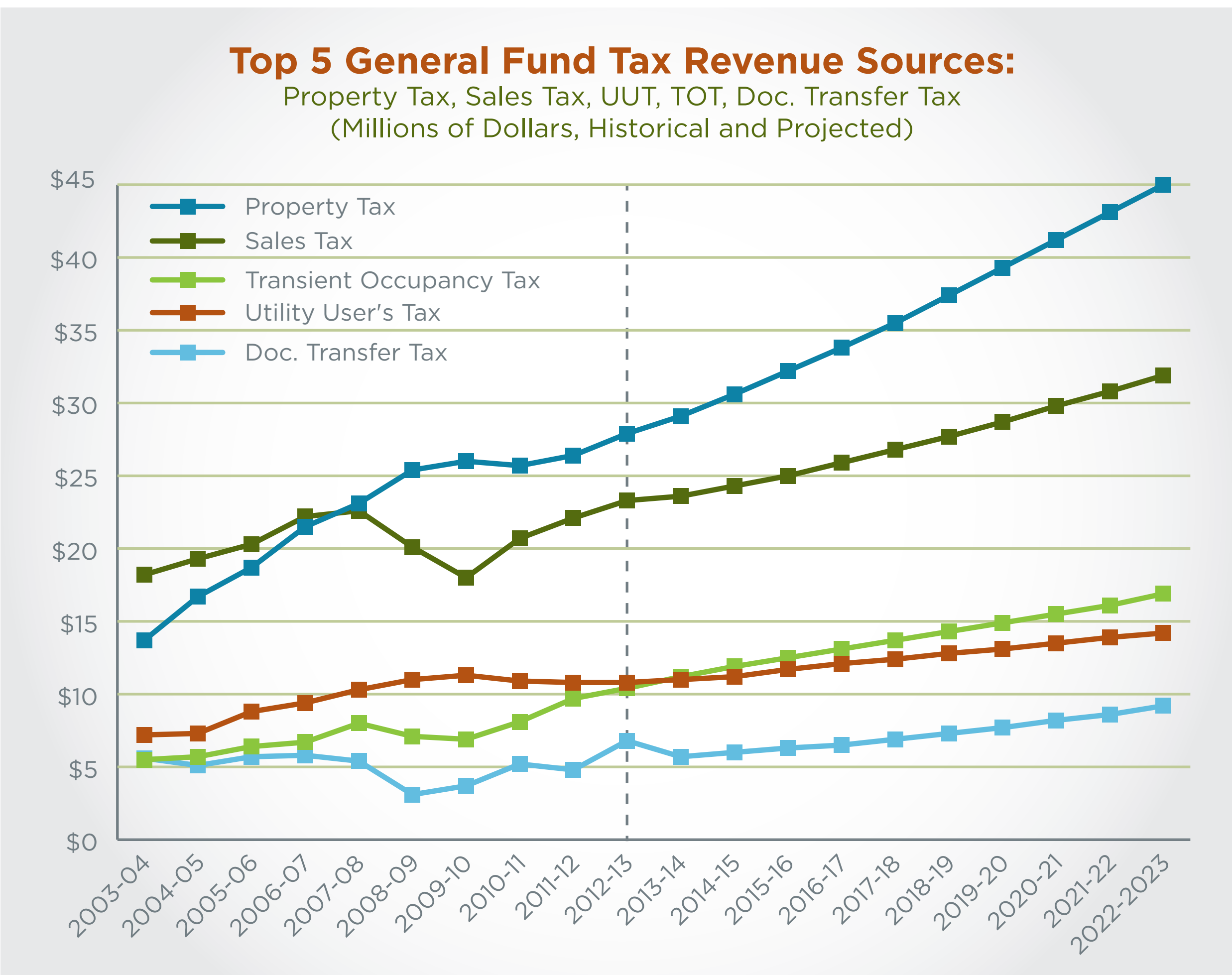
2013 of $6.8 million, or $1.7 million higher than Adopted Budget. Due to the unusual stream of transactions this fiscal year, a more realistic $5.7 million for FY 2014 is projected.

Utility Users Tax (UUT)

FY 2013 UUT revenues are expected to be the same as actual FY 2012 revenues, or around $10.8 million. The utility-generated UUT projections are based on the most recent rate and projected revenue information from the Utilities department. These numbers could change as the department discusses its proposed rate plan with the Utilities Advisory Commission and the Council. Telephone-generated revenues continue their downward decline, due to decreased landline usage.

Other Taxes & Fines

The large part of this category is comprised of Parking Violation revenue, which staff is estimating to be $1.6 million in FY 2014. Other revenue items such as traffic violations, administrative citations, and library fines and fees have continued to grow over the past five years. Another component of this revenue category is the Vehicle-in-Lieu Fee (VLF). In FY 2012, the state legislature suspended its allocations to local agencies in order balance the State budget. Until the legislature takes action to restore it, staff is not projecting any VLF receipts in this forecast. Staff expects that FY 2014 revenue will end at the same level as FY 2013, which is $2.1 million.



Charges for Services

Total revenues in this category are projected to be $0.5 million higher in FY 2014 than in Adopted FY 2013. This is due to two factors: first the Golf Course Reconfiguration project will begin later than originally anticipated, resulting in less of a hit to Golf Course fee revenue in FY 2014 but more of a hit on FY 2015. Second, plan check revenues are expected to increase by $2.2 million in FY 2014, more than compensating for the Golf Course-related loss. After the Golf Course project is completed and that revenue normalizes, the Forecast assumes an annual increase in the Charges for Services category of between 2.6 and 3.7 percent between FY 2017 and FY 2023.

Stanford Fire and Dispatch Services

The City currently is under agreement with Stanford University to provide Fire Response and Dispatch services. Stanford is charged 30.3 percent of the Fire Department's net cost and 16 percent of the Police Department's Communication and Dispatch Division. With the exception of pension, healthcare, and retiree medical obligation cost increases, the FY 2014 base does not assume any significant changes for the Fire Department and Police Communication and Dispatch Services budgets. Stanford fire and dispatch revenue is estimated to increase by $0.2 million in FY 2014 due to pension, healthcare, and retiree medical cost increases. The Base Model assumes that revenue from this agreement will increase 3.5 percent annually.

Currently, the City is in negotiations with Stanford for the Fire Services component of the contract. The FY 2013 budget includes a total of $8.2 million of revenue from Stanford for Fire and Dispatch Services. In the best case scenario, the final determination of a new reimbursement agreement could result in $1.4 million in additional revenue; in the worst case scenario the agreement could be terminated entirely. The agreement requires the University to give 12 months' notice of termination. Assuming that negotiations are concluded in FY 2014, a modest increase of 3.5% has been built into the outer years to account for staffing and other department cost increases.

Permits and Licenses

Revenue from permits and licenses rose significantly in FY 2011 and 2012 due primarily to increased activity at the Development Center. Budgeted revenue in FY 2013 decreased because the City implemented a citywide Technology Enhancement Fee and these revenues, which had previously been charged only to some development permits, were moved from the General Fund to the Technology Fund. This revenue category is projected to decrease slightly due to two factors: (a) internal street cut fees, which are based on Utilities activities, are reduced by $0.11 million to reflect planned project activities; and (b) permit activity is assumed to slow by 2 percent per year through FY 2018 based on historic activity, followed by 3.5 percent annual growth in subsequent years.

Return on Investment

General Fund interest earnings have declined 71 percent from FY 2009 to projected FY 2013 levels as higheryielding maturing investments are re-invested in a historically low interest rate environment. The Federal Open Market Committee remains committed to keeping interest rates at exceptionally low levels through mid-2015 to stimulate the economy and boost job growth. This action will keep downward pressure on the City's portfolio yield in FY 2014. Interest earnings are projected to gradually increase by 1.3 percent in FY 2015 growing to 3.0 percent in FY 2023. It is expected that FY 2013 revenue will be below the adopted budget by $0.2 million, totaling $0.8 million. In FY 2014, return on investment revenue is estimated to remain level at $0.8 million.

Rental Income

The largest source of rental income is the City's Enterprise Funds and the Cubberley Community Center. The rent from the Enterprise Funds declined $2.5 million with the closure of landfill, the Middlefield Well site, and the former Los Altos Treatment Plant (LATP) site in FY 2013. FY 2014 rental income also reflects the partial closure of restaurant and pro-shop facilities during the Golf Course Re-Configuration Project. For this forecast period, a 2.5 percent growth rate was assumed for all rental properties, except for the Refuse Fund rent, which remains fixed until FY 2021.The City is conducting an assessment of all General Fund properties which might impact the rental income from Enterprise Funds during FY 2014 and beyond.

From Other Agencies

Revenue from Other Agencies includes income from Community Services Outreach theatre programs, Palo Alto Unified School District (PAUSD) reimbursements, State of California grants for Police, Libraries and Community Services, and donations from Friends groups. Many of these are difficult to predict. For example, state grants are reduced when the state experiences budget difficulties. Revenues over the past 4 years have ranged from $0.08 million to $0.3 million. The Forecast assumes a zero growth rate from FY 2014 onwards.

Charges to Other Funds

Eighty-six percent of this category is General Fund administrative cost plan allocation charges to the Enterprise Funds. For FY 2013, the projected amount is $10.9 million. In FY 2014 onward, forecasted increases are around 2 percent.

Other Revenues

Major revenue sources in this category are Animal Services charges to Los Altos and Los Altos Hills, donations from non-profits for City libraries, and revenues which do not belong to other categories. In FY 2013, Other Revenues are projected at $1.2 million – the same level as in the Adopted Budget. Projected FY 2014 revenues of $2.0 million include a $0.7 million donation from various non-profits to libraries; a 2 percent annual increase is assumed throughout the Forecast period.

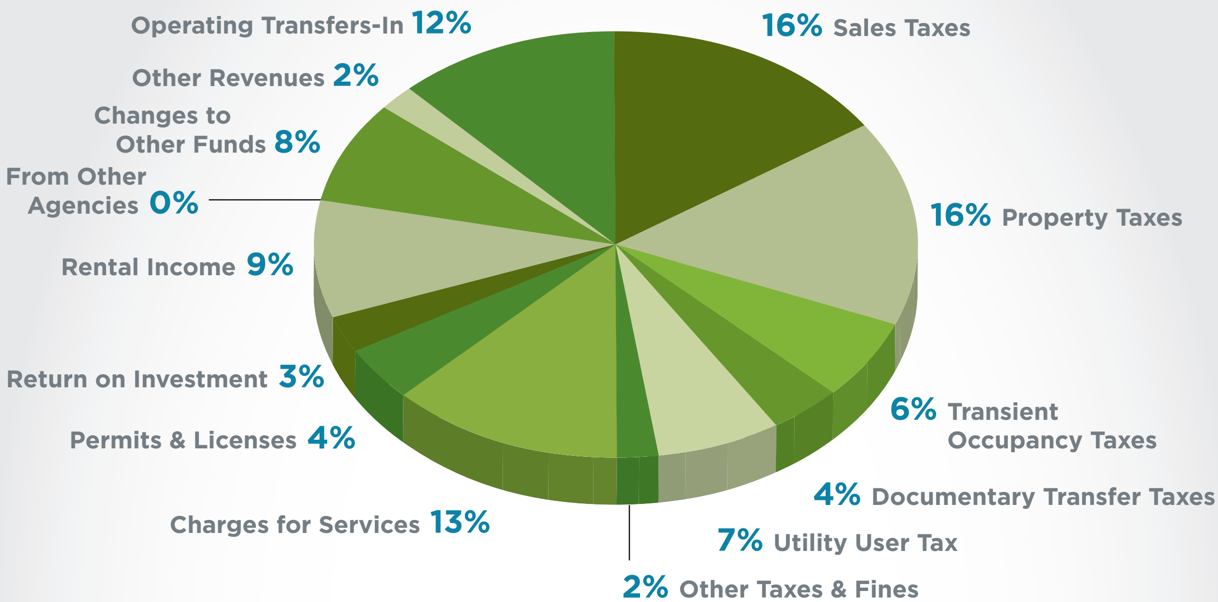
Operating Transfers In

Operating Transfers include the equity transfer from the Electric and Gas Funds, as well as transfers from the University Ave Parking Permit Fund and the California Ave Parking Permit Fund. In accordance with a methodology approved by Council in June 2009, the equity transfer is calculated by applying a rate of return to the capital asset base of the Electric and Gas Funds. This rate of return is based on PG&E's rate of return on equity as approved by the California Public Utilities Commission (CPUC). On December 26, 2012, the CPUC issued its decision to lower PG&E's rate of return on equity. As a result, the equity transfer from the Electric and Gas Funds is projected to decrease from $17.7 million in FY 2013 to $17.0 million in FY 2014. The City Attorney's Office will be providing Council with additional information regarding the equity transfer in light of the provisions of Proposition 218, which prohibits cities from raising fees without voter approval, and Proposition 26, which prohibits cities from raising taxes without voter approval.

Comparison of Revenue Sources

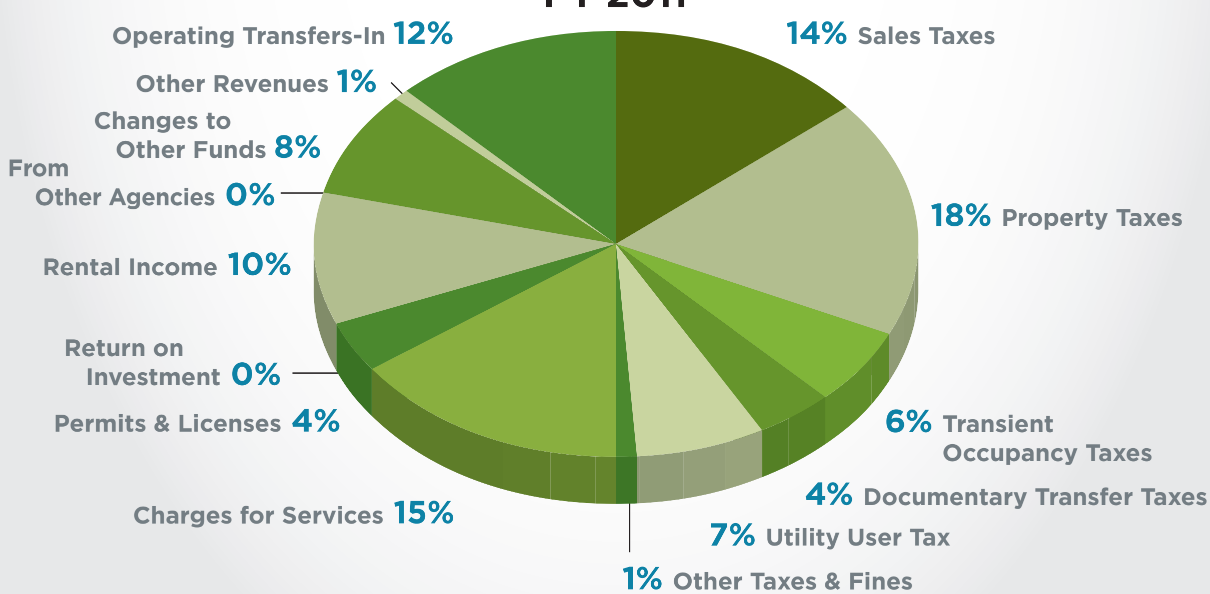
FY 2008 vs. FY 2011

FY 2008



Tax Revenue as Percentage of Total Revenue: 50%

FY 2011



Tax Revenue as Percentage of Total Revenue: 48%

EXPENSES

SALARY

- A 2 percent annual salary increase for SEIU and Management/Professional is assumed beginning in FY 2014. For all other labor groups, 2 percent annual increases are assumed beginning FY 2015. These assumptions are for forecasting purposes only and do not represent a commitment or recommendation from staff.
- Unfreezing positions frozen in FY 2013 added $1.3 million in salary costs to the FY 2014 base.
- In addition, the net FTE change from FY 2013 Adopted Budget to FY 2014 Proposed Budget is a 1.26 FTE decrease.

BENEFITS

Pension

- The Forecast uses CalPERS' estimated pension rates for FYs 2014, 2015, and 2016. The most recent rates were received in November 2012. However, FY 2014 rates will increase slightly since the City opted not to phase-in an assumption change, in order to reduce its costs over the long term.[6]
- The CalPERS Board met on March 18, 2013 and tentatively approved a set of assumption changes proposed by their Chief Actuary. Specifically, the changes include transitioning from a 15-year smoothing method to a 5-year smoothing method, and moving from an open to a closed amortization period. This would add approximately 1.7% per year from FY 2016-2020 for the Miscellaneous group, and 2.8% per year for the Safety group.
- In spring of 2012, Council directed that the forecast assume 3 percent annual increases in pension rates beyond the 3 years projected in the annual CalPERS Actuarial report. In the December 2012 and March 2013 versions of the Forecast, staff had included those 3 percent increases. However, in this version of the Forecast, staff has incorporated into the forecast a number of specific potential rate increases and substituted 1 percent additional annual increases rather than 3 percent. Staff believes that the intention of the 3 percent increases was to reserve against future changes in CalPERS assumptions and rate-settng. Given the certainty of smoothing and amortization changes, and the likelihood of the mortality increase and a discount rate change, staff has instead incorporated these specific changes to CalPERS rates. These changes offset most of the need for the 3 percent annual placeholder. (See page 16 for details.)
- Staff has modified the alternate scenario to reflect a discount rate change of 0.5% rather than the 0.25% change reflected in the Base Model. The CalPERS Board is expected to consider the discount rate change in February 2014, so this change would not impact rates until FY 2016.
- Starting in January 2013, pension reform requires new members of CalPERS be enrolled into a new pension plan that offers lower pension benefits. CalPERS is calculating the actual cost for Palo Alto, so an estimate is not available at this time. **The Base Model does not include the potential savings from a 3rd pension tier for new employees.**

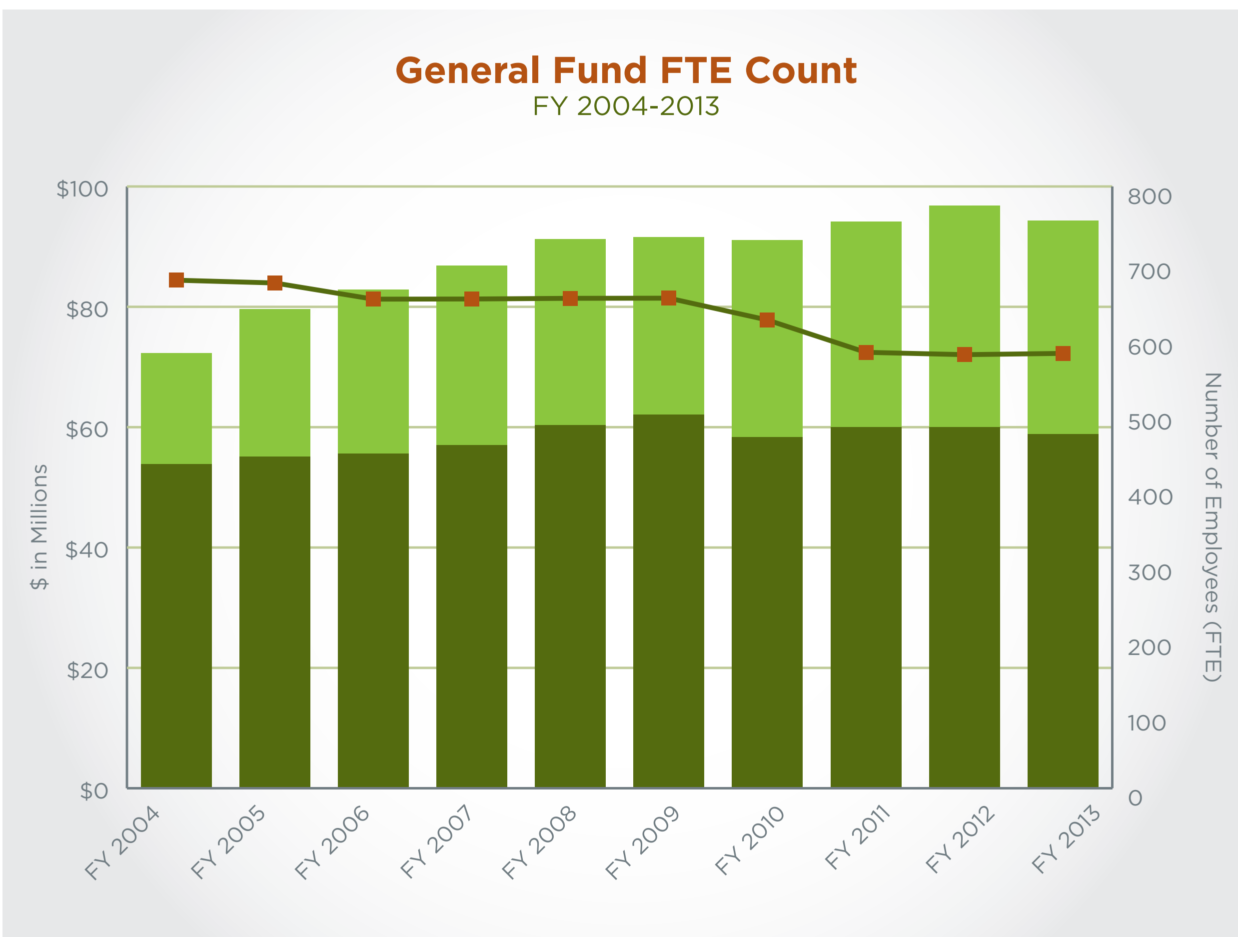
As a point of reference, the June 30, 2011 CalPERS Actuarial Valuation indicated that the City's Miscellaneous group's Pension Funded ratio (using Market Value of Assets) was 69.5% – up from 62.2% in the prior year. The City's Safety group's Funded ratio was 71.8% (again using Market Value of Assets). The prior year's ratio had been 64.8%.

Pension seems to be one of the largest variable among the expense categories, with evolving rate changes over which the City has little control. Staff is staying in close contact with PERS actuarial staff to stay up to date on all pending changes.

General Fund Salaries, Benefits, and Number of Employees (FTE)

Fiscal Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
Prior Year Adjusted GF FTEs	758.2	675.4	671.7	650.2	652.8	652.7	651.3	622.5	579.0	584.5	
Current Year Adjusted	675.4	671.7	650.2	652.8	652.7	651.3	622.5	579.0	584.5	578.1	
Marginal Year-to-Year Change	**(82.8)**	**(3.6)**	**(21.5)**	**2.6**	**(0.1)**	**(1.5)**	**(28.8)**	**(43.5)**	**5.5**	**(6.5)**	**(180.1)**
Reallocations											(2)
to Tech Fund	32.9	0.5	1.3	0.0	0.1	0.1	–	–	–	–	34.9
to Capital Fund	12.7	1.3	3.8	–	–	–	–	–	–	–	17.8
to Utilities Fund	5.8	–	–	–	(2.0)	1.1	4.9	4.4	(0.3)	(0.8)	13.0
to Other Enterprise Funds	1.1	1.1	0.5	(0.1)	(0.1)	–	3.8	–	–	–	6.3
Total Reallocations	**52.4**	**2.9**	**5.6**	**(0.1)**	**(2.0)**	**1.1**	**8.7**	**4.4**	**(0.3)**	**(0.8)**	**71.9**
Net Change in GF FTEs	**(30.4)**	**(0.7)**	**(16.0)**	**2.6**	**(2.0)**	**(0.4)**	**(20.1)**	**(39.2)**	**5.2**	**(7.3)**	**(108.2)**

The chart above indicates the degree to which General Fund FTE reductions are tempered by reallocations to other funds. While overall GF staff has decreased by 180.1 over the last ten years, 72 of those FTE have been transferred to other funds, leaving a net decrease of 108.2 FTE in the GF.



The Chart above shows how the staffing has decreased in the GF since 2004, but Salary & Benefit cost has not.

Calculation of Pension Rates Used In Base Model

Miscellaneous	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Starting Rates	24.60%	26.40%	26.40%	33.60%	36.30%	39.00%	41.70%	44.40%	45.40%	46.40%
Change Smoothing to 5yrs			1.70%	1.70%	1.70%	1.70%	1.70%			
Mortality Improvement			3.00%							
Reduce Discount Rate by .25% (to 7.25%)			2.50%							
Add 1% Per Year After 2016				1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Total Rate	**24.60%**	**26.40%**	**33.60%**	**36.30%**	**39.00%**	**41.70%**	**44.40%**	**45.40%**	**46.40%**	**47.40%**

Safety	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Starting Rates	33.44%	35.94%	35.94%	46.74%	50.54%	54.34%	58.14%	61.94%	62.94%	63.94%
Change Smoothing to 5yrs			2.80%	2.80%	2.80%	2.80%	2.80%			
Mortality Improvement			4.00%							
Reduce Discount Rate by .25% (to 7.25%)			4.00%							
Add 1% Per Year After 2016				1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Total Rate	**33.44%**	**35.94%**	**46.74%**	**50.54%**	**54.34%**	**58.14%**	**61.94%**	**62.94%**	**63.94%**	**64.94%**

The chart above details the components of the CalPERS rate projections used in the Base Model Forecast.

Health Care

- Retiree Annual Required Contributions (ARC) are based on the January 1, 2011 actuarial study for FY 2012, 2013, and 2014, as amended by the Council Direction of April 16, 2012. In setting the ARC, the actuary assumes it will increase each year by 3.25 percent, the presumed annual increase in payroll.
- The forecast assumes a 10 percent annual increase in medical costs and a 4 percent annual increase in dental and vision costs. This assumption results in a $0.76 million increase between projected FY 2013 and 2014 costs. Over the next ten fiscal years (2014 through 2023), these healthcare cost will increase from $9.5 million to $20.8 million, or 218 percent.
- The Affordable Care Act ("Obamacare") has provisions which must be implemented in calendar year 2013 in preparation for effective dates in 2014. Staff is in the process of examining these requirements and planning for their implementation. The costs of this implementation are not included in the model.

Contract Services

FY 2013 Projected Contract Services includes $80 thousand of one-time contracts, such as the Police Organization study, and a placeholder of $0.5 million for assumed savings from the re-organization of Palo Alto Animal Services. The FY 2014 base removes these one-time FY 2013 expenses and projected savings. The Animal Services savings are allocated across various categories in the FY 2014 Forecast.

Total expense for this category totals $10.7 million, a $0.4 million increase over the FY 2013 adopted budget. In FY 2015 and beyond, contract expenses are projected to remain relatively stable, with a 3.0 percent annual growth rate throughout the forecast period.

Supplies & Materials

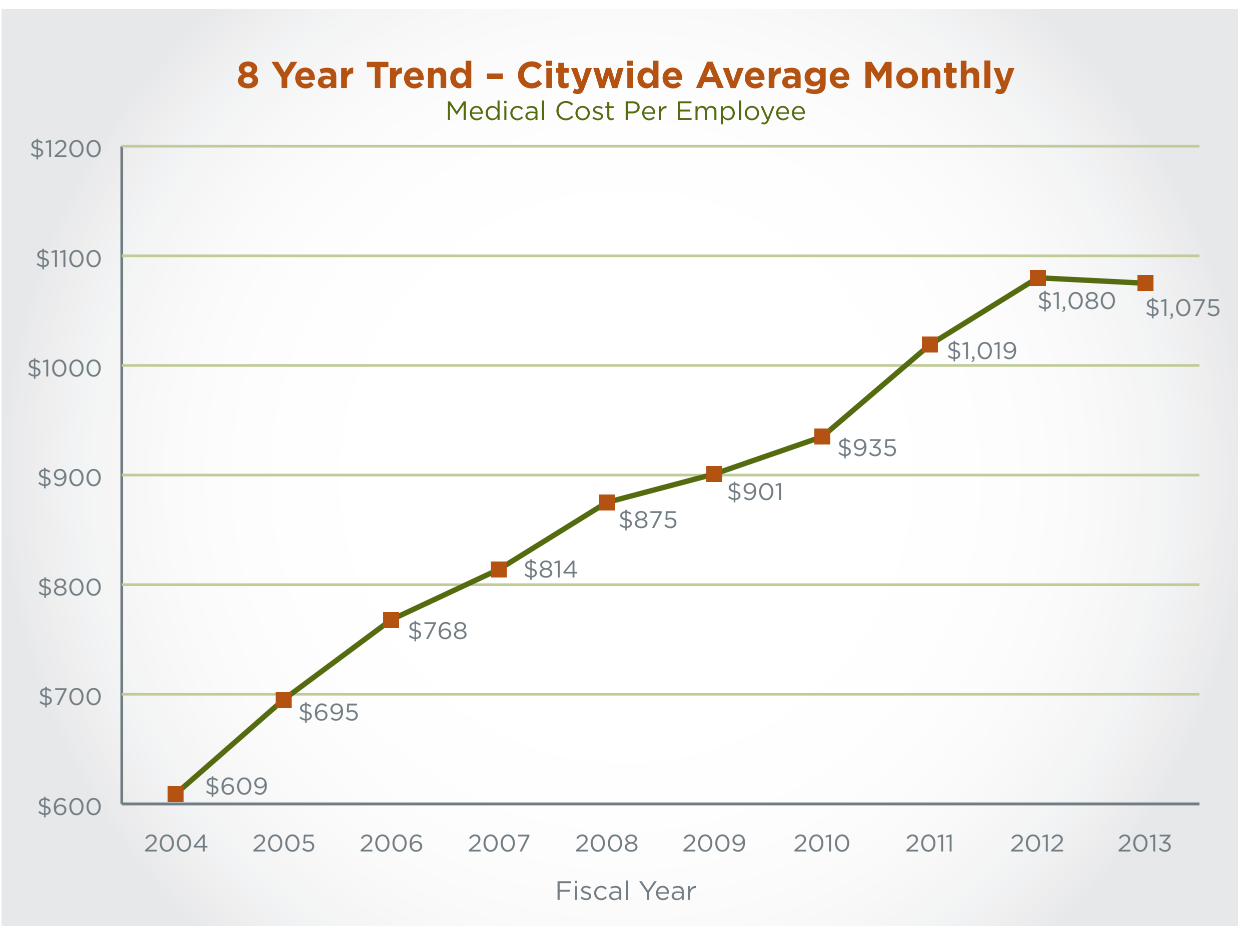
The base model assumes an increase in this category from $3.2 million in FY 2013 and $3.9 million in FY 2014, mainly due to the purchase of books and other materials for the Mitchell Park Library. In FY 2015, Community Services will see a small increase of approximately $31,000 for Supplies & Materials at the Palo Alto Golf Course. This is based on the National Golf Foundation estimates to maintain the newly redesigned golf course. Costs will remain relatively constant looking forward to outer years, with a consistent yearly increase of 3.0 percent.

General Expense

The majority of General Expense includes categories like travel and meetings, telephone and non-city utilities, contingency accounts, and debt service payments for the newly signed Golf Course Lease Agreement. Projected FY 2013 expenses of $4.6 million reflect annual debt service which was originally budgeted as a transfer to Debt Service Fund. In FY 2014, General Expense remains mostly flat, and from FY 2014 onwards, annual increases of 2.5 to 3.0 percent are assumed.

Cubberley Lease

This category represents lease payments to PAUSD for the Cubberley facility. The Forecast assumes the lease contract with PAUSD will continue beyond 2014. Payments from FY 2014 onward are based on projected 3 percent annual CPI increases. The Cubberley lease expense in FY 2014 is estimated at $7.3 million.



Rents and Leases

Expansion of the Development Center increased this expense category by $0.2 million in FY 2013. Rent and Lease expense for FY 2014 is estimated to remain at $1.2 million. From FY 2015 onwards, this expense is expected to increase by 3 percent per year.

Facilities and Equipment

An additional $0.2 million was added to Facilities and Equipment during FY 2013 due to one-time increases for the Development Center upgrade. Facilities and Equipment expense for FY 2014 is $0.5 million, increasing by 5 percent in 2015, then 4 percent in 2016, and 3 percent per year for the remaining years of the Forecast.

Allocated Charges

Allocated charges represent expense allocations by the City's enterprise and internal services funds for services and products they provide to General Fund departments such as utilities usage, liability insurance, technology costs, and vehicle replacement costs. The last year of the General Fund loan repayment to the Technology Fund was in FY 2013; the FY 2014 base model is reduced by this amount to total $15.1 million. Beyond FY 2014, the Base Model assumes a modest annual growth rate of 2 percent in Allocated Charges.

Operating Transfers Out

Operating Transfers Out includes transfers for Debt Service, Tech Fund, and the Airport Fund. Transfers out is reduced by $0.5 million due to the refinancing of the Golf Course debt. The Golf Course debt will be paid down by FY 2018. Funding for the Airport Fund from the General Fund continues through FY 2014 and the FY 2013 projected base model assumes an additional $0.2 million will be transferred to the Airport Fund. The Base Model assumes that the Airport Fund will be self-sustaining in FY 2015.

Transfer to Infrastructure

In FY 2013, adopted and projected transfers to the capital project fund remain at $13.2 million. In FY 2014, they are projected to remain at $13.2 million. Beginning in FY 2013, an additional $2.2 million per year is added to fund the annual maintenance of existing infrastructure or "keep-up" needs as defined by the (IBRC) Infrastructure Blue Ribbon Commission Report. An additional $4.2 million per year will be required to fund deferred maintenance or "catch-up" needs as defined by the IBRC Report. This additional contribution is not included in the Base Model.

FACTORS NOT INCLUDED IN THE BASE MODEL

- The allocated cost of various IT Department's new initiatives such as migration to cloud based technologies, purchase of new equipment and related maintenance/support costs
- The IBRC's recommended $4.2 million per year increase in infrastructure expenditure
- Any new revenue stream earmarked for infrastructure. Council may consider such a revenue source in the future
- Possible TOT revenues from four of the five expected to open in the next two years. (See details on page 4. Casa Olga revenues are included in the Forecast; the others are not.)
- Savings from the PEPRA-mandated 3rd pension tier (2% at 62) for new employees
- Costs of implementing the Affordable Care Act, beyond the costs of extending coverage to dependents up to age 26

General Fund Long Range Financing Base Model

FY 2013-2023

	2013 projected	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
REVENUES											
Sales Taxes	23,364	23,846	24,383	24,947	25,550	26,120	26,713	27,340	28,016	28,730	29,497
Property Taxes	27,912	29,102	30,586	32,151	33,809	35,557	37,405	39,331	41,216	43,118	45,029
Transient Occupancy Tax	10,439	11,545	12,467	13,061	13,667	14,285	14,912	15,554	16,210	16,889	17,593
Documentary Transfer Tax	6,800	5,699	6,051	6,463	6,910	7,405	7,951	8,552	9,234	9,974	10,851
Utility User Tax	10,825	11,013	11,227	11,747	12,150	12,440	12,813	13,186	13,550	13,907	14,187
Other Taxes & Fines	2,058	2,107	2,128	2,149	2,171	2,192	2,214	2,236	2,259	2,281	2,304
Subtotal: Taxes	**81,398**	**83,313**	**86,841**	**90,519**	**94,257**	**98,000**	**102,008**	**106,199**	**110,484**	**114,899**	**119,461**
Charges for Services	15,461	15,988	14,660	17,385	18,021	18,676	19,163	19,665	20,184	20,721	21,275
Stanford Fire and Dispatch Services	8,221	8,391	8,685	8,989	9,303	9,629	9,966	10,315	10,676	11,049	11,436
Permits & Licenses	6,614	8,346	8,149	7,985	7,826	7,657	7,925	8,202	8,531	8,957	9,405
Return on Investment	774	769	779	793	809	828	848	869	891	914	942
Rental Income	12,640	12,891	13,213	13,543	13,882	14,229	14,585	14,949	14,081	13,529	13,867
From Other Agencies	157	168	169	169	170	170	171	172	173	174	175
Charges to Other Funds	10,874	10,574	10,786	11,001	11,221	11,446	11,675	11,908	12,146	12,389	12,637
Other Revenues	1,187	2,010	1,444	1,473	1,502	1,532	1,563	1,594	1,626	1,658	1,692
Total Non-Tax Revenues	**55,928**	**59,137**	**57,884**	**61,338**	**62,735**	**64,167**	**65,895**	**67,675**	**68,307**	**69,392**	**71,429**
Operating Transfers-In	18,995	17,529	18,077	18,641	19,225	19,827	20,447	21,088	21,749	22,432	23,136
Total Source of Funds	**156,322**	**159,979**	**162,802**	**170,498**	**176,217**	**181,994**	**188,351**	**194,962**	**200,540**	**206,723**	**214,026**
EXPENDITURES											
Salaries	58,940	60,843	62,100	63,274	64,471	65,693	66,939	68,209	69,505	70,827	72,176
Benefits	35,426	39,365	41,852	48,064	51,545	55,213	59,097	63,190	66,250	69,510	72,989
Subtotal: Salaries and Benefits	94,366	100,208	103,952	111,338	116,016	120,906	126,036	131,400	135,755	140,337	145,165
Contract Services	**10,698**	**13,199**	**11,186**	**12,869**	**13,161**	**13,474**	**13,781**	**14,098**	**14,424**	**14,756**	**15,097**
Supplies & Materials	3,219	3,912	4,210	4,336	4,466	4,600	4,738	4,881	5,027	5,178	5,333
General Expense	4,568	4,553	4,610	4,725	4,842	4,964	5,088	5,217	5,350	5,486	5,627
Cubberley Lease	7,133	7,268	7,567	7,794	8,028	8,269	8,517	8,773	9,036	9,307	9,586
Rents & Leases	1,184	1,210	1,246	1,284	1,322	1,362	1,403	1,445	1,488	1,533	1,579
Facilities & Equipment	746	476	502	524	540	556	573	590	608	626	645
Allocated Charges	16,933	15,017	15,104	15,406	15,714	16,028	16,349	16,676	17,009	17,349	17,696
Total Non-Sal/Ben Exps Before Transfers	44,481	45,635	44,426	46,938	48,074	49,253	50,450	51,679	52,942	54,235	55,563
Operating Transfers Out	**1,176**	**690**	**380**	**380**	**380**	**380**	**380**	**380**	**380**	**380**	**380**
Transfer to Infrastructure	13,178	13,225	13,843	14,263	14,710	15,186	16,693	16,233	16,809	17,422	18,075
Total Use of Funds	153,201	159,758	162,600	172,918	179,180	185,725	193,558	199,692	205,886	212,374	219,182
Net Surplus/(Gap)	**3,120**	**220**	**202**	**(2,420)**	**(2,963)**	**(3,731)**	**(5,208)**	**(4,729)**	**(5,345)**	**(5,651)**	**(5,156)**
Cumulative Deficit FY14-23											**(34,780)**
PERS Rates incorporated - includes smoothing, mortality and 0.25% disc rate changes, plus 1% added each year from 2017 onwards.											
Miscellaneous		24.60%	26.40%	33.60%	36.30%	39.00%	41.70%	44.40%	45.40%	46.40%	47.40%
Safety		33.44%	35.94%	46.74%	50.54%	54.34%	58.14%	61.94%	62.94%	63.94%	64.94%

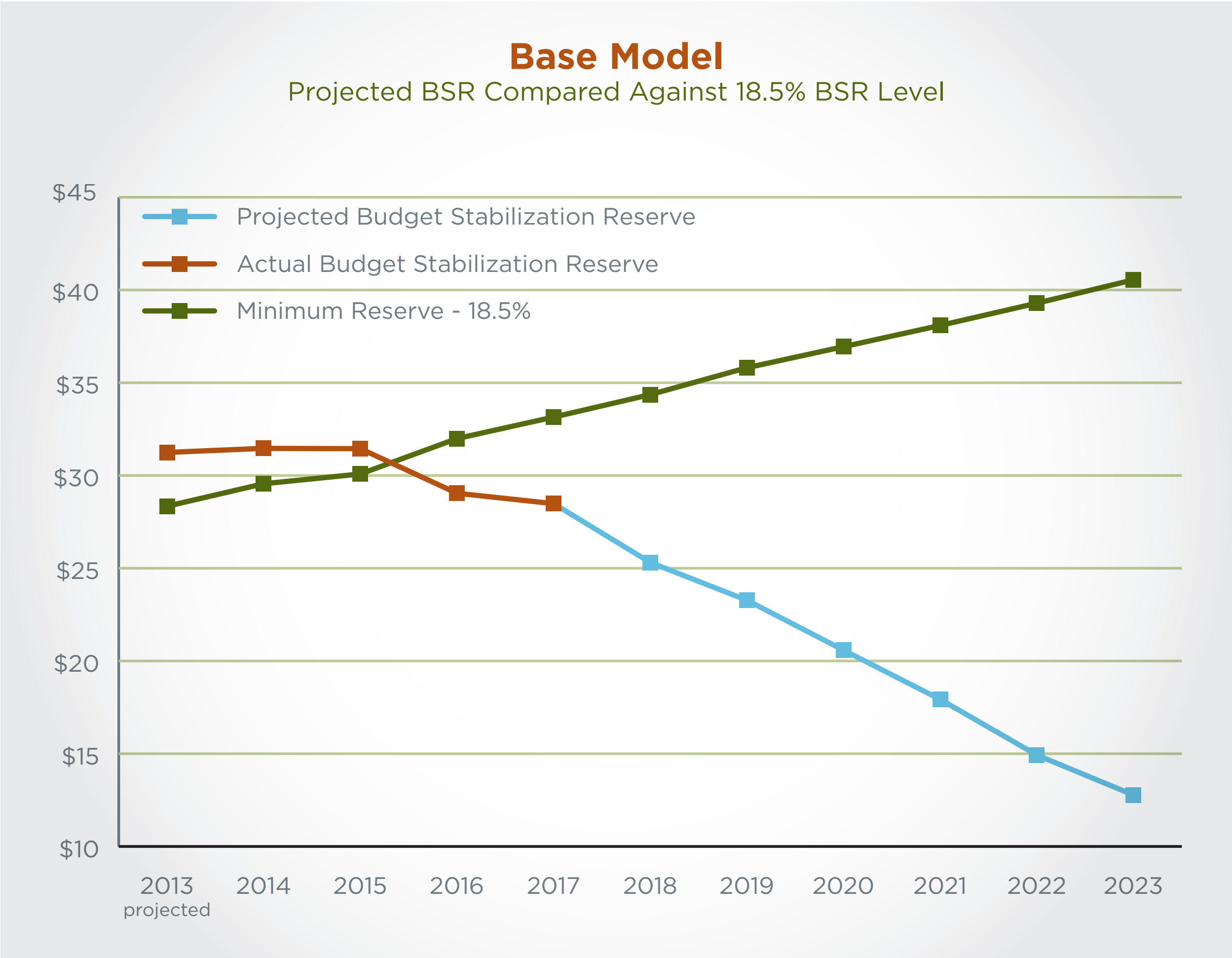
General Fund Long Range Financial Forecast

Base Model Percentage Changes

	2013 projected	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenues											
Sales Taxes	3.63%	2.06%	2.25%	2.31%	2.42%	2.23%	2.27%	2.35%	2.47%	2.55%	2.67%
Property Taxes	2.22%	4.26%	5.10%	5.12%	5.16%	5.17%	5.20%	5.15%	4.79%	4.61%	4.43%
Transient Occupancy Tax	8.85%	10.60%	7.98%	4.77%	4.64%	4.52%	4.39%	4.30%	4.22%	4.19%	4.17%
Documentary Transfer Tax	33.91%	-16.18%	6.17%	6.82%	6.92%	7.17%	7.37%	7.57%	7.97%	8.02%	8.80%
Utility User Tax	0.88%	1.74%	1.94%	4.63%	3.43%	2.39%	3.00%	2.91%	2.76%	2.63%	2.01%
Other Taxes & Fines	-0.01%	2.37%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Subtotal: Taxes	**5.29%**	**2.35%**	**4.24%**	**4.23%**	**4.13%**	**3.97%**	**4.09%**	**4.11%**	**4.03%**	**4.00%**	**3.97%**
Charges for Services	0.00%	3.40%	-8.30%	18.58%	3.66%	3.63%	2.61%	2.62%	2.64%	2.66%	2.68%
Stanford Fire and Dispatch Services	0.00%	2.07%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Permits & Licenses	0.00%	26.19%	-2.36%	-2.01%	-1.99%	-2.16%	3.50%	3.50%	4.00%	5.00%	5.00%
Return on Investment	-19.33%	-0.57%	1.31%	1.76%	2.01%	2.38%	2.41%	2.46%	2.51%	2.66%	3.01%
Rental Income	0.00%	1.98%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	-5.81%	-3.92%	2.50%
From Other Agencies	0.00%	7.20%	0.25%	0.30%	0.35%	0.40%	0.45%	0.50%	0.55%	0.60%	0.65%
Charges to Other Funds	-0.01%	-2.76%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Other Revenues	0.03%	69.30%	-28.18%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Total Non-Tax Revenues	**-0.33%**	**5.74%**	**-2.12%**	**5.97%**	**2.28%**	**2.28%**	**2.69%**	**2.70%**	**0.93%**	**1.59%**	**2.94%**
Operating Transfers-In	0.00%	-7.72%	3.12%	3.12%	3.13%	3.13%	3.13%	3.13%	3.13%	3.14%	3.14%
Total Source of Funds	**2.56%**	**2.34%**	**1.76%**	**4.73%**	**3.35%**	**3.28%**	**3.49%**	**3.51%**	**2.86%**	**3.08%**	**3.53%**
Expenditures											
Salaries	3.02%	3.23%	2.07%	1.89%	1.89%	1.89%	1.90%	1.90%	1.90%	1.90%	1.90%
Benefits	-4.44%	11.12%	6.32%	14.84%	7.24%	7.12%	7.04%	6.93%	4.84%	4.92%	5.00%
Subtotal: Salaries and Benefits	**0.09%**	**6.19%**	**3.74%**	**7.11%**	**4.20%**	**4.21%**	**4.24%**	**4.26%**	**3.31%**	**3.38%**	**3.44%**
Contract Services	-0.32%	23.38%	-15.25%	15.04%	2.27%	2.38%	2.28%	2.30%	2.31%	2.30%	2.31%
Supplies & Materials	-0.03%	21.54%	7.61%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
General Expense	13.65%	-0.32%	1.26%	2.48%	2.49%	2.50%	2.52%	2.53%	2.54%	2.55%	2.56%
Cubberley Lease	0.00%	1.89%	4.12%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Rents & Leases	0.02%	2.16%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Facilities & Equipment	43.97%	-36.15%	5.37%	4.50%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Allocated Charges	0.01%	-11.32%	0.58%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Total Non-Sal/Ben Exps Before Transfers	**1.70%**	**2.59%**	**-2.65%**	**5.65%**	**2.42%**	**2.45%**	**2.43%**	**2.44%**	**2.44%**	**2.44%**	**2.45%**
Operating Transfers Out	-26.71%	-41.37%	-44.95%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Transfer to Infrastructure	0.00%	0.36%	4.67%	3.03%	3.13%	3.24%	9.92%	-2.76%	3.55%	3.65%	3.75%
Total Use of Funds	**0.26%**	**4.28%**	**1.78%**	**6.35%**	**3.62%**	**3.65%**	**4.22%**	**3.17%**	**3.10%**	**3.15%**	**3.21%**
Net Surplus/(Gap)	**-902.08%**	**-92.93%**	**-8.25%**	**-1296.44%**	**22.40%**	**25.94%**	**39.58%**	**-9.18%**	**13.02%**	**5.71%**	**-8.75%**

RESERVES

FY 2012 ended with a Budget Stabilization Reserve (BSR) totaling $28.1 million. Although the Base Model projects surpluses in FYs 2013, 2014, and 2015, the next seven years of the Forecast include shortfalls, with the reserve balance dropping below the 18.5 percent minimum reserve level—to as low as 5.8 percent of projected Budget in FY 2023.



The graph above illustrates the projected BSR levels as compared to the minimum reserve levels.

ALTERNATE SCENARIO

In this Alternate Scenario, it is assumed that in addition to the smoothing, mortality, and the 1% assumed additional increases beginning in FY 2017, PERS will reduce the discount rate by 0.5 percent rather than 0.25 percent, resulting in a 7 percent discount rate.

The additional 0.25% cut would cost the General Fund an extra $14.4 million over the period of the Forecast.

Alternate Scenario 1:

Alternate Scenario: Smoothing FY's 2016-2020; Mortality 3 - 4% in FY 2016;
0.5% decrease in Discount Rate starting 2016.
Fiscal Years 2013 to 2023

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Source of Funds	159,979	162,802	170,498	176,217	181,994	188,351	194,962	200,540	206,723	214,026
Expenditures										
Salaries	60,843	62,100	63,274	64,471	65,693	66,939	68,209	69,505	70,827	72,176
Benefits	39,303	41,827	49,750	53,265	56,967	60,887	65,016	68,112	71,409	74,926
Subtotal: Salaries and Benefits	100,146	103,927	113,024	117,736	122,660	127,825	133,225	137,617	142,236	147,102
Total Use of Funds	**159,696**	**162,575**	**174,605**	**180,900**	**187,479**	**195,348**	**201,517**	**207,747**	**214,273**	**221,119**
Net Surplus/(Gap)	**283**	**227**	**(4,107)**	**(4,683)**	**(5,485)**	**(6,997)**	**(6,555)**	**(7,207)**	**(7,550)**	**(7,093)**
Cumulative Deficit FY 2014-2023										**(49,166)**
Pension Rate Assumptions:										
Miscellaneous	24.60%	26.40%	36.10%	38.80%	41.50%	44.20%	46.90%	47.90%	48.90%	49.90%
Safety	33.44%	35.94%	50.74%	54.54%	58.34%	62.14%	65.94%	66.94%	67.94%	68.94%

CHALLENGES & CONCLUSIONS

CHALLENGES: PENSION REFORM

The California Public Employees' Pension Reform Act of 2013 (PEPRA) was enacted fall 2012 and has generated increased attention and questions from CalPERS retirement system members and employers. The new law includes a suite of changes to current retirement formulas, new members, employer/member contributions, and working after retirement. PEPRA also establishes a cap on the amount of compensation that can be used to calculate the retirement benefit for all new CalPERS members. At this time, the dollar impact to the City of this new legislation is unknown. Staff will provide Council with updates as more information and data emerge.

CONCLUSIONS

The LRFF shows better "bottom line" results than in last year's presentation. This is due to employee benefit concessions, budget reductions, and higher revenues in evidence since last year's (May 2012) forecast. Since FY 2010, the City has realized $16.7 million in savings from structural changes, the fruit of Council's and staff's "thinking different." With benefit costs continuing to increase at a faster pace than revenues, the City must continue to find additional structural savings.

In addition to employee benefit obligations, the City's infrastructure needs – capital operation and maintenance, project "catch-up", and other projects identified in the IBRC report – should be addressed and planned for via this forecast.

The Cost of Service study is nearly complete and will allow the Council to thoroughly review the price of doing business and make decisions on what services can be provided and/or how they can be provided. The review will also identify services and back-room operations provided with no fees.

Although successful efforts have been made, the City must continue to explore its benefit structure, alternative forms of service delivery, and more efficient operations to realize a sustainable, long-term, financial future.

APPENDIX

CONCESSIONS TO DATE

Since 2009, Council and staff completed the negotiation of agreements with labor groups to eliminate more than $8.5 million in salary and benefit expense. The City is working with the Police Management Association (PMA) to negotiate cost savings.

The following is a list of current labor contracts and agreements:

SEIU (current contract)

Estimated Savings: $0.55 million per year, or 0.76 percent of total compensation

- Created a second tier to our retirement structure (2 percent at 60) for new employees hired or after July 17, 2010
- Shifted full cost of employee PERS contribution to employee
- Implemented the 90/10 medical cost sharing plan
- Decrease alternative medical cash-out benefit to a flat $284 per month, effective October 1, 2012
- 1.65 percent cost of living increase effective first day of pay period including July 1, 2012
- Reduced floating holidays by three days. An additional floating holiday will be eliminated after June 30, 2013

Management and Professional (current agreement)

Estimated Savings: $0.51 million per year, or 1.5 percent of total compensation

- Eliminated the Variable Management Compensation plan as of FY 2009
- Shifted full cost of employee PERS contribution to employee
- Implemented the 90/10 medical cost sharing plan
- Decreased alternative medical cash-out benefit to a flat $284 per month, effective October 1, 2012
- Three percent salary increase to partially offset pension contribution costs
- Changes to the group's professional development plan, including eliminating use of professional development funds to purchase electronic technology and gym memberships and reducing the annual amount per employee from $1,500 to $500. Gym members can be reimbursed through management excess benefit
- Eliminated car allowances for newly hired Department Directors

International Association of Fire Fighters (current contract)

Estimated Savings: $1.6 million per year, or 6.8 percent of total compensation

- Created a second tier to our retirement structure (3 percent at 55) for new employees
- Shifted full cost of employee PERS contribution to employee
- Eliminated minimum staffing requirements
- Implemented the 90/10 medical cost sharing plan
- Cost-of-living freeze for FYs 2012-2014
- Eliminated tuition reimbursement program

Fire Chiefs' Association (current agreement)

Estimated Savings: $91 thousand per year, or 9.8 percent of total compensation

- Created a second tier to our retirement structure (3 percent at 55) for new employees
- Shifted full cost of employee PERS contribution to employee. In March 2013, the city paid employee retirement contribution "resets" to 5.1 percent
- Eliminated the Variable Management Compensation plan
- 1.33 percent salary reduction
- Eliminated three holidays
- Implemented the 90/10 medical cost sharing plan

Palo Alto Police Officers' Association (current contract)

Estimated Savings: $1.4 million per year, or 7.7 percent of total compensation

- Created a second tier to our retirement structure (3 percent at 55) for new employees
- Shifted full cost of employee PERS contribution to employee
- Eliminated tuition and training benefit
- 1.33 percent salary reduction
- Eliminated three holidays
- Implemented the 90/10 medical cost sharing plan

Prior to 2009, between 2004 and 2006, the City implemented for all bargaining units:

- 20-year vesting period to qualify for lifelong City-paid health coverage
- Highest cost health care plan option eliminated, saving almost $10,000 per year for each employee moved away from this option.

The aforementioned concessions and staffing reductions have been tough decisions that were not taken lightly. Like the City, our employees face rising household costs and diminished asset values. Furthermore, the impact of the position eliminations is that our employees are stretched thin, and our ability to take on new projects is reduced.

ENDNOTES

1. Bureau of Labor Statistics, Economic News Release, April 5, 2013
2. Beaconomics, Spring 2013
3. "The Weekly Briefing, State Treasurer's Office, April 22, 2013
4. "The Weekly Briefing, State Treasurer's Office, April 15, 2013
5. MuniServices Economic Overview 3Q2012 News, page 14
6. In its November 2012 actuarial reports, CalPERS presented the option to phase in an assumption change over two years—resulting in the 2014 rates seen here on page 16—or to adopt the changes right away. Turning down the phase-in option would result in about $0.6 million in additional General Fund pension costs in FY 2014, but about $1.2 million in savings over the subsequent 19 years. The City opted to turn down the phase-in.

   Since this decision was made in recent weeks, the additional cost was incorporated into the FY 2014 Proposed Budget, but the savings were not incorporated into the subsequent years of this Forecast.

CITY OF
PALO
ALTO

AMERICANS WITH DISABILITIES ACT STATEMENT

IN COMPLIANCE WITH AMERICANS WITH DISABILITIES ACT (ADA) OF 1990, THIS DOCUMENT MAY BE PROVIDED IN OTHER ACCESSIBLE FORMATS.

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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.

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