

CITY OF PALO ALTO

2004-05

City Council

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Jim Burch, *Vice Mayor*

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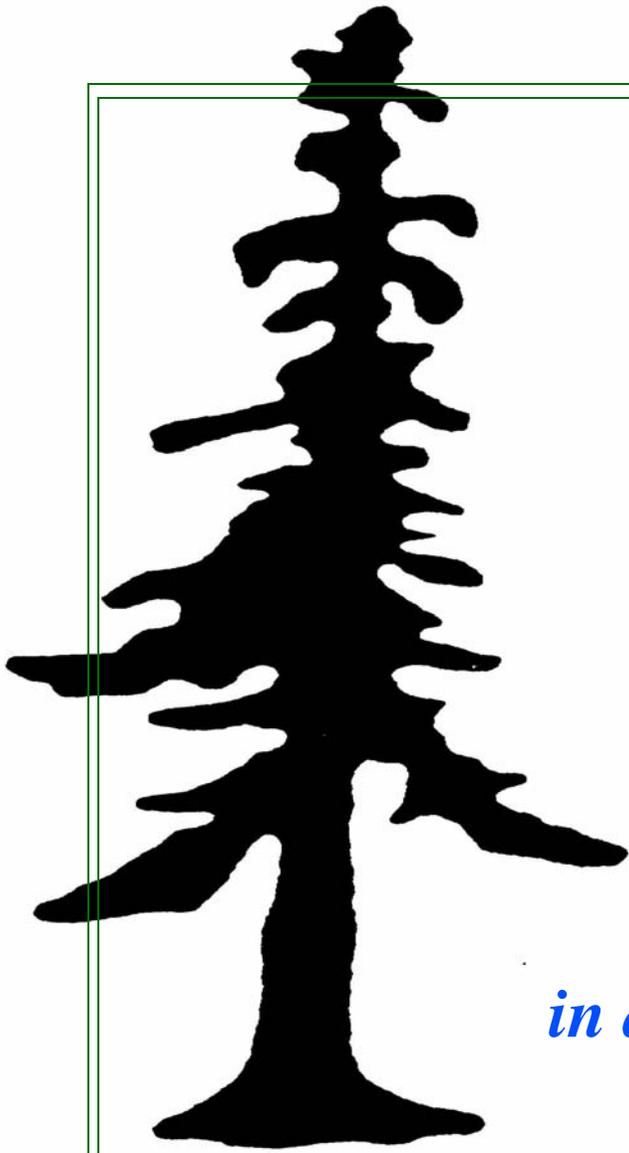
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Carl Yeats
Director of Administrative Services

Lalo Perez
Assistant Director of Administrative Services

Judy Kleinberg
Finance Committee Chair



*The government of
the City of Palo Alto
exists to promote
and sustain
a superior quality
of life in Palo Alto.*

*In partnership
with the community,
our goal is to deliver
cost-effective services
in a personal, responsive,
and innovative manner.*

The City of Palo Alto's Values:

Quality - Superior delivery of service.

Courtesy - Providing service with respect and concern.

Efficiency - Productive, effective use of resources.

Integrity - Straight-forward, honest and fair relations.

Innovation - Excellence in creative thought and implementation.

It's a Matter of Pride!

CITY OF PALO ALTO

2004-05

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*California Society of
Municipal Finance Officers*

Certificate of Award

Excellence in Operational Budgeting 2003-04

Presented to

City of Palo Alto

This certificate recognizes Meritorious Achievement in Operational Budgeting and reflects a highly professional budget document and the underlying budgeting process through which the budget is implemented.

March 1, 2004



Chair, Budgeting & Financial Management

Dedicated to Excellence in Municipal Financial Management



The National League of Cities

Honors

City of Palo Alto

for Receiving the

*2003 Helen Putnam Award for Excellence
Grand Prize*

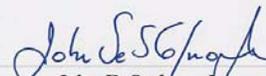
~ Internal Administration ~

Presented by the
League of California Cities

September 2003



Don Borut
Executive Director
National League of Cities



John DeStefano, Jr.
NLC President
Mayor, New Haven, Connecticut

May 4, 2004

Honorable City Council

Palo Alto, California

Attention:
Finance Committee



Dear Mayor and Council Members:

It is with pleasure that our City staff team presents this balanced budget revision to the 2004-05 fiscal plan for your consideration. With the expense cuts included in this budget, the 5 percent reduction of the operating base has been achieved. Over the past four years, General Fund (GF) base expense has been reduced by \$14 million, to align with declining revenues and our primary philosophy of not funding operating deficits from reserves.

This document focuses on the changes from the "in-concept" spending plan that you approved a year ago, and is meant to supplement the 2003-05 Adopted Budget document. The financial data has been revised to include the important analysis from the updated Long Range Financial Plan (LRFP), as well as describing many of the difficult decisions we made together as the 2003-05 plan was developed. Upwards of 37 positions have been eliminated over the two-year period, resulting in restructuring opportunities for every operating department.



As evidenced by the current fiscal problems facing neighboring cities, those difficult decisions we made together a year ago to correct the structural deficit allow us to continue providing high-quality services to the community, even as we continue to restructure how those services are provided. Challenges continue to surface on the horizon; from yet another round of State takeaways to skyrocketing employee pension and health care expenses. However, the hard work already done to balance the budget allows us to prepare creative solutions to these issues in a thoughtful and constructive manner.

The League of California Cities and the National League of Cities have recently recognized the City's "Strengthening the Bottom Line" (SBL) approach to operational downsizing. The City was awarded the Helen Putnam Award for Excellence - Internal Administration Grand Prize at the league's

national conference in 2003. Avoiding across-the-board budget cuts and layoffs, while maintaining vitality of the organization and quality service delivery to the community were the key components of this recognition.

The health of the regional and local economies is key to determining both the timing and the extent of City revenue growth. Since the 2001 peak, revenues have declined \$8.0 million (7 percent) and our City staff team has risen to the challenge by restructuring operations and eliminating expense. The City continues its "pay-as-you-go" philosophy; therefore, expenditures were reduced to match dropping expense, with forty positions being eliminated or frozen and \$14 million in expense permanently removed from the General Fund (GF) budget. Rising employee healthcare and pension costs eroded these expense cuts, but let there be no misunderstanding: significant operational expense reductions have already taken place.

Silicon Valley appears to be the laggard in the present nascent economic recovery. The following is a summary of some current economic challenges facing our community:

- Job growth, key to any economic recovery, has yet to appear in the region and is very late in terms of typical recovery timelines.
- State unemployment rates are expected to remain in the low 6 percent range through mid-2005, with higher regional rates.
- State actions threaten at least \$1.0 million in City property tax revenue; sales tax, property tax and vehicle license fee revenues are all in jeopardy in 2005 as the State closes its deficit.

2004-05 is the second year of our two-year budget process. Included in the plan is a 0.6 percent General Fund ongoing cost reduction (4.4 percent cut in 2003-04), fulfilling the 5 percent cut pledged a year ago. The 2004-05 budget strategy had several guiding principles:

- Achieve a balanced budget that does not draw on reserves to fund ongoing operating costs

Economic Overview



Budget Strategy for 2004-05

- Create and maintain adequate reserve levels ("rainy day" funds)
- Preserve commitments to Council-defined top priorities, including the rebuilding of our City infrastructure or "CityWorks"
- Preserve essential services and organizational vitality, even as we cut staffing
- Maintain the City's financial commitment to the Palo Alto Unified School District (PAUSD) in the amount of \$6 million per year
- Separate new Library Department spending plan from its former status as a division of Community Services.

The City is continuing to restructure its operations to achieve financial stability long into the future. An example of this effort, resulting from a City Auditor recommendation, is the moving of the Infrastructure Reserve (IR) to the Capital Fund in 2004-05. This change has two benefits: first is the dedication of reserves to the Infrastructure Management Plan (IMP) capital rehabilitation; second is the \$1.0 million in annual interest income that is associate with the IR that will now be used to fund future IMP project costs. Representing half of the ongoing annual \$2.0 million GF transfer for future IMP project costs, fully funding this transfer will remain a top priority in 2005.

Long Range Financial Plan (LRFP)

Serving as a precursor to the budget process, the ten-year financial forecast presented to the Council in December 2003, painted a challenging fiscal picture for the period. Here are some of the major findings of that analysis:

- A 5 percent ongoing cost reduction, along with other measures, significantly reduced projected future deficits.
- Revenue growth rates are projected to be near 3.7 percent annually over the next ten years and have been reduced due to the delay in the local economic recovery.
- Significant progress has been made to slow the ten-year annual expenditure growth rates (4.0 percent), but it still exceeds the expected revenue growth rate by 0.3 percentage points.
- New program expense approved by Council must be restricted to be within estimated revenue growth rates.
- Efforts must continue to control growth in employee healthcare and pension costs.

Some important revenue elements of the 2004-05 Proposed Budget include:

- General Fund revenue is projected to be flat as compared to prior year adjusted figures. This is significant as it portends a halt to the downward trend in City revenues, which began four years ago.
- It may take 5 years for major revenue categories to fully recover.
- \$1 million in property tax revenues have been removed as expected takeaways are enacted to balance the State budget.
- \$1 million in interest income has been moved from the GF to the Capital Fund to coincide with the relocation of the Infrastructure Reserve within that fund. This represents half of the annual \$2 million GF commitment to fund future IMP project costs.

The following are some important expenditure elements of the 2004-05 Proposed Budget:

- Achieve 5 percent operating base reduction; 4.4 percent in fiscal 2003-04; 0.6 percent in 2004-05.
- \$4.3 million Capital Fund transfer is included to maintain support for infrastructure rehabilitation projects.
- \$1.0 million in additional citywide salary savings will result from a mandatory three-day unpaid furlough or from potential layoffs.
- Benefit expenses are increasing citywide by an estimated \$8.0 million in 2004-05, with the largest components being increased healthcare and pension expense. Worker's compensation increases are also demanding a cost-containment response in 2005.
- A one-time \$3.5 million Technology Fund allocation has been removed from the spending plan in an effort to reduce that fund's reserve balance by about one-third to \$8 million; this reflects a one year delay in Phase III of the SAP implementation.

You will be presented with quarterly reviews of the City's financial condition along with a midyear budgetary adjustment proposal for your consideration.

Operational restructuring efforts will be critical to both bring projected expense growth rates below those for revenues, as well as provide the needed flexibility to respond as needed to future fiscal challenges. An ongoing review of all vacancies and retirements will continue into 2005 as means of identifying other opportunities in this area.

Revenue and Expense Highlights

Restructuring Efforts

Here are some examples of how departments have restructured their operations:

Administration

- Restructuring the Printing and Mailing function, with possible outsourcing of offset services
- Treasury and Investments Division restructuring, with the elimination of Manager, Investments and Debt position and redistribution of responsibilities

Community Services

- Restructuring department administration, with the elimination of Deputy Director position
- Combining the management of Human Services and Cubberley divisions, with the elimination of Manager, Community Services Facilities position
- Consolidation of Arts division managerial functions



Planning and Community Environment

- Continued implementation of the Development Review Process Audit recommendations

Public Safety

- Restructuring Police Department administration, with the elimination of Assistant Chief position
- Consolidating citywide code enforcement efforts into Police Department
- Coordinating citywide emergency preparedness cross-departmental program with all departments (see miscellaneous section of this document).
- Outsourcing of Radio Repair/Maintenance
- 911 Readiness Fee will be proposed in 2005 (not included in this budget) to recover costs associated with the City's 911 emergency line operations.

Along with operational restructuring efforts, cost recovery analysis provides an opportunity to redistribute scarce resources to unfunded needs, such as the new Public Safety Building.

Remaining a vital component of City service are the City of Palo Alto Utilities (CPAU) as well as the activities of the Refuse, Storm Drainage, Wastewater Treatment and External Service Funds. Dating back more than 100 years, these City-owned enterprises continue a commitment to community service, providing reliable service along with reasonable rates. Included in the budget are the following proposed rate changes:

2004-05 proposed utility rate changes (Net 8.6 percent increase in average monthly utility bill to \$228.08; net 1.0 percent decrease in 2003-04):

- Electric service rate increase of 8.5 percent, due to increasing wholesale power and transmission costs
- Water service rate increase of 10.3 percent, due to proposed SFPUC wholesale water rate increase
- Gas service rate increase of 9.9 percent, due to projected increases in commodity expense
- Refuse service rate increase of 10 percent, due to increasing operating expense

A special thank you to the entire City staff team involved in preparing the 2004-05 Proposed Budget. Every department contributed both time and effort to meet the extraordinary fiscal challenge we faced this year. Carl Yeats, the Director of Administrative Services; Lalo Perez, Assistant Director of Administrative Services; and Joe Saccio, Deputy Director of Administrative Services; have coordinated a wonderful team through an especially challenging task. Special acknowledgement goes to the Budget Team and their countless hours of analysis and creative thought. The Budget Team includes Charles Perl, Budget Manager, and his staff: Mary Divinski, Amy Javelosa-Rio, Stephen Lien, Cherie McFadden and Steve Montano.

Enterprise Fund Overview

Acknowledgements



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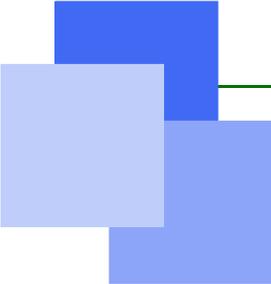


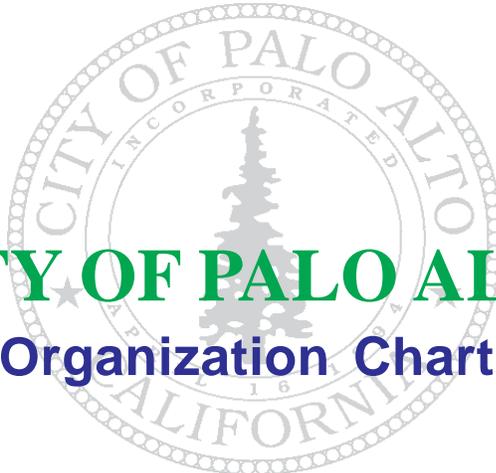
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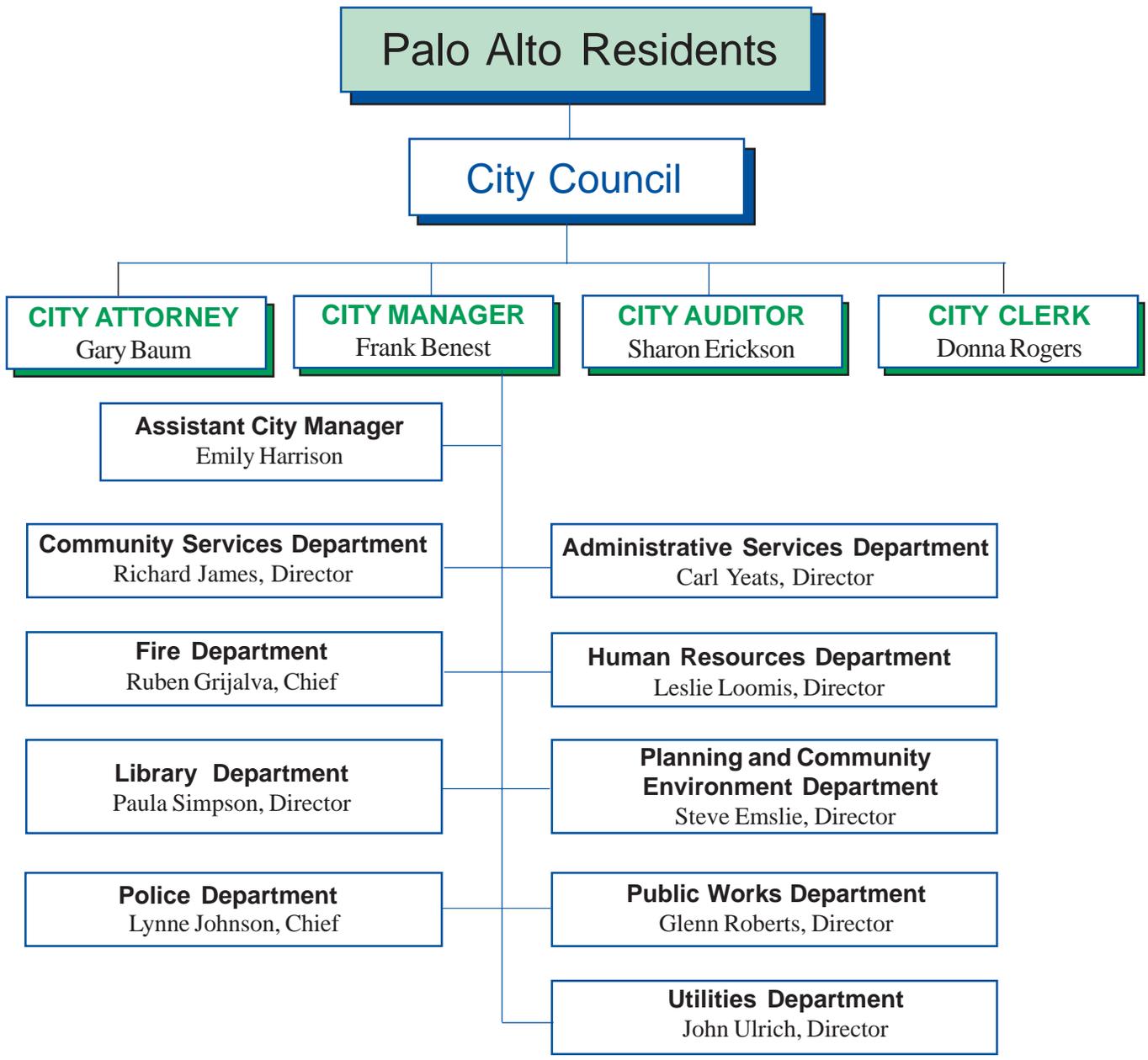
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CITY OF PALO ALTO

Organization Chart



The Budget Process and Document

An Overview



The budget is a spending management plan for the City's financial resources. Through the use of these resources, services are provided to meet the needs and desires of Palo Alto's residents and businesses. The budget is also at the heart of the political process, where resources are allocated based on City Council priorities. The review of the proposed budget is structured around public hearings by the Finance Committee, which further incorporates public opinion into the process. The budget is therefore the vehicle for responding to the community's wishes, as well as an instrument for balancing inflows and outflows (revenues and expenditures) of revenues.

City Council Top Five Priorities

At the start of the City's budget process, the City Council determines its main focus for the following two-year period. Through an open Council dialogue, the priorities guide both budget development and department priority-setting. The public has the opportunity to provide input into this process as well as during the budget review by the Finance Committee. The following are the top five City Council priorities for 2004-05:

- Affordable Housing
- Alternative Transportation / Traffic Calming
- Infrastructure
- Land-Use Planning
- City Finances

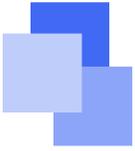
Operating Budget Process

Budget Preparation

The City's annual budget process begins in November and concludes in June. The operating and capital budgets are developed by the City Manager, in consultation with senior management and the Director of Administrative Services, utilizing four main sources of information:

- Community input
- City Council Top Five Priorities
- Findings from the City's Long Range Financial Plan which is updated annually and presented to the Finance Committee prior to the budget process
- Comprehensive Plan which contains the City's official policies on land use and community design, transportation, housing, natural environment, business and economics, and community services.

This information is used to develop the budget request guidelines.



The Budget Process and Document *continued*

Operating Budget Calendar

November: Operating budget preparation begins with determination of the base budget for the following year, which excludes one-time revenue and expenses from the prior year. Input from the Long Range Financial Plan (LRFP) determines the broad financial picture facing City operations in the upcoming period. Budget guidelines and instructions are finalized and distributed. Municipal Fee Schedule change parameters are also provided.

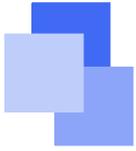
December: Critical to their planning process for the upcoming year, departments are allowed to reallocate staffing and non-salary resources to meet the changing demands placed on service delivery. This step results in no net change to the amount of resources allocated to the department overall.

January: Changes to the base budget are submitted to the Budget Division for analysis, and may include requests for additional funding to meet program needs for the upcoming year. Textual elements of the budget document, including performance measures, key plans and Municipal Fee Schedule changes are also finalized.

February: Recommendations on the base budget requests are made by Budget Division staff to the Director of Administrative Services, both in terms of their conformance to budget guidelines as well as their individual merits. Internal budget hearings are held to discuss Budget Division analysis of department funding requests, along with alternative funding options to meet the department's needs. Extensive cost-benefit analysis is performed on both base operations as well as new funding requests.

March/April: Final decisions are made by the City Manager on the proposed operating budget requests, along with the general message to the City Council. The proposed budget document is compiled, edited and forwarded to the Council members. The Office of the City Attorney reviews proposed changes to the Municipal Fee Schedule.

May/June: The City Manager formally presents the proposed budget to the Finance Committee in a series of public hearings. The Finance Committee prepares its recommendation to the City Council. Final adoption occurs at a final public hearing in June. All changes made during the public process are incorporated into the adopted budget document, which is distributed to City libraries as well as posted on the City's website.



The Budget Process and Document *continued*

Changing the Budget

Level of Control and Changes to the Adopted Budget

Budgetary control, the level at which expenditures cannot legally exceed the appropriated amount, is exercised at the fund level, the department level, and the capital project level. Administrative polices provide guidelines on budget transfers, the authorization necessary to implement transfers, and appropriations after the budget is adopted. Generally there are two types of budget transfers:

Budget Adjustment: Budgetary control, the level at which expenditures cannot legally exceed the appropriated amount, is exercised at the fund level, the department level, and the capital project level. Administrative polices provide guidelines on budget transfers, the authorization necessary to implement transfers, and appropriations after the budget is adopted. Generally there are two types of budget transfers:

Budget Amendment: This is an adjustment to the total appropriated amount within a fund or department, which was not included in the original adopted budget. These supplemental appropriations are presented to City Council in an agenda report and require for approval, the passage by two-thirds vote of the City Council. Unexpended appropriations automatically lapse at the end of the fiscal year and are included in the ending fund balance calculations within each fund.

Reasons for initiating a Budget Amendment Ordinance (BAO) include:

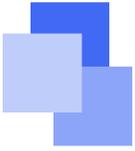
- Recognizing unanticipated revenue, which was not projected in the budget, and to appropriate associated expenditure in the year received
- Appropriating additional funds from reserves
- Transferring dollars from the operating budget to the capital budget or vice versa
- Transferring between funds, departments or projects
- Amending the official “Table of Organization” (staffing changes) during the year
- Amending the Municipal Fee Schedule during the year

Understanding the Document Layout

Document Organization

The budget document contains the General Fund, Enterprise Funds, Internal Service Funds, Debt Service Funds and Special Revenue Funds.

Funds: Local government budgets are made up of funds, which help to organize and account for restricted resources. Each fund is considered a separate accounting entity. Enterprise Funds are set up as self-supporting units similar to a business. They account for the operation and maintenance of facilities and services that are entirely paid by rates charged to residents or, in the case of Internal Service Funds, to City departments. The City of Palo Alto owns and operates its own utilities with the exception of refuse hauling and collection,



The Budget Process and Document *continued*

which is contracted with an outside firm. The budget document is divided into fund and department sections, which contain the following components:

- Fund/Department Overview - identifies key goals to be achieved during period
- New Program Update - reports on accomplishments with any new program/activity undertaken during the past two years
- Financial Summaries - revenues and expenditures by functional area and expense category
- Council Priority Implementation - specifically cites activities related to Council's top 5 priorities
- Resource Level Changes - identifies major resource changes from base budget
- Service Level Changes - describes changes to service delivery in upcoming period
- Comprehensive Plan Overview - incorporates the 1998-2010 Comprehensive Plan Implementation Plan into budget submissions

Financial and narrative information is provided in each of these areas. This format allows the reader to review a fund budget at different levels of detail ranging from an overview of the fund as a whole, to specific department program funding requests.

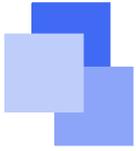
Positions: Specific information related to the number of positions within a particular department or fund, can be found on the Full Time Equivalent (FTE) line of each financial summary. Historical information on how these numbers have changed is detailed under the Staffing Tab and within the Table of Organization. At the fund and department levels, the number of personnel in each functional area is shown. A detailed listing of regular, permanent positions and total cost is shown at the beginning of each department /fund, with the specific classifications noted in the Table of Organization at the end of this document.

Understanding the Details

Financial Summaries

Reflected in this document are actual revenues and expenditures for 2002-03; the 2003-04 Adopted Budget; the 2003-04 Adjusted Budget; the 2004-05 Adopted-in-Concept Budget; and the 2004-05 Adopted Budget. The main focus of this discussion along with the dollar amounts in the "2004-05 Budget Change" column, compares the 2003-04 Adjusted Budget with the 2004-05 Adopted Budget. This describes the changes from the prior year's numbers and is the recommended method of showing budgetary change by the Government Accounting Standards Board (GASB).

Revenues: Total revenues are displayed for each department and fund. In each department, revenues are shown as either internal or external depending on their source. Revenues include fees collected for cost-recovery purposes by the



The Budget Process and Document *continued*

department or fund for specific services to the public (external revenues), as well as revenues received from other funds (internal revenues). An example of internal revenue includes the Electric Fund reimbursing the Attorney's Office for legal services. The principal sources of external revenues are described in the Resource Level narratives within each department.

Expenditures: Expenditures are displayed at the fund summary as well as the department summary level. For example, the budget shows funding dedicated to Construction Review Services in the Planning and Community Environment Department.

Basis of Accounting: The City's Governmental Fund (General Fund, Special Revenue Fund and Capital Project Fund) and Proprietary Fund Budgets (Enterprise Fund and Internal Service Fund) are developed using a modified accrual basis of accounting. While the Governmental Fund is accounted for using the modified accrual basis, the Proprietary Fund is accounted for using the full accrual basis of accounting. Both of these bases are generally accepted accounting principles (GAAP).

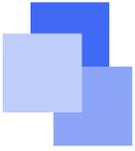
Modified accrual basis of accounting recognize revenues when measurable and available and records expenses when incurred while the full accrual basis of accounting, records revenues when earned and recognize expenses when incurred, regardless of when the related cash flows take place.

Fund/ Department Administration: The 2004-05 document includes an administration function within each financial summary. Typical administration expense includes core staff who work on department-wide priorities, as well as allocated costs from internal service funds. These costs previously were allocated to the programs within that department under the "Mission Driven Budgeting" process. Administration allocations will continue for cost-recovery purposes, however, their presentation within the financial summary is now a separate function.

Rates and Reserves

The General Fund (GF) has two main reserves - the Budget Stabilization Reserve (BSR) and the Infrastructure Reserve (IR). City Reserve Policy has placed a cap of 18.5 percent of GF Expenditures on the BSR, with any excess going to the IR. Financial Policy allows flexibility in determining the BSR cap amount within a range of between 15 and 20 percent of expense. This represents the City's rainy-day fund. the IR will be relocated to the Capital fund in 2004-05. The IR will be relocated for the Capital Fund in 2004-05.

In the Enterprise Funds, rates are the charges to customers for services provided, such as electric and gas services. The total revenue generated by the rates covers expenditures on an ongoing basis. Utility rate increases or decreases are typically



The Budget Process and Document *continued*

staggered to minimize volatility from one year to the next. When budgeted revenues are not sufficient to cover budgeted expenditures in years between planned rate increases, or in the case of emergencies or unforeseen changes in either revenues or expenses, reserves are used to cover the difference. Council has adopted a policy specifying the appropriate levels of reserves in each Enterprise Fund. Typically, the budget will reflect either increasing or decreasing the reserves to within Council-approved ranges. A reserves summary table is located at the beginning of the Enterprise Funds section and within each individual fund summary.

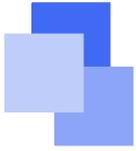
Special Revenue Funds

Special Revenue Funds account for revenues with certain restrictions on their usage. These funds include gas tax funds from the State, in-lieu housing fees assessed for the City's Below Market Rate housing projects, and transportation mitigation fees paid by developers. Other funds in this category include: assessments for parking lot bond payments, parking permit revenues, and Community Development Block Grants (CDBG) from the Federal Government. Also included are development impact fees related to libraries, parks and community centers, as well as the activities of the newly-formed Business Improvement District (BID).

Internal Service Funds

Internal Service Funds provide printing and mailing, vehicle replacement and maintenance, technology, and general benefits administration services to City departments. These services are rendered on a cost recovery basis through user charges. The Vehicle Replacement and Maintenance Fund manages citywide maintenance and replacement of vehicles and equipment. The Printing and Mailing Services fund accounts for central duplicating, and the printing/ mailing services while the General Benefits and Insurance Fund accounts for the administration of employee benefits, the City's self-insured worker's compensation, payroll, and general liability programs.

The Technology Fund includes such activities as personal computer desktop, software application, and technology infrastructure replacement and maintenance.



The Budget Process and Document *continued*

Key Budget Terms

Adjusted Budget:

Represents the adopted budget including changes made during the fiscal year.

Adopted Budget:

Annual City budget approved by the City Council on or before June 30.

Capital Improvement Program (CIP):

Accounts for projects related to the acquisition, expansion, or rehabilitation of the City's buildings, equipment, parks, streets, and other public infrastructure.

Cross-Departmental Programs:

Programs or capital projects in which multiple departments participate.

Divisions:

Groupings of services performed under each functional area.

Funds:

Used by Local government budgets to organize and account for restricted resources. Each fund is considered a separate accounting entity.

Impact Measures:

Measurable results to be achieved in each functional area. They are the measures through which the value of services can be assessed by Council and the public.

Infrastructure Management Plan (IMP):

Subset of the capital improvement program with the focus of rehabilitating the City's infrastructure on a continuing basis.

Key Plans:

Major projects, plans, or priorities for the coming fiscal year. These plans are usually one-time in nature. Key plans are located at each functional area level in the budget document.

Proposed Budget:

The budget that is sent to the Finance Committee by the City Manager. The proposed budget including changes made by the Finance Committee during their review is approved by the Council and then becomes the adopted budget.

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General Fund

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General Fund Revenues

An Overview

Since the peak in 2000-01, General Fund (GF) revenues have declined \$8.1 million (7.3 percent) to \$102.2 million in 2004-05. While the regional economy's dive seems to be reaching an end, tentative growth is evident and expected to continue into 2005, albeit slowly. According to the "Bay Area Economic Pulse," a publication of the Bay Area Council:

"The regional economy still faces additional risks going forward. While there are at least some signs of national recovery, and political developments within the state pose new risks, higher state and local taxes appear likely, and increased business taxes - in workers compensation and unemployment insurance, the loss of the manufacturer investment tax credit, and possibly substantial property tax increases - will weigh on the business community in the coming year, just as a recovery may appear on the horizon."¹

San Francisco Federal Reserve Bank President Robert Parry referred to the region as a "slowpoke" recovering from recession. "The economy is expanding at a pretty rapid pace," he said. But "the Bay Area probably will not do as well as some areas."²

The pace and size of the nascent recovery will likely be slow and moderate. According to the Silicon Valley Manufacturing Group, "... there is little reason to expect job growth and profits rivaling those of the late 1990s in the near future. The Silicon Valley economy will show stronger signs of recovery in 2004, but will grow more slowly than the national average through 2005 as it continues to restructure and redeploy capital after the tech boom of the late 1990s."³

The statewide unemployment rate is expected to average in the 6.0 percent range through 2004, while Santa Clara County's rate will be slightly higher.⁴ The region's gradual economic growth is likely to continue for another several months. According to the State Board of Equalization, this is due to:

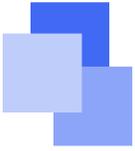
- continued low interest rates
- the ongoing federal tax cut (economists expect the tax cut to add about one percent to the growth rate of real GDP on an annualized basis over the next several quarters)

¹ *Bay Area Economic Pulse: An Economic Report on the Nine-County Bay Area, Fall 2003, Bay Area Council, pub.*

² *Sam Zuckerman, "Bay Area Behind," San Francisco Chronicle, October 17, 2003*

³ *Projections: 04 by the Silicon Valley Manufacturing Group*

⁴ *Projections: 04 by the Silicon Valley Manufacturing Group, quoting UCLA economists.*



General Fund Revenues *continued*

- businesses need to purchase more capital equipment just to keep up with economic depreciation.⁵
- renewed flows of venture capital funding into area business
- rising sales posted by key technology companies headquartered in the region⁶

However, the region's improving fortunes have not yet translated to increased City revenues. Sales tax and transient occupancy tax revenues continue to decline as of this writing and, at best show signs of "bottoming-out." Just as the state's growth has lagged behind the nation's, Silicon Valley's growth has lagged behind the overall state's, and cities like Palo Alto, Mountain View, and San Jose seem to be lagging yet further. The revenue forecast includes modest improvements in 2004 and staff intends to monitor revenues carefully throughout the year.

General Fund revenue is projected to slightly increase (\$0.6 million) to \$102.2 million in 2004-05 from the prior year adjusted figures. This indicates a halt to the downward trend in City resources, which began four years ago. Unknown factors, such as possible additional State takeaways or effects of outsourcing on the local job market, may pose further challenges to revenues in 2005.

The following is a discussion of the City's major revenue categories and their projections for 2004-05.

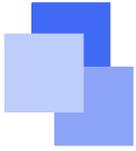
Sales Tax

Sales tax revenues are projected to reach \$18.3 million in 2004-05. This is a slight increase (\$0.9 million, 5.4 percent) increase over 2003-04 adjusted figures. Growth in sales tax revenues will be closely tied to the regional job recovery. While the principal cause for the revenue falloff over the past few years has been from weak employment and business environment, emerging competition from surrounding malls and "big-box" stores are also having an effect. Several stores in the Stanford Shopping Center that are replicated at Santana Row and Valley Fair have experienced sharper declines in sales than other outlets.

Deficiencies in space and location for automobile dealerships in Palo Alto have hurt sales and the potential for growth. The departure of Carlsen Porsche to Redwood City and the desire of Anderson Honda to relocate provide additional evidence that a structural change in this key revenue source is occurring.

⁵CMR:534:03 Page 7 of 30

⁶ State Board of Equalization, *Economic perspective, August 2003*



General Fund Revenues *continued*

Property Tax

2004-05 property tax revenue is expected to reach \$13.6 million. This is a 3.5 percent decline (\$0.5 million) from the 2003-04 adjusted budget and is due to an expected \$1.0 million State takeaway to balance the State budget. Despite the takeaway, the City's property tax base is expected to grow by 3.5 percent in 2004-05 due to continued stability in local property values.

Transient Occupancy Tax (TOT)

City TOT receipts are projected to grow by 4.5 percent (\$0.3 million) over expected 2003-04 levels to \$5.8 million in 2004-05. This is expected to be the first year of growth for this revenue category in four years, but a long way from its 2001 peak of \$9.6 million (40 percent decline).

Although revenue declines in this category are not unique to Palo Alto (the average room and occupancy rates in the San Jose/Peninsula area are slightly below Palo Alto's), there is a possibility that City hotels and motels are experiencing competition on its southern and eastern borders. With new hotels opening on the Palo Alto/Los Altos border and another in East Palo Alto, pressure on City occupancy and room rates may be having an effect on revenues.

Utility Users Tax (UUT)

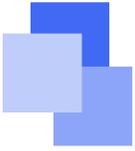
UUT revenues are anticipated to increase by \$0.1 million (1.3 percent) over projected 2003-04 revenues to \$7.4 million in 2004-05. UUT revenues resulting from gas, electric and water sales are based on Utilities Department revenue forecasts and reflect 2004-05 rate levels (increases: electric rates 8 percent; water rates 10 percent; gas rate 9.9 percent; refuse rates 10 percent). UUT telephone revenues have been weak due to low business activity and office vacancies and are expected to remain relatively flat at \$1.9 million over the next year.

Other Taxes and Fines

This revenue category is comprised of motor vehicle in-lieu fees, documentary transfer taxes, and fines and penalties.

Motor vehicle in-lieu fee revenue is projected to be \$3.6 million in 2004-05. While this revenue source was at risk in 2003-04, political clouds seem to have cleared with full funding expected in 2005.

Real property transfer taxes have remained surprisingly healthy in 2003-04 and are projected to end the year at \$4.1 million-including a \$1.0 million, one-time transaction related to the Stanford Shopping Center. Revenues in 2004-05 are expected to reach \$3.4 million.



General Fund Revenues *continued*

Charges for Services

Service fees and charges are projected to reach \$18.3 million, a 4.2 percent (\$0.7 million) increase over the prior year adjusted figures. This category is mainly comprised of external reimbursements and fee-for-service payments generated by General Fund service departments such as Stanford University payments for fire protection services (\$6.3 million), paramedic fees (\$1.9 million) and plan checking fees (\$1.9 million).

Permits and Licenses

Revenues in this category are increasing by \$0.2 million (5 percent) from prior year adjusted figures. This reflects cost recovery for expected employee benefit increases in 2004-05.

Return on Investment

2004-05 interest income is projected to decline by \$1.2 million (34 percent) to reach \$2.4 million. The decrease is due to the moving of the Infrastructure Reserve to the Capital Fund (\$1.0 million) as well as the general decline in interest rates being earned on the City's portfolio.

Rental Income

The primary source for this revenue is the usage of City land for Enterprise Fund operations. This revenue is increasing \$0.1 million (1.0 percent) to \$11.8 million in 2004-05.

Charges to Other Funds

This revenue category shows the reimbursement for General Fund services, such as legal, human resources, public works, administrative, information technology and financial services. This revenue is derived mainly from the Enterprise Funds and other funds, and is based upon a mutually agreed reimbursement allocation. It represents the estimated amount of expense associated with the services delivered.

The \$0.5 million increase (5.6 percent) to \$9.3 million, as compared to prior year adjusted budget reflects reimbursements for significant benefit increases in 2004-05.

Operating Transfers-In

Transfers in this category include equity transfers from the Enterprise Funds, which represents a return on initial investment the City made when the Utility Department was created more than 100 years ago. The equity transfers total \$13.4 million, a stable 3 percent (\$0.4 million) increase for 2004-05.

General Fund Expenditures

An Overview

General Fund (GF) expense is projected to be \$109.5 million in 2004-05, a \$0.2 million increase from prior year adjusted figures. Adjustments included in the 2004-05 adopted figures include:

- \$0.6 million (0.6 percent) reduction due to a Council mandated reduction in ongoing GF expense (4.4 percent cut in 2003-04)
- \$4.3 million increase due to negotiated salary increases and rising employee healthcare and pension costs
- \$3.5 million reduction in one-time Internal Service Fund allocations to the GF; (3.5 Tech)

Due to the ongoing economic weakness, the City staff continues to restructure operations and reallocate resources to meet changing operational needs. With no projected growth in 2004-05 GF revenues, department managers were held to the cost reduction strategy begun a year ago. Any inflationary increases or other funding requests were required to be offset with cuts elsewhere or net new revenues.

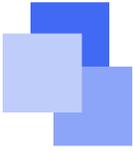
Fourth Year of Cost Reductions (\$0.6 million GF reduction)

After two years of difficult budget balancing efforts, City Council passed a motion on March 11, 2002 requesting a reduction in the 2003-05 GF expense base by 5 percent in an attempt to fix the structural budget deficit permanently. This 2004-05 Adopted Budget achieves the remaining 0.6 percent cutback (4.4 percent cut in 2003-04) both by reductions to staffing levels as well as other general expense. City staff has indicated that any additional cuts to GF resources will detrimentally impact service-delivery to the community. The elimination of services or restructuring of service-delivery will need to be addressed if a next phase of cost cutting is warranted.

Please note, necessary budget additions for negotiated salary increases and rising benefit expense offset this savings and, as a consequence, the financial summaries presented in this document represent net figures.

The following positions are adopted for elimination or freezing during the 2004-05 period:

- Administrative Services: Manager, Information Technology (frozen)
- Community Services: Assistant Director; Manager Community Services Facilities; Program Assistant (frozen)
- Fire: 0.5 Office Specialist



General Fund Expenditures *continued*

- Library: Librarian (frozen)
- Police : Public Safety Dispatcher; 2.0 Communication Technician

The table below describes department reductions over the 2003-05 period

2003-05 Proposed Department Reductions			
	2002-03 Base *	2003-05 Ongoing Cuts	2003-05 Cut %
ATT	2,167	(223)	-10.3%
AUD	759	(40)	-5.3%
CLK	687	(16)	-2.3%
COU	247	(4)	-1.6%
MGR	1,691	(107)	-6.3%
ASD**	11,223	(771)	-6.9%
HRD	2,334	(231)	-9.9%
Total Admin. Dept.	19,108	(1,392)	-7.3%
CSD	24,544	(1,347)	-5.5%
FIR	19,251	(728)	-3.8%
PLA	8,298	(420)	-5.1%
POL	22,027	(989)	-4.5%
PWD***	11,977	(453)	-3.8%
Total Line Dept.	86,097	(3,953)	-4.6%
Total General Fund	105,205	(5,345)	-5.1%

* One-time items have been removed from 2002-03 adopted budget.

** Includes IT Division budget reductions prior to relocation within Technology Fund ISF.

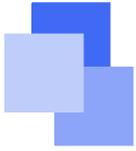
*** Does not include \$2.3 million reduction in traffic signal/street light operating & maintenance expense; utility line clearing expense transferred to Utilities Department.

Increasing Employee Salary and Benefit Expense (\$4.3 million GF increase)

This financial plan includes funding for several areas that either have been negotiated with employee groups or are difficult to enact cost-containment efforts. To accommodate these areas within the budget, new program spending and even inflationary growth of base expense has been restricted.

The major components of growing salary and benefit expense in 2004-05 are:

- Palo Alto Peace Officers' Association (PAPOA) cost-of-living adjustment - (\$0.3 million) An estimated 3 percent increase for employees effective 7/1/04. The PAPOA contract expires 6/30/07.
- Pension Contribution - (Citywide \$7.4 million increase, 88 percent) After four years of reduced pension expense from late 1990's stock gains, the following



General Fund Expenditures *continued*

percent-of-pay contribution rates are effective on 7/1/04: Miscellaneous - 6.6 percent; Fire Safety - 21.2 percent; Police Safety - 33.1 percent. In addition, the employee contribution adds another 7 - 9 percent to these costs.

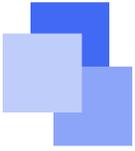
- **Healthcare Premiums** - (Citywide \$1.1 million increase, 8.3 percent) While Public Safety employee rates are projected to increase low-single-digits in 2005, regionalization of CalPERS healthcare rates in California will result in significant increases for other non-safety employees (upwards of 20 percent). The City Manager continues to coordinate a cross-departmental team with staff from the City Attorney's Office, Administrative Services and Human Resources to develop alternatives for reducing projected increases in healthcare costs with both vendor and future union contracts.
- **Workers Compensation** - (Citywide \$0.4 million increase, 16 percent) Even as the City makes progress in lowering the number of Workers Compensation claims, the average cost per claim is skyrocketing. Average per claim costs have risen from \$2,131 in 2000-01 to \$3,209 in 2002-03 or a 25 percent average annual increase. The City Manager is working in conjunction with all Department Directors to improve the prevention of employee injury, to improve the relationship with injured employees to discourage claim litigation and to continue support of the City's modified duty program.

Internal Service Fund Allocation Reduction (\$3.5 million one-time GF reduction)

The Technology Fund, key to the operation and maintenance of the City's communication and electronic data infrastructure, will reduce its expense 2004-05 allocation to the GF by \$3.5 million. This one-time cost savings achieves two goals: first is the reduction of this fund's reserve balance by one-third (\$4 million) to approximately \$8 million; second is the cost savings provided to the GF to maintain infrastructure and other 2004-05 funding commitments. This fund will resume full allocation of its expenses in 2005-06, requiring further restructuring or revenue increases at that time to accommodate this expense increase.

Non-Departmental Expenditures

This category includes two types of expense. The first type involves costs not associated with a particular department such as the direct support of the Palo Alto School District (PAUSD) of \$6.0 million as part of the lease and covenant not to develop the Cubberley Community Center. The second type is budget dollars eventually transferred to another department to fund expenses allocated during the fiscal year. This includes City Manager and City Council contingency spending as well as compensation increases to be allocated to department budgets later.



General Fund Expenditures *continued*

Operating Transfers-Out

The GF maintains obligations to other funds such as the Storm Drainage Fund, Capital Fund and Debt Service Funds. Operating transfers are a means of moving resources between funds and are not considered an expense. Operating transfers-out is projected to decline by nearly half, to \$6.5 million in 2004-05. This reduction is due to the relocation of the Infrastructure Reserve (IR) to the Capital Fund; no longer requiring a transfer of reserve funds for project expense.

Some of the larger transactions include the following transfers: \$4.3 million to the Capital Fund; \$1.2 million to debt service funds; and \$0.8 million to the Storm Drainage Fund to cover an operating deficit in that enterprise fund.

Reserves

Total GF reserve balances are projected to be \$33.0 million as of June 30, 2005; a decline of \$31.9 million, due to the relocation of the Infrastructure Reserve (IR) to the Capital Fund. The Budget Stabilization Reserve (BSR) is projected to remain at stable levels just below its 18.5 percent of expenditures cap of \$21.5 million. This is within the 15 to 20 percent reserve funding policy.

The IR is expected to decline by \$4.8 million (15 percent) to \$27.2 million as of June 30, 2005. By recommendation of the City Auditor, the IR will be relocated to the Capital Fund in 2004-05. This change creates a dedicated funding source for capital projects, reduces the need for and effect of operating transfers on financial summaries, and dedicates \$1.0 million of investment income to fund half of the future IMP funding commitment of the GF. This will be brought back for Council approval after the 2003-04 fiscal period is closed and final reserve balances are determined.

Citywide Operating Fund Balances Statement

An organization-wide operating fund statement is included in the financial summaries that follow this discussion. Internal service fund activities are not listed separately as the expenses surrounding these activities have been allocated to all funds receiving the service, thus are included as expense within those funds. Here are the highlights from the 2004-05 summary:

- Total City revenues are projected to be flat in at \$316.2 million.
- Citywide expenditures are decreasing by \$0.7 million to \$333.7 million.
- Fund balances are projected to decline by \$19.0 million (5.3 percent) to \$340.3 million.

GENERAL FUND SUMMARY

(\$000)	2002-03 Actual	2003-04 Adopted Budget	2003-04 Adjusted Budget	2004-05 Adopted-in- Concept Budget	2004-05 Adopted Budget	2004-05 Budget Change
REVENUES						
Sales Tax	18,041	19,335	17,400	20,135	18,335	935
Property Tax	13,821	13,556	14,100	13,558	13,600	(500)
Transient Occupancy Tax	5,333	6,300	5,549	6,800	5,800	251
Utility Users Tax	7,067	7,498	7,300	7,998	7,392	92
Other Taxes and Fines	9,398	6,724	9,305	7,159	9,526	221
Charges for Services	16,800	17,678	17,565	18,186	18,296	731
Permits and Licenses	3,162	4,721	4,173	4,818	4,397	224
Return on Investment	5,433	3,600	3,600	3,809	2,360	(1,240)
Rental Income	13,297	11,658	11,658	11,845	11,776	119
From other agencies	533	102	271	51	61	(210)
Charges to Other Funds	11,521	8,816	8,816	9,074	9,309	493
Other Revenue	1,353	1,692	1,898	1,395	1,322	(576)
Total Revenues	\$105,759	\$101,679	\$101,634	\$104,828	\$102,173	\$539
Operating Transfers-In	16,092	14,476	14,383	14,589	14,619	236
From Capital Fund	0	5,068	1,386	7,385	0	(1,386)
TOTAL SOURCE OF FUNDS	\$121,852	\$121,223	\$117,403	\$126,802	\$116,792	\$(611)



GENERAL FUND SUMMARY *CONTINUED*

(\$000)	2002-03 Actual	2003-04 Adopted Budget	2003-04 Adjusted Budget	2004-05 Adopted-in- Concept Budget	2004-05 Adopted Budget	2004-05 Budget Change
EXPENSES						
City Attorney	2,164	2,304	2,322	2,392	2,545	222
City Auditor	678	766	771	772	803	32
City Clerk	717	1,010	1,011	791	782	(229)
City Council	235	279	282	297	148	(134)
City Manager	1,692	1,637	1,764	1,707	1,799	35
Administrative Services	10,845	6,479	6,646	6,744	6,736	90
Community Services	18,883	20,048	19,957	20,405	19,618	(339)
Fire	18,111	18,917	18,802	20,320	18,837	35
Human Resources	2,156	2,263	2,466	2,269	2,409	(57)
Library	4,814	4,898	4,928	5,188	5,251	323
Planning and Community	8,133	8,946	8,993	8,769	8,839	(154)
Police	21,163	23,609	23,741	24,969	22,422	(1,318)
Public Works	13,439	11,348	11,316	11,761	11,262	(54)
Non-Departmental	5,494	6,459	6,283	6,640	8,063	1,780
Total Expenses	\$108,523	\$108,963	\$109,283	\$113,024	\$109,513	\$231
Operating Transfers Out	10,633	11,747	7,403	13,285	6,502	(902)
TOTAL USE OF FUNDS	\$119,156	\$120,710	\$116,686	\$126,309	\$116,015	\$(671)
Net Surplus (Deficit)	\$2,696	\$513	\$717	\$492	\$777	\$60

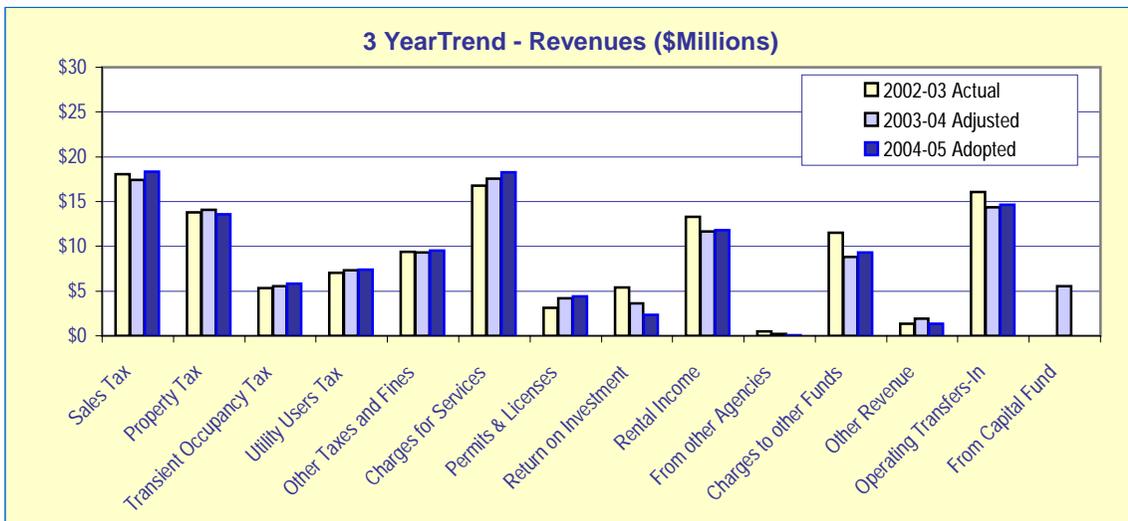
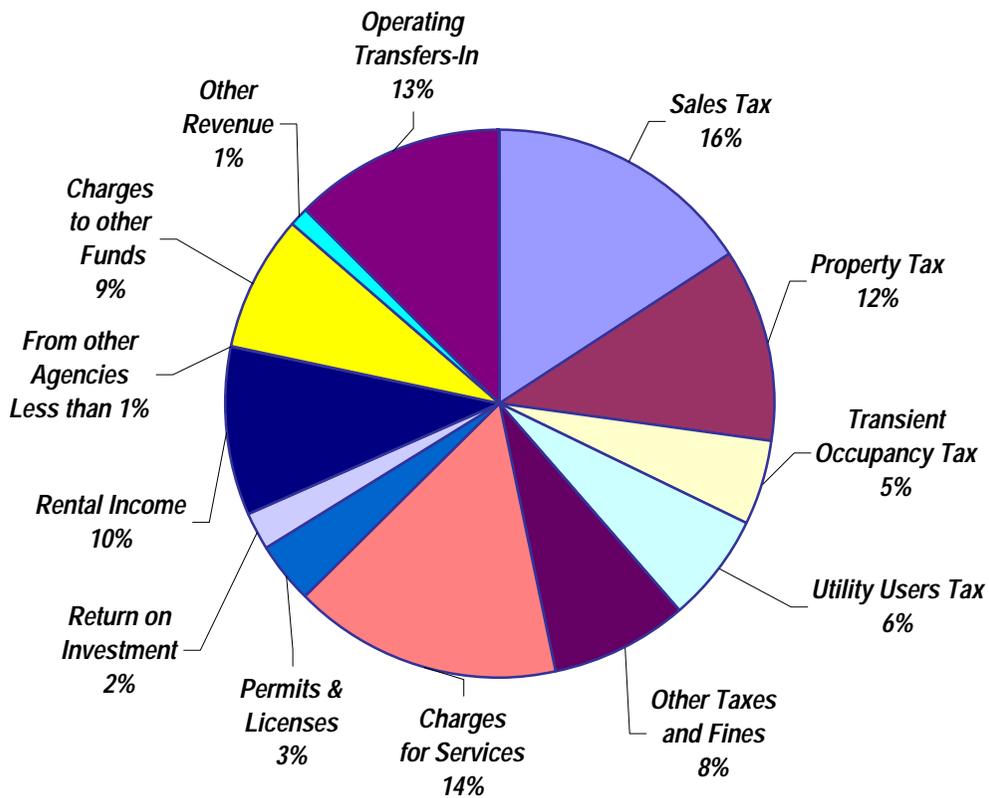
EXPENDITURES BY CATEGORY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Salaries and Benefits	76,285,961	73,974,383	78,810,690	78,083,195	4,108,812
Contract Services	10,059,453	10,408,960	9,451,158	9,684,993	(723,967)
Supplies and Materials	3,029,058	3,436,540	3,178,066	3,146,868	(289,672)
General Expense	7,895,126	9,114,451	9,038,815	8,954,537	(159,914)
Rents and Leases	712,270	725,620	733,254	586,854	(138,766)
Facilities and Equipment Purchases	353,170	505,673	509,032	509,032	3,359
Allocated Charges	10,183,857	11,115,562	11,303,301	8,548,013	(2,567,549)
Operating Transfers Out	10,632,827	7,403,130	13,284,944	6,501,541	(901,589)
TOTAL EXPENDITURES	\$119,151,722	\$116,684,319	\$126,309,260	\$116,015,033	\$(669,286)

GENERAL FUND RESERVES

(\$000)	2002-03 Actual	2003-04 Adopted Changes	2003-04 BAO's	Projected 06/30/04	2004-05 Projected Changes	Projected 06/30/05
RESERVES						
<i>Budget Stabilization Reserve (BSR) Activity:</i>						
BSR	21,395	513	1,302	21,331	777	21,463
BSR Transfer to Infrastructure due to 18.5% cap			(1,879)		(645)	
<i>Infrastructure Reserve (IR) Activity: *</i>						
Infrastructure	33,376	(5,067)	1,802	31,990	(32,635)	0
Transfer from BSR due to cap			1,879		645	
<i>Other Reserve Activity:</i>						
Encumbrance & Reappropriation	5,165			5,165		5,165
Equity Transfer Stabilization	1,535			1,535		1,535
Inventory of Materials & Supplies	2,027			2,027		2,027
Notes Receivable	1,276			1,276		1,276
Unrealized Gain on Investment	1,533			1,533		1,533
TOTAL RESERVES	\$66,307	\$(4,554)	\$3,104	\$64,857	\$(31,858)	\$32,999
* IR is scheduled to be relocated to the Capital Fund in 2004-05.						

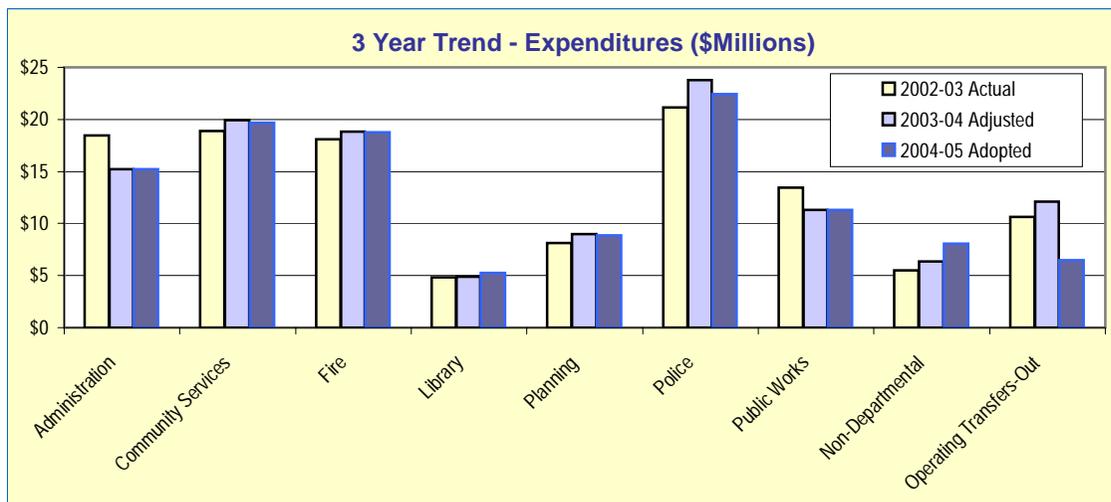
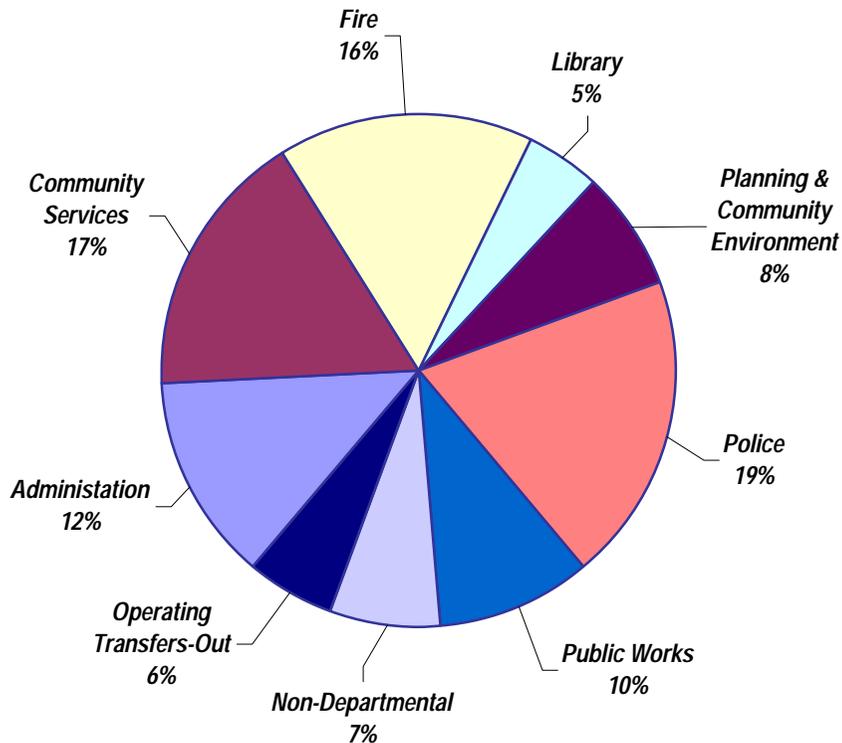
GENERAL FUND REVENUES BY TYPE

\$116.8 Million / Adopted 2004-05



GENERAL FUND EXPENDITURES BY TYPE

\$116.0 Million / Adopted 2004-05



2004-05 PROJECTED OPERATING FUND BALANCES

(\$000)	Projected Ending Balance 06/30/04	Estimated Revenues	Net Fund Transfers	Estimated Expenditures	Projected Ending Balance 06/30/05
GENERAL FUND	\$65,493	\$102,173	\$(25,154)	\$109,513	\$32,999
CAPITAL FUND	\$35,700	\$4,360	\$39,262	\$15,812	\$63,510
DEBT SERVICE					
Golf Course Debt	696	38	520	558	696
Civic Center Debt	287	0	425	425	287
Parking 2002 COPS (Taxable) Debt	326	0	323	323	326
Special Assessment Debt	692	123	0	123	692
Subtotal	\$2,001	\$161	\$1,267	\$1,428	\$2,001
ENTERPRISE					
Electric Fund	142,593	89,122	(7,883)	86,058	137,774
Gas Fund	15,795	29,436	(645)	32,247	12,339
Wastewater Collection Fund	3,412	13,463	0	12,812	4,063
Water Fund	8,948	24,334	(3,146)	21,424	8,712
Refuse Fund	13,327	25,050	(254)	28,559	9,564
Storm Drain Fund	335	2,309	754	3,027	371
Wastewater Treatment Fund	8,014	19,927	428	20,238	8,131
External Services Fund	27	1,045	(20)	1,001	51
Subtotal	\$192,451	\$204,686	\$(10,766)	\$205,366	\$181,005
INTERNAL SERVICE					
General Benefits and Insurance Fund	6,779	*	0	*	6,779
Retiree Health Benefit Fund	19,111	*	(500)	*	18,611
Printing and Mailing Fund	654	*	35	*	689
Technology Fund	11,388	*	(3,939)	*	7,449
Vehicle Replacement and Maintenance Fund	2,147	*	(21)	*	2,126
Subtotal	\$40,079	\$0	\$(4,425)	\$0	\$35,654



2004-05 PROJECTED OPERATING FUND BALANCES CONTINUED

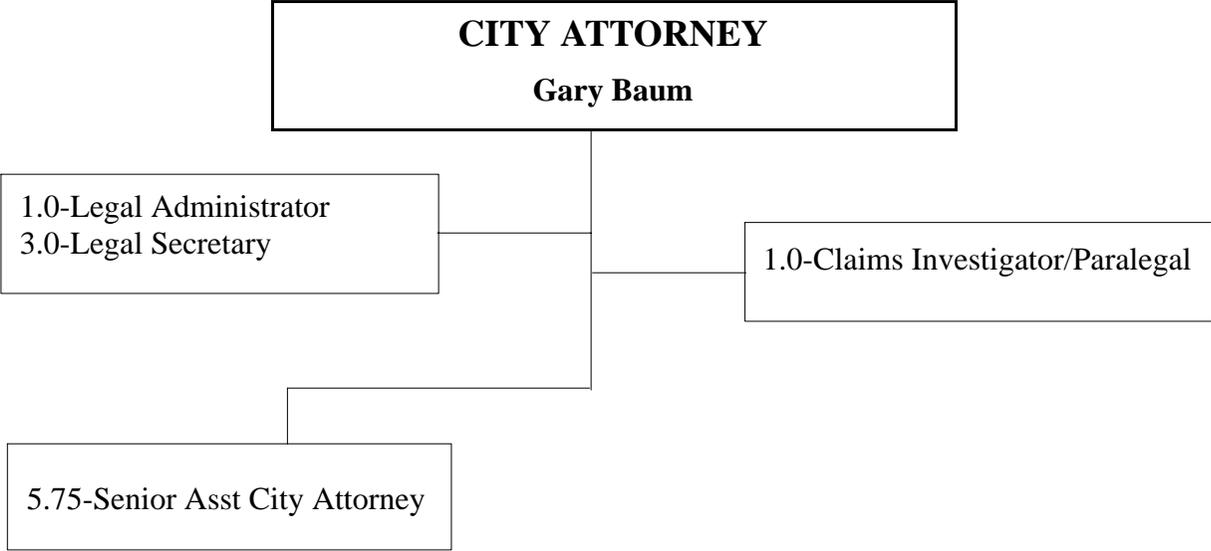
(\$000)	Projected Ending Balance 06/30/04	Estimated Revenues	Net Fund Transfers	Estimated Expenditures	Projected Ending Balance 06/30/05
SPECIAL REVENUE					
Community Development Fund	1,108	560	0	0	1,668
Street Improvement Fund	2,741	1,174	(2,018)	0	1,897
Federal and State Revenue Funds	2,647	880	(34)	929	2,564
Housing In-Lieu and Public Benefit Fund	11,146	577	0	529	11,194
Special Districts Fund	1,363	906	(854)	0	1,415
Traffic Mitigation & Parking In-Lieu Fund	3,569	582	0	0	4,151
Downtown Business Improvement District	0	154	0	154	0
Subtotal	\$22,573	\$4,833	\$(2,906)	\$1,612	\$22,888
TOTAL OPERATING FUNDS	\$358,297	\$316,213	\$(2,721)	\$333,732	\$338,057
* allocation to/from other funds					



City Attorney's Office



City Attorney's Office Organizational Chart



Fiscal Year 2004-05 Position Totals: 11.75 Full-time
1.32 Hourly



City Attorney

To serve Palo Alto and its policy makers by providing legal representation of the highest quality.

OVERVIEW

In 2004-05, the City Attorney's Office will continue to focus on support to the City's operating departments for those projects previously identified as departmental goals and the City Council's Top 5 Priorities. Some of the support projects include:

- Long Range Financial Planning
- Development impact fees
- The Zoning Ordinance Update
- Implementation of ordinance for housing element BMR program
- Review of existing BMR housing program documents
- Implementation of streamlined and standardization of environmental review and contract review for Capital Improvement Projects.

Other areas of focus will include taking an active role in the contract streamlining process, along with refining contract forms and processing from the anticipated adoption of a new purchasing ordinance. The department will emphasize training in the areas of contract streamlining, personnel, labor and planning law, conflict of interest and the Brown Act. The CEQA training conducted by the Department in 2003-04 was well received by executive staff and it is a departmental goal to expand this training to Council Members and staff in 2004-05.

NEW PROGRAM UPDATE

The office of the City Attorney has accomplished the following in new program implementation:

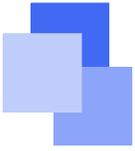
- Although the Code Enforcement Enterprise program was well received by surrounding cities, there is simply not enough business to make the program worthwhile, particularly given the extra administrative responsibilities it creates. Therefore, the City Attorney's office will continue to honor its commitments to those cities it has previously contracted with, but will not enter into any new contracts for services. The 0.5 FTE portion of the Senior Assistant City Attorney position assigned to the code enforcement enterprise program will be reduced in proportion to our contract obligations. Code Enforcement within the City of Palo Alto will continue to be a priority and no change is recommended to the remaining half-time position to support this activity.

COUNCIL PRIORITY IMPLEMENTATION

In 2004-05 the City Attorney's Office will continue to support implementation of the following City Council's top five priorities:

City Finances

- Enhanced Support of Long Range Financial Planning/City Finances Priority
- Contract Streamlining



City Attorney *continued*

Land Use Planning

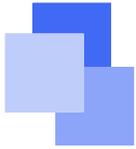
- Development Impact Fees (Phases I and II)
- The Zoning Ordinance Update

Alternative Transportation

- Update/Upgrade of Citywide Transportation Computer Model and Development of Citywide Traffic Impact Fee Nexus Study

DEPARTMENT SUMMARY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Administration	240,488	315,281	308,180	177,239	(138,042)
Consultation and Advisory	1,337,696	1,378,658	1,426,919	1,698,597	319,939
Litigation and Dispute Resolution	360,396	338,231	352,687	353,264	15,033
Official & Administration Duties	225,180	290,036	304,169	315,565	25,529
TOTAL EXPENDITURES	\$2,163,760	\$2,322,206	\$2,391,955	\$2,544,665	\$222,459
TOTAL FULL TIME POSITIONS	13.50	11.75	11.75	11.75	0.00
TOTAL TEMPORARY POSITIONS	1.32	3.26	1.32	1.32	(1.94)
TOTAL REVENUES	\$1,062,286	\$939,651	\$939,651	\$956,364	\$16,713
INTERNAL REVENUES	1,023,421	835,651	835,651	852,364	16,713
EXTERNAL REVENUES	38,865	104,000	104,000	104,000	0

EXPENDITURES BY CATEGORY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Salaries and Benefits	1,643,067	1,617,393	1,686,642	1,883,667	266,274
Contract Services	396,813	535,180	535,180	535,180	0
Supplies and Materials	33,814	38,000	38,000	38,000	0
General Expense	25,312	26,980	26,980	26,980	0
Rents and Leases	8,842	10,500	10,500	3,500	(7,000)
Facilities and Equipment Purchases	1,903	7,850	7,850	7,850	0
Allocated Charges	54,009	86,303	86,803	49,488	(36,815)
TOTAL EXPENDITURES	\$2,163,760	\$2,322,206	\$2,391,955	\$2,544,665	\$222,459



RESOURCE LEVEL CHANGES

	2004-05 ONGOING	2004-05 ONE-TIME	2004-05 TOTAL
REVENUE CHANGES			
Allocated revenue - internal	16,713		16,713
TOTAL REVENUE CHANGES	\$16,713	\$0	\$16,713
EXPENDITURE CHANGES			
Salary and Benefits			
Personnel Benefit Costs (Note 2)	303,782		303,782
Total Salary and Benefits Increase	\$303,782	\$0	\$303,782
Adjustments (Note 1)		(37,508)	303,782
NET SALARY AND BENEFITS CHANGES	\$303,782	\$(37,508)	\$266,274
Non-Salary			
Legal contract assistance *		270,000	270,000
Allocated Charges (Note 3)	(43,815)		(43,815)
Total Non-Salary Changes	\$(43,815)	\$270,000	\$226,185
TOTAL EXPENDITURE CHANGES	\$259,967	\$232,492	\$529,967
Adjustments (Note 1)		(270,000)	(270,000)
NET EXPENDITURE CHANGES	\$259,967	\$(37,508)	\$222,459

*This item was included in the 2004-05 adopted-in-concept budget.

RESOURCE LEVEL NOTES

Note 1: Adjustments include prior year one-time revenue and expenditure items that did not carry forward into the Proposed Budget. Other changes are the result of one-time items that were in the 2003-04 mid-year adjustments.

Note 2: The personnel benefit costs have escalated steeply mainly due to health care increases for both current employees and retirees. In addition, workers compensation and citywide liability costs have increased.

Note 3: Allocated charges are decreasing primarily due to the reduction in Technology Fund operational chargebacks.

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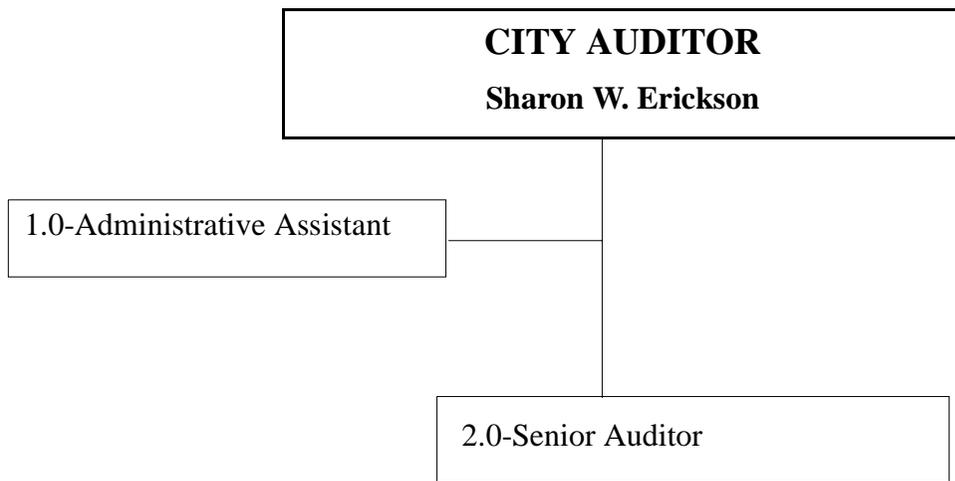


City Auditor's Office



City Auditor's Office

Organizational Chart



Fiscal Year 2004-05 Position Totals: 4.00 Full-time
0.52 Hourly



City Auditor

To promote honest, efficient, effective, and fully accountable City Government.

OVERVIEW

The City Auditor's Office conducts performance audits and reviews of City departments, programs, and services. The purpose of performance auditing is to provide the City Council, City management, and the public with independent and objective information regarding the economy, efficiency, and effectiveness of City programs and activities. The Office contracts with an independent certified public accountant for the City's annual external financial audit. The Office also coordinates revenue audits of sales, property, transient occupancy, and utility users taxes.

In January 2002, the Office issued the first annual City of Palo Alto Service Efforts and Accomplishments report. The report provides information on the performance of City departments, including the cost of providing City services, workload, and performance results over the last five years. The Office plans to continue this project in 2004-05 with the addition of a resident survey component.

In the first month of each fiscal year, the Auditor's Office presents an annual audit work plan for City Council approval. The Office will continue to report quarterly to the City Council on the status of audit projects, and annually on the status of open audit recommendations.

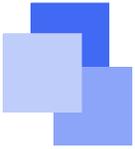
COUNCIL PRIORITY IMPLEMENTATION

In 2004-05 the City Auditor Office will continue to support implementation of the following City Council's top five priorities:

City Finances

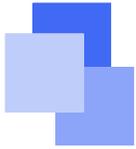
- Ensure the accuracy of financial information through the annual external financial audit
- Provide independent, impartial assessment of City government performance through the Service Efforts and Accomplishments Report
- Perform audits of workers' compensation and contract contingency fees
- Conduct on-going audits of sales, property, documentary transfer, and utility users taxes

DEPARTMENT SUMMARY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Administration	420,984	70,024	72,984	102,892	32,868
Audit Services	256,910	700,550	699,146	699,771	(779)
TOTAL EXPENDITURES	\$677,894	\$770,574	\$772,130	\$802,663	\$32,089
TOTAL FULL TIME POSITIONS	3.75	3.75	3.75	4.00	0.25
TOTAL TEMPORARY POSITIONS	0.00	0.00	0.00	0.52	0.52
TOTAL REVENUES	\$636,673	\$382,236	\$382,236	\$385,181	\$2,945
INTERNAL REVENUES	280,098	147,236	147,236	150,181	2,945
EXTERNAL REVENUES	356,575	235,000	235,000	235,000	0



City Auditor *continued*

EXPENDITURES BY CATEGORY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Salaries and Benefits	459,488	424,175	443,731	527,216	103,041
Contract Services	193,909	309,200	289,200	251,232	(57,968)
Supplies and Materials	4,683	4,100	4,100	4,100	0
General Expense	1,279	3,000	3,000	2,000	(1,000)
Rents and Leases	574	450	450	0	(450)
Facilities and Equipment Purchases	200	1,000	1,000	1,000	0
Allocated Charges	17,761	28,649	30,649	17,115	(11,534)
TOTAL EXPENDITURES	\$677,894	\$770,574	\$772,130	\$802,663	\$32,089



RESOURCE LEVEL CHANGES

	2004-05 ONGOING	2004-05 ONE-TIME	2004-05 TOTAL
REVENUE CHANGES			
Allocated revenue - internal	2,945		2,945
TOTAL REVENUE CHANGES	\$2,945	\$0	\$2,945
EXPENDITURE CHANGES			
Salary and Benefits			
Add 0.25 FTE Admin Assistant	18,968		18,968
Reallocation of Contract Budget to Temp salaries	20,000		20,000
Personnel Benefit Costs (Note 2)	73,741		73,741
Total Salary and Benefits Changes	\$112,709	\$0	\$112,709
Adjustments (Note 1)		(9,668)	(9,668)
NET SALARY AND BENEFITS CHANGES	\$112,709	\$(9,668)	\$103,041
Non-Salary			
Reduction in Financial Audit Services *	(20,000)		(20,000)
Reduction in Training	(2,000)		(2,000)
Reduction in Travel	(1,000)		(1,000)
Reduction in Audit and Financial	(15,968)		(15,968)
Reallocation of Contract Budget to Temp salaries	(20,000)		(20,000)
Allocated Charges (Note 3)	(11,984)		(11,984)
Total Non-Salary	\$(70,952)	\$0	\$(70,952)
TOTAL EXPENDITURE CHANGES	\$41,757	\$(9,668)	\$32,089

*This item was included in the 2004-05 adopted-in-concept budget.

RESOURCE LEVEL NOTES

Note 1: Adjustments include prior year one-time revenue and expenditure items that did not carry forward into the Proposed Budget. Other changes are the result of one-time items that were in the 2003-04 mid-year adjustments.

Note 2: The personnel benefit costs have escalated steeply mainly due to health care increases for both current employees and retirees. In addition, workers compensation and citywide liability costs have increased.

Note 3: Allocated Charges are decreasing primarily due to the reduction in Technology Fund operational chargebacks.

SERVICE LEVEL CHANGES

Addition of 0.25 FTE Administrative Assistant will be used to conduct revenue audits.

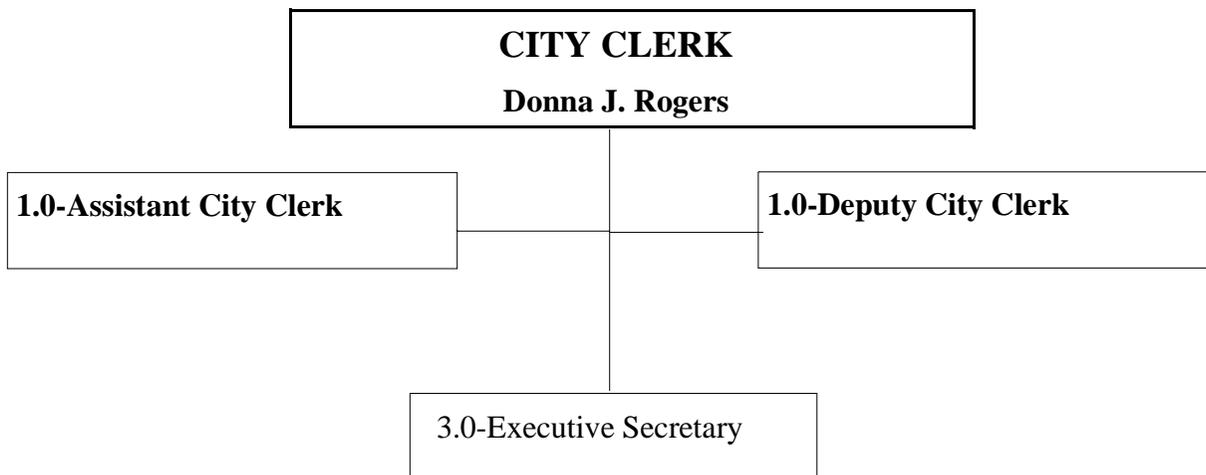
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City Clerk's Office



City Clerk's Office Organizational Chart



Fiscal Year 2004-05 Position Totals: 6.00 Full-time
0.47 Hourly



City Clerk

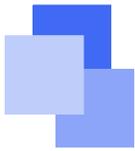
To provide public information; to provide Council support; to administer elections; and to preserve the legislative history of the City.

OVERVIEW

In 2004-05, the City Clerk's Office will continue to meet the demands of the public, City Council and staff in the following areas of Council support services, agenda packet process, board and commission recruitment, Council events, Council minutes, elections, conflict of interest, and legislative records management. The Office will be responsible for maintaining the Internet presence of the department and the City Council.

DEPARTMENT SUMMARY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Administration	201,928	259,366	269,472	81,065	(178,301)
Public Information	71,298	69,514	73,560	79,567	10,053
Council Support Services	302,126	326,220	340,311	456,118	129,898
Election/Conflict of Interest	80,519	277,554	25,717	68,397	(209,157)
Legislative Records Management	61,033	78,739	82,010	96,931	18,192
TOTAL EXPENDITURES	\$716,904	\$1,011,393	\$791,070	\$782,078	\$(229,315)
TOTAL FULL TIME POSITIONS	6.00	6.00	6.00	6.00	0.00
TOTAL TEMPORARY POSITIONS	0.21	0.21	0.21	0.47	0.26
TOTAL REVENUES	\$287,919	\$158,888	\$158,888	\$161,991	\$3,103
INTERNAL REVENUES	285,768	155,138	155,138	158,241	3,103
EXTERNAL REVENUES	2,151	3,750	3,750	3,750	0

EXPENDITURES BY CATEGORY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Salaries and Benefits	515,641	553,654	583,831	604,681	51,027
Contract Services	48,473	80,392	80,392	70,392	(10,000)
Supplies and Materials	5,794	7,106	7,106	7,106	0
General Expense	81,995	294,390	41,390	41,390	(253,000)
Rents and Leases	2,145	2,600	2,600	0	(2,600)
Facilities and Equipment Purchases	1,875	3,000	3,000	3,000	0
Allocated Charges	60,981	70,251	72,751	55,509	(14,742)
TOTAL EXPENDITURES	\$716,904	\$1,011,393	\$791,070	\$782,078	\$(229,315)



RESOURCE LEVEL CHANGES

	2004-05 ONGOING	2004-05 ONE-TIME	2004-05 TOTAL
REVENUE CHANGES			
Allocated revenues - internal	3,103		3,103
TOTAL REVENUE CHANGES	\$3,103	\$0	\$3,103
EXPENDITURE CHANGES			
Salary and Benefits			
Reallocate Contract Agency Personnel to Temp Salaries (Note 4)	10,000		10,000
Personnel Benefit Costs (Note 2)	47,314		47,314
Total Salary and Benefits Changes	\$57,314	\$0	\$57,314
Adjustments (Note 1)		(6,287)	(6,287)
NET SALARY AND BENEFITS CHANGES	\$57,314	\$(6,287)	\$51,027
Non-Salary			
Reallocate Contract Agency Personnel to Temp Salaries (Note 4)	(10,000)		(10,000)
Shift of Department Copier Contract to Printing & Mailing Fund	(2,600)		(2,600)
Allocated Charges (Note 3)	(14,742)		(14,742)
Total Non-Salary Changes	\$(27,342)	\$0	\$(27,342)
TOTAL EXPENDITURE CHANGES	\$29,972	\$(6,287)	\$23,685
Adjustments (Note 1)		(253,000)	(253,000)
NET EXPENDITURE CHANGES	\$29,972	\$(259,287)	\$(229,315)

*This item was included in the 2004-05 adopted-in-concept budget.

RESOURCE LEVEL NOTES

Note 1: Adjustments include prior year one-time revenue and expenditure items that did not carry forward into the Proposed Budget. Other changes are the result of one-time items that were in the 2003-04 mid-year adjustments.

Note 2: The personnel benefit costs have escalated steeply mainly due to health care increases for both current employees and retirees. In addition, workers compensation and citywide liability costs have increased.

Note 3: Allocated charges are decreasing primarily due to the reduction in Technology Fund operational chargebacks.

Note 4: Reallocation of Contract Agency Personnel expense to Temporary Salaries to further utilize less expensive temporary staff.



City Council

CITY OF PALO ALTO

2004-05

City Council

Bern Beecham, *Mayor*

Jim Burch, *Vice Mayor*

LaDoris Cordell

Hillary Freeman

Yoriko Kishimoto

Judy Kleinberg

Jack Morton

Dena Mossar

Victor Ojakian



City of Palo Alto web address: <http://www.cityofpaloalto.org>

Contact City Council at: city.council@cityofpaloalto.org



City Council

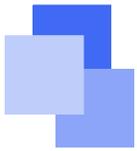
OVERVIEW

In 2004-05, the City Council will continue to serve the community by addressing the needs of the City through varied public meetings and activities. Much of the focus will be on the Top Five Priorities, which includes: Affordable Housing, Alternative Transportation/Traffic Calming, City Finances, Infrastructure and Land-Use Planning.

The 2004-05 City Council Proposed Budget is primarily comprised of City Council stipends, healthcare benefits and general expense.

DEPARTMENT SUMMARY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Administration	2,175	0	0	0	0
City Council Operations	233,074	281,829	296,741	148,117	(133,712)
TOTAL EXPENDITURES	\$235,249	\$281,829	\$296,741	\$148,117	\$(133,712)
TOTAL FULL TIME POSITIONS	9.00	9.00	9.00	9.00	0.00
TOTAL TEMPORARY POSITIONS	0.00	0.00	0.00	0.00	0.00
TOTAL REVENUES	\$88,482	\$64,844	\$64,844	\$66,141	\$1,297
INTERNAL REVENUES	88,482	64,844	64,844	66,141	1,297
EXTERNAL REVENUES	0	0	0	0	0

EXPENDITURES BY CATEGORY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Salaries and Benefits	198,875	232,444	250,356	99,232	(133,212)
Contract Services	502	10,000	10,000	10,000	0
Supplies and Materials	3,974	2,930	2,930	2,930	0
General Expense	31,841	36,455	33,455	35,955	(500)
Allocated Charges	57	0	0	0	0
TOTAL EXPENDITURES	\$235,249	\$281,829	\$296,741	\$148,117	\$(133,712)



City Council *continued*

RESOURCE LEVEL CHANGES

	2004-05 ONGOING	2004-05 ONE-TIME	2004-05 TOTAL
REVENUE CHANGES			
Allocated revenues - internal	1,297		1,297
NET REVENUE CHANGES	\$1,297	\$0	\$1,297
EXPENDITURE CHANGES			
Salary and Benefits			
Personnel Benefit Costs (Note 2)	(133,212)		(133,212)
Total Salary and Benefits Changes	\$(133,212)	\$0	\$(133,212)
Non-Salary			
General expense for Special Event Meals	3,000		3,000
General expense for Council Meeting Meals	2,500		2,500
Total Non-Salary Changes	\$5,500		\$5,500
TOTAL EXPENDITURE CHANGES	\$(127,712)	\$0	\$(127,712)
Adjustments (Note 1)		(6,000)	(6,000)
NET EXPENDITURE CHANGES	\$(127,712)	\$(6,000)	\$(133,712)

*This item was included in the 2004-05 adopted-in-concept budget.

RESOURCE LEVEL NOTES

Note 1: Adjustments include prior year one-time revenue and expenditure items that did not carry forward into the Proposed Budget. Other changes are the result of one-time items that were in the 2003-04 mid-year adjustments.

Note 2: City Council's benefit allocations are decreasing primarily due to a new cost allocation methodology implemented during Phase II of SAP.

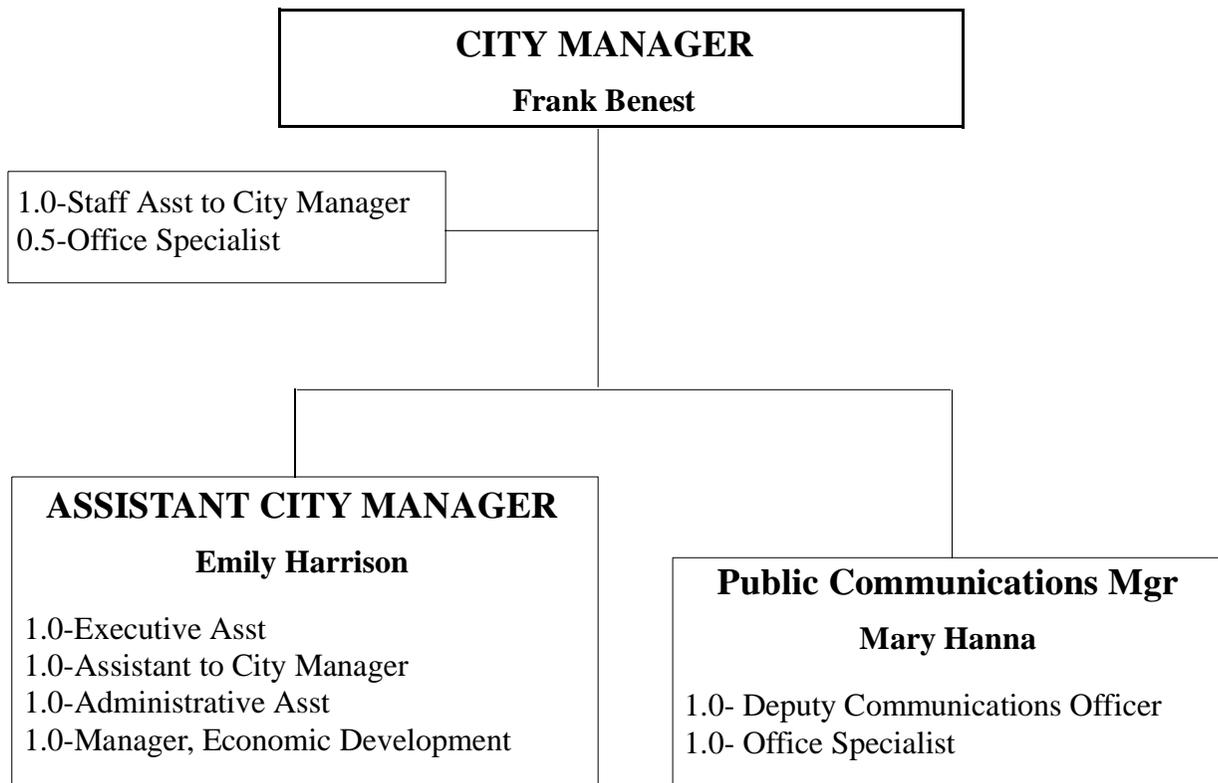


City Manager's Office



City Manager's Office

Organizational Chart



Fiscal Year 2004-05 Position Totals: 10.50 Full-time
0.59 Hourly



City Manager

To provide leadership to the organization in the implementation of City Council policies and priorities and the provision of efficient, quality services to the community.

OVERVIEW

In 2004-05, the City Manager's Office will oversee efforts to implement the Council's top five priorities: City Finances, Infrastructure, Affordable Housing, Land Use Planning, and Alternative Transportation/Traffic Calming. The Office will continue to work on key responsibilities and partnerships with other governmental agencies, neighborhood groups and the business community.

The challenges of the economy and the City budget will be a focus. Organizational restructuring to ensure efficiency given constrained resources will be pursued: examples include opportunities in the areas of reorganizing code enforcement activities and City Auditor's report on management span of control. Implementing the recommendations of the Council Ad Hoc Committee on the Economic Base, especially on auto dealer land use policy, and supporting the Mayor's Retail Committee will be a priority, including continued business outreach. The City Manager's Office will develop recommendations on addressing long-term compensation issues, notably employee and retiree medical benefits. Finally, the Manager's Office will maintain its aggressive legislative advocacy efforts to secure federal and state funds for important infrastructure projects such as libraries, transportation, and sustainability.

The City Manager's Office will continue to provide leadership for rehabilitating the City's infrastructure. In addition to the implementation of the Infrastructure Management Plan, this will include coordinating public/private partnerships such as those proposed for the Junior Museum and Zoo, City libraries, and funding for storm drain rehabilitation.

Public Communications will continue to refine the messages and the media used to be more effective and efficient given limited resources. Current communication strategies include a newsletter, cable television, press releases, web based information, email and public meetings. News will be tailored to the target audiences and will be delivered in the media best suited for dissemination.

COUNCIL PRIORITY IMPLEMENTATION

In 2004-05, the City Manager's Adopted Budget will implement the City Council's Top 5 Priorities as follows:

City Finances

- Continue to monitor revenue and expenses as part of the present economic downturn as well as maintain a steady focus on long-range financial goals.

Infrastructure

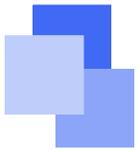
- Oversee implementation of infrastructure renovation and rehabilitation, as well as major new projects.

Affordable Housing

- Pursue options for affordable housing.

Land Use Planning

- Provide oversight for land use planning issues, including the final draft of the housing element and the zoning update.



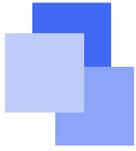
City Manager *continued*

Alternative Transportation/Traffic Calming

- Oversee preparation of Charleston corridor traffic study.

DEPARTMENT SUMMARY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Administration	335,445	325,727	206,619	176,365	(149,362)
City Management	701,228	793,866	815,741	1,030,561	236,695
Public Communication	358,174	369,992	397,287	278,857	(91,135)
Economic Development	297,515	274,686	286,932	313,203	38,517
TOTAL EXPENDITURES	\$1,692,362	\$1,764,271	\$1,706,579	\$1,798,986	\$34,715
TOTAL FULL TIME POSITIONS	11.50	10.50	10.50	10.50	0.00
TOTAL TEMPORARY POSITIONS	0.59	0.59	0.59	0.59	0.00
TOTAL REVENUES	\$388,057	\$423,192	\$423,192	\$431,656	\$8,464
INTERNAL REVENUES	388,012	423,192	423,192	431,656	8,464
EXTERNAL REVENUES	45	0	0	0	0

EXPENDITURES BY CATEGORY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Salaries and Benefits	1,424,640	1,420,798	1,366,606	1,498,197	77,399
Contract Services	137,193	149,300	147,300	147,300	(2,000)
Supplies and Materials	8,848	16,180	16,180	16,180	0
General Expense	55,851	85,296	85,296	85,296	0
Rents and Leases	5,379	5,800	5,800	1,000	(4,800)
Facilities and Equipment Purchases	216	300	300	300	0
Allocated Charges	60,235	86,597	85,097	50,713	(35,884)
TOTAL EXPENDITURES	\$1,692,362	\$1,764,271	\$1,706,579	\$1,798,986	\$34,715



City Manager *continued*

RESOURCE LEVEL CHANGES

	2004-05 ONGOING	2004-05 ONE-TIME	2004-05 TOTAL
REVENUE CHANGES			
Allocated revenues - internal	8,464		8,464
TOTAL REVENUE CHANGES	\$8,464	\$0	\$8,464
EXPENDITURE CHANGES			
Salary and Benefits			
Personnel Benefit Costs (Note 2)	218,108		218,108
Total Salary and Benefits Changes	\$218,108	\$0	\$218,108
Adjustments (Note 1)		(140,709)	(140,709)
NET SALARY AND BENEFITS CHANGES	\$218,108	\$(140,709)	\$77,399
Non-Salary			
Allocated Charges (Note 3)	(40,684)		(40,684)
Total Non-Salary	\$(40,684)	\$0	\$(40,684)
TOTAL EXPENDITURE CHANGES	\$177,424	\$(140,709)	\$36,715
Adjustments (Note 1)		(2,000)	
NET EXPENDITURE CHANGES	\$177,424	\$(142,709)	\$34,715

*This item was included in the 2004-05 adopted-in-concept budget.

RESOURCE LEVEL NOTES

Note 1: Adjustments include prior year one-time revenue and expenditure items that did not carry forward into the Proposed Budget. Other changes are the result of one-time items that were in the 2003-04 mid-year adjustments.

Note 2: The personnel benefit costs have escalated steeply mainly due to health care increases for both current employees and retirees. In addition, workers compensation claims and citywide liability costs have increased.

Note 3: Allocated charges are decreasing primarily due to reduction in Technology Fund operational chargebacks.

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**Administrative Services
Department**



Administrative Services Department

Organizational Chart

ADMINISTRATIVE SERVICES DIRECTOR
Carl Yeats

Administration
1.0-Administrative Assistant
1.5-Sr Financial Analyst
1.0-Sr Business Analyst
1.0-Business Analyst

Budget
1.0-Budget Manager
1.0-Graphic Designer
4.0-Sr Financial Analyst

Real Estate
1.0-Real Property Manager
1.0-Staff Secretary
1.0-Financial Analyst

Assistant Director
Lalo Perez

Deputy Director, CIO
Glenn Loo

Deputy Director
Joe Saccio

Accounting
1.0-Accounting Manager
General Ledger
1.0-Senior Accountant
2.0-Staff Accountants
1.0-Lead Account Specialist
1.5-Account Specialist
Enterprise Fund
1.0-Senior Accountant
1.0-Staff Accountant
1.5-Account Specialist
Accounts Payable
1.0-Senior Accountant
1.0-Lead Account Specialist
3.0-Account Specialist
Payroll
1.0-Senior Accountant
1.0-Staff Accountant
2.0-Payroll Analyst

Purchasing & Contracts
1.0-Manager, Purch/Contr Admin
3.0-Contract Manager
1.0-Lead Account Specialist
2.0-Account Specialist
3.0-Buyer
Printing & Mail Services
1.0-Repro & Mail Supervisor
2.0-Offset Equipment Operator
1.0-Mail Services Specialist

Information Technology
1.0-Staff Secretary
Project Mgmt, Applications
1.0-IT Manager
6.0-Sr Technologist
2.0-Technologist
Infrastructure Services
1.0-IT Manager
5.0-Sr Technologist
3.0-Technologist
1.0-Desktop Technician
Client Services
1.0-IT Manager
3.0-Sr Technologist
3.0-Technologist
4.0-Desktop Technician
1.0-Technician
Info Tech Serv Provider
1.0-IT Manager
5.0-Technologist

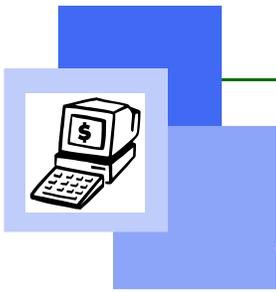
Investment & Debt
1.5-Sr Financial Analyst

Revenue Collections
1.0-Sr Financial Analyst
2.0-Lead Acctg Specialist
6.0-Accounting Specialist

Stores Warehouse
1.0-Warehouse Supervisor
1.0-Storekeeper, Lead
5.0-Storekeeper

Risk Management
1.0-Risk Manager

Fiscal Year 2004-05 Position Totals: 101.0 Full-time
1.55 Hourly



Administrative Services

To provide proactive administrative and technical support to City departments and decision makers, and to safeguard and facilitate the optimal use of City resources.

OVERVIEW

In 2004-05, the Administrative Services Department will focus on the following:

Infrastructure Master Plan: City staff will continue implementation of the Infrastructure Management Plan, known as "CityWorks", utilizing an Infrastructure Management Team. This team is responsible for project definition, prioritization, and management. ASD staff will move all General Fund capital projects to the Capital Projects Fund to facilitate control and analysis of cost. In addition, staff will begin using the SAP system for financial and management reporting.

Revenue Enhancements: Staff is exploring the feasibility of initiating a business license tax (Palo Alto is one of the last remaining cities in California that does not have such a tax), and/or an increase in the current Transient Occupancy Tax (hotel tax) rate of 10 percent by 1-2 percentage points. These new sources of income would generate additional revenue for unfunded infrastructure projects. Given the current economic conditions, implementation of these revenue enhancements must be timed with an improving economy.

Business Process Re-engineering: The Department will continue to concentrate major resources on the SAP implementation. Planned system improvements will focus on improved user friendliness by transitioning to a web-based user interface, improved integration between functions such as budget, payroll, and human resources, and provision of ad-hoc web-based reporting. Other enhancements will include employee self-service functionality, improvements to the timekeeping system to support simplified time tracking, project work-order management, a new collections management software program, e-Procurement tools, and e-Gov capabilities. New Streamlined Purchasing and Accounts Payable workflow processes are being explored for possible implementation in early 2004-05.

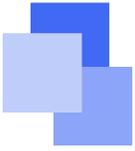
Property Acquisition and Management: The City's relationship with the Palo Alto Unified School District continues to be a priority, as staff negotiates the use of facilities that each party requires for its services. ASD staff will also continue with RFP processes for the Roth Building and the Sea Scout building. The department will also continue to support the City Manager's office in acquiring properties for affordable housing and open space issues.

Financial Reporting: Staff continues to focus on improved financial reporting using the SAP system. To that end, staff will provide quarterly financial reports to the Finance Committee. Accounting staff will be working on the first year-end close using the SAP system. This will require developing new year-end close procedures and processes.

Purchasing Systems: The department will overhaul and streamline the City's purchasing systems, speeding processes, and integrating them more fully into the daily activities of the organization. Staff has made recommendations on how to decentralizing low dollar transactions in order for key staff to better manage contract administration. In addition, the Procurement Card program will be automated to expedite and improve transaction review as well as to expand the program to reduce accounts payable transactions.

Contract Streamlining: ASD staff will incorporate the contract streamlining ideas into processes and training to expedite and more easily track contracts.

Cable Franchising: ASD is charged with managing the contract for the cable franchise between Comcast and the Joint Powers Authority. (The Joint Powers Authority includes the Cities of Palo Alto, East Palo Alto, Menlo Park, and Atherton, as well as portions of San Mateo and Santa Clara counties.) ASD will continue to ensure that Comcast meets the terms of the franchise agreement, monitor complaints from cable customers, collect the franchise fees, and distribute them to Joint Powers Authority members.



Administrative Services *continued*

NEW PROGRAM UPDATE

Long Range Financial Plan: 2005-2015 Long Range Financial Plan and Forecast will be updated and presented to the Finance Committee and Council in the fall of 2004.

COUNCIL PRIORITY IMPLEMENTATION

In 2004-05 the Administrative Services Department will continue to support implementation of the following City Council's top five priorities:

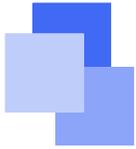
Affordable Housing

- Administration of land acquisition for below-market-rate (BMR) housing
- Review of BMR housing units for resale by the Palo Alto Housing Corporation

City Finances

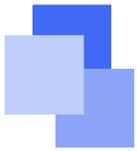
- Conduct a Citywide fee study
- Complete analysis of proposed revenue enhancements
- Update and present Long Range Financial Plan

DEPARTMENT SUMMARY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Administration	1,182,654	1,065,124	920,196	781,395	(283,729)
Accounting	1,674,824	1,735,003	1,816,597	1,927,671	192,668
Purchasing	1,270,054	1,065,729	1,124,562	1,232,187	166,458
Real Estate	540,886	518,240	531,145	559,701	41,461
Treasury	1,018,187	1,447,305	1,497,173	1,427,427	(19,878)
Budget	1,075,892	815,030	854,759	807,961	(7,069)
Information Technology	4,082,309	0	0	0	0
TOTAL EXPENDITURES	\$10,844,806	\$6,646,431	\$6,744,432	\$6,736,342	\$89,911
TOTAL FULL TIME POSITIONS	96.35	55.00	55.00	55.50	0.50
TOTAL TEMPORARY POSITIONS	1.17	1.55	1.55	1.55	0.00
TOTAL REVENUES	\$5,702,697	\$3,392,633	\$3,390,633	\$3,457,883	\$65,250
INTERNAL REVENUES	5,676,054	3,362,513	3,362,513	3,429,763	67,250
EXTERNAL REVENUES	26,643	30,120	28,120	28,120	(2,000)



Administrative Services *continued*

EXPENDITURES BY CATEGORY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Salaries and Benefits	9,277,354	5,361,618	5,498,474	5,680,996	319,378
Contract Services	738,494	449,833	415,633	426,633	(23,200)
Supplies and Materials	141,846	76,394	71,639	81,639	5,245
General Expense	109,400	199,512	195,312	195,312	(4,200)
Rents and Leases	28,386	12,800	12,800	0	(12,800)
Facilities and Equipment Purchases	19,247	10,000	10,000	10,000	0
Allocated Charges	530,079	536,274	540,574	341,762	(194,512)
TOTAL EXPENDITURES	\$10,844,806	\$6,646,431	\$6,744,432	\$6,736,342	\$89,911



Administrative Services *continued*

RESOURCE LEVEL CHANGES

	2004-05 ONGOING	2004-05 ONE-TIME	2004-05 TOTAL
REVENUE CHANGES			
Allocated revenue -internal	67,250		67,250
TOTAL REVENUE CHANGES	\$67,250	\$0	\$67,250
Adjustments (Note 1)	(2,000)		(2,000)
NET REVENUE CHANGES	\$65,250	\$0	\$65,250
EXPENDITURE CHANGES			
Salary and Benefits			
Reclassification from Sr. Financial Analyst to Business Analyst	5,523		5,523
Reclassification from Business Analyst to Sr. Business Analyst	9,004		9,004
Shift of Accounting Specialists from Fire to ASD	73,337		73,337
Personnel Benefit Costs (Note 2)	440,040		440,040
Total Salary and Benefits Changes	\$527,904	\$0	\$527,904
Adjustments (Note 1)		(208,526)	(208,526)
NET SALARY AND BENEFITS CHANGES	\$527,904	\$(208,526)	\$319,378
Non-Salary			
Reduction in Contract Services *	(18,000)		(18,000)
Reduction in Program & Proj Consultants *	(15,000)		(15,000)
Reduction in Office Supplies *	(3,000)		(3,000)
Reduction in General Expense *	(3,355)		(3,355)
Assessment from Financial Accounting Foundation	1,500		1,500
Consulting Services for SB90 reimbursement from the State of California	15,700		15,700
Allocated Charges (Note 3)	(207,312)		(207,312)
Total non-salary	\$(229,467)	\$0	\$(229,467)
TOTAL EXPENDITURE CHANGES	\$298,437	\$(208,526)	\$89,911

*This item was included in the 2004-05 adopted-in-concept budget.

RESOURCE LEVEL NOTES

Note 1: Adjustments include prior year one-time revenue and expenditure items that did not carry forward into the Proposed Budget. Other changes are the result of one-time items that were in the 2002-03 mid-year adjustments.

Note 2: The personnel benefit costs have escalated steeply during the last two years mainly due to health care increases for both current employees and retirees. In addition, workers compensation and citywide liability costs have increased.

Note 3: Allocated charges are decreasing primarily due to reduction in Technology Fund operational chargeback.



**Community Services
Department**

Community Services Department

Organizational Chart



COMMUNITY SERVICES DIRECTOR

Richard James

CUBBERLEY CENTER

- 1.0-Program Asst
- 1.0-Office Specialist
- 2.0-Building Serviceperson, Lead
- 3.0-Building Serviceperson

ADMINISTRATION

- 1.0-Administrative Assistant

HUMAN SERVICES

1.0-Director, Human Services

- 1.0-Management Asst
- 1.0-Staff Secretary
- 1.0-Coordinator, Child Care
- 1.0-Coordinator, Recreation Program

RECREATION, OPEN SPACE, AND SCIENCES

ADMINISTRATION

1.0-Director, Recreation, Open Space/Science

- 1.0-Supervisor, Recreation Programs
- 1.0-Staff Secretary
- 1.5-Office Specialist

RECREATION

1.0-Administrator, Special Events

- 2.0-Coordinator, Recreation Programs
- 1.0-Executive Asst
- 1.0-Supervisor, Recreation
- 5.0-Supervisor, Recreation Programs
- 2.0-Office Specialist
- 1.0-Building Service Person
- 0.75-Program Asst

OPEN SPACE AND SCIENCES

1.0-Superintendent, Open Space & Sciences

- 1.0-Supervisor, Open Space
- 1.0-Senior Ranger
- 4.0-Prod Arts/Science Program
- 5.0-Park Ranger
- 1.0-Supv Jr Museum
- 1.0-Office Specialist
- 0.75-Parks/Open Space Asst

ARTS & CULTURE

ADMINISTRATION

1.0- Director, Arts & Culture

- 1.0- Staff Secretary

ART CENTER

1.0- Manager, Arts

- 4.5- Prod Arts
- 2.0- Program Asst
- 1.0- Office Specialist
- 0.75-Volunteer Coordinator
- 0.5- Facilities Asst

CHILDREN'S THEATRE

1.0- Manager, Arts

- 1.0-Theatre Specialist
- 2.0-Program Asst
- 2.0-Producer Arts

GOLF & PARKS

ADMINISTRATION

1.0-Director, Parks & Golf Course

- 1.0-Staff Secretary
- 0.5-Administrative Asst (hrly)

GOLF

1.0-Superintendent, Golf Course

- 1.0-Supervisor, Golf Course
- 6.0-Golf Maintenance
- 1.0-GC Equip Mechanic
- 1.0-Sprinkler System Repair Person

PARKS

ADMINISTRATION

1.0-Park Superintendent

CITY PARKS & FACILITIES

1.0-Supervisor, Parks

- 2.0-Inspector, Field Services
- 2.0-Sprinkler System Repair
- 1.0-Parks Crew Lead
- 5.0-Parks Maintenance Person

ATHLETIC FIELD MAINTENANCE PROGRAM

1.0-Supervisor, Parks

- 1.0-GC Equip Mechanic
- 1.0-Parks Crew, Lead
- 2.0-Sprinkler System Repair Person
- 6.0-Park Maintenance Person

Fiscal Year 2004-05 Position Totals:

99.75 Full-time
1.00 Program Asst (frozen)
50.37 Hourly



Community Services

To kindle the passion for life through increased knowledge, artistic expression, physical activity, social help and enjoyment of the outdoors.

OVERVIEW

The Community Services Department (CSD) will provide the services and programs summarized below to the citizens of Palo Alto:

Arts and Culture Division

The Arts and Culture division will continue to support the efforts of the Palo Alto Art Center Foundation in their fundraising efforts to expand the Art Center facility. The Children's Theatre will foster a continuing program with Music Theatre International of New York to develop new theatre materials for young performers and will plan and produce plays and camps, which introduce young people to other cultures. The division will continue to implement the new studio space selection system for artists at the Cubberley Community Center.

Golf and Parks Division

The Parks Division and the CSD CityWorks team has planned capital projects to include phase two of the Mitchell Park improvement plan, El Camino Real and San Antonio median renovations, Baylands Athletic Center turf, irrigation and lighting renovations, and renovations at Cameron, Mayfield, Monroe, and Weisshaar Parks.

The Golf Division will continue to aggressively market golf business operations through continued tenant coordination, enhanced customer service training, and the updating of the golf course business plan.

Human Services / Cubberley Community Center

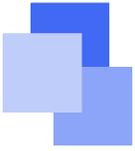
The Human Services Division will focus on sustaining the Human Services Resource Allocation Process (HSRAP) and working with the community's non-profit agencies to secure the funding needed to maintain the safety net of services. Human Services Division will jointly be exploring new revenue opportunities for the Family Resources Program and new services and funding for the City of Palo Alto's chronic homeless population with the cities of Mountain View, Los Altos, and Menlo Park. Human Services will continue managing the Seasonal Employment Training program.

In 2004-05 the Human Services director will also take on the role of Cubberley manager, thereby allowing elimination of a Community Services management position. Cubberley staff and Human Services staff will be cross-trained in order to maintain the high level of customer service for Cubberley tenants and renters, while maintaining all of the functions of Human Services

Recreation, Open Space and Sciences

Open Space operations will continue rebuilding aging infrastructure by improving picnic areas at Foothills Park, parking lots at the Baylands Nature Preserve, fixing trail tread and drainage problems on trails in the Arastradero Preserve, improving the water quality of the Palo Alto duck pond and Boronda Lake, and by restoring degraded habitat areas. Using funds garnered from various grant sources, these infrastructure projects will greatly enhance the safety and enjoyment of facilities while significantly reducing a number of erosion problems and damage caused by unfiltered run-off water from roads and parking lots.

Customer satisfaction with science classes, camps and nature programs will continue to be a priority. Staff will gather feedback from participants about programs and services to determine how we can best serve our residents and customers. On-line reservations for group picnic areas and campgrounds at Foothills Park will be designed to make arrangements for customers more simple and convenient.



Community Services *continued*

The Junior Museum and Zoo will partner with the Friends of the Junior Museum and Zoo to explore funding options to design architectural plans for an enhanced Junior Museum and Zoo building. This public-private partnership will provide necessary future funds to significantly improve the Museum beyond the seismic and mechanical improvements identified in the City's infrastructure program. The Junior Museum and Zoo will continue to place a priority on providing fee-based, high quality, in demand science classes, outreach and camps.

Recreation services will focus efforts on youth and teen programming as it relates to the Youth Master Plan. Collaborative programming efforts between the City and other youth serving agencies will also be a priority in order to continue quality of service targeting all age groups. Continued effort will be placed upon efficient marketing of new and existing programs and classes with an emphasis upon customer service and satisfaction measured through survey and evaluation. Perfecting the newly implemented on-line, Internet based registration system will facilitate a more efficient registration process with a desired outcome of customers finding our service courteous, responsive, and more user friendly.

Open Space operations will use its resources to support the fundraising efforts towards the purchase of the 13 acre Bressler property, which will complete the Arastradero Preserve.

NEW PROGRAM UPDATE

The department has accomplished the following in new program implementation:

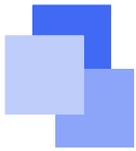
- 27 CityWorks infrastructure projects have begun or have been completed including substantial improvements to Mitchell, Seale, Werry, Robles and Bol parks. Improvements were also made in many of our open space areas including Foothill Park, Arastradero Preserve and Baylands trails and parking lots.
- Internet class registration, where customers can register for classes and workshops twenty-four hours a day, seven days a week, from the comfort of their home or at any City library.
- Point of sale cash handling that coordinates and computerizes all cash, check and credit card transactions into a central location.

COUNCIL PRIORITY IMPLEMENTATION

The 2004-05 Community Service's Proposed Budget will implement the City's top five priorities as follows:

Infrastructure:

- Complete Phase II of the Mitchell Park Improvement Project (\$900,000).
- Complete park renovations at Briones, Monroe, Weisshaar, Cameron and Mayfield Parks.
- Continue staff work on community facility expansion and/or infrastructure replacement projects at the Children's Library, Art Center, Mitchell Park Library and Mitchell Park Community Center.
- Replace irrigation systems at five PAUSD elementary school athletic fields (\$250,000).
- Replace electrical systems, lighting and infrastructure at the Baylands Athletic Field (\$220,000).
- Continue the replacement of parking lots at Baylands locations (\$220,000).
- Commence San Antonio Road median and traffic island landscape improvement project (\$312,000).
- Continue with Phase II El Camino Real landscape improvement project.
- Continue trail restoration work at Foothills Park and Arastradero Preserve (\$252,000).



Community Services *continued*

- Complete construction of the interim SOFA Park.
- Partner with Stanford in site design and construction of the athletic fields on the Mayfield site.
- Identify and secure funding for the purchase of the Bressler property.

Land-Use Planning

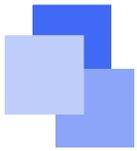
Continue to support the field-use task force in finding additional playing fields for Palo Alto's youth.

City Finances

Community Services has begun an organizational restructuring process. In 2003-04, two senior management positions were eliminated upon retirements and the department, through internal restructuring, continues to maintain service levels. In 2004-05, restructuring will continue with two additional retirements. Total savings of all restructuring efforts will be in excess of \$400,000.

DEPARTMENT SUMMARY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Administration	1,108,024	1,521,816	1,566,483	614,376	(907,440)
Cubberley Community Center	1,448,845	1,363,397	1,423,837	1,403,866	40,469
Arts & Culture	2,770,115	2,818,512	2,773,899	2,947,796	129,284
Parks & Golf Course	5,708,413	6,071,572	6,253,572	6,138,641	67,069
Human Services	1,962,797	1,875,789	1,896,656	1,870,422	(5,367)
Recreation, Open Space & Science Services	5,884,908	6,306,009	6,490,290	6,642,673	336,664
TOTAL EXPENDITURES	\$18,883,102	\$19,957,095	\$20,404,737	\$19,617,774	\$(339,321)
TOTAL FULL TIME POSITIONS	153.00	143.75	144.75	99.75	(44.00)
TOTAL TEMPORARY POSITIONS	48.18	51.31	48.73	50.37	(0.94)
TOTAL REVENUES	\$6,619,768	\$6,452,869	\$6,547,518	\$6,677,793	\$224,924
INTERNAL REVENUES	90,401	32,910	32,910	32,910	0
EXTERNAL REVENUES	6,529,367	6,419,959	6,514,608	6,644,883	224,924

EXPENDITURES BY CATEGORY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Salaries and Benefits	10,337,926	10,748,539	11,260,615	11,157,783	409,244
Contract Services	3,293,958	3,152,329	2,901,451	2,996,777	(155,552)
Supplies and Materials	713,942	882,172	856,800	802,106	(80,066)
General Expense	1,560,987	1,563,341	1,562,341	1,608,763	45,422
Rents and Leases	74,737	45,028	45,028	8,969	(36,059)
Facilities and Equipment Purchases	86,590	78,590	88,415	88,415	9,825
Allocated Charges	2,814,962	3,487,096	3,690,087	2,954,961	(532,135)
TOTAL EXPENDITURES	\$18,883,102	\$19,957,095	\$20,404,737	\$19,617,774	\$(339,321)

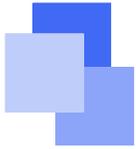


Community Services *continued*

RESOURCE LEVEL CHANGES

	2004-05 ONGOING	2004-05 ONE-TIME	2004-05 TOTAL
REVENUE CHANGES			
Arts			
Increase in class fees *	6,000		6,000
Revenue increase to offset additional hourly staffing Children's Theatre *		25,182	25,182
Alignment of class revenue budget with actuals	133,200		133,200
Donations for Summer Twilight Series concerts		25,000	25,000
Golf			
Green fee revenue increase to projections *	55,000		55,000
Monthly play card revenue increase to projections *	6,000		6,000
Parks			
PAUSD field maintenance revenue reduction from reduced service levels *	(22,500)		(22,500)
Open Space			
Junior museum camp revenue	16,675		16,675
Recreation			
Fee increases for new high-demand program offerings; new enrollment expected from marketing strategies *	80,000		80,000
Field rental fee increase *	10,000		10,000
Beverage concession sales *	5,000		5,000
TOTAL REVENUE CHANGES	\$289,375	\$50,182	\$339,557
Adjustments (Note1)	(89,451)	(25,182)	(114,633)
NET REVENUE CHANGES	\$199,924	\$25,000	\$224,924
EXPENDITURE CHANGES			
Salary and Benefits			
Administration			
Eliminate 0.3 FTE hourly staff related to custodial services *	(11,276)		(11,276)
Eliminate 1.0 FTE Deputy Director position	(137,621)		(137,621)
Arts			
Freeze salary and benefits for 1.0 FTE Program Assistant *		(77,177)	(77,177)
Eliminate 0.17 FTE hourly staff *	(6,390)		(6,390)
Increase 0.67 FTE hourly staff in support of Children's Theatre operations (offset with revenue) *		25,182	25,182
Cubberley			
Eliminate 1.0 FTE Manager, Community Services Facilities	(109,333)		(109,333)
Golf			
Decrease 0.65 FTE hourly staff	(25,000)		(25,000)

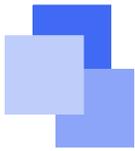
*This item was included in the 2004-05 adopted-in-concept budget.



Community Services *continued*

	2004-05 ONGOING	2004-05 ONE-TIME	2004-05 TOTAL
Parks			
Increase 0.46 FTE hourly staffing to undertake tennis court cleaning that was previously contracted out (projected annual savings of \$34,000) *	17,289		17,289
Recreation			
Decrease 0.41 hourly FTE *	(15,410)		(15,410)
Total Salary and Benefits Changes	\$(287,741)	\$(51,995)	\$(339,736)
Personnel Benefit Costs (Note 2)	574,180		574,180
Adjustments (Note1)	(10,500)	210,317	199,817
Total Net Salary and Benefits Changes	\$275,939	\$158,322	\$434,261
Non-Salary			
Administration			
Decrease funding for Enjoy catalog photography and other department marketing services *	(2,000)		(2,000)
Decrease funding for department-wide staff trainings and meetings *	(2,000)		(2,000)
Decrease funding for department volunteer recognition and support *	(1,000)		(1,000)
Arts			
Defer maintenance of the outdoor collection of Public Art *		(5,000)	(5,000)
Decrease commission expense *	(2,500)		(2,500)
Newsletter reduction *	(3,000)		(3,000)
Eliminate City funding for the Summer Brown Bag concerts	(7,000)		(7,000)
Eliminate annual volunteer recognition activity *	(900)		(900)
Decrease adult music and dance class *	(3,000)		(3,000)
Increase in class budget will align budget with actuals (offset with revenues)	103,500		103,500
Summer Twilight Series expense (offset with revenue)		18,000	18,000
Cubberley			
Decrease scope of annual track and softball infield renovation work by 50% *	(8,664)		(8,664)
Decrease the scope of the annual turf renovation *	(7,422)		(7,422)
Decrease budget for the improvement of non-landscaped areas, irrigation, and the replacement of plants and trees *	(3,472)		(3,472)
Golf			
Decrease Supplies and Materials costs to offset other expense increases	(60,000)		(60,000)
Human Services			
Decrease Seasonal Workers Program budget *	(6,792)		(6,792)
One-time increase to fund Adolescent Counseling Services and Urban Ministry		40,000	40,000

*This item was included in the 2004-05 adopted-in-concept budget.



Community Services *continued*

	2004-05 ONGOING	2004-05 ONE-TIME	2004-05 TOTAL
Parks			
Defer tennis court resurfacing *	(20,000)		(20,000)
Defer PAUSD tennis court resurfacing at Jordan and Gunn High schools *	(20,000)		(20,000)
Decrease park and grounds maintenance *	(42,000)		(42,000)
Decrease miscellaneous contract work *	(9,000)		(9,000)
Decrease field supply and materials *	(15,000)		(15,000)
Contract landscape maintenance for SOFA park	13,000		13,000
Irrigation and maintenance materials for SOFA park	1,300		1,300
Recreation			
Elimination of contract services associated with the elimination of all events except May Fete Parade and Chili Cook-Off *	(13,500)		(13,500)
Open Space			
Junior museum camp expense (offset with revenue)	14,500		14,500
Total Non-Salary Changes	\$(94,950)	\$53,000	\$(41,950)
TOTAL EXPENDITURE CHANGES	\$180,989	\$211,322	\$392,311
Adjustments (Note 1)	(208,671)		(208,671)
Allocated charges (Note 3)	(522,961)		(522,961)
NET EXPENDITURE CHANGES	\$(550,643)	\$211,322	\$(339,321)

*This item was included in the 2004-05 adopted-in-concept budget.

RESOURCE LEVEL NOTES

Note 1: Adjustments include prior one-time revenues and expenditure items that did not carry forward into the Adopted Budget. Other changes are the result of one-time items that were in the 2003-04 mid year adjustment.

Note 2: The personnel benefits costs have escalated steeply during the last year mainly due to health care increases for both current employees and retirees. In addition, workers compensation and citywide liability costs have increased.

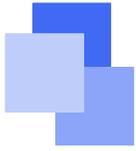
Note 3: Allocated charges are decreasing primarily due to reduction in Technology Fund operational chargebacks.

SERVICE LEVEL CHANGES

Due to the economic environment and recommended budget reductions, service level decreases within the Community Services Department are as follows:

Department-wide

- 50 percent reduction of support funding for all CSD commissions. Examples are travel, meals, clerical support, etc.
- 30 percent reduction in hourly custodial support for library and arts facilities. Facilities will not remain as clean during open hours.



Community Services *continued*

Arts and Culture Division

- The amount of funding to purchase public art will be reduced by 9 percent in 2004-05.
- One time deferral of outdoor public art maintenance in the amount of \$5,000.
- The Brown Bag and Twilight summer concerts will occur only if outside funding sources can be secured.

Cubberley Community Center

- Tennis court cleaning, building and ground repairs, and landscape replacement is reduced. Building and grounds may not look as well maintained.
- The turf renovation contract will be reduced. Lawns will get cut on a reduced schedule and user groups may be required to perform some minor field maintenance like field striping.

Parks Operation

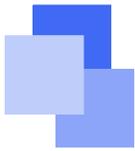
- Tennis court resurfacing for City and PAUSD courts will be delayed for two years.
- Irrigation of parks and fields will be reduced by 10 percent. The actual service level reduction will be based on future weather patterns.

Human Services Division

- HSRAP will not receive a CPI adjustment for HSRAP agencies in 2004-05.
- The seasonal workers program is cut by 50 percent over two years (decreasing from ten to five participants per session.)

Open Space Operations

- Free naturalists hikes at Foothills Park and the Baylands will be eliminated.
- A City subsidy will no longer be provided for Jr. Museum science outreach classes that are funded by the school district. The City will continue to provide outreach, but only at the level the school district pays for.
- The open space maintenance contract will be eliminated. Rangers will perform maintenance on a less frequent basis. Trails may degrade at certain times of year due to weather and use factors and more poison oak may be present along trail sides.

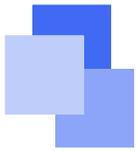


Community Services *continued*

HUMAN SERVICE CONTRACTS

EXPENDITURE CATEGORY	ADOPTED BUDGET 2003-04	AGENCY REQUESTS 2004-05	ADOPTED BUDGET 2004-05		
			ONGOING	ONE-TIME	TOTAL
Sole Source Contractors					
Avenidas - Senior Services (1)	434,708	452,821	434,708		434,708
PACCC - Child Care Subsidy and Outreach (1)	435,512	444,400	435,512		435,512
Second Harvest Food Bank - Operation Brown Bag (1)	7,157	7,962	7,157		7,157
Project Sentinel - Palo Alto Mediation Program (1)	65,641	68,376	65,641		65,641
Sole Source Contractors Subtotal	943,018	973,559	943,018		943,018
HUMAN RESOURCE ALLOCATION PROCESS					
Two-Year Contractors					
Adolescent Counseling Services	91,879	126,117	91,879	15,000	106,879
Alliance for Community Care - Homeless Outreach	24,706	43,463	24,706		24,706
Clara Mateo Alliance - Elsa Segoviz Center	18,125	25,000	18,125		18,125
Community Assoc. for Rehabilitation - Disabilities Services	42,354	45,985	42,354		42,354
Community Technology Alliance- Subsidized Housing Web-site	13,853	15,000	13,853		13,853
La Comida - Senior Nutrition	33,700	35,064	33,700	-	33,700
MayView Health Center - Health Care Food Bank for low-income	18,942	21,000	18,942		18,942
Peninsula Center for Blind & Visually Impaired	8,975	12,340	8,975		8,975
Senior Adult Legal Assistance	8,528	8,800	8,528		8,528
Social Advocates for Youth-Safe Place Program	8,166	8,000	8,166		8,166
Support Network for Battered Women	18,412	25,000	18,412		18,412
Inn Vision -Urban Ministry of Palo Alto - Hot Meal Program	35,971	60,000	35,971	25,000	60,971
Bay Area Community Resources/ Youth Community Service	12,224	25,000	12,224	.	12,224
Two-Year Contractors Subtotal	335,835	450,769	335,835	40,000	375,835
TOTAL	\$1,278,853	\$1,424,328	\$1,278,853	\$40,000	\$1,318,853

(1) Not part of the Human Services Resource Allocation Process



Community Services *continued*

GOLF COURSE FINANCIAL SUMMARY

	2001-02 ACTUALS	2002-03 ACTUALS	2003-04 PROJECTED	2004-05 ADOPTED BUDGET
Revenues				
Tournament fees	\$3,040	\$2,204	\$3,200	\$3,200
Green Fees	2,180,219	2,108,186	2,157,300	2,212,300
Monthly play cards	104,173	149,773	141,500	147,500
Driving range	434,225	404,347	404,080	404,080
Cart/club rentals	274,450	279,036	242,000	242,000
Proshop lease	12,243	3,116	36,000	36,000
Restaurant lease	49,709	48,376	50,000	50,000
Coffee Shop Utilities	21,600	25,920	22,000	22,000
Interest Income - Debt Service	44,000	48,535	40,000	38,000
TOTAL REVENUE	\$3,123,659	\$3,069,493	\$3,096,080	\$3,155,080
Expenditures				
Debt Expenses				
Debt Service	703,316	702,116	553,616	557,516
Closure of Debt Service Project Fund	(102,008)	(42,500)	(192,000)	
Subtotal	601,308	659,616	361,616	557,516
Operating Expenses				
Salaries	575,245	550,466	598,199	674,458
Benefits	311,210	323,696	362,671	263,020
Miscellaneous				
Supplies and Materials	144,539	142,789	220,583	160,583
General Expense	2,884	995	995	1,950
Rents and Leases	4,730	3,351	3,400	300
Facil and Equip. Purchases	18,177	2,698	10,070	10,070
Allocated Charges (1)	343,735	387,542	430,314	546,212
Cost Plan	276,290	295,153	297,888	317,172
Subtotal	1,676,810	1,706,690	1,924,120	1,973,765
Contract Services				
Miscellaneous	186,380	74,716	109,361	72,830
Range fees	173,690	161,739	161,632	161,500
Cart rentals	100,979	101,899	88,200	88,200
Club rentals	8,818	8,685	9,000	9,000
Fixed management fees	371,674	371,674	290,000	290,000
Subtotal	841,541	718,713	658,193	621,530
TOTAL EXPENSES	\$3,119,659	\$3,085,019	\$2,943,929	\$3,152,811
Annual Net	\$4,000	\$(15,526)	\$152,151	\$2,269

(1) Allocated expenses are increasing due to higher vehicle replacement, vehicle maintenance, utilities, and IT support costs.

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Fire Department



Fire Department Organizational Chart

FIRE CHIEF

Ruben Grijalva

1.0-Administrative Assistant

Emergency Response

1.0- Deputy Fire Chief EMT
4.0-Battalion Chief
1.0-Chief Officer-Emergency Operations
1.0-EMS Coordinator
30.0-Fire Apparatus Operator
27.0-Fire Captain
45.0-Fire Fighter
3.0-EMT Basic
2.0-Office Specialist

Environmental & Safety Management

1.0- Deputy Fire Chief, EMT
1.0-Coordinator, Environ Protect
2.0-Fire Inspector
2.0-Hazardous Materials Inspector
1.0- Hazardous Materials Specialist
1.0-Office Specialist

Training & Personnel Management

1.0-Deputy Fire Chief
1.0-Executive Assistant
1.0-Training Captain
1.0-Office Specialist

Fiscal Year 2004-05 Position Totals: 128.00 Full-time
0.75 Hourly



Fire

To protect life, property and the environment from the perils of fire, hazardous materials, and other disasters through rapid emergency response, proactive code enforcement, modern fire prevention methods, and progressive public safety education for the benefit of the community.

OVERVIEW

In spite of budget reductions and various programmatic impacts, critical services will be maintained in 2004-05. Confined space rescue training for Fire, Public Works and Utilities Departments will continue to be provided, and as necessary, to private industry for a fee. The department will also continue to evaluate opportunities for outsourcing Fire Department services to neighboring jurisdictions and will continue to prepare City staff and the community in mitigation, preparedness, response, and recovery from major disasters at a reduced level of service.

The department has completed its first full year of participation in an on-line training program specifically geared at OSHA-mandated training topics and periodic delivery to department personnel. The department is also participating in the Santa Clara County Fire Training Officers' Fire Officer Academy and currently has 8 personnel (Acting Captains and Captains) in the Academy. The Academy provides training in supervisory and managerial topics focused on the needs of a company officer/first-line supervisor. Seven PAFD personnel completed the last academy. Palo Alto will continue to send 7-8 personnel to each Academy.

The Fire Prevention Bureau will focus on improving efficiency through the implementation of new data management systems and streamlining inspection practices.

NEW PROGRAM UPDATE

Paramedics On Engine Companies

An Advance Life Support (ALS) engine pilot program was undertaken and proved to be successful in enhancing levels of service on medical emergencies and augmenting the existing ALS ambulance program. In January 2004, three (3) additional engine companies were equipped and staffed with 9 paramedics (one per shift) as ALS capable. In 2004-05 the department plans to staff two more engine companies with ALS capability for a total of seven (7) ALS engines.

Basic Life Support (BLS) Ambulance Service

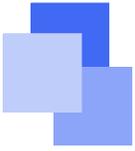
In January 2004, the BLS ambulance went into service for inter-facility transport of patients. The inter-facility transport program will be evaluated for calendar year 2004 to determine its cost and service effectiveness. The department will evaluate expanding the scope of service for the BLS ambulance to include BLS downgrades (transport of BLS level patients who were evaluated by ALS paramedics but did not necessarily require transport by an ALS unit). This transition is anticipated to generate additional revenues for patient transport.

Confined Space Rescue Program

The department continues to provide confined space awareness/entry and rescue training for Fire, Public Works, and Utilities Departments. Similar classes are being offered to industry on a fee basis with four classes taught in 2002-03 to two different companies for total revenue of \$4,100. Brochures have been developed and distributed to industry and posted on the Internet. Facilities requiring confined space permits are being identified and contacted.

Leadership Training Program

The department's "Career Handbook" has been revised to reflect current positions, responsibilities, class work for promotions, etc. The department also participates on a countywide committee that has redesigned a Fire Officer



Fire *continued*

Academy program that provides monthly management/supervisory classes for first-line supervisors in the fire service.

Office of Emergency Services Activities

Disaster kits are offered for sale and are now available on the Internet. A continuing education program is ongoing for Palo Alto Neighborhood Disaster Activity (PANDA) graduates and continues to be offered through the Office of Emergency Services.

Fire Department Store

The department began selling memorabilia such as shirts and hats in 2002-03. The store has been added to the department's Internet site so items can now be purchased online.

Sustainability Plan Development

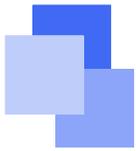
The department completed work with the City Manager's office to complete the first-ever sustainability inventory - a tool that will help the City measure its success in becoming a more sustainable community. This inventory was provided to Council and has been posted on the Internet. In cooperation with other departments, a Sustainability web site has been developed and is now available for use.

Hazardous Materials/Hazardous Waste Permit Fees Consolidation

The department completed the incorporation of Santa Clara County Environmental Health and State of California fees and charges for hazardous materials and hazardous waste-related programs with the department's annual permitting process as required by state law and an agreement with the County. The department will coordinate with other city departments in 2004-05 to improve the automation of the process.

Electronic Reporting of Hazardous Materials (New)

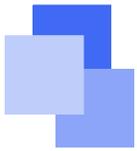
A new online process for collecting required hazardous materials inventories and associated information has been developed in coordination with Santa Clara County Chiefs, Santa Clara County Environmental Health, Palo Alto Chamber of Commerce' Environmental Health & Safety Forum and the Silicon Valley Manufacturing Group. In 2003-04 the system was operational so that facility information and chemical inventories were electronically available to the hazardous materials response unit, Rescue 2. In 2004-05 the department will provide training classes to familiarize all department and communications staff with the system. When fully operational in 2004-05, facility information and chemical inventories will be electronically available to emergency responders. The department is working with state agencies to seek funding to promote this process for use by other local agencies and industry in California and to further enhance it's benefits to the City and local industry.



Fire *continued*

DEPARTMENT SUMMARY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Fire Administration	980,832	1,290,212	1,283,847	701,681	(588,531)
Emergency Response	11,816,031	12,985,753	14,146,752	13,453,795	468,042
Environmental Safety Management	1,548,037	1,842,429	1,981,301	1,937,970	95,541
Training & Personnel	2,274,767	1,830,921	1,988,965	1,842,661	11,740
Records & Information Management	1,491,123	852,502	919,245	901,013	48,511
TOTAL EXPENDITURES	\$18,110,790	\$18,801,817	\$20,320,110	\$18,837,120	\$35,303
TOTAL FULL TIME POSITIONS	132.50	128.50	128.50	128.00	(0.50)
TOTAL TEMPORARY POSITIONS	0.75	0.75	0.75	0.75	0.00
TOTAL REVENUES	\$7,981,779	\$8,999,095	\$9,215,494	\$9,170,279	\$171,184
INTERNAL REVENUES	159,521	299,365	299,365	299,365	0
EXTERNAL REVENUES	7,822,258	8,699,730	8,916,129	8,870,914	171,184

EXPENDITURES BY CATEGORY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Salaries and Benefits	16,180,088	15,990,997	17,508,181	16,603,019	612,022
Contract Services	236,812	477,689	484,368	468,589	(9,100)
Supplies and Materials	269,980	320,619	313,940	320,619	0
General Expense	36,815	37,975	35,975	37,975	0
Rents and Leases	12,517	12,496	12,496	0	(12,496)
Facilities and Equipment Purchases	105,489	224,943	224,943	224,943	0
Allocated Charges	1,269,089	1,737,098	1,740,207	1,181,975	(555,123)
TOTAL EXPENDITURES	\$18,110,790	\$18,801,817	\$20,320,110	\$18,837,120	\$35,303



Fire *continued*

RESOURCE LEVEL CHANGES

	2004-05 ONGOING	2004-05 ONE-TIME	2004-05 TOTAL
REVENUE CHANGES			
SLAC fire services reimbursement	30,000		30,000
Stanford fire services *	157,110		157,110
Plan check fee increase	26,925		26,925
Paramedic service fee	46,364		46,364
EPA readiness grant		14,000	14,000
Fire Permit Fee	(89,215)		(89,215)
TOTAL REVENUE CHANGES	\$171,184	\$14,000	\$185,184
Adjustments (Note 1)		(14,000)	(14,000)
NET REVENUE CHANGES	\$171,184	\$0	\$171,184
EXPENDITURE CHANGES			
Salary and Benefits			
Add EMS Medical Services Coordinator	127,500		127,500
Add 3 Firefighter Paramedic EMT, Drop 3 Fire Captian Paramedic	(90,342)		(90,342)
Elimination of 0.5 FTE Office Specialist	(34,985)		(34,985)
Personnel Benefit Costs (Note 2)	609,848		609,848
Total Salary and Benefits Changes	\$612,021		\$612,021
Non-Salary			
Contract services	(9,100)		(9,100)
Allocated Charges (Note 3)	(567,618)		(567,618)
Total Non-Salary Changes	\$(576,718)		\$(576,718)
TOTAL EXPENDITURE CHANGES	\$35,303		\$35,303

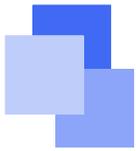
*This item was included in the 2004-05 adopted-in-concept budget.

RESOURCE LEVEL NOTES

Note 1: Adjustments include prior year one-time revenue and expenditure items that did not carry forward into the Proposed Budget. Other changes are the result of one-time items that were in the 2003-04 mid-year adjustments.

Note 2: The personnel benefits costs have escalated steeply during the last two years mainly due to health care increases for both current employees and retirees. In addition, workers compensation and citywide liability costs have increased.

Note 3: Allocated Charges are decreasing primarily due to reduction in non-salary expenses.

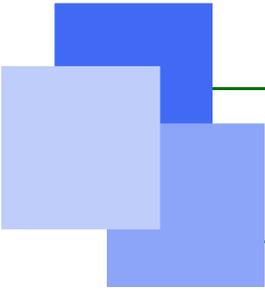


Fire *continued*

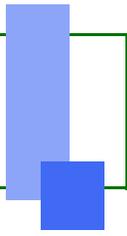
SERVICE LEVEL CHANGES

The Office of Emergency Services has continued to conduct PANDA classes and take a lead role in disaster/emergency preparedness activities for the City. The Disaster Coordinator is the chairperson for the Training Sub-Committee of the Emergency Planning Working Group and was active in planning the October 2003 City-wide exercise. She will begin working with all departments to determine what type of internal emergency preparedness training is needed and will work to bring all departments together to begin planning the next City-wide exercise. Two firefighters have been trained to assist with the teaching of the PANDA classes. Various volunteers and PANDA's have been active in inventorying the PANDA trailers and updating supplies in those units.

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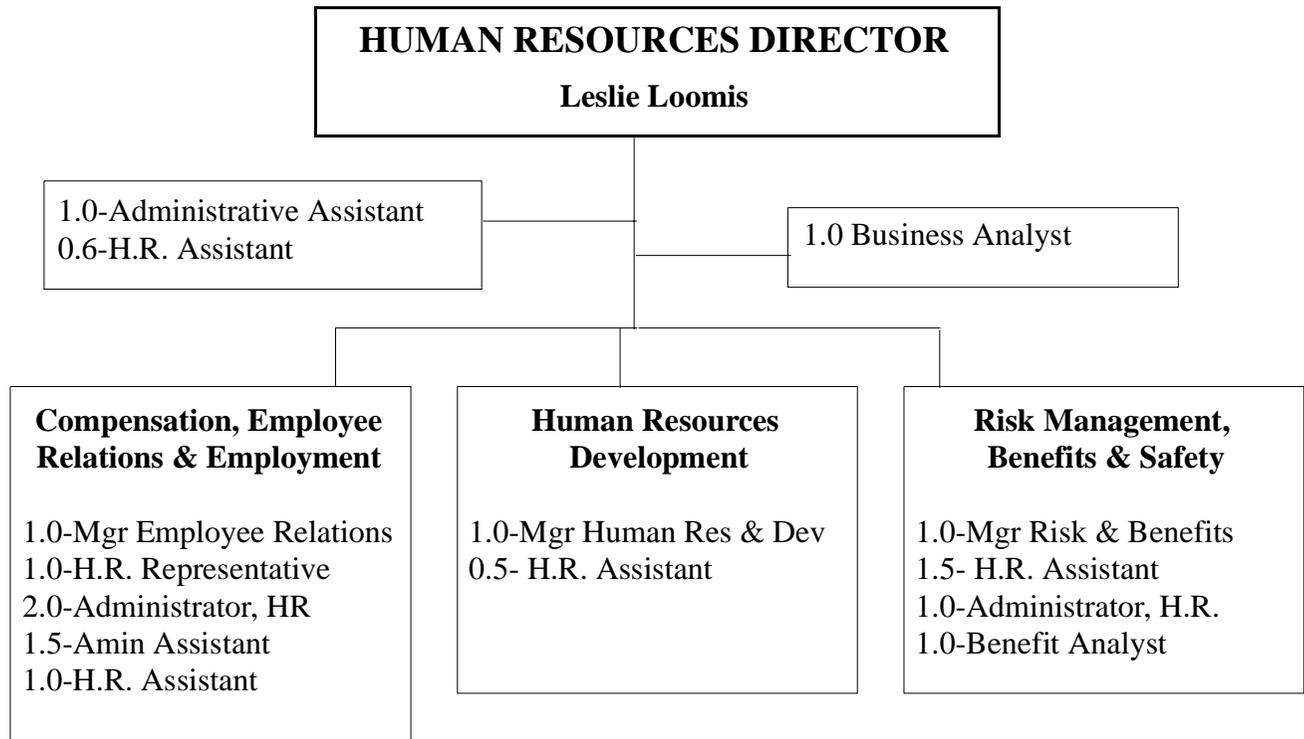


**Human Resources
Department**

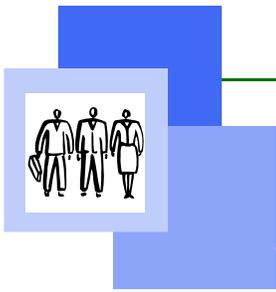




Human Resources Department Organizational Chart



Fiscal Year 2004-05 Position Totals: 13.0 Full-time
01.0 Hourly



Human Resources

To attract, develop and retain a diverse, well-qualified and professional workforce that reflects the high standards of the community we serve.

OVERVIEW

The Human Resources Department is responsible for providing support in the following key functional areas: employee compensation; workforce recruitment and selection; employment development/worklife; and risk management and benefits.

Maintaining the morale of the City's workforce will be a major focus of the department for 2004-05 as the City addresses the current economic situation. The department will actively pursue ways to provide the most cost effective benefits and training opportunities to the advantage of our employees.

In Employee Development, training opportunities will be streamlined. The focus will be on delivering mandated trainings, reviewing core policies with all managerial staff, and on training all employees on SAP applications. Support for the Q-12 process will also continue in 2004-05.

In Risk Management and Safety, emphasis will continue on protecting City employees from work-related injuries by investigating potential safety risks, ensuring compliance with recently implemented CAL OSHA Standards and by reporting all workers' compensation injuries to executive staff.

In Benefits, working in conjunction with the represented units, an attempt will be made to reduce active and retiree medical costs.

In Workforce Recruitment and Compensation, the emphasis will be on reducing hourly and unemployment insurance costs, conducting job analysis, and issuing a quarterly performance report to executive staff on organizational trends.

NEW PROGRAM UPDATE

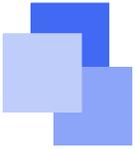
The Human Resources Department has implemented the following new programs:

Employee Compensation, Employment and Employee Relations

- Implemented new position control procedures and monthly reporting.
- Developed, initiated and completed furlough program to address City's budget shortfall in cooperative effort with employee units, payroll and management.
- Revised and updated the performance appraisals process for Management and Confidentials as well as Council Appointed Officers. Included self-assessment and employee development components.
- Continued entrepreneurial recruitment efforts to assist Sunnyvale resulting in \$60,000 in revenue.
- Successfully completed initial transition of Human Resources processes to SAP.
- Streamlined employment process resulting in 2/3 less selection time and 10 percent less staff time.
- Canceled outside contract for exit interview services and implemented an internal process (cost savings of \$5000 per year).

Risk Management and Benefits

- Implemented 20 year PERS vesting schedule for management and professional employees and firefighters hired after January 1, 2004.

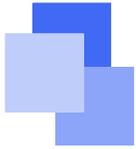


Human Resources *continued*

- Implemented health premium cap with Management and Professional employees to change the maximum City contribution for health care coverage from the PERSCare PPO plan rate to the PERSChoice or the PORAC (for Safety management employees) plan rate.
- Implemented health premium cap with IAFF and agreed to not exceed the PORAC plan premium rate which is lower than the PERSCare PPO plan rate.
- Coordinated a Citywide healthcare subcommittee to explore possible cost savings and effective ways to address increasing health care cost issues.
- Initiated quarterly claim review meetings with department heads and key managers to review workers compensation injuries and claims to proactively manage potential problems/costs.
- Secured less costly workers compensation excess insurance through a pool, California Public Entity Insurance Authority.
- Transferred Employee Benefits information into SAP system, implemented a leave of absence management tracking system, OSHA log, as well as a process to track safety and medical tests.
- Coordinated and implemented a respiratory protection program for newly issued gas masks for Police department personnel to use against weapons of mass destruction.

Employee Development/Worklife

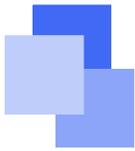
- Provided customized training to all management personnel on Essentials for Managing the City policies and procedures as well as labor relations, safety, risk management, performance appraisals, disciplinary actions, and budget process/purchasing.
- Successfully contracted with the City of Sunnyvale to provide training services for a contract of \$50,000 for 2003-04.
- Marketed City's new training programs to neighboring cities/companies resulting in \$25,000 revenue.
- Received a grant from International City Managers Association in the amount of \$30,000 to manage and coordinate the Management Talent Exchange Program for San Mateo County and Santa Clara Counties.
- Developed a program to offer Lead Worker Academy classes in Foster City and Fremont.
- Developed water distribution licensing courses through American Water Works Association as an enterprise activity.



Human Resources *continued*

DEPARTMENT SUMMARY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Administration	366,949	277,641	263,883	161,162	(116,479)
Employee Compensation and Benefits	290,731	420,824	392,924	471,529	50,705
Workforce Recruitment and Selection	461,696	614,501	558,027	504,740	(109,761)
Employee Development/Worklife	462,705	637,507	551,358	627,088	(10,419)
Risk Management	573,724	515,658	503,138	644,275	128,617
TOTAL EXPENDITURES	\$2,155,805	\$2,466,131	\$2,269,330	\$2,408,794	\$(57,337)
TOTAL FULL TIME POSITIONS	15.00	14.10	14.10	14.10	0.00
TOTAL TEMPORARY POSITIONS	1.00	1.39	1.00	1.00	(0.39)
TOTAL REVENUES	\$1,048,017	\$979,376	\$971,376	\$1,081,139	\$101,763
INTERNAL REVENUES	1,048,017	929,376	929,376	947,364	17,988
EXTERNAL REVENUES	0	50,000	42,000	133,775	83,775

EXPENDITURES BY CATEGORY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Salaries and Benefits	1,613,071	1,561,049	1,601,420	1,738,355	177,306
Contract Services	237,883	481,295	335,045	386,345	(94,950)
Supplies and Materials	34,461	37,180	17,180	17,180	(20,000)
General Expense	81,015	167,461	90,539	90,539	(76,922)
Rents and Leases	53,928	53,125	53,125	43,120	(10,005)
Facilities and Equipment Purchases	1,310	9,943	9,943	9,943	0
Allocated Charges	134,137	156,078	162,078	123,312	(32,766)
TOTAL EXPENDITURES	\$2,155,805	\$2,466,131	\$2,269,330	\$2,408,794	\$(57,337)



Human Resources *continued*

RESOURCE LEVEL CHANGES

	2004-05 ONGOING	2004-05 ONE-TIME	2004-05 TOTAL
REVENUE CHANGES			
Allocated revenues-internal	17,988		17,988
Training Revenue Increase		113,775	113,775
TOTAL REVENUE CHANGES	\$17,988	\$113,775	\$131,763
Adjustments (Note 1)		(30,000)	(30,000)
NET REVENUE CHANGES	\$17,988	\$83,775	\$101,763
EXPENDITURE CHANGES			
Salary and Benefits			
Reclass of Business Analyst to Sr. Business Analyst	9,004		9,004
Personnel Benefit Costs (Note 2)	215,369		215,369
Total Salary and Benefits Changes	\$224,373	\$0	\$224,373
Adjustments (Note 1)		(47,067)	(47,067)
NET SALARY AND BENEFITS CHANGES	\$224,373	\$(47,067)	\$177,306
Non-Salary			
Reduction in Employee Survey Program *	(50,000)		(50,000)
Increase in External Training Expense		60,300	60,300
Reduction in Program and Projects	(9,000)		(9,000)
Allocated Charges (Note 3)	(42,771)		(42,771)
Total Non-Salary	\$(101,771)	\$60,300	\$(41,471)
TOTAL EXPENDITURE CHANGES	\$122,602	\$13,233	\$135,835
Adjustments (Note 1)		(193,172)	(193,172)
NET EXPENDITURE CHANGES	\$122,602	\$(179,939)	\$(57,337)

*This item was included in the 2004-05 adopted-in-concept budget.

RESOURCE LEVEL NOTES

Note 1: Adjustments include prior year one-time revenue and expenditure items that did not carry forward into the Proposed Budget. Other changes are the result of one-time items that were in the 2003-04 mid-year adjustments.

Note 2: The personnel benefit costs have escalated steeply mainly due to health care increases for both current employees and retirees. In addition, workers compensation and citywide liability costs have increased.

Note 3: Allocated charges are decreasing primarily due to reduction in Technology Fund operational chargebacks.

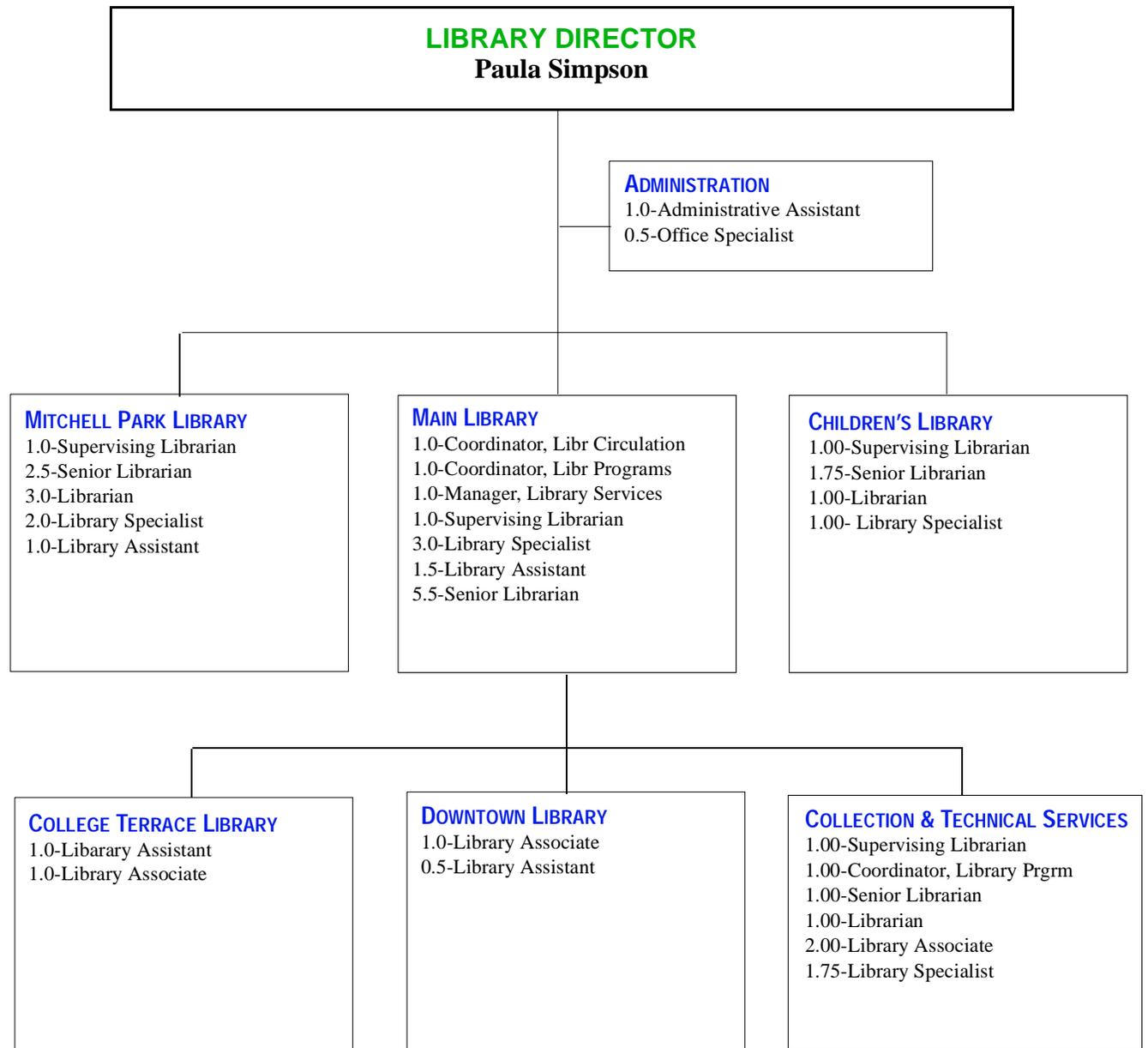


Library Department



Library Department

Organizational Chart



Fiscal Year 2004-05 Position Totals: 43.00 Full-time
1.00 Librarian (frozen)
11.70 Hourly



Library

To enable people to explore library resources to enrich their lives with knowledge, information and enjoyment.

OVERVIEW

The department will continue to provide collections, programs, and services to the users of its three Resource Libraries (Main, Children's, and Mitchell Park) and two neighborhood libraries (College Terrace and Downtown), and to those accessing its electronic services remotely from home, work and school.

Support will continue to the Library Advisory Commission in its review and updating of the New Library Plan. The department will continue to work with the Friends of the Palo Alto Library (FOPAL) and the Palo Alto Library Foundation in their fund-raising activities to support library programs, services, and facility improvements beyond the limits of public funds.

Support from the Library Foundation and FOPAL and hundreds of generous donors, will enable collaboration with the Public Works Department and Library Advisory Commission to renovate and expand the Children's Library. The department will also work with Public Works and the Library Advisory Commission to complete a space programming study and plan for needed infrastructure renovations for the Mitchell Park Library.

2005 will also see the implementation of a new integrated public catalog, circulation, and business application system to replace the legacy Dynix software-based system. Upgrades and improvements to technology will occur with funds from the Library's capital automation project and the Cable Co-op Legacy Grant to FOPAL.

NEW PROGRAM UPDATE

Information and Technology

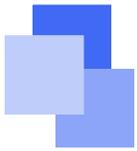
- Installed wireless network at Mitchell Park Library and upgraded existing wireless network at Main Library to improve public access to the Internet for laptop users.
- Completed selection of a new web-based integrated library system. This will provide new software, based on a relational database structure, to upgrade the public access catalog, circulation system, and other business applications used to manage library operations.
- Upgraded staff workstations from dumb terminals to personal computers at all public service desks.
- Increased number of Internet-based subscription databases available to library users.

Library Collections

- Streamlined selection and processing of new library materials resulting in faster receipt of popular and requested titles.
- Improved material availability by getting new items out in circulation more quickly.
- Increased percentage of new collection items supplied by vendor shelf-ready, resulting in quicker availability to new library materials.
- Expanded size of Chinese language collections.

Library Programs

- Celebrated the Library's Centennial in 2002-2004.



Library *continued*

- New monthly infant literacy program for parents and their babies, ages 6-18 months, offered at Children's and Mitchell Park libraries.
- With the support of the FOPAL, developed a new teen summer reading program.
- Promoted a community reading program in 2002-03 and 2003-04 in the libraries and with the school district.

Customer Service

- Implemented pre-overdue notification via e-mail of library materials checked out to borrowers.
- Enabled ability via the web public catalog to place holds on items available on the shelves for delivery to any library branch.
- Increased percentage of items at Main Library and Mitchell Park Library circulated using express (self check-out) stations.

Library Facilities

- Began implementation of "Neighborhood Library" concept at College Terrace and Downtown Libraries by changing branch collections to include more popular collections and transferring reference librarians to Resource Libraries.

Partnerships

- Worked with the Palo Alto Library Foundation and FOPAL in the successful campaign to reach goal of \$1.1 million to fund an expansion of the Children's Library.
- Assisted the FOPAL, Library Foundation, and Palo Alto Historical Association in their successful applications for Cable Co-op Legacy grants totaling \$277,000 for projects supporting library services.
- Increased number of volunteer hours worked in the libraries from 2002-03 to 2003-04 by 65%.

COUNCIL PRIORITY IMPLEMENTATION

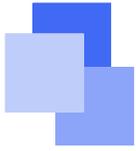
In 2004-05, the Library Department will implement the City's top five priorities as follows:

Infrastructure

- Continue staff work on library facility renovation and expansion projects at the Children's and Mitchell Park libraries.

City Finances

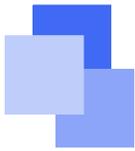
- Continue partnerships with Library Foundation and FOPAL to raise funds in support of library programs, services, and facilities beyond the limits of public funds.



Library *continued*

DEPARTMENT SUMMARY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Library Services Administration	604,748	702,280	770,267	544,391	(157,889)
Library Information	990,187	944,309	1,003,747	1,200,680	256,371
Collections Management	2,014,717	2,133,614	2,201,997	2,065,505	(68,109)
Library Outreach	109,279	146,003	165,282	249,733	103,730
Library Circulation	1,095,493	1,002,011	1,046,727	1,190,762	188,751
TOTAL EXPENDITURES	\$4,814,424	\$4,928,217	\$5,188,020	\$5,251,071	\$322,854
TOTAL FULL TIME POSITIONS	0.00	0.00	0.00	43.00	43.00
TOTAL TEMPORARY POSITIONS	12.83	11.34	11.02	11.70	0.36
TOTAL REVENUES	\$251,722	\$239,986	\$212,810	\$212,810	\$(27,176)
INTERNAL REVENUES	0	0	0	0	0
EXTERNAL REVENUES	251,722	239,986	212,810	212,810	(27,176)

EXPENDITURES BY CATEGORY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Salaries and Benefits	3,790,222	3,848,790	4,123,405	4,064,368	215,578
Contract Services	155,541	157,578	157,578	168,133	10,555
Supplies and Materials	658,433	643,409	640,233	638,933	(4,476)
General Expense	15,461	13,410	13,410	14,410	1,000
Rents and Leases	6,270	27,800	27,800	27,560	(240)
Facilities and Equipment Purchases	41,777	56,000	32,000	32,000	(24,000)
Allocated Charges	146,720	181,230	193,594	305,667	124,437
TOTAL EXPENDITURES	\$4,814,424	\$4,928,217	\$5,188,020	\$5,251,071	\$322,854



RESOURCE LEVEL CHANGES

	2004-05 ONGOING	2004-05 ONE-TIME	2004-05 TOTAL
REVENUE CHANGES			
TOTAL REVENUE CHANGES	\$0	\$0	\$0
Adjustments (Note1)	(27,176)		(27,176)
NET REVENUE CHANGES	\$(27,176)	\$0	\$(27,176)
EXPENDITURE CHANGES			
Salary and Benefits			
Personnel Benefit Costs (Note 2)	131,105		131,105
Total Salary and Benefits Changes	\$131,105	\$0	\$131,105
Temporary salary reallocation for custodial services from CSD administration	10,500		10,500
Reversal of frozen Director position in 2003-04 *	76,530		76,530
Total Net Salary and Benefits Changes	\$218,135	\$0	\$218,135
Non-Salary			
Main Library self-service check out desk reconfiguration (fully funded by 2003-04 Toshiba settlement)		12,655	12,655
Total Non-Salary Changes	\$0	\$12,655	\$12,655
TOTAL EXPENDITURE CHANGES	\$218,135	\$12,655	\$230,790
Allocated charges moved from CSD administration	92,064		92,064
NET EXPENDITURE CHANGES	\$310,199	\$12,655	\$322,854

*This item was included in the 2004-05 adopted-in-concept budget.

RESOURCE LEVEL NOTES

Note 1: Adjustments include prior one-time revenues and expenditure items that did not carry forward into the Adopted Budget. Other changes are the result of one-time items that were in the 2003-04 mid year adjustment.

Note 2: The personnel benefit costs have escalated steeply during the year mainly due to health care increases for both current employees and retirees. In addition, workers' compensation claims and citywide liability costs have increased.



Planning and Community Environment



Planning & Community Environment Department Organizational Chart

PLANNING & COMMUNITY ENVIRONMENT DIRECTOR

Steve Emslie

1.0-Administrative Assistant

1.0-Administrator

PLANNING

1.0-Chief Planning Official
1.0-Exec Secretary
3.0-Staff Secretary
1.0-Planning Mgr
1.0-Advanced Planning Mgr
1.0-Current Planning Mgr
6.0-Sr Planner
1.0-Sustainability Coordinator
7.0-Planner
1.0-Planning Arborist
2.0-Code Enforcement

INSPECTION SERVICES

1.0-Chief Building Official
1.0-Staff Secretary
1.0-Receptionist
1.0-Asst Blding Official
1.0-Inspection Supervisor
3.0-Plan Check Engineer
3.0-Building Technician
4.0-Inspector
1.0-Structural Specialist
1.0-Electrical Specialist
1.0-Plumb/Mech Specialist
1.0-Permit Coordinator
1.0-Plan Check/Inspector

TRANSPORTATION

1.0-Chief Transportation Official
1.0-Staff Secretary
1.0-City Traffic Engineer
1.0-Trans Project Mgr
1.0-Commute Coordinator
2.0-Transportation Engineer
1.0-Engineering Technician

Fiscal Year 2004-05 Position Totals: 57.00 Full-time
6.14 Hourly



Planning and Community Environment

To provide the Council and community with creative guidance on, and effective implementation of, land use development, planning, transportation, housing and environmental policies, plans and programs which maintain and enhance the City as a safe, vital and attractive community.

OVERVIEW

In 2004-05 the department's major goals include completing a comprehensive update to the Zoning Ordinance, implementation of service improvements, ongoing traffic calming and safety initiatives, and the development of affordable housing.

Planning staff will complete drafting updates to the city's zoning ordinances this fall, after extensive outreach efforts with the community, policy research, revised zoning districts and format changes. The Zoning Ordinance Update team and City Attorney will present proposed changes consistent with the Comprehensive Plan for consideration through study sessions, community outreach, and public hearings. Revised ordinances adopted by city council will replace or amend portions of the Palo Alto Municipal Code.

Department-wide service improvements will be implemented as a result of the City Auditor's recommendations related to the development review process. In 2004-05, these improvements include: expanding the permit tracking system; implementing council-approved changes to the permit process; and training of staff on the streamlined permit process.

Cross-department coordination will be enhanced by expanded use of the Development Review Committee, with expertise from Planning, Building, Public Works, Utilities, Fire, Police, and other departments as needed. Finally, Planning, Public Works, and the Police Department will begin cross-training and coordinating code enforcement functions of the three departments, to ensure compatibility and consistency in code enforcement policies, procedures, and actions.

Traffic calming and safety initiatives will include installation of traffic calming devices and pedestrian crosswalk improvements at a minimum of six locations. Mobility projects include ongoing implementation of the Bicycle Master Plan, implementation of a new citywide traffic impact fee, and continuing public outreach efforts related to alternative transportation and traffic safety. Staff will continue work on the Intermodal Transit Center, utilizing an interagency grant for environmental analysis and preliminary engineering design.

The department will continue to facilitate community awareness and support for quality affordable housing. Staff will work with the City-selected affordable housing developer to acquire additional housing sites, and continue work with nonprofit agencies to retain affordable housing sites in Palo Alto. A comprehensive review of the City's below market housing program will provide detailed information on existing units, comparisons to other jurisdictions, and recommend best practices for implementation Palo Alto.

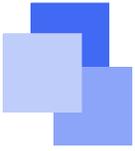
The department will continue plan check and on-site inspection of the Hyatt Senior Housing project at Stanford. Service improvements at the Development Center include appointment availability of plan check engineers, and phone hours for inspectors.

NEW PROGRAM UPDATE

Planning and Community Environment has accomplished the following in new program and service implementation:

Transportation Safety and Alternatives

Utilization of the city's shuttle remains strong: providing 12,000 - 18,000 shuttle rides each month throughout Palo Alto



Planning and Community Environment *continued*

Awarded \$3.3 million in grants since July 2002 for various traffic safety, shuttle, and capital projects, including:

- Intermodal Transit Center, an ongoing multi-jurisdictional project
- Homer Avenue pedestrian/bicycle underpass, under construction
- Embarcadero Bike Path project, under construction
- Traffic signal upgrade, underway

Completed Bicycle Master Plan, implementation underway

Completed citywide computerized multi-modal traffic model

Completed Charleston Corridor Plan on time and on budget

Completed citywide Traffic impact fee study

Completed Transportation Strategic Plan

Completed South Palo Alto school commute safety study

Building & Inspection Services

Achieved 4-week turn around time for plan check on 91% of building permit plans

Integrated Code Enforcement in permit tracking system

Launched online services for selected permits

Reduced fees for elective plan check and permit re-activation

Long Range Planning

Completed South of Forest Area Coordinated Area Plan

Oak Court Affordable Housing Project under construction

Completed Housing Element Update to the city's Comprehensive Plan

Awarded \$240,000 grant for South El Camino Real area planning and design

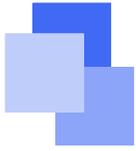
Awarded \$800,000 in Community Development Block Grants annually

Completed zoning ordinance update components:

- Form Code
- Rezone priority sites identified in the Housing Sites Inventory
- Urban design prototypes for review of longer -term housing sites
- Review of existing and proposed new zone districts
- Ongoing community outreach and coordination with policy makers

Established Below Market Rate assessment loan assistance program

Initiated comprehensive review of Below Market Rate ownership program



Planning and Community Environment *continued*

Current Planning

Implemented multi-faceted changes to the development review process, including streamlined reports, clarified appeal and hearing processes, and performance standards which align with the California Permit Streamline Act

Expanded Development Review Committee to coordinate and expedite staff comments on planning applications and projects

Updated Individual Review program guidelines

Worked collaboratively with review boards and the City Attorney to clarify roles as code amendments and process changes were under development

Customer Service

Established development oversight committee to coordinate and expedite cross-departmental review of building permit applications

Reduced plan check review time from 8 weeks to 4 weeks for building permits

Initiated formal training program including customer service, design, architecture, CEQA regulations, and other related topics

Developed electronic building permit for selected permit types

Established performance standards, such as plan check review time and development projects, that meet or beat California Permit Streamlining Act requirements

Developed code amendments to simplify public hearings, appeals, and continuance processes related to development review

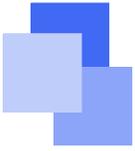
Established audit implementation focus group to evaluate proposed process changes from the customer's perspective

COUNCIL PRIORITY IMPLEMENTATION

The 2004-05 Planning Department's Proposed Budget will implement the City Council's top five priorities as follows:

Alternative Transportation

- Complete Charleston/Arastradero Corridor Plan.
- Seek external funding for transportation projects such as the Intermodal Transit center and Local Shuttle. (B-3)
- Design College Terrace residential traffic calming program utilizing Stanford Research - Park mitigation and General Use Permit funds.
- Reconfigure the City's Local Shuttle service routes to maximize service within the existing budget. (T-13, N-40)
- Implement neighborhood traffic calming projects, emphasizing low cost alternatives. (T-41, T-43)
- Implement citywide traffic signal system upgrade. (T-38)
- In collaboration with Administrative Services Department, present results of the transportation impact fee nexus study.
- Implement transportation impact fee, if directed by Council.



Planning and Community Environment *continued*

Land Use Planning

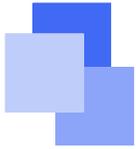
- Working in coordination with the City Attorney's Office, present draft zoning ordinance update to the community and city council for review, direction and comment.
- Coordinate supplemental EIR for Stanford Research Park triggered by cost-recovery development application in the Stanford Research Park area and development of Mayfield site. (L-7, T-23, B-16)
- Develop significance thresholds proposal for Council review.

Affordable Housing

- Work with nonprofit agencies to acquire and retain affordable housing sites in Palo Alto. (H-9, H-20)

DEPARTMENT SUMMARY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Administration	542,013	742,975	746,642	571,616	(171,359)
Planning	3,754,868	3,521,526	3,606,093	3,760,663	239,137
Building	2,411,352	2,777,437	2,879,302	2,925,626	148,189
Transportation	1,424,297	1,951,320	1,537,334	1,581,073	(370,247)
TOTAL EXPENDITURES	\$8,132,530	\$8,993,258	\$8,769,371	\$8,838,978	\$(154,280)
TOTAL FULL TIME POSITIONS	59.00	54.80	54.80	54.80	0.00
TOTAL TEMPORARY POSITIONS	2.55	6.79	6.14	6.14	(0.65)
TOTAL REVENUES	\$5,153,623	\$5,142,746	\$4,830,746	\$4,916,004	\$(226,742)
INTERNAL REVENUES	256,606	226,567	76,567	128,000	(98,567)
EXTERNAL REVENUES	4,897,017	4,916,179	4,754,179	4,788,004	(128,175)

EXPENDITURES BY CATEGORY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Salaries and Benefits	5,650,656	5,906,220	6,197,759	6,418,935	512,715
Contract Services	1,414,842	1,786,010	1,287,610	1,329,610	(456,400)
Supplies and Materials	46,482	82,640	76,040	76,040	(6,600)
General Expense	248,908	270,552	276,052	276,052	5,500
Rents and Leases	349,741	370,461	378,095	358,395	(12,066)
Facilities and Equipment Purchases	8,882	23,335	23,335	23,335	0
Allocated Charges	413,019	554,040	530,480	356,611	(197,429)
TOTAL EXPENDITURES	\$8,132,530	\$8,993,258	\$8,769,371	\$8,838,978	\$(154,280)



Planning and Community Environment *continued*

RESOURCE LEVEL CHANGES

	2004-05 ONGOING	2004-05 ONE-TIME	2004-05 TOTAL
REVENUE CHANGES			
Plan Check Fee *	50,000		50,000
Building -New Construction Permit *	85,000		85,000
Encroachment Fee *	12,000		12,000
Administrative Citations	40,000		40,000
Architectural Review Fee	130,000		130,000
Attendant Parking Fee	20,000		20,000
Zone Charge Fee	(130,000)		(130,000)
Photocopy Fee	3,600		3,600
Subscriptions Fee	(250)		(250)
Class Program Fee	600		600
Other Sales	600		600
Microfilm Fee	(2,100)		(2,100)
Records Mgmt Fee	(5,200)		(5,200)
Parking Permit Fees	1,575		1,575
Gas Tax	51,433		51,433
Donations for Shuttle	25,000		25,000
TOTAL REVENUE CHANGES	\$282,258	\$0	\$282,258
Adjustments (Note 1)		(509,000)	(509,000)
NET REVENUE CHANGES	\$282,258	\$(509,000)	\$(226,742)
EXPENDITURE CHANGES			
Salary and Benefits			
Reclass Building Inspector Specialist to Building Inspector *	(6,061)		(6,061)
Reclass Office Specialists to Plan Check Engineer	35,485		35,485
Management Specialist for Stanford Senior Housing Project *		100,000	100,000
Personnel Benefit Costs (Note 2)	415,688		415,688
TOTAL SALARY AND BENEFITS CHANGES	\$445,112	\$100,000	\$545,112
Adjustments (Note 1)		(32,397)	(32,397)
NET SALARY AND BENEFIT CHANGES	\$445,112	\$67,603	\$512,715
Non-Salary			
Development Center Lease *	7,634		7,634
Eliminate Bike Station Subsidy *	(16,500)		(16,500)
Shuttle Service Contract	25,000		25,000
Plan Check Contracts	30,000		30,000
Traffic Model software mtc & data	10,000		10,000
Multi-model data: performance indicators	10,000		10,000
Local Agency Formation Commission(LAFCO) agency costs	17,000		17,000
Allocated Charges (Note 3)	(217,130)		(217,130)
Total Non-Salary Changes	\$(133,995)	\$0	\$(133,995)

*This item was included in the 2004-05 adopted-in-concept budget.

	2004-05 ONGOING	2004-05 ONE-TIME	2004-05 TOTAL
TOTAL EXPENDITURE CHANGES	\$311,117	\$67,603	\$378,720
Adjustments (Note 1)		(533,000)	(533,000)
NET EXPENDITURE CHANGES	\$311,117	\$(465,397)	\$(154,280)

*This item was included in the 2004-05 adopted-in-concept budget.

RESOURCE LEVEL NOTES

Note 1: Adjustments include prior year one-time revenue and expenditure items that did not carry forward into the Proposed Budget. Other changes are the result of one-time items that were in the 2003-04 mid-year adjustments.

Note 2: The personnel benefit costs have escalated steeply mainly due to health care increases for both current employees and retirees. In addition, workers compensation and citywide liability costs have increased.

Note 3: Allocated charges are decreasing primarily due to reduction in Technology Fund operational chargebacks.

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Police Department



Police

To provide exceptional public safety services and take a leadership role in building community partnerships.

OVERVIEW

The Police Department will continue its efforts to reorganize in 2005. Contracting out for City radio shop services will result in the elimination of two Communication Technician positions and will provide industry standard radio service with improved levels of service. The implementation of a 4/11 work schedule in the Communications Dispatch Center will allow for the elimination of one Public Safety Dispatcher and result in reduced overtime use.

Based on the City Auditor's review of the Planning Division's code enforcement program along with Council direction to provide a plan for proactive noise enforcement, the department will begin cross-training and coordinating code enforcement functions. This plan allows the activities of Police, Planning and some of Public Works to be combined; formally coordinates code enforcement policies, procedures, and actions to ensure compatibility and consistency; continues providing proactive noise enforcement; and eliminates the hourly salaries associated with the noise Community Service Officer as originally proposed.

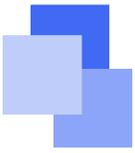
Recruitment, selection, and retention of employees will be a focus in 2005, due to a number of pending retirements. This will include succession planning, which is designed to provide managers, supervisors, and line level personnel, options for career development as well as to prepare employees for leadership positions. Implementing the Early Warning Identification and Intervention System will assist in identifying individual and group performance issues at an early stage so that intervention can be made to redirect work performance. A trial wellness program is aimed at reducing workers' compensation claims, sick leave usage, and injuries, while improving morale and productivity.

In conjunction with the Fire, Utilities, Public Works and the City Manager's office the Police Department will continue to play a key role in coordinating citywide functions of emergency preparedness and response to natural and criminal disasters. The department will coordinate the City's homeland security planning, training, and regional interactions; ensure communication between public safety agencies through participation in the countywide Radio Interoperability Project; begin replacement of the City's radio infrastructure; and integrate wireless mapping with the City's GIS system.

Traffic safety and calming will continue to be a high priority for the Police Department with renewed efforts on speed reduction, red light violations, and pedestrian safety. The department will continue to pursue State and Federal funding to increase traffic safety in school zones. Through the use of State funds, the department will participate in "You Drink, You Drive, You Lose" campaign, with the goal of reducing the number of victims killed and injured in alcohol related motor vehicle accidents.

The successful negotiation of long-term agreements with Los Altos, Los Altos Hills, Mountain View, and Sunnyvale for animal control and sheltering services will necessitate an expansion of the Palo Alto Animal Shelter (PAAS). In cooperation with Planning and Public Works, the department will begin development, design, and construction on the PAAS remodel. The successful negotiation of these agreements will create efficiencies and opportunities for improved services at lower costs for all users of the PAAS.

Work will continue with community members who are actively pursuing the creation of a Palo Alto Police Foundation. This Foundation is being established to support the Police Department's critical needs that are beyond the abilities of local, state, or federal funding. Once established, the first priority of the Foundation would be to substantially fund a "First Response Mobile Command Center," which would be deployed in situations such as a major fire, earthquake, or other incidents such as a Special Weapons and Tactics (SWAT) call-out or terrorist attack.



Police *continued*

In conjunction with Public Works, the Police Department will continue work in the pursuit of the Police Building capital plan. Staff will complete the schematic phase of the project and pursue potential alternative funding options such as the aforementioned Palo Alto Police Foundation and the potential of 9-1-1 readiness fees.

NEW PROGRAM UPDATE

Police/Community Relations

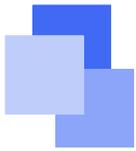
- The Police Department is in the process of conducting police/race relations community meetings. With assistance from the Human Relations Commission and the National Center for Community and Justice, the purpose of these meetings with churches and smaller groups, will be to attempt to reestablish the level of trust in the Police Department by members of our minority community and to initiate continuing dialogs, education, discussion, and other effective ways to move forward.
- The department continues to compile and report demographic data on police contacts to City Council and meets quarterly with the Community Diversity Group to work on issues important to the minority community and law enforcement. A hotline dedicated to receive calls from the community who want to anonymously report potential mistreatment by the police is planned.
- The department provided diversity training on the Muslim and Sikh cultures to all personnel. Provided State mandated training to all sworn personnel on racial profiling.

Training

- The Police Department initiated an audit of the Field Training Officer program. The audit is being conducted to ensure that the most effective training techniques and strategies are being used and that new officers receive the appropriate levels and quality of training before assuming the role of a solo officer.
- Staff began design of an Early Identification and Intervention System intended to identify individual or group performance issues at an early stage so that intervention can be made to redirect work performance towards organizational goals. The intended result is to increase organizational accountability and to ensure that employees receive training, assistance, or resources in order to make them successful and productive. This system includes software to manage this function as well as to automate the Department's internal affairs and citizen complaint processes.
- The department's Police Policy Manual was updated to reflect current statutory and case law changes. The manual was revised to reflect appropriate changes required by precedent setting court decisions, legislation, best practice, and new issues facing law enforcement agencies.
- Initiated a one-year trial Wellness Program for sworn personnel aimed at reducing worker's compensation claims, sick leave use, and injuries, while improving morale and productivity. This trial program will include testing, counseling, an exercise program and performance tracking.

County-wide Interoperability Project

- Palo Alto continues to provide a leadership role in the Silicon Valley Regional Interoperability Project, an implementation of initiatives to improve voice communication and data integration and real-time information sharing amongst and between local and regional public safety agencies. The project has brought a new online county-wide interoperable radio channel, secured \$3.7M in federal funding to design and build a regional microwave network and executed a contract with a systems integrator to plan and design future interoperability initiatives.



Police *continued*

Wireless 9-1-1 Implementation

- Palo Alto began the transition to handling all wireless emergency (9-1-1) calls in its dispatch center, cutting over two of the six wireless service providers. Serving as the Bay Area Wireless Coordinator, Palo Alto continues to take a leadership role in this important endeavor.

Homeland Security/Disaster Preparedness Response

- Developed and conducted Weapons of Mass Destruction exercises in involving all City Departments to evaluate communication capabilities between disciplines; obtained grant funding to purchase and equip first responders in personal protective gear; developed a steering committee and citywide group to coordinate the functions of emergency preparedness and employee safety and security; and began meeting with members of the community on a quarterly basis to discuss and prepare for all types of emergencies.

Animal Services Division

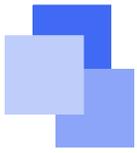
- Negotiated 10-year agreements with Los Altos, Los Altos Hills, and Mountain View for animal control and sheltering services and a 20-year agreement with Sunnyvale to provide animal sheltering services, including the commitment to fund the remodel and expansion of the Palo Alto Animal Shelter to provide such services.

Technical Services

- Palo Alto continues its efforts to leverage existing technologies and improve access to public safety services via the Internet. The Police Department has completed two significant software upgrades to its Police Records Management System (RMS) and converted the public safety Computer Aided Dispatch (CAD) system to an industry standard and more robust Windows 2000 operating system.
- Migration to next generation wireless technology for public safety and GIS access is underway. Wireless local area network systems have been installed to transmit public safety information from the field to the department's networks.
- The Police Department completed an upgrade to a new building security access system and implemented new security procedures in accordance with Department of Justice and Department of Homeland Security requirements.
- The Police Department installed computer based telephone recording and voice activated police report writing technologies. In addition, the department is beginning an upgrade to digital technologies in property and evidence in accordance with new guidelines and requirements developed in conjunction with the District Attorney's Office.

Investigations Division

- Through a reorganization of the Investigations Division, and utilizing existing resources, created a Family Services Unit to address the social and criminal issues and the interrelationship between family members. This group, which includes an elder abuse and domestic violence investigator, two juvenile/school resource officers and a probation officer, now work as a cohesive unit
- The Police and Fire Departments, in conjunction with Gunn High School, conducted "Every 15 Minutes"; an event designed to dramatically impact teenagers with the dangerous consequences of drinking alcohol and driving.



Police *continued*

COUNCIL PRIORITY IMPLEMENTATION

Infrastructure

- After the successful negotiation of long-term agreements with Los Altos, Los Altos Hills Mountain View, and Sunnyvale for animal services, and in cooperation with Planning and Public Works, the Department will begin design and construction on the animal shelter remodel.

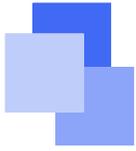
Alternative Transportation and Traffic Calming

- The department will continue to pursue State and Federal funding to increase traffic safety in school zones. Traffic Team members will be assigned to specific neighborhoods.

City Finances

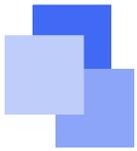
- Further enhance regionalized communication with other public safety agencies through the training and implementation of the new county-wide interoperability system.
- Explore the feasibility of contracting our technical services; including dispatch, public safety technology and police records.
- Restructure radio maintenance services covering installation and maintenance of equipment.

DEPARTMENT SUMMARY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Administration	1,338,205	574,454	654,868	673,663	99,209
Field Services	7,617,651	10,371,489	11,231,699	9,478,668	(892,821)
Technical Services	3,045,002	5,328,368	5,209,865	4,584,624	(743,744)
Investigations and Crime Prev Serv	3,229,562	2,738,061	2,995,382	3,029,056	290,995
Traffic Services	1,985,477	1,646,126	1,681,305	1,516,332	(129,794)
Police Personnel Selection	2,654,308	708,165	748,925	756,490	48,325
Animal Services	1,235,566	1,319,200	1,384,892	1,374,837	55,637
Parking Services	57,255	1,054,679	1,062,324	1,008,452	(46,227)
TOTAL EXPENDITURES	\$21,163,026	\$23,740,542	\$24,969,260	\$22,422,122	\$(1,318,420)
TOTAL FULL TIME POSITIONS	177.50	171.00	168.00	167.75	(3.25)
TOTAL TEMPORARY POSITIONS	5.62	5.62	4.62	4.62	(1.00)
TOTAL REVENUES	\$4,244,404	\$4,896,411	\$5,045,940	\$4,744,987	\$(151,424)
INTERNAL REVENUES	610,783	461,925	449,902	449,902	(12,023)
EXTERNAL REVENUES	3,633,621	4,434,486	4,596,038	4,295,085	(139,401)



Police *continued*

EXPENDITURES BY CATEGORY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Salaries and Benefits	17,930,143	19,639,321	21,094,188	19,149,673	(489,648)
Contract Services	893,493	1,075,051	1,082,298	1,169,699	94,648
Supplies and Materials	474,277	595,627	403,735	411,852	(183,775)
General Expense	272,650	262,715	268,233	260,715	(2,000)
Rents and Leases	33,526	31,060	31,060	2,960	(28,100)
Facilities and Equipment Purchases	80,062	74,666	92,200	92,200	17,534
Allocated Charges	1,474,291	2,060,725	1,997,546	1,335,023	(725,702)
Operating Transfers Out	4,584	1,377	0	0	(1,377)
TOTAL EXPENDITURES	\$21,163,026	\$23,740,542	\$24,969,260	\$22,422,122	\$(1,318,420)

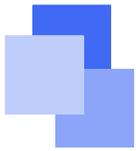


Police *continued*

RESOURCE LEVEL CHANGES

	2004-05 ONGOING	2004-05 ONE-TIME	2004-05 TOTAL
REVENUE CHANGES			
Stanford communication dispatching services *	11,022		11,022
Communication dispatching service (Utilities) *	(12,023)		(12,023)
Office of Traffic Safety (OTS) sobriety check point revenue		10,000	10,000
Parking citation revenue	(150,000)		(150,000)
Alarm fee revenue	(65,000)		(65,000)
Building alarm permit revenue	(60,000)		(60,000)
TOTAL REVENUE CHANGES	\$(276,001)	\$10,000	\$(266,001)
Adjustments (Note 1)	114,577		114,577
NET REVENUE CHANGES	\$(161,424)	\$10,000	\$(151,424)
EXPENDITURE CHANGES			
Salary and Benefits			
Eliminate Communication Technician (2.0 FTE) *	(195,940)		(195,940)
Eliminate hourly staff (1.0 FTE) *	(37,586)		(37,586)
Eliminate Public Safety Dispatcher (1.0 FTE) *	(91,522)		(91,522)
Overtime expense for sobriety checkpoint (offset with revenue)	10,000		10,000
Reclassify 1.0 Community Service Officer to 1.0 Code Enforcement Officer	18,374		18,374
Reallocate 0.25 FTE Code Enforcement Officer to Refuse fund	(23,691)		(23,691)
Reclassify 1.0 Administrator Police to 1.0 Administrative Service Manager	14,061		14,061
Total Salary and Benefits Changes	\$(306,304)	\$0	\$(306,304)
Salary Increase (Note 4)	338,935		338,935
Adjustments (Note 1)	(103,834)		(103,834)
Personnel Benefit Costs (Note 2)	(418,444)		(418,444)
Total Net Salary and Benefits Changes	\$(489,647)	\$0	\$(489,647)
Non-Salary			
Contract out the radio shop *	60,000		60,000
Contract services *	2,430		2,430
Palo Alto's participation in CAL ID *	1,139		1,139
Chemical testing by SCC forensic lab *	2,359		2,359
Additional crossing guard expense	65,000		65,000
Parking security contract expense increase (offset with University Ave. parking assessment fund)	23,000		23,000
Allocated Charges (Note 3)	(725,701)		(725,701)
Total Non-Salary Changes	\$(571,773)	\$0	\$(571,773)
TOTAL EXPENDITURE CHANGES	\$(1,061,420)	\$0	\$(1,061,420)
Adjustments (Note 1)	(257,000)		(257,000)
NET EXPENDITURE CHANGES	\$(1,318,420)		\$(1,318,420)

*This item was included in the 2004-05 adopted-in-concept budget.



Police *continued*

RESOURCE LEVEL NOTES

Note 1: Adjustments include prior year one-time revenue and expenditure items that did not carry forward into the Adopted Budget. Other changes are the result of one-time items that were in the 2003-04 mid-year adjustments.

Note 2: The benefit allocations are decreasing primarily due to a new methodology implemented during Phase II of SAP.

Note 3: Allocated charges are decreasing primarily due to reduction in non-salary expenses.

Note 4: Council approved compensation increases in 2004-05

SERVICE LEVEL CHANGES

Service Level Increases

- Increase in the School Crossing Guard Contract to accommodate four additional crossing guard locations for a total of 27 locations controlled. Locations are selected using criteria approved by the City Council. Criteria include numbers of children crossing, their ages, volume of traffic, and number of traffic collisions.
- The new Radio Maintenance Contract professional services for radio equipment will, at a lower cost, improve citywide radio maintenance and replace the tasks provided by the proposed elimination of two Communications Technician positions.
- The Office of Traffic Safety (OTS) Sobriety Check Point Program for Local Law Enforcement Agencies grant's goal is to reduce the number of victims killed and injured in alcohol involved in motor vehicle accidents.
- The new Wellness Program for sworn personnel is aimed at reducing worker's compensation claims, sick leave use, and injuries, while improving morale and productivity.

Service Level Decreases

- The elimination of Public Safety Dispatcher 1.0 FTE will result in the implementation of a 4/11 schedule in the Communications Dispatch Center. This change will increase efficiency of scheduling for existing staff.
- The elimination of the hourly Community Service Officer (CSO) will not eliminate proactive noise enforcement. The Police and Planning will cross-train and coordinate code enforcement functions on a trial basis. This plan allows the activities of Police, Planning and some of Public Works to be combined and formally coordinate code enforcement policies, procedures, and actions to ensure compatibility and consistency while maintaining the level of noise enforcement.
- The contracting out for Radio Shop services will result in the elimination of two Communication Technician positions. The new contract will provide industry standard radio service and improved levels of service.

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Public Works Department



Public Works Department Organizational Chart

PUBLIC WORKS DIRECTOR
Glenn Roberts

1.0-Administrative Assistant

1.0-Sr Administrator of Public Works

ENGINEERING
1.0-Asst Director/Public Works
1.0-Coordinator, PW Projects
1.0-Staff Secretary
1.0-Office Specialist
INSPECTIONS/SURVEYS
1.0-Superv Inspections/Survey
1.0-Inspector-Field Serv
1.0-Surveyor
1.0-Surveying Asst
PROJECT MANAGEMENT
3.0-Sr Engineer
3.0-Engineer
1.0-Engineering Tech III
3.0-Project Engineer
PRIVATE DEVELOPMENT
1.0-Sr Project Mgr
4.0-Technician III
1.0-Project Engineer
1.0-Engineer

EQUIPMENT MANAGEMENT
1.0-Fleet Manager
1.0-Staff Secretary
1.0-Asst Fleet Manager
2.0-Fleet Services Coordinator
2.0-Equipment Maint Serv Person
1.0-Motor Equip Mechanic-Lead
7.0-Motor Equipment Mechanic
1.0-Mobile Service Technician

WATER QUALITY CONTROL PLANT
1.0-Water Quality Control Plant Mgr
1.0-Staff Secretary
1.0-Office Specialist
WATER QUALITY CONTROL OPERATIONS
1.0-Sr Engineer
5.0-Supervisor WQC Operations
6.0-Sr Operator, WQC
16.0-Plant Operator II
LABORATORY SERVICES
1.0-Laboratory Services Manager
1.0-Sr Chemist
3.0-Chemist
2.0-Lab Technician
WQC PLANT MAINTENANCE
1.0-Asst Manager WQCP
1.0-Electrician-Lead
3.0-Electrician
1.0-Sr Mechanic
7.0-Maintenance Mechanic
2.0-Storekeeper
1.0-Programmer Analyst
ENVIRONMENTAL COMPLIANCE
1.0-Environmental Compliance Mgr
1.0-Staff Secretary
ENVIRONMENTAL CONTROL PROGRAMS
1.0-Program Asst
2.0-Environ Control Program Mgr
1.0-Environmental Specialist
3.0-Associate Engineer
2.0-Industrial Waste Investigator
1.0-Industrial Waste Inspector
1.0-Engineer Technician III
1.0-Project Engineer
1.0-Buyer

FACILITIES MANAGEMENT
1.0-Maint & Proj Mgr
1.0-Facilities Engineer
1.0-Project Mgr
1.0-Office Specialist
1.0-Engineering Tech III
1.0-Staff Secretary
BUILDING SERVICES
1.0-Supervisor, Bldg Serv
2.0-Bldg Service Person-Lead
5.0-Bldg Service Person

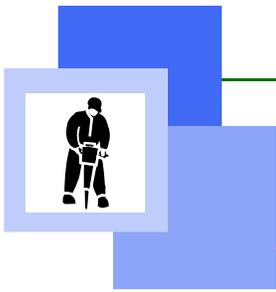
FACILITIES
1.0-Facilities Supv
0.5-Office Specialist
2.0-Facilities Maint-Lead
5.0-Facilities Mechanic
2.0-Facilities Painter
1.0-Facilities Carpenter
1.0-Electrician

OPERATIONS AND REFUSE
1.0-Deputy Director, Public Works
1.0-Superintendant, Operations
2.0-Project Manager
1.0-Office Specialist
ADMINISTRATION
1.0-Executive Assistant
1.0-Staff Secretary
0.5-Program Assistant
1.0-Office Specialist
1.0-Account Specialist
1.0-Senior Engineer
1.0-Mgr Environmental Controls
1.0-Environmental Specialist
2.0-Asst Engineer
REFUSE
1.0-Solid Waste Manager
1.0-Executive Asst
2.0-Recycling Coordinator
1.0-Supervisor, Public Works
3.0-Heavy Equipment Operator
1.0-Landfill Technician
4.0-Refuse Disposal Attendant

PUBLIC WORKS -TREE TRIMMING
1.0-Managing Arborist
1.0-Tree Trimmer, Line Clear-Lead
9.0-Tree Trimmer, Line Clear
1.0-Tree Maintenance Person
TRAFFIC CONTROL
2.0-Supervisor, Public Works
1.0-Traffic Control Maintenance-Lead
2.0-Traffic Control MaintenanceII
2.0-Traffic Control Maintenance I
4.0-Heavy Equipment Operator-Lead
4.0-Heavy Equipment Operator
3.0-Equipment Operator
2.0-Truck Driver
1.0-Cement Finisher-Lead
3.0-Cement Finisher
1.0-Sr Instr Electrician
1.0-Street Sweep Operator-Lead
6.0-Street Sweep Operator
2.0-Street Maintenance Asst
1.0-Manager, Maintenance Op
1.0-Electrician-Lead

Fiscal Year 2004-05 Position Totals:

215.00 Full-time
14.00 Hourly



Public Works

To provide efficient, cost effective construction, maintenance, and management of Palo Alto streets, sidewalks, parking lots, buildings and other public facilities; to provide appropriate maintenance, replacement and utility line clearing of City trees; and to ensure timely support to other City departments in the area of engineering services.

OVERVIEW

Public Works Engineering will continue to focus on the projects identified in the Infrastructure Management Plan (IMP) in 2005. Projects include the annual street maintenance program, improvements and expansion of the Children's Library, design of the Mitchell Park Library and Community Center improvements and the Animal Shelter renovation and expansion. The building projects will include upgrades of building electrical and mechanical systems, interior refurbishment such as new paint and flooring, Americans with Disabilities Act (ADA) modifications and seismic retrofits. Construction will be completed on a pedestrian/bicycle undercrossing at Homer Avenue and Alma, allowing pedestrian and bicycle traffic easy access to the Palo Alto Medical Foundation from the downtown area. Support will continue to private development activity including issuance of street opening and encroachment permits; certificates of compliance under the Subdivision Map Act; and support the Planning Department with plan review of the grading and drainage issues.

In an effort to minimize costs for the City, the department will continue the roadside clearing of vegetation along Alma and other areas in the city that were previously contracted activities. The Utilities Electric Division will continue funding a portion of the tree replacement program for those trees that provide shade to residences and businesses.

2005 Capital projects will include the construction phase of Fire Station 1 and 2 Improvements, Mechanical and Electrical Upgrades at the MSC, Civic Center Infrastructure Improvements, Roofing Replacement, Cubberley Mechanical and Electrical Upgrades, and Security System Improvements.

NEW PROGRAM UPDATE

The Public Works Department has accomplished the following in new program implementation:

Photovoltaic Project

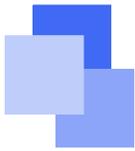
In 2004-05 Public Works will implement a new Capital Improvement Program for design and installation of photovoltaic solar panels on various City buildings. The project is funded by a \$1.4 million grant from the Department of Energy with matching funds provided by Utility Department Photovoltaic Partners program. This project will demonstrate and encourage the use of photovoltaic solar technology in Palo Alto.

COUNCIL PRIORITY IMPLEMENTATION

In 2004-05 Adopted Budget, Public Works will implement the Council's top five priorities as follows:

CityWorks

- Continue the resurfacing and reconstruction of City streets to maintain rideability and extend life
- Continue the sidewalk repair program to alleviate the existing backlog of sidewalk replacement in the City
- Begin the design for infrastructure improvements of the Children's Library and space study for the Mitchell Park Library
- Continue with the on-going Roof Replacement Program



Public Works *continued*

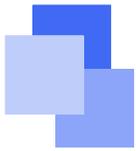
- Begin the construction phase of Fire Stations 1 and 2 Improvements
- Continue the upgrade of mechanical and electrical systems at Cubberley
- Begin the Phase 1 upgrade of mechanical and electrical systems at MSC
- Begin design of the Animal Shelter Expansion and Renovation

Alternative Transportation

- Complete construction of Homer Avenue undercrossing allowing pedestrian and bicycle traffic access to Palo Alto Medical Foundation (PAMF) and CalTrain station

DEPARTMENT SUMMARY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Administration	482,603	861,078	916,211	640,347	(220,731)
Streets	3,892,139	1,983,500	2,033,667	2,016,295	32,795
Sidewalks	770,303	744,714	789,695	518,968	(225,746)
Trees	2,338,538	1,945,025	2,012,745	2,004,141	59,116
Structures and Grounds	5,147,717	4,324,206	4,473,841	4,371,198	46,992
Engineering	807,334	1,456,992	1,534,490	1,710,583	253,591
TOTAL EXPENDITURES	\$13,438,634	\$11,315,515	\$11,760,649	\$11,261,532	\$(53,983)
TOTAL FULL TIME POSITIONS	90.05	76.20	76.20	74.38	(1.82)
TOTAL TEMPORARY POSITIONS	0.99	0.66	0.66	0.66	0.00
TOTAL REVENUES	\$2,822,349	\$2,533,798	\$3,209,197	\$2,637,629	\$103,831
INTERNAL REVENUES	2,628,696	1,848,208	2,280,607	1,897,039	48,831
EXTERNAL REVENUES	193,653	685,590	928,590	740,590	55,000

EXPENDITURES BY CATEGORY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Salaries and Benefits	7,211,094	6,622,562	7,045,482	6,957,073	334,511
Contract Services	2,311,540	1,745,103	1,725,103	1,725,103	(20,000)
Supplies and Materials	632,539	730,183	730,183	730,183	0
General Expense	23,751	26,900	26,900	25,900	(1,000)
Rents and Leases	46,838	43,500	43,500	31,350	(12,150)
Facilities and Equipment Purchases	4,355	16,046	16,046	16,046	0
Allocated Charges	3,208,517	2,131,221	2,173,435	1,775,877	(355,344)
TOTAL EXPENDITURES	\$13,438,634	\$11,315,515	\$11,760,649	\$11,261,532	\$(53,983)



Public Works *continued*

RESOURCE LEVEL CHANGES

	2004-05 ONGOING	2004-05 ONE-TIME	2004-05 TOTAL
REVENUE CHANGES			
Street Cut Fees (Note 1)	220,000		220,000
Allocated Revenues	(116,169)		(116,169)
TOTAL REVENUE CHANGES	\$103,831		\$103,831
EXPENDITURE CHANGES			
Salary and Benefits			
Personnel Benefit Costs (Note 2)	334,511		334,511
Total Salary and Benefits Changes	\$334,511		\$334,511
Non-Salary			
Department-wide Allocated Charges (Note 3)	(355,344)		(355,344)
Funding for Lights along University, Lytton and Hamilton Avenues (Note 4)	7,500		7,500
Reallocation to provide funding for lights along University, Lytton and Hamilton Avenues (Note 4)	(7,500)		(7,500)
Rent and Leases	(12,150)		(12,150)
Other Contract Services	(5,000)		(5,000)
General Expense	(1,000)		(1,000)
Total Non-Salary Changes	\$(373,494)		\$(373,494)
Adjustments* (Note 4)	(15,000)		(15,000)
TOTAL EXPENDITURE CHANGES	\$(53,983)		\$(53,983)

*This item was included in the 2004-05 adopted-in-concept budget.

RESOURCE LEVEL NOTES

Note 1: Fee imposed on entity making any excavation on City-owned streets. This fee is collected to reimburse the City for the shortened life of the streets caused by the excavation.

Note 2: The personnel benefits costs have escalated steeply mainly due to health care increases for both current employees and retirees. In addition, workers compensation claims and citywide liability costs have increased.

Note 3: Decrease primarily due to reduction in the Technology Internal Service Fund charges.

Note 4: Elimination of funding of \$15,000 both for Lights and Banners along University, Lytton and Hamilton Avenues in 2004-05 Adopted-In-Concept Budget. A reallocation of \$7,500 was made in 2004-05 Adopted Budget to provide funding for Lights only.

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Enterprise Funds



Utilities Department Organizational Chart

ELECTRIC OPERATIONS

ADMINISTRATION

- 0.5-Asst. Director Engineering Ops.
- 1.0-Manager, Electric Operations
- 0.3-Staff Secretary
- 6.0-Supervisor, Electric Systems
- 1.0-Electrician
- 0.5-Coord, Utility Safety & Security

COMPLIANCE INSPECTIONS

- 2.0-Electric Underground Inspector
- 1.0-Compliance Technician-Lead
- 2.0-Compliance Technician

CONSTRUCTION OVERHEAD/UNDERGRND

- 1.0-Construction Supervisor
- 5.0-Lineperson/Cablesplicer Lead
- 9.0-Lineperson/Cablesplicer
- 3.0-Heavy Equipment Operator
- 1.0-Electrical Assistant I

CUSTOMER SERVICE

- 5.0-Utility System Operator
- 1.0-Street Lights Electrician
- 2.0-Electrical Asst I
- 2.0-Utilities Locator
- 1.0-Lineperson/Cable Splicer

ELECTRICAL ENGINEERING

- 1.0-Engineering Manager-Electric
- 5.0-Sr Electric Project Engineer
- 3.0-Electric Project Engineer
- 1.0-Assoc Power Engineer
- 2.0-Engineering Tech III
- 4.0-Engineering Estimator
- 1.0-Program Assistant

SUBSTATIONS

- 2.0-Electrician Lead-Substation
- 5.0-Electrician-Substation
- 3.0-Electrician Lead-Meter Shop
- 1.0-Electric Lead
- 2.0-Electrician

TRAFFIC SIGNALS/FIBER OPTICS

- 1.0-Office Specialist
- 1.0-Electrician Lead
- 5.0-Electrician
- 2.0-Electrical Asst I

TELECOMMUNICATIONS

- 1.0-Telecommunications Manager
- 1.0-Office Specialist
- 1.0-Senior Resource Planner
- 1.0-Key Account Representative
- 1.0-Utility Project Coordinator

DIRECTOR OF UTILITIES

John Ulrich

UTILITIES ADMINISTRATION

- 1.0-Administrative Asst
- 1.0 Program Asst
- 1.0 Sr. Administrator
- 1.0-Utilities Accounting Technician
- 1.0-Manager, Communications
- 1.0-Communications Specialist
- 0.5-Program Asst

RESOURCE MANAGEMENT

- 1.0-Asst. Director-Resource Mgmt.
- 1.0-Manager, Supply Resources
- 3.0-Senior Resource Planner
- 4.0-Resource Planner
- 1.0-Sr Resource Originator
- 1.0-Sr. Market Analyst
- 1.0-Staff Secretary

ADMINISTRATIVE SERVICES

- 1.0-Asst. Director-Administrative Serv
- 1.0-Manager, Utilities Rate
- 1.0-Utilities Rate Analyst
- 1.0-Business Analyst
- 1.0 Staff Secretary
- 0.50 Program Assistant

FIELD & CUSTOMER SERVICES

- 1.0-Manager, Field & Customer Serv
- 5.0-Customer Service Rep
- 1.0-Customer Service Spec.-Lead
- 2.0-Customer Service Specialist
- 1.0 Meter Reader-Lead
- 5.0-Meter Reader
- 1.0-Utilities Credit/Col Spec
- 1.0-Senior Business Analyst
- 1.0 Sr. Market Analyst
- 1.0-Supervisor, Meter Read,Field Serv
- 8.0-Utilities Field Service Rep
- 1.0-Sr Field Services Rep

MARKETING PROGRAMS

- 1.0-Mgr Utilities Marketing Svcs
- 1.0-Marketing Engineer
- 2.0-Key Account Representative
- 3.0-Account Representative
- 1.0 Staff Secretary

WATER-GAS-WASTEWATER(WGW)

0.5-Asst. Director Engineering Ops.

- 1.0-Utility Project Coordinator
- 0.5-Coordinator, Utilities Safety & Security
- 0.7-Staff Secretary

1.0-Manager, GWG Operations

- 1.0-Staff Secretary
- 1.0-Program Asst
- 1.0-Utility Installer Repairer-Lead
- 2.0-Equip Operator
- 1.0-Heavy Equip Operator
- 1.0-Inspector Field Services
- 1.0-Maintenance Mechanic
- 1.0-Truck Driver
- 1.0-Cement Finisher
- 1.0-Utilities Locator
- 1.0-Cathodic Technician

1.0-Supervisor, New Construction

- 5.0-Utility Installer Repairer
- 1.0-Utility Installer Repairer-Lead
- 2.0-Heavy Equipment Operator

WATER & GAS

1.0-Supervisor Water & Gas Maintenance

- 1.0-Utility Installer Repairer-Lead
- 5.0-Utility Installer Repairer
- 1.0-Utility Installer-Repairer Asst
- 1.0-Heavy Equip Operator

WASTEWATER

1.0-Supervisor, Wastewater Maintenance

- 2.0-Heavy Equip Operator
- 2.0-Utility Installer Repairer-Lead
- 4.0-Utility Installer Repairer

WATER SYSTEM OPERATIONS

1.0-Supervisor, Water Transmission

- 1.0-Sr Water System Operator
- 5.0-Water System Operator II
- 1.0-Maintenance Mechanic
- 1.0-Supervisor, GWG Meter Shops
- 2.0-Water Meter Cross Connection Tech
- 2.0-Gas System Technician

GWG ENGINEERING

1.0-Engineering Manager, GWG

- 2.0-Staff Secretary
- 1.0-Supv-Utility Construction Inspection
- 3.0-Inspector, Field Services
- 1.0-Sr Project Engineer, Gas Distribution
- 1.0-Sr Project Engineer, Water Distribution
- 1.0-Sr Project Engineer, Wastewater Collect
- 1.0-Sr Project Engineer, Customer Services
- 6.0-Project Engineer
- 4.0-Engineer
- 2.0-Engineering Estimator

Fiscal Year 2004-05

Position Totals: 228.00 Full-time
17.96 Hourly



Enterprise Funds

An Overview

The City of Palo Alto's utility and public works operations are comprised of the Electric, Gas, Refuse, Storm Drainage, Wastewater Collection, Wastewater Treatment and Water Funds. The City of Palo Alto (CPA) External Services Fund includes information technology services, which are provided to surrounding agencies. The funds continue to be financially sound, with the exception of the Storm Drainage Fund. A financial summary of the funds follows this overview and includes discussion and pertinent information in each fund section.

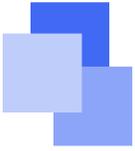
UTILITY RATE CHANGES

This 2004-05 Adopted Budget includes a number of utility rate adjustments. The average monthly residential Utility bill is expected to increase \$16.07 or 8.4 percent. This is slightly larger than the 7.8 percent increase projected for 2005, a year ago. With the average bill declining by one percent in 2003-04, the increase averages 3.8 percent each year over the past two years. The size and timing of rate adjustments take into account current and future revenue requirements and reserve levels. They also serve to cushion the impact of the overall utilities customer bill by staggering or spreading rate adjustments in consecutive or alternate years. Details of each rate adjustment are further discussed in the overview and within each fund's section. All rate adjustments are effective July 1, 2004 except for electric which is January 1, 2005.

- Gas Service - rate increase of 9.9 %, due to increasing commodity costs and lower sales estimates
- Electric Service - rate increase of 8.5%, due to increasing wholesale power and transmission costs
- Water Service - rate increase of 10.3%, due to an expected SFPUC wholesale water rate increase
- Refuse Service - rate increase of 10%, due to increasing fund operating expense

UTILITIES DEPARTMENT OVERVIEW

The Utilities Department continues to face significant challenges as energy commodity and transmission costs continue to fluctuate. While wholesale electric prices have dropped since the 2000-01 energy crisis, they have not returned to their previous levels. Another challenge is presented by the Federal Energy Regulatory Commission (FERC) and the California Independent System Operator (ISO) continuing to actively promote initiatives that would result in an industry structure with greater complexity, resulting in likely increases to transmission costs. The City also continues to be involved in the PG&E and Enron bankruptcies, with associated increased legal fees. Finally, several of the structural deficiencies that



led to a meltdown in energy markets have not been remedied, although several state and federal agencies continue to work on developing a coherent and viable energy policy.

Customer Satisfaction

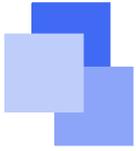
Customers will soon see the launch of new account services over the Internet. Through "My Utilities Account" (MUA), they will be able to review their usage and payment histories; open and close utility accounts; and pay their utility bills, using a credit card or bank account. MUA will also improve business efficiencies by reducing customer call traffic in the Customer Service Center. Another customer service initiative, Automated Meter Reading project (AMR), will leverage proven technology to remotely read high-cost-to-read meters, including those with difficult or hazardous access, meters in remote locations, or the most frequently read meters. AMR will yield more accurate meter readings, improve operational efficiencies, and expand customer satisfaction.

Customer investments in commercial and industrial energy efficiency and demand reduction have slowed significantly, due to the current economic downturn. In response to these shifting priorities, focus continues on the "Consultant Assistance for Resource Efficiency" or CARE program. Customers can receive full or partial funding to select a qualified consultant to perform energy or water studies at their facility. Funds for this project come from the City Public Benefit Operations. By identifying savings opportunities now, customers will be able to implement the recommendations when internal funds become available in the future.

The Residential Rate Assistance Program will continue to support qualifying residents and subsidized housing complexes.

Electric Utility Challenges

The major change in the Electric Utility is the expiration of the contract with the Western Area Power Administration; a contract that supplied most of the City's electric supply needs for the last 40 years. Council has approved the long-term electric acquisition plan that adopts a multi-dimensional and diversified approach to meeting the energy deficit. In addition to dealing with this change, the City of Palo Alto Utilities (CPAU) plans to focus on customer service, infrastructure reliability, preserving a supply cost advantage, energy efficiency, and cost containment during the next budget cycle. The need to hold down costs is even more pressing as utility ratepayers continue to face financial challenges in this slowing economy. These areas of high priority are aligned with the strategies and objectives of the department's strategic plan. It is also anticipated that key



Enterprise Funds *continued*

decisions on the fiber optic business will be brought to the City Council in 2005, as a business plan is completed.

Gas Utility Challenges

Roller coaster fluctuations continue to characterize gas commodity expense. CPAU strives to maintain stable prices for retail customers, in spite of this marketplace volatility. Risk management policies and guidelines have been approved, and resulting in a commodity-hedging program with a three year revised "laddering" approach to purchasing gas. Staff is actively involved in advocating regulatory forums to avoid transportation cost increases.

Water Utility Capital Work

The City's water supplier, San Francisco Public Utilities Commission (SFPUC), has embarked on a series of capital projects to upgrade its aqueducts and water transmission system. The \$3.0 billion price tag does not include the cost of new supplies, and SFPUC wholesale water rates are expected to increase for the next nine years. A new agency, the Bay Area Water Supply and Conservation Agency (BAWSCA), will provide financing for the SFPUC's capital projects. As a participating member, Palo Alto will advocate in the planning, design, and construction of capital projects that will improve the reliability of the regional water supply infrastructure, and protect City interests.

Palo Alto Green Program

The Palo Alto Green program offers "new" renewable energy (as defined by the California Energy Commission) for a premium of 1.5 cents per kilowatt-hour over their applicable electric rate schedule. Introduced in July 2003, this program had a five-year goal of 2,000 participants, but by the end of 2003, participants numbered over 1,800 residential and 40 commercial customers. This activity level places the City of Palo Alto in the top 10 of renewable energy programs in the country; possibly taking over the top spot in 2005.

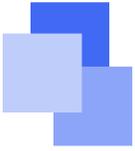
Risk Management

CPAU will continue to develop, implement and work under approved risk management policies and guidelines. Staff from several departments continue to work together to ensure that strategies and implementation plans meet all risk management policies, guidelines and procedures.

CPAU Capital Improvement Program (CIP)

CPAU continues to invest in its infrastructure, replacing deteriorated or aging facilities near the end of their life expectancy with new technologies, to ensure reliable delivery of services in the future.

Included in this 2004-05 Adopted Budget the Electric Fund continues to devote significant resources to undergrounding projects, with over \$9.0 million budgeted.



Enterprise Funds *continued*

New CIP projects include, Automated Meter Reading, and electric distribution system conversions to 4 or 12 kV.

The Wastewater Collection Fund has budgeted nearly \$3.3 million on three projects to rehabilitate collection systems and manholes, and to reduce groundwater and rainfall seepage into the pipelines.

Rent

Enterprise funds pay market-based rental fees on the sites occupied to conduct their business operations. The rent is adjusted annually by conducting an independent appraisal of all sites.

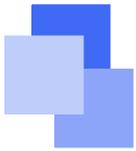
Staffing Changes

A reclassification in the Administration Division, will result in the position of Senior Administrator. This position fills the requirements of the department for a representative in the planning, development, and implementation of a variety of financial tools for the multifunded utilities. This position will focus on the integration of the SAP system within the department and influence future upgrades to the system, especially the Project Systems module of SAP.

A reorganization of the work in the Customer Services Division will result in the deletion of an Executive Secretary position and the addition of a Staff Secretary. This action will result in a cost savings. Another organizational reclassification of an existing Customer Services Specialist to a Customer Services Specialist - Lead completes the reorganization of the Customer Services Center. This change will provide either a Lead or a Supervisor to assist the Manager of Customer Services in the timely and efficient operation of the customer services functions. The Credit and Collections Specialist will also continue to report directly to the Manager. These changes will improve service to the staff, including on-site support and training, the customer with a faster response time, and the department by participation in intra-utility projects such as the advanced metering, demand response, on-line energy and water audits, and other departments, including new programs such as the Automated Meter Reading.

Reserves

Total Utilities reserve balances are decreasing by \$7.9 million in 2004-05. The primary reasons for this decrease are due to increase in capital improvement program and increase in commodity costs.



Enterprise Funds *continued*

PUBLIC WORKS UTILITY FUNDS

Refuse Fund

The Refuse Fund continues to exceed the State mandate of reducing waste by 50 percent. The City's current rate is 55 percent, which makes it one of only 113 municipalities (out of 446) to have met the goal.

Increasing financial obligations, along with the need to bring reserve balances in alignment with Council-approved guidelines, a 10 percent rate increase is adopted for 2004-05. Increased rates will net \$1.9 million in revenue, and will bring the reserve balance above the minimum guideline of \$2.1 million.

Implementing the construction and demolition recycling ordinance (C&D) is expected in 2005. The program will reduce construction debris at the Palo Alto landfill, through a mandatory diversion and recycling plan developed during the construction permit process. Enforcement of C&D requires an addition of 1.0 FTE Associate Planner, and is fully cost recovered through a fee that will be added to the building permits on projects in excess of \$75,000.

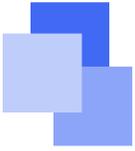
Storm Drain

The Storm Drainage Fund continues to experience an operating deficit due to insufficient revenue from existing rates. Due to restrictions imposed by Proposition 218, storm drainage user rates have not been increased since 1994. Supplemental funding from the General Fund is required in order to maintain the current level of service for storm drain maintenance and storm water quality protection programs. No new funding is available for storm drain capital improvements.

Funding alternatives will be explored in 2005 for the Council-approved storm drain infrastructure improvement plan, along with an enhanced storm drain maintenance program.

Wastewater Treatment

Revenues in the Wastewater Treatment Fund will show an increase of \$3.1 million in 2004-05, due to growth in contract cities revenue of \$0.7 million and reimbursements for capital program expense in the amount of \$2.5 million.



Enterprise Funds *continued*

CITY OF PALO ALTO EXTERNAL SERVICES FUND

An estimated \$5.2 million in capital improvement is planned in 2004-05. CIP projects include: Replacement of Existing Reclaimed Water Pipes, Landfill Gas Incineration, Plant Equipment Replacement and System Flow Meter Replacement Program.

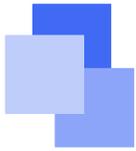
This fund provides information technology (IT) services to municipalities through the Information Technology Service Provider (ITSP) program. Initially, ITSP established contracts to provide services to the City of East Palo Alto and Los Altos. Since then, five new municipal contracts have been signed with the cities of Emeryville, Menlo Park, Atherton, Los Altos Hills and Saratoga. Fund expenditures are fully supported by revenue generated from these contracts.

2004-05 ENTERPRISE FUNDS SUMMARY

(\$000)	Electric Fund	Gas Fund	Wastewater Collection Fund	Water Fund	Refuse Fund	Storm Drainage Fund	Wastewater Treatment Fund	External Services Fund	Total
REVENUES									
Net Sales	72,588	27,983	12,270	23,173	20,539	2,185	16,904	0	175,642
Interest Income	6,419	800	501	707	662	42	463	0	9,596
Other Income	10,770	664	676	466	3,908	849	3,061	1,045	21,439
TOTAL SOURCE OF FUNDS	\$89,778	\$29,447	\$13,448	\$24,347	\$25,110	\$3,076	\$20,428	\$1,045	\$206,677
EXPENDITURES									
Utility Purchases and Charges	43,394	17,233	6,109	7,578	8,108	0	0	0	82,421
Salaries and Benefits	10,222	3,477	1,173	3,387	3,310	1,118	7,760	781	31,230
Contract Services	3,811	799	116	437	3,056	235	1,724	119	10,297
Supplies and Materials	676	147	59	227	2,325	70	1,151	13	4,668
Facility and Equipment Purchases	133	55	14	54	27	14	41	0	337
General Expense	1,429	416	247	354	2,953	103	144	7	5,653
Rents and Leases	3,343	217	127	1,457	4,303	6	26	0	9,479
Allocated Charges	6,891	2,946	1,392	2,283	4,084	533	3,425	80	21,635
Debt Service	6,322	950	128	778	398	947	824	0	10,348
Subtotal	\$76,222	\$26,241	\$9,365	\$16,556	\$28,563	\$3,027	\$15,094	\$1,001	\$176,068
Equity Transfer	8,234	2,786	0	2,370	0	0	0	0	13,389
Operating Transfers Out	303	305	87	741	260	13	37	20	1,766
Capital Improvement Program	9,842	3,574	3,347	4,919	50	0	5,180	0	26,913
TOTAL USE OF FUNDS	\$94,602	\$32,906	\$12,799	\$24,585	\$28,872	\$3,040	\$20,311	\$1,021	\$218,136
To/From Reserves	\$(4,825)	\$(3,459)	\$649	\$(238)	\$(3,763)	\$36	\$117	\$24	\$(11,459)

ENTERPRISE FUND RESERVES

Reserves (\$000)	2004-05 Projected Beginning Balance	2004-05 Changes	2004-05 Projected Ending Balance	2004-05 Reserve Guideline Range
ELECTRIC FUND				
Emergency Plant Replacement	2,451	58	2,509	5,723
Distribution Rate Stabilization	9,190	(2,314)	6,876	5,378 -10,755
Supply Rate Stabilization	57,595	(5,133)	52,462	18,943-37,886
Calaveras	70,464	2,500	72,964	72,919
Public Benefit	2,052	64	2,116	
Central Valley O&M	129	0	129	
Underground Loan	648	0	648	
Shasta Rewind Loan	64	0	64	
Subtotal	\$142,593	\$(4,825)	\$137,768	
GAS FUND				
Emergency Plant Replacement	896	38	934	2,234
Distribution Rate Stabilization	6,954	(3,092)	3,862	2,118- 4,236
Supply Rate Stabilization	6,961	(405)	6,556	6,275 - 12,550
Debt Service Reserve	950	0	950	
Conservation Loan	34	0	34	
Subtotal	\$15,795	\$(3,459)	\$12,336	
WASTEWATER COLLECTION FUND				
Emergency Plant Replacement	558	37	595	
Rate Stabilization	2,854	612	3,466	3,852-7,704
Subtotal	\$3,412	\$649	\$4,061	
WATER FUND				
Emergency Plant Replacement	1,129	75	1,204	2,592
Rate Stabilization	7,041	(313)	6,728	7,105 - 14,211
Debt Service Reserve	778	0	778	
Subtotal	\$8,948	\$(238)	\$8,710	
REFUSE FUND				
Rate Stabilization	6,291	(3,763)	2,528	2,053 - 4,107
Landfill Closure and Postclosure Care Reserve	6,446	0	6,446	
Water Resources Board	590	0	590	
Subtotal	\$13,327	\$(3,763)	\$9,564	
STORM DRAINAGE FUND				
Rate Stabilization	335	36	371	
Subtotal	\$335	\$36	\$371	

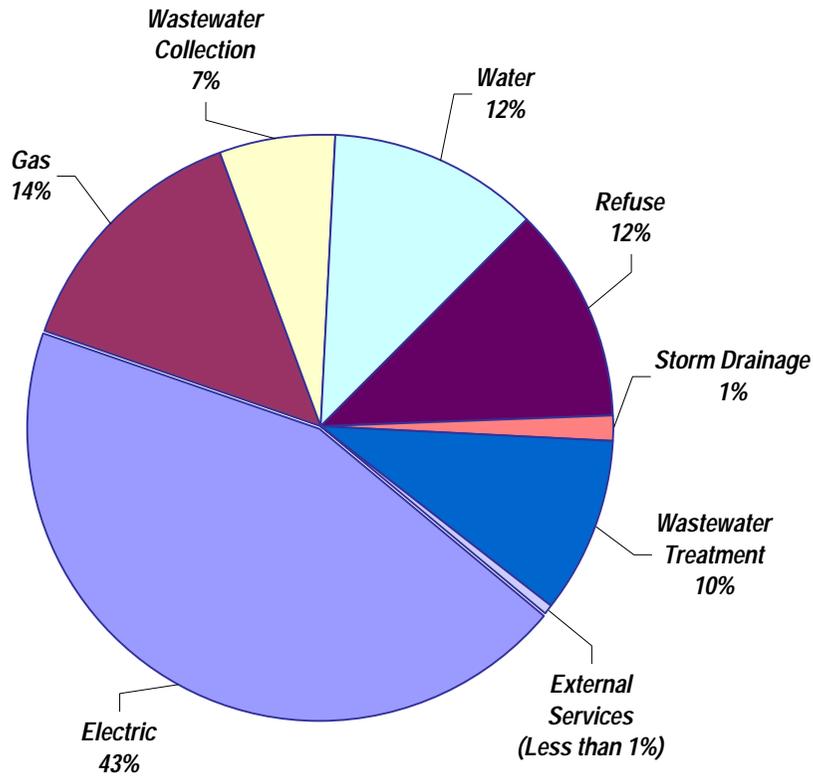


ENTERPRISE FUND RESERVES *CONTINUED*

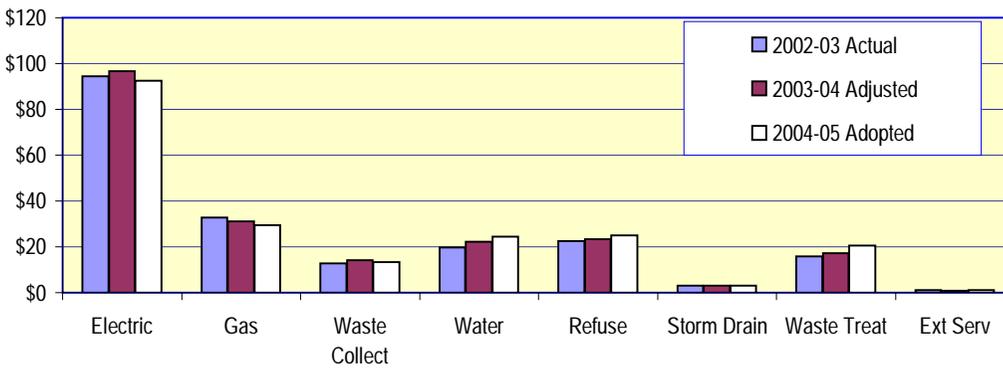
Reserves (\$000)	2004-05 Projected Beginning Balance	2004-05 Changes	2004-05 Projected Ending Balance	2004-05 Reserve Guideline Range
WASTEWATER TREATMENT FUND				
Emergency Plant Replacement	1,719	88	1,807	1,421
Rate Stabilization	6,234	29	6,263	2,094-4,188
Bond Proceeds (Restricted)	61	0	61	
Subtotal	\$8,014	\$117	\$8,131	
EXTERNAL SERVICES FUND				
Information Technology RSR	27	24	51	
Subtotal	\$27	\$24	\$51	
TOTAL RESERVES	\$192,451	\$(11,459)	\$180,992	
Emergency Plant Replacement	6,753	296	7,049	
Rate Stabilization	103,482	(14,319)	89,163	
Bond Proceeds (Restricted)	61	0	61	
Debt Service Reserve	1,728	0	1,728	
Calaveras	70,464	2,500	72,964	
Public Benefit	2,052	64	2,116	
Central Valley O&M	129	0	129	
Underground Loan	648	0	648	
Shasta Rewind Loan	64	0	64	
Conservation Loan	34	0	34	
Water Resources Board	590	0	590	
Landfill Closure and Postclosure Care Reserve	6,446	0	6,446	
TOTAL RESERVES	\$192,451	\$(11,459)	\$180,992	

ENTERPRISE FUND REVENUES BY FUND

\$206.7 Million / Adopted 2004-05

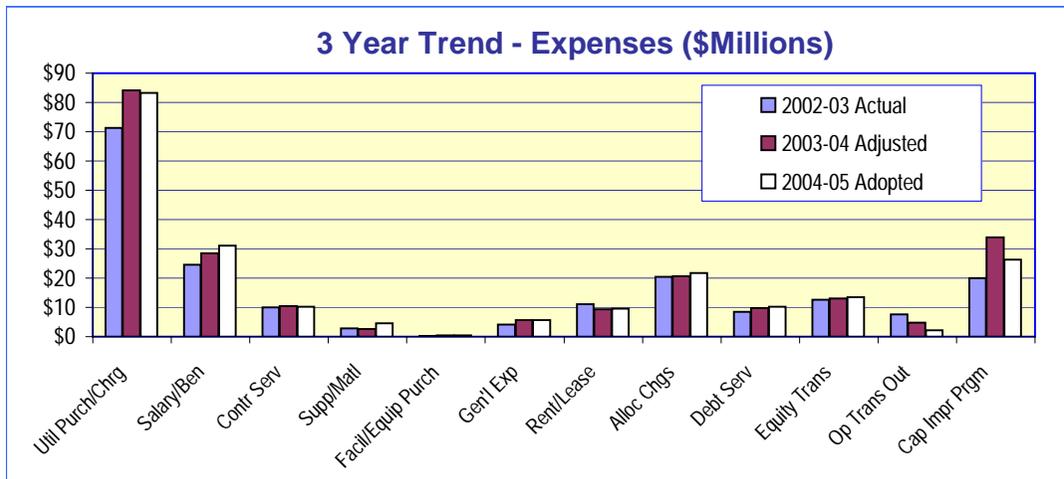
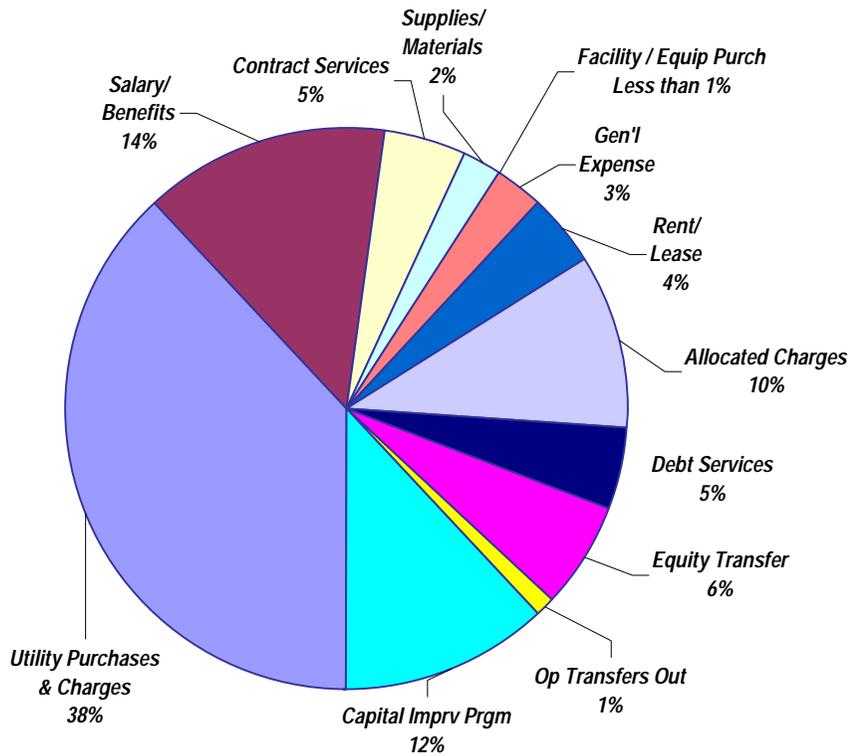


3 Year Trend - Revenues (\$Millions)



ENTERPRISE FUND EXPENDITURES BY CATEGORY

\$218.1 Million / Adopted 2004-05



AVERAGE RESIDENTIAL MONTHLY UTILITY BILL

Utility	Adjusted 03-04 Bill	Projected 04-05 Bill	\$ Difference	% Difference
Electric (650KWH)	47.94	51.98	4.04	8.5%
Water (14CCF)	49.07	54.12	5.05	10.3%
Gas (100/30TH)	45.44	49.93	4.49	9.9%
Sewer	19.25	19.25	-	0.0%
Refuse (one can)	18.00	19.80	1.80	10.0%
Storm Drain	4.25	4.25	-	0.0%
User Tax	7.12	7.80	0.68	9.5%
Total Monthly Bill	\$191.06	\$207.13	\$16.07	8.4%

COMMENT:

2003-04 Water average increase is 15%, effective 7-1-03
 2003-04 Sewer average increase is 15%, effective 7-1-03
 2003-04 Gas System average decrease is 15%, effective 7-1-03

2004-05 Electric average increase is 8.5%, effective 1-1-05
 2004-05 Water average increase is 10.3%, effective 7-1-04
 2004-05 Gas average increase is 9.9%, effective 7-1-04
 2004-05 Refuse average increase is 10%, effective 7-1-04



Electric Fund



Electric Fund

To build value for our citizen owners, to provide dependable returns to the City and citizens of Palo Alto, and to be the preferred full service utility provider while sustaining the environment.

OVERVIEW

The major Electric Utility change in 2004-05 is the expiration of the contract with the Western Area Power Administration (WAPA); a contract that supplied most of the City's electric supply needs for the last 40 years. The City of Palo Alto Utilities (CPAU) also plans to focus on customer service, infrastructure reliability, preservation of a supply cost advantage, energy efficiency, and cost containment. The need to hold down costs is even more pressing as utility ratepayers continue to face financial challenges in this slowing economy. These high priority areas are aligned with the strategies and objectives of the Department's strategic plan. It is also expected that key decisions on the fiber optic business will be brought to the City Council in 2005 due to the completion of the business plan.

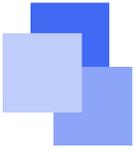
Resource Management

The landscape that impacts commodity and transmission costs continues to be in flux. WAPA contract, which for nearly four decades served as the cornerstone of CPAU's low rates, is in the process of being transformed. In July 1999, the City Council signed an agreement renewing the WAPA contract for 20 years starting in 2005. The details of the renewed contract were determined in two phases.

The first phase of the contract renewal process was consummated in fall 2000 when the City signed the 20 year Base Resource Contract with Western. The Base Resource contract fundamentally changes the way in which Western will provide energy to the City. This contract essentially provides CPAU a slice of the Central Valley Project hydroelectric system that results in energy supply that varies with hydro conditions. Therefore the City is left with a substantial "energy gap" starting in 2005 that varies by year, by month and by hour. Filling this energy gap will be a major focus of CPAU's Resource Management Division in the coming years.

The second phase of the WAPA contract renewal will result in a custom contract for yet to be defined products, with WAPA. CPAU is actively working with WAPA staff and its customer groups to develop alternatives to maximize the value of the WAPA contract in the post-2004 period. Defining the product that WAPA will offer therefore will also be a prime CPAU focus over the next two years. During the next two years, staff will be intensely involved in the analysis of cost impacts, negotiations with suppliers and execution of supply contracts to fill the energy gap. Staff may require the assistance, at times, of consultants and legal counsel for such negotiations. Supply costs are projected to increase substantially, compared to past years, as the City makes supply commitments to fill the energy deficit starting in 2005.

In 2003, Council approved several Long-term Energy Acquisition Plan (LEAP) objectives and guidelines. In 2005, implementation of the LEAP initiatives will continue and substantial staff effort will be focused towards transforming this plan into action. The purchase of renewable resources to meet the Council-approved Renewable Portfolio Standard for Palo Alto is also planned. It is expected that most of the supply contracts needed to achieve the goal of meeting 10% of Palo Alto's energy through renewable resources will be signed in 2005. Focus will also be placed on developing and implementing an integrated (across all commodities) energy efficiency plan, securing power purchases through Council approved enabling agreements and investigating the utilization of natural gas fired power plants to serve Palo Alto.



Electric Fund *continued*

The City has transmitted the electricity it generated or purchased electricity over Pacific Gas & Electric (PG&E) transmission lines pursuant to a contract between PG&E, the Northern California Power Agency (NCPA) and the City. This contract expired in March 2002 and a successor agreement was approved by the City Council in July 2002. Staff is working closely with NCPA and legal counsel to ensure that appropriate action is taken to obtain reliable and cost-effective transmission. The potential cost impacts of a changing California market structure (presently being proposed by the Independent System Operator (ISO) and the Federal Energy Regulatory Commission (FERC) combined with PG&E's non-cooperation in providing adequate transmission services could result in tremendous transmission-related cost increases. Potential cost increases could reach several million dollars per year. Staff will study alternate transmission delivery options and bring recommendations to Council.

Fiber to the Home (FTTH) Trial

The trial has been extended until such time as Council makes a decision about a full city build out of FTTH. The trial services continue to have a high level of customer satisfaction from the participants. The trial extension provides staff with additional opportunities to query participants about service, test alternative construction techniques and equipment, as well as new services or service delivery methods.

A business plan has been prepared for a FTTH business and is to be reviewed by the Utility Advisory Commission in the spring of 2004.

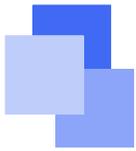
The development of the telecommunications unit laid the foundation to offer a high-level of expertise in the design, construction and operation of a fiber optic communications network to the business community in Palo Alto. Currently, CPAU provides service to approximately 80 customers either directly or indirectly through resellers of the fiber service. Several departments within the city are using the fiber system to improve service to the citizens and businesses of Palo Alto. Over the next year, Telecommunications will focus on attracting new customers while implementing the operational improvements and service enhancement recommendations from an outside auditing service.

Rate Adjustment

In 2001-02, a 43 percent or \$23 million increase in rates was adopted, with no change in electric rates for 2003-04. However, the anticipated cost impact of a significant reduction in low cost Western energy post-2004 and other power/transmission related costs indicates a 48 percent or \$17 million increase in purchase costs from 2003-04 to 2005-06. This cost increase, in combination with the discontinuance of net wholesale sales revenue in 2005-06 will require retail rate increases in 2004-06. To cushion ratepayers from these major on-going cost impacts, staff plans to use a combination of reserve withdrawals and two retail rate adjustments. In 2003-04, staff drew down upon the current surplus in the Electric Fund Rate Stabilization Reserve (RSR). However, in 2004-05 and 2005-06, staff plans consecutive retail rate increases of 8.5% and 17% percent respectively to cover the rising cost of wholesale power purchases, transmission costs, and to maintain the Distribution RSR above the minimum guideline level. The rate increase for 2004-05 will take effect on January 1, 2005.

In 2004-05, the Supply RSR is projected to end with a balance of \$52.5 million; higher than the maximum guideline level of \$37.9 million. By the end of 2005-06, staff projects that the Supply RSR surplus will be eliminated and will have an ending balance near the target guideline.

For 2004-05, the projected retail rate increase will help fund the Distribution RSR by approximately \$1.9 million. This will result in an ending balance in the Distribution RSR of \$6.9 million, which is below the target guideline level of \$8.1 million. The Calaveras Reserve will be funded by \$2.5 million for each year for an ending balance of \$73.0 million for 2004-05. This ending balance is within the Council approved reserve target.



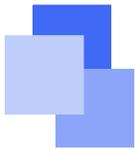
Electric Fund *continued*

NEW PROGRAM UPDATE

PaloAltoGreen Program

The Palo Alto Green Program offers "new" renewables (as defined by the California Energy Commission) to customers for a premium of 1.5 cents per kilowatt-hour over their applicable electric rate schedule. Introduced in July 2003, this program had a five-year goal of 2,000 participants. By December 31, 2003, participants already numbered over 1,800 residential and 40 commercial customers. This activity level places the City of Palo Alto in the top 10 of renewable energy programs in the country, and positions CPAU as possibly taking over the top spot in 2004-05.

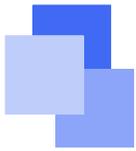
FUND SUMMARY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Net Sales	70,252,118	74,407,747	81,908,743	72,588,074	(1,819,673)
Interest Income	8,866,486	6,792,900	7,186,400	6,419,400	(373,500)
Other Income	25,901,402	18,700,314	9,495,844	10,770,212	(7,930,102)
TOTAL FUND REVENUES	\$105,020,006	\$99,900,961	\$98,590,987	\$89,777,686	\$(10,123,275)
Administration	5,272,123	5,718,491	5,648,455	5,827,480	108,989
General Services					
CIP	1,104,361	804,000	737,000	505,672	(298,328)
Operations	1,553,589	1,718,205	1,794,776	2,045,869	327,664
Resource Management					
Purchases	37,462,652	40,220,027	50,460,596	43,394,436	3,174,409
Operations	4,438,345	3,775,340	2,360,972	3,682,230	(93,110)
Customer Marketing and Financial Services	1,548,493	1,325,233	1,266,263	1,562,419	237,186
Distribution System					
Systems Improvement(CIP)	4,733,855	9,182,000	5,991,001	6,722,934	(2,459,066)
Customer Design and Connection Ser- vices(CIP)	1,616,082	1,915,000	2,010,000	2,014,104	99,104
Operations	7,520,060	8,204,382	8,488,315	8,003,339	(201,043)
Commercial Telecommunication					
Customer Design & Connection(CIP)	286,975	600,001	600,000	599,727	(274)
Operations	823,961	950,650	993,375	693,024	(257,626)
Public Benefit	2,081,772	1,559,332	1,806,924	1,628,944	69,612
Debt Service	5,761,983	5,656,515	6,321,857	6,321,857	665,342
Equity Transfer	7,761,544	7,994,390	8,234,222	8,234,222	239,832
Rent	3,405,383	3,025,316	3,116,075	3,062,565	37,249
Operating Transfers Out	5,529,361	830,695	249,212	303,382	(527,313)
TOTAL FUND EXPENDITURES	\$90,900,539	\$93,479,577	\$100,079,043	\$94,602,204	\$1,122,627
TO/FROM RESERVES	\$14,119,467	\$6,421,384	\$(1,488,056)	\$(4,824,518)	\$(11,245,902)
TOTAL FULL TIME POSITIONS	122.76	120.50	120.50	120.58	0.08
TOTAL TEMPORARY POSITIONS	4.43	3.29	3.29	3.29	0.00



Electric Fund *continued*

EXPENDITURES BY CATEGORY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Utility Purchases and Charges	37,462,652	40,220,027	50,460,596	43,394,436	3,174,409
Salaries and Benefits	8,675,632	9,685,964	10,214,427	10,222,383	536,419
Contract Services	5,164,100	4,706,959	2,673,448	3,811,448	(895,511)
Supplies and Materials	724,534	691,790	683,790	675,790	(16,000)
Facility and Equipment Purchases	60,133	133,480	133,480	133,480	0
General Expense	1,132,693	1,314,338	1,500,663	1,428,673	114,335
Rents and Leases	3,616,229	3,351,176	3,441,935	3,343,225	(7,951)
Allocated Charges	7,266,402	6,393,242	6,827,412	6,890,871	497,629
Debt Service	5,761,983	5,656,515	6,321,857	6,321,857	665,342
Equity Transfer	7,761,544	7,994,390	8,234,222	8,234,222	239,832
Operating Transfers Out	5,529,361	830,695	249,212	303,382	(527,313)
Capital Improvement Program	7,741,273	12,501,001	9,338,001	9,842,437	(2,658,564)
TOTAL EXPENDITURES	\$90,896,536	\$93,479,577	\$100,079,043	\$94,602,204	\$1,122,627

RESERVES (\$000)	2004-05 PROJECTED BEGINNING BALANCE	2004-05 CHANGES	2004-05 PROJECTED ENDING BALANCE	2004-05 RESERVE GUIDELINE RANGE
Emergency Plant Replacement	\$2,451	\$58	\$2,509	\$5,723
Distribution Rate Stabilization	9,190	(2,314)	6,876	5,378 -10,755
Supply Rate Stabilization	57,595	(5,133)	52,462	18,943 -37,886
Calaveras	70,464	2,500	72,964	72,919
Public Benefit	2,052	64	2,116	
Central Valley O&M	129		129	
Underground Loan	648		648	
Shasta Rewind Loan	64		64	
TOTAL RESERVES	\$142,593	\$(4,825)	\$137,768	\$

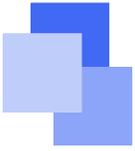


Electric Fund *continued*

RESOURCE LEVEL CHANGES

	2004-05 ONGOING	2004-05 ONE-TIME	2004-05 TOTAL
REVENUE CHANGES (\$000)			
Net Sales (Note 1)	(1,639)		(1,639)
Palo Alto Green (Note 2)	420		420
Miscellaneous Revenues	26		26
Wholesale Revenues *	(5,919)		(5,919)
CIP Reimbursement * (Note 3)		(1,375)	(1,375)
Fiber Optic License Fee	(600)		(600)
Interest Income	(374)		(374)
Operating Transfer from Other Funds	(362)		(362)
Central Valley Project Loan Repayments * (Note 4)	(300)		(300)
TOTAL REVENUE CHANGES	\$(8,748)	\$(1,375)	\$(10,123)
EXPENDITURE CHANGES (\$000)			
Salary and Benefits			
Personnel Benefits Costs (Notes 5 and 9)	1,600		1,600
Total Salary and Benefits Changes	\$1,600		\$1,600
Adjustments (Note 10)	(94)		(94)
Net Salary and Benefits Changes	\$1,506		\$1,506
Non-Salary			
Electric Commodity * (Note 6)	3,282		3,282
Program and Project Consultants (Note 7)	862		862
Joint Debt Service (Note 8)	665		665
Palo Alto Green (Note 2)	392		392
Equity Transfer *	240		240
Allocated Charges	176		176
General Expense	74		74
Capital Program Expense * (Note 9)	(3,631)		(3,631)
Legal*	(755)		(755)
Contract Services	(603)		(603)
Central Valley Project Loan Advances * (Note 4)	(500)		(500)
Operating Transfers Out *	(527)		(527)
COBUG	(50)		(50)
Rent and Leases	(8)		(8)
Total Non-Salary Changes	\$(382)		\$(382)
TOTAL EXPENDITURE CHANGES	\$1,123		\$1,123

*This item was included in the 2004-05 adopted-in-concept budget.



Electric Fund *continued*

RESOURCE LEVEL NOTES

Note 1: Adopted 8.5 percent rate increase effective January 1, 2005. Decrease is due to adjustment of base revenue in 2004-05.

Note 2: Projected revenue and commodity cost for the Palo Alto Green Program.

Note 3: One time payment from Pacific Bell for capital project.

Note 4: Loan advances to Central Valley Projects and payment back to the Fund. The difference between the amount loaned and the payment received is due to timing.

Note 5: The personnel benefits costs have escalated steeply during the year mainly due to health care increases for both current employees and retirees. In addition, workers compensation claims and citywide liability costs have increased.

Note 6: Increase due to increase in transmission cost and other power related cost.

Note 7: Increase mainly due to needs associated with studies, expertise and advice related to local generation feasibility.

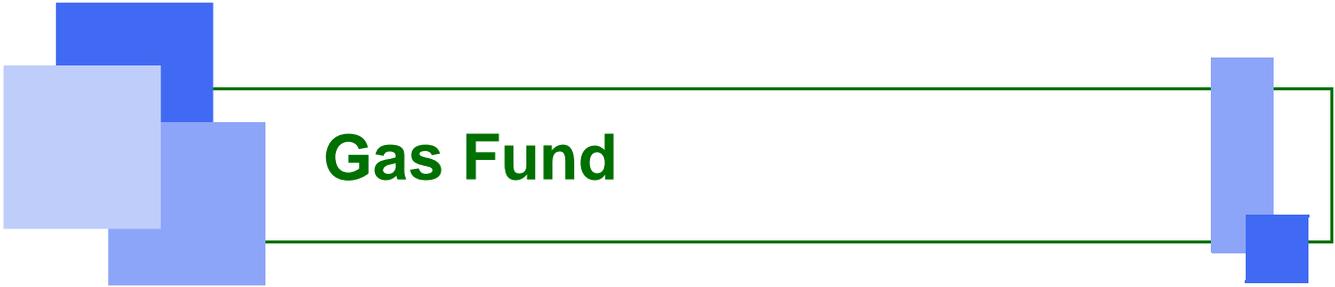
Note 8: Increase due to the increasing step pattern of debt service obligation to Calaveras Hydro Plant. As part of that refinancing, debt service obligations were lowered during years when electric competition was expected to be intense. Debt service obligations will continue to increase for the next few years before stabilizing.

Note 9: Decrease due to the Underground Conversion District #39 of \$3.0 million included in 2003-04. Total salaries and benefits allocated to the capital improvement program amounted to approximately \$1.0 million.

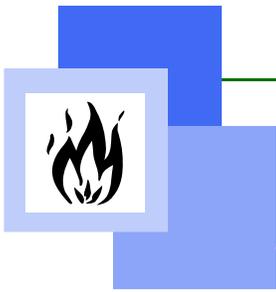
Note 10. Adjustments include prior year one-time revenue and expenditure items that did not carry forward into the Adopted Budget. Other changes are the result of one-time items that were in the 2003-04 mid-year adjustments.

SERVICE LEVEL CHANGES

The Long-Term Electric Acquisition Plan (LEAP) is a planning methodology to manage the City's supply portfolio, beginning with Council-approved Portfolio Planning Objectives and Risk Management Policies. By clearly identifying and capturing supply needs and risks, City staff will recommend long-term portfolio elements and short-term power purchases. During 2004-05, implementation of the LEAP initiatives will continue and staff efforts will focus towards transforming this plan into action. Service level impacts include securing favorable energy supplies for CPAU customers through both short- and long-term planning horizons. It is expected that most of the supply contracts needed to achieve the goal of meeting 10 percent of Palo Alto's energy through renewable resources will be signed during 2004-05.



Gas Fund



Gas Fund

To build value for our citizen owners, to provide dependable returns to the City and citizens of Palo Alto, and to be the preferred full service utility provider while sustaining the environment.

OVERVIEW

The City of Palo Alto Utilities (CPAU) plans to focus on customer service, infrastructure reliability, maintaining an excellent safety record, lowering supply costs, and containment of salary and non-salary costs during the next year budget cycle. These high priority areas are aligned with the strategies and objectives of the CPAU's strategic plan.

Resource Management

The 1997 Gas Accord resulted in open access to Pacific Gas and Electric Company's (PG & E) intrastate transportation market. The Gas Accord structure was extended through the end of 2005. However, rates are certain only through the end of 2004. Transportation rates for 2005 and regulatory initiatives to develop a stable long-term gas market structure will continue to be developed in the coming year. Staff has and will continue to allocate resources to protect CPAU interests in these initiatives. The main areas of interest for Palo Alto are preservation of low-cost transportation benefits, fair allocation of costs and reliable transportation to the City. Additional legal and consulting resources will be targeted to achieve cost savings. Risk related to the above regulatory uncertainty could raise transportation costs by up to \$1 million/year starting in 2004.

Council approved the Gas Utility Long-term Plan (GULP) objectives and guidelines in 2003-04. An implementation plan is being developed and will be finalized for Council approval in the early part of the coming year.

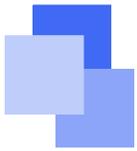
The primary objectives of the risk management program are to hedge volatile wholesale energy prices and provide stable prices to retail customers. In response to the extreme volatility of gas prices and due to feedback from customers, staff developed a commodity-hedging program that will stabilize costs for the non-direct access customers (residential and small commercial customers). For large customers that want to retain their choice under direct access, staff will continue to provide them commodity price choices while insulating other customers from price risk. Council approved Gas Enabling Agreements with several suppliers that allow the City to diversify credit risk. A revised three-year gas laddering strategy will be utilized to guide the gas purchasing strategy. However, staff is also developing the Gas Utility Long-Term Plan that will examine a range of transportation, storage, supply and efficiency alternatives.

Our largest commercial and industrial gas customers, in spite of the availability of alternative suppliers in the deregulated market, have remained steadfast buyers of natural gas from CPAU. With the mitigation of the historic price run-up in prices to more moderate levels, customers have been able to evaluate their gas purchase options in a rational manner. Rather than accepting the extreme volatility of a market-based rate, or worrying about the periodic market-price adjustments of their "regular" rate schedule (which could negatively affect their annual budgets), many customers chose a new CPAU "contract" rate which would lock in their usage at guaranteed prices for either a 12- or a 24-month period.

Reliability

Paramount to CPAU's mission and most important to customers, is the continued reliability of the gas distribution system. CPAU staff will focus on the continuation of the accelerated Gas Main Replacement Projects in 2005.

The terrorist events of 2001 prompted a re-evaluation of distribution security. A study was commissioned and the recommendations implemented. Security and safety continue to be evaluated on an on-going basis.



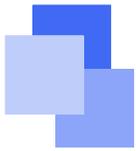
Gas Fund *continued*

Rate Adjustment

With a gas rate increase of 9.9 percent in 2004-05, the Adopted Budget results in a \$3.5 million withdrawal of the RSR, with an ending balance of approximately \$10.4 million. The Adopted Budget for 2004-05 results in a withdrawal of \$3.1 million from the Distribution RSR. The Distribution RSR is projected to end with a balance of \$3.9 million; higher than the target guideline of \$3.2 million. The Supply RSR ending balance is projected to end at \$6.6 million; lower than the target guideline of \$9.4 million.

NEW PROGRAM UPDATE

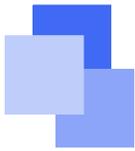
FUND SUMMARY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Net Sales	29,279,300	26,985,001	27,654,001	27,982,672	997,671
Interest Income	1,558,687	768,000	812,500	799,800	31,800
Other Income	448,561	2,875,180	1,621,180	664,180	(2,211,000)
TOTAL FUND REVENUES	\$31,286,548	\$30,628,181	\$30,087,681	\$29,446,652	\$(1,181,529)
Administration	2,334,659	2,593,891	2,470,091	2,511,222	(82,669)
Resource Management					
Purchases	15,328,987	17,562,004	16,238,517	17,130,710	(431,294)
Operations	606,810	1,046,060	776,369	1,081,569	35,509
Customer Marketing and Financial Services	956,819	1,181,438	1,229,404	1,263,622	82,184
Distribution System					
Systems Improvement(CIP)	3,828,580	5,108,999	4,693,500	3,039,079	(2,069,920)
Customer Design and Connection Ser- vices(CIP)	560,461	615,000	530,999	535,249	(79,751)
Operations	2,531,599	2,597,483	2,927,482	2,916,931	319,448
Public Benefits	70,830	264,268	266,766	258,741	(5,527)
Debt Service	590,749	950,628	950,490	950,490	(138)
Equity Transfer	2,625,728	2,704,500	2,785,635	2,785,635	81,135
Rent	276,680	138,484	142,639	127,550	(10,934)
Operating Transfers Out	841,590	2,625,944	1,283,174	305,217	(2,320,727)
TOTAL FUND EXPENDITURES	\$30,553,492	\$37,388,699	\$34,295,066	\$32,906,015	\$(4,482,684)
TO/FROM RESERVES	\$733,056	\$(6,760,518)	\$(4,207,385)	\$(3,459,363)	\$3,301,155
TOTAL FULL TIME POSITIONS	42.10	46.17	46.17	46.20	0.03
TOTAL TEMPORARY POSITIONS	1.67	2.15	2.15	2.15	0.00



Gas Fund *continued*

EXPENDITURES BY CATEGORY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Utility Purchases and Charges	15,328,987	17,664,004	16,238,517	17,232,710	(431,294)
Salaries and Benefits	2,788,452	3,068,068	3,230,073	3,477,251	409,183
Contract Services	306,826	941,250	749,300	799,300	(141,950)
Supplies and Materials	261,857	147,020	147,020	147,020	0
Facility and Equipment Purchases	62,414	58,340	55,290	55,290	(3,050)
General Expense	26,876	324,750	443,750	416,190	91,440
Rents and Leases	355,681	228,774	232,929	216,940	(11,834)
Allocated Charges	2,975,291	2,951,422	2,954,389	2,945,644	(5,778)
Debt Service	590,749	950,628	950,490	950,490	(138)
Equity Transfer	2,625,728	2,704,500	2,785,635	2,785,635	81,135
Operating Transfers Out	841,590	2,625,944	1,283,174	305,217	(2,320,727)
Capital Improvement Program	4,389,041	5,723,999	5,224,499	3,574,328	(2,149,671)
TOTAL EXPENDITURES	\$30,553,492	\$37,388,699	\$34,295,066	\$32,906,015	\$(4,482,684)

RESERVES (\$000)	2004-05 PROJECTED BEGINNING BALANCE	2004-05 CHANGES	2004-05 PROJECTED ENDING BALANCE	2004-05 RESERVE GUIDELINE RANGE
Emergency Plant Replacement	\$896	\$38	\$934	\$2,234
Distribution Rate Stabilization	6,954	(3,092)	3,862	2,118 - 4,236
Supply Rate Stabilization	6,961	(405)	6,556	6,275- 12,550
Debt Service Reserve	950		950	
Conservation Loan	34		34	
TOTAL RESERVES	\$15,795	\$(3,459)	\$12,336	\$



Gas Fund *continued*

RESOURCE LEVEL CHANGES

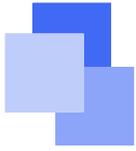
	2004-05 ONGOING	2004-05 ONE-TIME	2004-05 TOTAL
REVENUE CHANGES (\$000)			
Net Sales (Note 1)	998		998
CIP Reimbursement Charges		38	38
Interest Income	32		32
Connection Charges*	(79)		(79)
TOTAL REVENUE CHANGES	\$951	\$38	\$989
Adjustments* (Note 2)		(2,170)	(2,170)
NET REVENUE CHANGES	\$951	\$(2,132)	\$(1,181)
EXPENDITURE CHANGES (\$000)			
Salary and Benefits			
Personnel Benefits Costs (Notes 3 and 4)	741		741
Total Salary and Benefits Changes	\$741		\$741
Adjustments* (Note 2)		(39)	(39)
Net Salary and Benefits Changes	\$741	\$(39)	\$702
Non-Salary			
Equity Transfer*	81		81
General Expenses	47		47
Allocated Charges*	28		28
Capital Program Expense* (Note 4)	(2,443)		(2,443)
Gas Commodity*	(431)		(431)
Operating Transfer To Other Funds*	(321)		(321)
Contract Services	(142)		(142)
Facilities and Equipment Purchases	(4)		(4)
Total Non-Salary Changes	\$(3,185)		\$(3,185)
TOTAL EXPENDITURE CHANGES	\$(2,444)	\$(39)	\$(2,483)
Adjustments* (Note 2)		(2,000)	(2,000)
NET EXPENDITURE CHANGES	\$(2,444)	\$(2,039)	\$(4,483)

*This item was included in the 2004-05 adopted-in-concept budget.

RESOURCE LEVEL NOTES

Note 1: Adopted 9.9 percent utility rate increase.

Note 2: Adjustments include prior year one-time revenue and expenditure items that did not carry forward into the Adopted Budget. Other changes are the result of one-time items that were in the 2003-04 mid-year adjustments. Significant adjustments include: \$2,000,000 transfer from Supply Rate Stabilization Reserve to Distribution Rate Stabilization Reserve and one time operating transfer from Water Fund of \$170,000.



Gas Fund *continued*

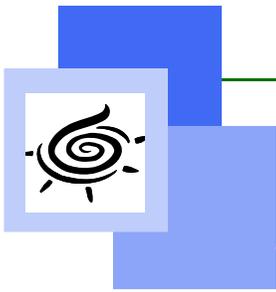
Note 3: The personnel benefits costs have escalated steeply mainly due to health care increases for both current employees and retirees. In addition, workers compensation claims and citywide liability costs have increased.

Note 4: Decrease primarily due to the net change in Gas Main Replacements- Project 13 of \$4.1 million in 2003-04 and Gas Main Replacements-Project 14 of \$2.2 million in 2004-05. Salaries and benefits allocated to the capital improvement program is approximately \$298,000.

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Wastewater Collection Fund



Wastewater Collection Fund

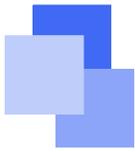
To build value for our citizen owners, to provide dependable returns to the City and citizens of Palo Alto, and to be the preferred full service utility provider while sustaining the environment.

OVERVIEW

City of Palo Alto Utilities (CPAU) plans to focus on customer service, infrastructure reliability, and cost containment during the next budget cycle. These high priority areas are aligned with the strategies and objectives of the Department's strategic plan.

Consistent with the department-wide goal of focusing on reliability concerns for customers, Wastewater Collection staff will continue the construction stages of several major capital improvement projects (CIP). A final draft of a new Wastewater Collection System Master Plan has been received, and will be used to compile future CIP recommendations. Utilities staff will continue overlapping the design and construction elements of the Rehabilitation/Augmentation projects. In 2004-05 construction for Projects 15 and 16 and design of Project 17 will be completed. The 1989 Master Plan incorporated findings from previous inflow/infiltration studies and compiled work priorities one through four. The 1989 Master Plan targeted the priority one work in its Capital Improvement Project (CIP) recommendations. Over the past 12 years most of the top priority CIP work has been completed. Since current technology allows dynamic modeling of collection systems, the updated master plan and model will provide engineering with more knowledge and data for staff to plan future CIP projects. This higher quality dynamic analysis may reduce the need for future CIP expenditures. Also planned is a continuation of the 5-year pilot program (started in 2000-01) to clean and video-inspect approximately 17,000 linear feet of large diameter (18 inches and larger) sanitary sewer mains per year. This effort will assess the necessity and parameters of designing an ongoing system-wide large diameter sewer cleaning program to comply with the upcoming USEPA's CMOM (Capacity, Management, Operations, and Maintenance) regulations. Knowledge gained from this study will help to target maintenance and CIP efforts to reduced the number of main stoppages. The sewer lateral and manhole replacement CIP will continue to reduce the backlog of necessary sewer lateral replacements.

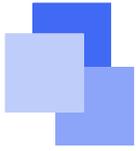
The 2004-05 Adopted Budget Rate Stabilization Reserve ending balance is projected to be \$3.5 million; below the minimum guideline level of \$ 3.9 million.



Wastewater Collection Fund *continued*

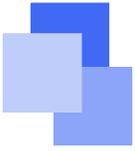
FUND SUMMARY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Net Sales	10,210,762	12,269,652	12,919,652	12,270,144	492
Interest Income	670,361	541,300	572,700	501,400	(39,900)
Other Income	466,681	666,200	676,200	676,200	10,000
TOTAL FUND REVENUES	\$11,347,804	\$13,477,152	\$14,168,552	\$13,447,744	\$(29,408)
Administration	959,531	1,175,924	1,132,214	1,078,198	(97,726)
Customer Marketing and Financial Services	172,253	203,859	224,396	187,620	(16,239)
Collection System					
Treatment Plant Charges	4,907,787	6,109,000	6,109,000	6,109,000	0
Systems Improvement(CIP)	2,471,576	4,749,001	4,355,000	3,000,377	(1,748,624)
Customer Design & Connection(CIP)	519,529	337,001	347,001	346,618	9,617
Operations	1,804,485	1,693,276	1,916,410	1,795,542	102,266
Debt Service	83,007	128,568	128,206	128,206	(362)
Rent	183,378	72,717	74,899	66,539	(6,178)
Operating Transfers Out	207,662	135,020	48,408	86,551	(48,469)
TOTAL FUND EXPENDITURES	\$11,309,208	\$14,604,366	\$14,335,534	\$12,798,651	\$(1,805,715)
TO/FROM RESERVES	\$38,596	\$(1,127,214)	\$(166,982)	\$649,093	\$1,776,307
TOTAL FULL TIME POSITIONS	26.23	27.32	27.32	27.33	0.01
TOTAL TEMPORARY POSITIONS	0.70	0.97	0.92	0.97	0.00

EXPENDITURES BY CATEGORY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Utility Purchases and Charges	4,907,787	6,109,000	6,109,000	6,109,000	0
Salaries and Benefits	1,142,832	1,253,261	1,317,871	1,173,060	(80,201)
Contract Services	220,336	116,100	116,100	116,100	0
Supplies and Materials	118,521	59,310	59,310	59,310	0
Facility and Equipment Purchases	96,174	13,650	13,650	13,650	0
General Expense	31,316	195,500	314,500	246,550	51,050
Rents and Leases	229,562	133,937	136,119	126,859	(7,078)
Allocated Charges	1,280,159	1,374,018	1,390,369	1,392,370	18,352
Debt Service	83,007	128,568	128,206	128,206	(362)
Operating Transfers Out	207,662	135,020	48,408	86,551	(48,469)
Capital Improvement Program	2,991,105	5,086,002	4,702,001	3,346,995	(1,739,007)
TOTAL EXPENDITURES	\$11,308,461	\$14,604,366	\$14,335,534	\$12,798,651	\$(1,805,715)



Wastewater Collection Fund *continued*

RESERVES (\$000)	2004-05 PROJECTED BEGINNING BALANCE	2004-05 CHANGES	2004-05 PROJECTED ENDING BALANCE	2004-05 RESERVE GUIDELINE RANGE
Emergency Plant Replacement	\$558	\$37	\$595	\$
Rate Stabilization	2,854	612	3,466	3,852-7,704
TOTAL RESERVES	\$3,412	\$649	\$4,061	\$



Wastewater Collection Fund *continued*

RESOURCE LEVEL CHANGES

	2004-05 ONGOING	2004-05 ONE-TIME	2004-05 TOTAL
REVENUE CHANGES (\$000)			
Other Income*	10		10
Interest Income	(39)		(39)
TOTAL REVENUE CHANGES	\$(29)		\$(29)
EXPENDITURE CHANGES(\$000)			
Salary and Benefits			
Personnel Benefits Costs	(62)		(62)
Total Salary and Benefits Changes	\$(62)		\$(62)
Adjustments (Note 1)	(17)		(17)
Net Salary and Benefits Changes	\$(79)		\$(79)
Non-Salary			
General Expense	51		51
Allocated Charges	18		18
Capital Program Expense * (Note 2)	(1,741)		(1,741)
Operating Transfer	(48)		(48)
Rent and Leases	(7)		(7)
Total Non-Salary Changes	\$(1,727)		\$(1,727)
TOTAL EXPENDITURE CHANGES	\$(1,806)		\$(1,806)

*This item was included in the 2004-05 adopted-in-concept budget.

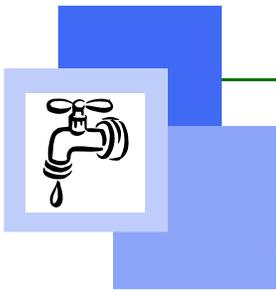
RESOURCE LEVEL NOTES

Note 1: Adjustments include prior year one-time revenue and expenditure items that did not carry forward into the Adopted Budget. Other changes are the result of one-time items that were in the 2003-04 mid-year adjustments.

Note 2. Decrease is primarily due to change in project estimates for Wastewater Collection System Rehabilitation/ Augmentation Project17.



Water Fund



Water Fund

To build value for our citizen owners, to provide dependable returns to the City and citizens of Palo Alto, and to be the preferred full service utility provider while sustaining the environment.

OVERVIEW

The City of Palo Alto Utilities (CPAU) plans to focus on customer service, infrastructure reliability, water quality, and cost containment during the next budget cycle. Besides containment of salary and non-salary costs in this economic downturn, CPAU will focus on providing a high quality and reliable source of water for its customers. These high priority areas are aligned with the strategies and objectives of the Department's strategic plan.

Resource Management

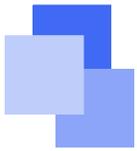
Due to the critical need to ensure sufficient water supplies under emergency situations, CPAU has accelerated the implementation of the recommendations of the 1999 Water Wells, Regional Storage, and Distribution Study. This study was commissioned to evaluate ways to improve the operation and reliability of the City's water distribution system, particularly during emergency situations. Project expenditures will total approximately \$22.0 million, funded through a combination of rates, reserves and bonds. Phase I of implementing the study has been modified to include EIR work for the complete Project and will be completed in 2004-05. In 2004-05, staff will focus on the continuation of the accelerated Water Main Replacement projects by constructing Project 17.

The terrorist events of 2001 prompted a re-evaluation of distribution facilities security. A study was commissioned and the recommendations implemented. Security and safety measures continue to be reviewed on an ongoing basis.

Palo Alto's water supplier, the San Francisco Public Utility Commission (SFPUC), has provided rate projections indicating that the City's wholesale costs will steadily increase through the year 2015. This is due to the planned \$3 billion construction program to repair and upgrade the SFPUC's regional water delivery system. This increase does not include the cost of new supplies.

Palo Alto is a member of the Bay Area Water Supply and Conservation Agency (BAWSCA), the group of cities, water districts, and private companies that purchase water from the SFPUC. BAWSCA was formed as a result of the City's advocacy efforts in 2002. Another result of that effort was the passage of a bill designed to improve the reliability of the regional water system. This bill sets a timeline for the SFPUC to complete critical projects to reduce the vulnerabilities of the regional water system. A second bill created a regional financing authority so that the BAWSCA agencies could help finance regional water system capital improvements. BAWSCA will be able to conduct planning, design, and construction of projects for the benefit of the members agencies. These projects may include development of conservation programs and the use of recycled water on a regional basis. Staff will be active in the actions and strategies considered by BAWSCA in the coming and future years.

Palo Alto's contract with SFPUC expires in 2009. Important tasks over the next two years will include development of draft principles for negotiation of the post-2009 contract as well as development of terms under which the new financing authority will finance the SFPUC's CIP projects. BAWSCA's Board, which comprises elected officials from each agency, will be closely involved with the development of the new contract.



Water Fund *continued*

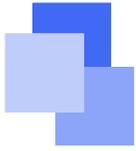
Staff is completing the development of a Water Integrated Resource Plan (WIRP) to evaluate all available supply alternatives. As a first and significant step in the WIRP, Council approved the WIRP guidelines in the current year. Implementation of these guidelines will continue in the coming year. The alternatives examined in the WIRP include increased conservation, recycled water, connection to the Santa Clara Valley Water District's treated water pipeline, and use of the groundwater in droughts or on an ongoing basis. All alternatives were evaluated as to cost, reliability, and availability in droughts, enhancement to emergency preparedness, and water quality impacts. At this stage, staff has concluded that SFPUC supplies are sufficient in normal water years, but that additional supplies are needed in droughts. Recycled water projects and the possible use of emergency wells only during droughts are being further evaluated to increase drought year reliability.

Rate Adjustment

The rise of CIP costs, the wholesale water rate increase enacted by SFPUC and the need to replenish the Rate Stabilization Reserve (RSR) are the factors that contributed to the adopted 10.3 percent rate increase in 2004-05.

In 2004-05, the adopted rate increase will fund operations approximately \$2.2 million. The 2004-05 projected Rate Stabilization Reserve ending balance is \$6.7 million; below the minimum guideline level of \$7.1 million.

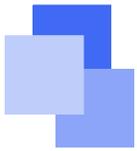
FUND SUMMARY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Net Sales	17,385,497	20,980,951	24,201,185	23,173,349	2,192,398
Interest Income	1,228,009	766,000	752,200	707,400	(58,600)
Other Income	328,579	505,431	416,099	466,100	(39,331)
TOTAL FUND REVENUES	\$18,942,085	\$22,252,382	\$25,369,484	\$24,346,849	\$2,094,467
Administration	1,597,515	1,833,922	1,777,548	1,906,523	72,601
Resource Management					
Purchases	5,735,440	7,449,837	8,252,772	7,577,562	127,725
Operations	294,420	448,219	459,241	500,003	51,784
Customer Marketing and Financial Services	1,007,998	1,205,510	1,262,649	1,182,233	(23,277)
Distribution System					
Systems Improvement(CIP)	1,630,976	6,622,400	2,533,499	4,564,317	(2,058,083)
Customer Design and Connection Services(CIP)	328,980	396,000	305,054	354,549	(41,451)
Operations	2,694,756	2,782,481	3,041,862	3,243,395	460,914
Debt Service	483,340	777,786	777,674	777,674	(112)
Equity Transfer	2,233,534	2,300,540	2,369,556	2,369,556	69,016
Rent	1,402,788	1,257,353	1,295,074	1,368,184	110,831
Operating Transfers Out	439,053	509,856	191,983	741,262	231,406
TOTAL FUND EXPENDITURES	\$17,848,800	\$25,583,904	\$22,266,912	\$24,585,258	\$(998,646)
TO/FROM RESERVES	\$1,093,285	\$(3,331,522)	\$3,102,572	\$(238,409)	\$3,093,113
TOTAL FULL TIME POSITIONS	37.41	39.76	39.76	39.79	0.03
TOTAL TEMPORARY POSITIONS	0.70	1.09	1.09	1.09	0.00



Water Fund *continued*

EXPENDITURES BY CATEGORY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Utility Purchases and Charges	5,735,440	7,449,837	8,252,772	7,577,562	127,725
Salaries and Benefits	2,548,353	3,079,296	3,240,356	3,387,299	308,003
Contract Services	289,140	326,122	321,122	437,397	111,275
Supplies and Materials	394,348	227,100	227,100	227,100	0
Facility and Equipment Purchases	33,964	53,610	53,610	53,610	0
General Expense	112,346	309,615	428,615	354,215	44,600
Rents and Leases	1,472,078	1,341,139	1,378,860	1,457,310	116,171
Allocated Charges	2,146,501	2,190,603	2,186,711	2,283,407	92,804
Debt Service	483,340	777,786	777,674	777,674	(112)
Equity Transfer	2,233,534	2,300,540	2,369,556	2,369,556	69,016
Operating Transfers Out	439,053	509,856	191,983	741,262	231,406
Capital Improvement Program	1,959,956	7,018,400	2,838,553	4,918,866	(2,099,534)
TOTAL EXPENDITURES	\$17,848,053	\$25,583,904	\$22,266,912	\$24,585,258	\$(998,646)

RESERVES (\$000)	2004-05 PROJECTED BEGINNING BALANCE	2004-05 CHANGES	2004-05 PROJECTED ENDING BALANCE	2004-05 RESERVE GUIDELINE RANGE
Emergency Plant Replacement	\$1,129	\$75	\$1,204	\$2,592
Rate Stabilization	7,041	(313)	6,728	7,105 - 14,211
Debt Service Reserve	778		778	
TOTAL RESERVES	\$8,948	\$(238)	\$8,710	\$



Water Fund *continued*

RESOURCE LEVEL CHANGES

	2004-05 ONGOING	2004-05 ONE-TIME	2004-05 TOTAL
REVENUE CHANGES (\$000)			
Net Sales * (Note 1)	2,192		2,192
Interest Income *	(59)		(59)
Utility Fees *	(41)		(41)
Operating Transfers In	2		2
TOTAL REVENUE CHANGES	\$2,094		\$2,094
EXPENDITURE CHANGES (\$000)			
Salary and Benefits			
Personnel Reclassifications	24		24
Personnel Benefits Costs * (Notes 2 and 4)	526		526
Total Salary and Benefits Changes	\$550		\$550
Adjustments (Note 3)	(33)		(33)
Net Salary and Benefits Changes	\$517		\$517
Non-Salary			
Water Commodity *	128		128
Operating Transfer to Other Funds	300		300
Allocated Charges	137		137
Rent and Leases	116		116
Contract Services	111		111
Capital Program Expense * (Note 4)	(2,308)		(2,308)
Total Non-Salary Changes	\$(1,516)		\$(1,516)
TOTAL EXPENDITURE CHANGES	\$(999)		\$(999)

*This item was included in the 2004-05 adopted-in-concept budget.

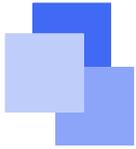
RESOURCE LEVEL NOTES

Note 1: Adopted 10.3 percent rate increase.

Note 2: The personnel benefits costs have escalated steeply during the year mainly due to health care increases for both current employees and retirees. In addition, workers compensation claims and citywide liability costs have increased.

Note 3: Adjustments include prior year one-time revenue and expenditure items that did not carry forward into the Adopted Budget. Other changes are the result of one-time items that were in the 2003-04 mid-year adjustments.

Note 4: Decrease due to two projects (Existing Well Rehabilitation and Water Main Replacements 17) included in 2003-04. Total salaries and benefits allocated to the capital improvement program amounted to approximately \$200,000.



Water Fund *continued*

SERVICE LEVEL CHANGES

In 2004-05 Adopted Budget, efforts to control rate increases resulted in a reduction of capital project expenditures of \$2.2 million. However, staff will continue to focus on completion of these existing projects.

In partnership with the Santa Clara Valley Water District, CPAU will recognize the benefits of positive economies of scale on several water conservation "Best Management Practices" (BMP) programs that will enable Palo Alto to meet their water efficiency obligations. BMPs include residential, commercial, industrial, and institutional efficiency measures for domestic water use, process use, and irrigation. In addition, staff will administer the "Landscape Standards" of the Palo Alto Municipal Code, and will expand promotion of installing dedicated irrigation water meters for use by commercial customers.

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Refuse Fund



Refuse Fund

To manage the solid, hazardous waste and street sweeping programs to minimize waste generation and maximize recycling in compliance with all regulatory requirements.

OVERVIEW

Based on the information provided in the 2002 Annual Report submitted to the California Integrated Waste Management Board, the City's 2002 landfill diversion rate has been determined to be 55 percent; well above the 50 percent mandate.

In 2003-04, Palo Alto Sanitation Company (PASCO) started a pilot program whereby over 3,900 tons of construction and demolition (C&D) debris were shipped offsite for recycling. PASCO will continue to augment this service in 2004-05 whereby, a minimum of 6,000 tons of C&D debris will be shipped offsite for recycling.

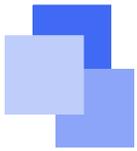
A C&D ordinance was approved by Council in 2003-04 and will be implemented in the second quarter of 2004-05. The enforcement of C&D ordinance requires an addition of 1.0 FTE Assistant Planner. This position will be located at the Development Center and will be fully cost recovered through a fee that will be added to building permits on projects in excess of \$75,000 in valuation. The implementation of the C&D ordinance is expected to reduce construction debris at the Palo Alto landfill.

The "single-stream" recycling program (whereby all recyclable are placed in one container) is scheduled to begin in 2005-06. Preparations will be undertaken in 2004-05, including initiating an educational campaign, purchasing wheeled carts for yard trimmings and garbage, along with acquiring compressed natural gas vehicles. An initial \$2.2 million for this program is included in the 2004-05 Adopted Budget.

The 2004-05 Adopted-In-Concept Budget included a capital improvement program (CIP) for the closure of 19 acres of the landfill. This CIP is being delayed to 2005-06 in order to accommodate a study on the Environmental Service Center (ESC).

Staff is presently developing the scope of work for a Program Environmental Impact Report for the proposed ESC and is planned to be presented to Council in the latter part of 2004-05. Staff will also develop a strategy to continue the utilization of landfill gas.

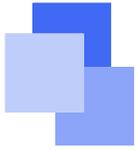
The 2004-05 Adopted Budget includes an average 10 percent increase in refuse rates or \$1.9 million. The rate increase is required due to increasing operating costs and to maintain the Rate Stabilization Reserve (RSR) within the reserve guideline level adopted by Council. The last rate increase was in 1997. The RSR is expected to have an ending balance of \$2.5 million, which is below the target level of \$3.1 million.



Refuse Fund *continued*

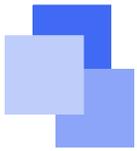
FUND SUMMARY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Net Sales	18,882,695	18,671,951	20,539,346	20,539,346	1,867,395
Interest Income	948,200	796,000	842,100	662,300	(133,700)
Other Income	2,893,393	3,826,324	3,823,573	3,907,948	81,624
TOTAL FUND REVENUES	\$22,724,288	\$23,294,275	\$25,205,019	\$25,109,594	\$1,815,319
Administration	1,437,790	1,538,340	1,558,135	1,527,224	(11,116)
Solid Waste					
Systems Improvement(CIP)	115,550	(875,000)	1,500,000	50,000	925,000
Operations	3,855,969	5,454,989	5,815,157	6,416,312	961,323
Collection, Hauling and Disposal					
Payment to PASCO	7,965,178	8,356,425	8,693,530	8,107,587	(248,838)
Operations	3,663,452	3,987,149	4,106,526	6,183,204	2,196,055
Street Sweeping	1,387,223	1,614,593	1,716,209	1,641,642	27,049
Debt Service	306,007	398,126	398,126	398,126	0
Rent	5,288,747	4,288,747	4,288,747	4,288,747	0
Operating Transfers Out	485,987	449,081	248,468	259,505	(189,576)
TOTAL FUND EXPENDITURES	\$24,505,903	\$25,212,450	\$28,324,898	\$28,872,347	\$3,659,897
TO/FROM RESERVES	\$(1,781,615)	\$(1,918,175)	\$(3,119,879)	\$(3,762,753)	\$(1,844,578)
TOTAL FULL TIME POSITIONS	32.70	33.60	33.60	35.07	1.47
TOTAL TEMPORARY POSITIONS	1.00	0.00	1.48	0.00	0.00

EXPENDITURES BY CATEGORY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Utility Purchases and Charges	7,965,178	8,356,425	8,693,530	8,107,587	(248,838)
Salaries and Benefits	2,511,799	2,991,029	3,160,572	3,310,161	319,132
Contract Services	2,501,405	2,993,838	2,996,338	3,055,838	62,000
Supplies and Materials	272,943	301,246	301,246	2,325,046	2,023,800
Facility and Equipment Purchases	7,890	26,500	26,500	26,500	0
General Expense	2,503,874	2,837,927	2,952,680	2,952,680	114,753
Rents and Leases	5,304,745	4,303,447	4,303,447	4,302,947	(500)
Allocated Charges	2,530,525	3,429,831	3,743,991	4,083,957	654,126
Debt Service	306,007	398,126	398,126	398,126	0
Operating Transfers Out	485,987	449,081	248,468	259,505	(189,576)
Capital Improvement Program	115,550	(875,000)	1,500,000	50,000	925,000
TOTAL EXPENDITURES	\$24,505,903	\$25,212,450	\$28,324,898	\$28,872,347	\$3,659,897



Refuse Fund *continued*

RESERVES (\$000)	2004-05 PROJECTED BEGINNING BALANCE	2004-05 CHANGES	2004-05 PROJECTED ENDING BALANCE	2004-05 RESERVE GUIDELINE RANGE
Rate Stabilization Reserve	\$6,291	\$(3,763)	\$2,528	\$2,053 - 4,107
Landfill closure and postclosure care reserve	6,446		6,446	
Water Resources Board Reserve	590		590	
TOTAL RESERVES	\$13,327	\$(3,763)	\$9,564	\$



Refuse Fund *continued*

RESOURCE LEVEL CHANGES

	2004-05 ONGOING	2004-05 ONE-TIME	2004-05 TOTAL
REVENUE CHANGES (000)			
Net Sales* (Note 1)	1,867		1,867
Application Fee (Note 2)	84		84
Interest Income	(134)		(134)
Operating Transfer from Parking District	(2)		(2)
TOTAL REVENUE CHANGES	\$1,815		\$1,815
EXPENDITURE CHANGES (000)			
Salary and Benefits			
Add: 1.0 FTE Associate Planner (Note 3)	96		96
Transfer from Police Department: 0.25 Code Enforcement Officer (Note 4)	23		23
Reclassification: 1.0 FTE Administrator Public Works to Senior Administrator	7		7
Personnel Benefit Costs (Note 5)	193		193
Total Salary and Benefits Changes	\$319		\$319
Non-Salary			
Supplies & Materials (Note 6)		2,024	2,024
Interest Expense on Deferred Rental to General Fund*	286	934	1,220
Kirby Disposal Fee*	115		115
Contract Services	62		62
Capital Improvement Projects	(350)		(350)
PASCO Contract*	(249)		(249)
Transfers to Other Funds*	(190)		(190)
Allocated Charges*	161		161
Total Non-Salary Changes	\$(165)	\$2,958	\$2,793
TOTAL EXPENDITURE CHANGES	\$154	\$2,958	\$3,112
Adjustments (Note 7)		548	548
NET EXPENDITURE CHANGES	\$154	\$3,506	\$3,660

*This item was included in the 2004-05 adopted-in-concept budget.

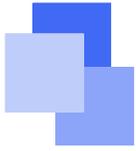
RESOURCE LEVEL NOTES

Note 1: Adopted 10 percent rate increase.

Note 2: New revenue generated from the enforcement of construction and demolition recycling ordinance (C&D).

Note 3: New position for the administration of the C&D ordinance. Offset by revenue.

Note 4: Share of the Refuse Fund for the consolidation of the code enforcement program under the Police Department.



Refuse Fund *continued*

Note 5: The personnel benefits costs have escalated steeply mainly due to health care increases for both current employees and retirees. In addition, workers compensation claims and citywide liability costs have increased.

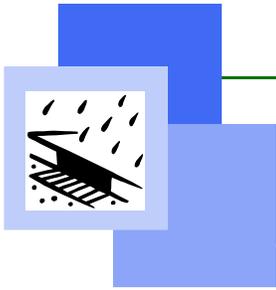
Note 6: Cost of wheeled carts for yard trimmings and garbage including compressed natural gas vehicles for the implementation of the proposed “single stream” program.

Note 7: Adjustments include prior year one-time revenue and expenditure items that did not carry forward into the Adopted Budget. Other changes are the result of one-time items that were in the 2003-04 mid-year adjustments.

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Storm Drainage Fund



Storm Drainage Fund

To operate, maintain, replace and augment the storm drainage system ensuring adequate local drainage and storm water quality for discharge to the creeks and the San Francisco Bay.

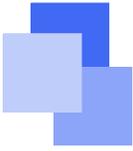
OVERVIEW

The Storm Drainage Fund continues to experience an operating deficit due to insufficient revenue from existing utility rates. Storm Drainage user rates have not been increased since 1994 due to restrictions imposed by Proposition 218. \$0.8 million in annual supplemental funding from the General Fund is required in order to maintain the current level of service for storm drain maintenance and storm water quality protection programs. This situation inhibits new funding for new storm drain capital improvements. In the 2004-05 Adopted Budget, staff will seek Council approval of a plan and funding mechanism to construct storm drain infrastructure improvement and implement an enhanced storm drain maintenance program. Subject to input from the community and Council, a property owner election seeking approval of a higher monthly Storm Drainage Fee may be conducted during 2004-05. If additional funding is secured, storm drain maintenance program enhancements and infrastructure improvements will be implemented in 2005-06.

A baseline preventive maintenance program along with coordination with the Santa Clara Valley Water District and the Federal Emergency Management Agency on flood control and flood insurance issues will continue into 2004-05. A review of land development applications to ensure compliance with storm water quality regulations will also be a focus. The City will actively participate in the San Francisquito Creek Joint Powers Authority's efforts to work with the US Army Corps of Engineers to identify a comprehensive solution to flooding and erosion problems on San Francisquito Creek.

The annual General Fund operating transfer to the Storm Drain Fund is \$0.8 million in 2004-05. The Storm Drain Fund Rate Stabilization Reserve (RSR) has a projected ending balance of \$0.4 million, which meets the appropriate debt service covenants.

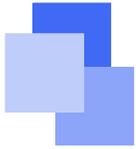
FUND SUMMARY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Net Sales	2,162,120	2,123,570	2,123,570	2,184,870	61,300
Interest Income	76,764	38,400	34,300	42,000	3,600
Other Income	948,372	849,150	849,150	849,150	0
TOTAL FUND REVENUES	\$3,187,256	\$3,011,120	\$3,007,020	\$3,076,020	\$64,900
Administration	677,874	499,836	504,858	506,348	6,512
Systems Improvements					
Systems Improvement(CIP)	486,125	177,001	184,000	0	(177,001)
Operations	283,954	197,960	203,309	354,130	156,170
Operations & Maintenance	853,612	1,072,456	1,107,599	1,219,142	146,686
Debt Service	671,790	948,260	947,370	947,370	(890)
Operating Transfers Out	44,711	41,024	12,436	13,036	(27,988)
TOTAL FUND EXPENDITURES	\$3,018,066	\$2,936,537	\$2,959,572	\$3,040,026	\$103,489
TO/FROM RESERVES	\$169,190	\$74,583	\$47,448	\$35,994	\$(38,589)
TOTAL FULL TIME POSITIONS	9.75	9.75	9.75	9.90	0.15
TOTAL TEMPORARY POSITIONS	0.00	0.00	0.00	0.00	0.00



Storm Drainage Fund *continued*

EXPENDITURES BY CATEGORY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Salaries and Benefits	744,173	839,119	884,230	1,118,489	279,370
Contract Services	157,638	234,629	234,629	234,629	0
Supplies and Materials	42,742	70,250	70,250	70,250	0
Facility and Equipment Purchases	1,477	13,621	13,621	13,621	0
General Expense	148,460	103,200	103,200	103,200	0
Rents and Leases	1,666	6,000	6,000	6,000	0
Allocated Charges	719,284	503,433	503,836	533,431	29,998
Debt Service	671,790	948,260	947,370	947,370	(890)
Operating Transfers Out	44,711	41,024	12,436	13,036	(27,988)
Capital Improvement Program	486,125	177,001	184,000	0	(177,001)
TOTAL EXPENDITURES	\$3,018,066	\$2,936,537	\$2,959,572	\$3,040,026	\$103,489

RESERVES (\$000)	2004-05 PROJECTED BEGINNING BALANCE	2004-05 CHANGES	2004-05 PROJECTED ENDING BALANCE	2004-05 RESERVE GUIDELINE RANGE
Distribution RSR	\$335	\$36	\$371	\$
TOTAL RESERVES	\$335	\$36	\$371	\$



Storm Drainage Fund *continued*

RESOURCE LEVEL CHANGES

	2004-05 ONGOING	2004-05 ONE-TIME	2004-05 TOTAL
REVENUE CHANGES (\$000)			
Net Sales (Note 1)	61		61
Interest Income	4		4
TOTAL REVENUE CHANGES	\$65		\$65
EXPENDITURE CHANGES (\$000)			
Salary and Benefits			
Personnel Benefit Costs* (Notes 2 and 3)	279		279
Total Salary and Benefits Changes	\$279		\$279
Non-Salary			
Capital Improvement Program (Note 3)	(177)		(177)
Allocated Charges	30		30
Total Non-Salary Changes	\$(147)		\$(147)
Adjustments (Note 4)		(29)	(29)
TOTAL EXPENDITURE CHANGES	\$132	\$(29)	\$103

*This item was included in the 2004-05 adopted-in-concept budget.

RESOURCE LEVEL NOTES

Note 1: Revenue is adjusted to reflect actual revenue sales in prior years. This adjustment is needed due to an underestimation of revenue and increases in the amount of impervious surface (basis of the storm drainage fee) on residential and commercial parcels as a result of land development projects.

Note 2: The personnel benefits costs have escalated steeply during the last two years mainly due to health care increases for both current employees and retirees. In addition, workers compensation claims and citywide liability costs have increased.

Note 3: In 2004-05, all costs related to the systems improvement capital improvement project were transferred to the operations side of the project. This transfer resulted to an additional increase in salaries and benefits of \$177,001 and a corresponding decrease of the same amount in the capital improvement program. Increase in salaries and benefits pertaining to benefits is approximately \$102,000.

Note 4: Adjustments include prior year one-time revenue and expenditure items that did not carry forward into the Adopted Budget. Other changes are the result of one-time items that were in the 2003-04 mid-year adjustments.

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Wastewater Treatment Fund



Wastewater Treatment Fund

To operate, maintain and monitor the Regional Water Quality Control Plant 24 hours a day, every day; to treat all wastewater from the five partner cities' regional service area (Mountain View, Los Altos, Los Altos Hills, Stanford, and East Palo Alto) and to ensure the maximum feasible compliance with regulations protecting the San Francisco Bay and the environment.

OVERVIEW

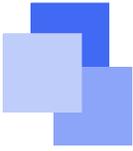
In 2003-04 the Public Works Department negotiated a new discharge permit for the Regional Water Quality Control Plant (RWQCP) which requires further work to reduce the discharge of mercury, and studies for cyanide and by-products of chlorination. A dialogue with local dentists resulted in new Ordinance provisions which were adopted in 2003-04 and will be implemented in 2004-05. Implementation will involve working with each dentist office as they install separators to recover the mercury in amalgam fillings.

The new permit for the RWQCP allows Palo Alto to test and control for Enterococci (rather than Coliform) in the Plant's discharge. This switch more closely targets human pathogens while allowing less chlorine to be used. The change will save money and reduce potential human exposure to chlorine and its toxic by-products.

\$5.2 million in Capital Improvement Program (CIP) expense is planned for 2004-05. CIP projects include: Replacement of Existing Reclaimed Water Pipes, Landfill Gas Incineration, Plant Equipment Replacement and System Flow Meter Replacement Program.

The Rate Stabilization Reserve (RSR) is expected to have an ending balance of \$6.3 million which is above the \$4.2 million maximum guideline level. It is anticipated that up to \$1.0 million of the RSR will be needed for the Reclaimed Water CIP in 2005-06.

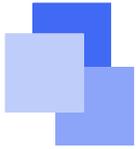
FUND SUMMARY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Net Sales	13,397,840	16,213,766	16,213,766	16,903,630	689,864
Interest Income	674,240	548,900	578,100	463,300	(85,600)
Other Income	158,034	579,395	2,560,645	3,060,645	2,481,250
TOTAL FUND REVENUES	\$14,230,114	\$17,342,061	\$19,352,511	\$20,427,575	\$3,085,514
Administration	1,450,346	1,850,627	1,823,569	1,786,068	(64,559)
Operations					
Systems Improvement(CIP)	2,372,226	3,029,999	5,180,000	5,179,934	2,149,935
Operations	7,889,551	8,731,474	9,149,443	9,776,788	1,045,314
Environmental Compliance	2,183,769	2,558,269	2,634,879	2,706,979	148,710
Debt Service	526,761	817,584	823,802	823,802	6,218
Operating Transfers Out	157,552	120,120	37,182	37,181	(82,939)
TOTAL FUND EXPENDITURES	\$14,580,205	\$17,108,073	\$19,648,875	\$20,310,752	\$3,202,679
TO/FROM RESERVES	\$(350,091)	\$233,988	\$(296,364)	\$116,823	\$(117,165)
TOTAL FULL TIME POSITIONS	68.00	68.00	68.00	68.15	0.15
TOTAL TEMPORARY POSITIONS	0.63	0.63	0.63	0.63	0.00



Wastewater Treatment Fund *continued*

EXPENDITURES BY CATEGORY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Salaries and Benefits	5,754,208	6,822,961	7,197,023	7,759,632	936,671
Contract Services	1,228,288	1,687,780	1,687,780	1,723,780	36,000
Supplies and Materials	1,047,185	1,113,800	1,113,800	1,150,800	37,000
Facility and Equipment Purchases	2,751	41,000	41,000	41,000	0
General Expense	108,298	94,650	94,650	143,650	49,000
Rents and Leases	16,968	30,500	30,500	25,500	(5,000)
Allocated Charges	3,365,968	3,349,679	3,443,138	3,425,473	75,794
Debt Service	526,761	817,584	823,802	823,802	6,218
Operating Transfers Out	157,552	120,120	37,182	37,181	(82,939)
Capital Improvement Program	2,372,226	3,029,999	5,180,000	5,179,934	2,149,935
TOTAL EXPENDITURES	\$14,580,205	\$17,108,073	\$19,648,875	\$20,310,752	\$3,202,679

RESERVES (\$000)	2004-05 PROJECTED BEGINNING BALANCE	2004-05 CHANGES	2004-05 PROJECTED ENDING BALANCE	2004-05 RESERVE GUIDELINE RANGE
Emergency Plant Replacement	\$1,719	\$88	\$1,807	\$1,421
Distribution RSR	6,234	29	6,263	2,094 - 4,188
Bond Proceeds (Restricted)	61		61	
TOTAL RESERVES	\$8,014	\$117	\$8,131	\$



Wastewater Treatment Fund *continued*

RESOURCE LEVEL CHANGES

	2004-05 ONGOING	2004-05 ONE-TIME	2004-05 TOTAL
REVENUE CHANGES (\$000)			
Net Sales	690		690
Interest income	(86)		(86)
Reimbursement from other agencies on Capital Improvement Project (WQ-04010)*		2,500	2,500
Reimbursement from Water Fund on Capital Improvement Project (WQ-04010)*		500	500
NET REVENUE CHANGES	\$604	\$3,000	\$3,604
Adjustments (Note 1)		(519)	(519)
TOTAL REVENUE CHANGES	\$604	\$2,481	\$3,085
EXPENDITURE CHANGES (\$000)			
Salary and Benefits			
Add: 1.0 FTE Sr Operator WQC	99		99
Drop: 1.0 FTE Engineering Technician III	(81)		(81)
Add: WQC Plant Operator II	88		88
Drop: 1.0 FTE Maintenance Mechanic	(86)		(86)
Reclassification: 1.0 FTE Administrator Public Works to Senior Administrator	7		7
Personnel Benefit Costs (Note 2)	918		918
Total Salary and Benefit Changes	\$945		\$945
Non-Salary			
Capital program expense *		2,142	2,142
Other general expenses	50		50
Other contract services	36		36
Other supplies and materials and other expenses	37		37
Allocated charges	76		76
Total Non-Salary Changes	\$199	\$2,142	\$2,341
TOTAL EXPENDITURE CHANGES	\$1,144	\$2,142	\$3,286
Adjustments (Note 1)		(83)	(83)
TOTAL EXPENDITURE CHANGES	\$1,144	\$2,059	\$3,203

*This item was included in the 2004-05 adopted-in-concept budget.

RESOURCE LEVEL NOTES

Note 1: Adjustments include prior year one-time revenue and expenditure items that did not carry forward into the Adopted Budget. Other changes are the result of one-time items that were in the 2003-04 mid-year adjustments.

Note 2: The personnel benefits costs have escalated steeply mainly due to health care increases for both current employees and retirees. In addition, workers compensation claims and citywide liability costs have increased.

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CPA External Services



CPA External Services

Provide quality, IT solutions tailored to the needs of the public sector by establishing and growing relationships built on mutual trust and cooperation, with a commitment to customer service, communication and measurable quality.

OVERVIEW

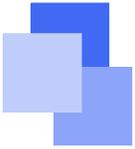
The fund provides information technology (IT) services to municipalities through the Information Technology Service Provider (ITSP) program. In 2001-02, ITSP staff established contracts to provide services to Los Altos and East Palo Alto. Since then, five new municipal contracts have been established with the cities of Emeryville, Menlo Park, Atherton, Los Altos Hills and Saratoga. Fund expenditures are fully supported by revenue generated from these contracts. ITSP offers the following services:

- IT Help Desk Services
- On-Site Support Services
- Web Services
- IT Consulting Services
- Application Services
- Geographical Information System (GIS) Services

In 2004-05 ITSP staff will complete and implement a 3-year business plan for continued service expansion and revenue generation. This plan will set goals for providing ongoing support to the General Fund.

The projected balance of Rate Stabilization Reserve (RSR) for 2004-05 is \$51,000.

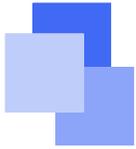
FUND SUMMARY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Interest Income	(4,688)	400	400	0	(400)
Other Income	606,694	839,285	889,285	1,044,829	205,544
TOTAL FUND REVENUES	\$600,256	\$839,685	\$889,685	\$1,044,829	\$205,144
Information Technology Services	599,895	800,216	837,137	1,000,571	200,355
Operating Transfers Out	5,000	20,000	20,000	20,000	0
TOTAL FUND EXPENDITURES	\$604,895	\$820,216	\$857,137	\$1,020,571	\$200,355
TO/FROM RESERVES	\$(4,639)	\$19,469	\$32,548	\$24,258	\$4,789
TOTAL FULL TIME POSITIONS	7.00	5.70	5.70	5.70	0.00
TOTAL TEMPORARY POSITIONS	0.00	0.00	0.00	0.00	0.00



CPA External Services *continued*

EXPENDITURES BY CATEGORY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Salaries and Benefits	458,423	604,783	701,704	781,291	176,508
Contract Services	71,010	96,000	36,000	119,000	23,000
Supplies and Materials	6,685	13,000	13,000	13,000	0
General Expense	5,329	7,400	7,400	7,400	0
Allocated Charges	58,448	79,033	79,033	79,880	847
Operating Transfers Out	5,000	20,000	20,000	20,000	0
TOTAL EXPENDITURES	\$604,895	\$820,216	\$857,137	\$1,020,571	\$200,355

RESERVES (\$000)	2004-05 PROJECTED BEGINNING BALANCE	2004-05 CHANGES	2004-05 PROJECTED ENDING BALANCE	2004-05 RESERVE GUIDELINE RANGE
Information Technology RSR	\$27	\$24	\$51	\$
TOTAL RESERVES	\$27	\$24	\$51	\$



CPA External Services *continued*

RESOURCE LEVEL CHANGES

	2004-05 ONGOING	2004-05 ONE-TIME	2004-05 TOTAL
REVENUE CHANGES (\$000)			
Charges for Services	205		205
TOTAL REVENUE CHANGES	\$205		\$205
EXPENDITURE CHANGES (\$000)			
Salary and Benefits			
Personnel Benefit Costs (Note 1)	176		176
Total Salary and Benefits Changes	\$176		\$176
Non-Salary			
Program & project consultants	23		23
Allocated charges	1		1
Total Non-Salary Changes	\$24		\$24
TOTAL EXPENDITURE CHANGES	\$200		\$200

*This item was included in the 2004-05 adopted-in-concept budget.

RESOURCE LEVEL NOTES

Note 1: The personnel benefits costs have escalated steeply mainly due to health care increases for both current employees and retirees. In addition, workers compensation claims and citywide liability costs have increased.

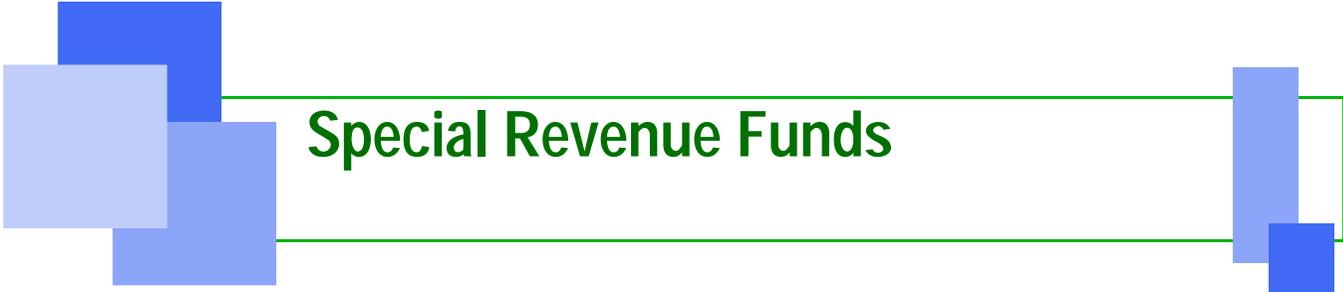
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Other Funds



Special Revenue Funds



Special Revenue Funds

An Overview

Special Revenue Funds include revenues that have either restrictions on their use, or special reporting requirements. These Funds consist of development impact fees for parks, community centers, and libraries; gas tax revenues from the State; housing mitigation fees assessed on commercial and industrial projects; in-lieu fees for the City's Below Market Rate (BMR) housing program; transportation mitigation fees paid by developers; and parking in-lieu fees from commercial projects in the downtown area. Also included are parking permit revenues and the Community Development Block Grants (CDBG) from the Federal Government.

Community Development Funds

Revenue in this fund comes from the development impact fees for parks, community centers, and libraries. The development impact fees collected from new developments provides funding for the City's infrastructure related to parks, community centers and libraries. The projected revenue for the development impact fees in 2004-05 is \$0.6 million

Street Improvement Funds (SIF)

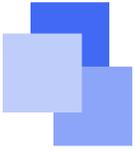
Revenue in this Fund comes from the State gas tax and, from Federal and State grants earmarked for street improvements. The SIF provides funds for transportation and traffic-related capital projects. Based on projected gas tax revenues and interest income earnings, revenues are estimated to be \$1.13 million for fiscal year 2004-05. In 2004-05, the City will no longer receive County Measure A and B funds, which were used to augment the City's street resurfacing program.

Federal and State Revenue Funds

The Federal and State Revenue Fund consists primarily of CDBG monies. CDBG funds are used for a wide variety of community projects such as affordable housing and public services, and project expenditures are also supported by program income. CDBG project expenditures continue to draw upon program income and prior year allocations that have been left unspent. For 2004-05, there is a slight increase of \$25,000 in Federal Grant funding from the Department of Housing and Urban Development (HUD).

Housing In-lieu Funds

In-lieu housing revenues result from fees required of commercial, industrial and residential developers. These fees are used to provide housing for the City's



Special Revenue Funds *continued*

subsidized Housing Program. Any new projects will be brought to the Council for specific appropriation.

Special Districts Funds

Revenue in this Fund comes from parking permits and is used for maintenance of parking facilities within the University Avenue and California Avenue business districts. The parking permit fees for the parking facilities within University Avenue were increased in fiscal year 2002-03 due to additional operating and maintenance expense of two new parking garages, completed in the Fall of 2003.

Traffic Mitigation and Parking In-Lieu Funds

Traffic mitigation fee revenues derive from fees or contributions required to alleviate anticipated traffic congestion resulting from new, non-residential projects. Parking in-lieu fees result from commercial projects in assessment district areas which contribute a fee for future parking spaces in-lieu of providing the required spaces as part of the development.

Public Benefit Funds

Revenue in these funds results from a senior housing project on Hamilton Avenue and contributions and mitigation fees paid as a result of Planned Community Zone approvals. The Hamilton Avenue funds will continue to be used by Avenidas (formerly Senior Coordinating Council) to provide services to seniors.

Downtown Business Improvement District (BID)

On January 12, 2004, the Palo Alto City Council adopted an ordinance establishing the Palo Alto Business Improvement District (BID). The funding for BID comes from assessments levy against businesses in the BID and will be used to finance improvements and activities that benefit the businesses.

2004-05 SPECIAL REVENUE FUNDS SUMMARY BY FUND

(\$000)	Community Develop. Funds	Street Improve- ment Funds	Federal & State Revenue Funds	Housing In-Lieu Funds	Special Districts Funds	Traffic Mitigation & Parking In-Lieu Funds	Public Benefits Funds	BID Funds	Total Special Revenue Funds
REVENUES									
Gas Tax		1,125							1,125
Federal and State Grants			816						816
Parking Permit/In-Lieu Fees				400	843	480			1,723
Development Impact Fees	553								553
Interest Income	7	49	13	157	63	102	12		403
Operating Transfers			34						34
Other Revenue			17	9					26
Business Improvement District (BID) Special Assessment								154	154
Total Source of Funds	\$560	\$1,174	\$880	\$565	\$906	\$582	\$12	\$154	\$4,833
EXPENDITURES									
CDBG Project Expenditures			784						784
CDBG Administration Cost Recovery			145						145
Planning / Public Works Department Transfer for Street Improvement Cost Recovery		293							293
Street Improvement Fund CIP Transfer		1,725							1,725
Parking Facilities Debt Service Transfer					80				80
Parking Garage Maintenance/ Operations Transfer to General Fund					712				712
Parking Lot Sweeping Transfer to Refuse Fund					62				62
CDBG Projects Transfer from HIP Revenues			34						34



2004-05 SPECIAL REVENUE FUNDS SUMMARY BY FUND CONTINUED

(\$000)	Community Develop. Funds	Street Improve- ment Funds	Federal & State Revenue Funds	Housing In-Lieu Funds	Special Districts Funds	Traffic Mitigation & Parking In-Lieu Funds	Public Benefits Funds	BID Funds	Total Special Revenue Funds
Below Market Rate (BMR) Program Management Contract				100					100
BMR Loan Program				20					20
Residential Housing In-Lieu				300					300
Commercial Housing In-Lieu				50					50
Senior Services Grant							59		59
BID Operating Expense								154	154
Total Use of Funds	\$0	\$2,018	\$963	\$470	\$854	\$0	\$59	\$154	\$4,518
NET TO (FROM) RESERVES	\$560	\$(844)	\$(83)	\$95	\$52	\$582	\$(47)	\$0	\$315

CONSOLIDATED SPECIAL REVENUE FUNDS

(\$000)	2002-03 Actual	2003-04 Adjusted Budget	2004-05 Adopted Budget	2004-05 Budget Change
REVENUES				
Gas Tax	1,265	1,125	1,125	0
Federal and State Grants	139	146	0	(146)
Federal CDBG	1,648	791	816	25
Housing In-Lieu	636	250	400	150
Traffic Mitigation Fees	0	200	200	0
Developer Impact Fees	0	553	553	(0)
Parking Mitigation Fees	668	843	843	0
Interest Income	798	557	415	(142)
Other Revenue	275	421	451	30
Subtotal	\$5,428	\$4,886	\$4,803	\$(84)
OPERATING TRANSFER FROM:				
Housing Improvement	79	15	34	19
General Fund	109	1	0	(1)
Housing In-Lieu Residential	88	150	0	(150)
Traffic Mitigation Fund	0	218	0	(218)
Advances from City	0	9	9	0
Subtotal	\$276	\$393	\$43	\$(350)
TOTAL SOURCE OF FUNDS	\$5,704	\$5,279	\$4,845	\$(434)
EXPENDITURES				
General Expense	613	1,545	1,128	(417)
OPERATING TRANSFERS				
Operating Transfers to General Fund	1,468	1,185	1,012	(173)

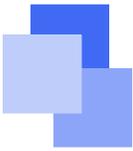


CONSOLIDATED SPECIAL REVENUE FUNDS *CONTINUED*

(\$000)	2002-03 Actual	2003-04 Adjusted Budget	2004-05 Adopted Budget	2004-05 Budget Change
Operating Transfer to Gas Tax	0	218	0	(218)
Operating Transfer to CDBG	79	15	34	19
Operating Transfer to Debt Service	80	80	80	0
Operating Transfer to CIP	2,927	1,648	2,353	705
Operating Transfer to Refuse	86	65	62	(3)
Operating Transfer to BMR	88	150	0	(150)
Subtotal	\$4,728	\$3,361	\$3,542	\$180
TOTAL USE OF FUNDS	\$5,341	\$4,906	\$4,670	\$(237)
NET TO (FROM) RESERVES	\$363	\$373	\$175	\$(197)

2004-05 COMMUNITY DEVELOPMENT BLOCK GRANT FUND

	2003-04 Adopted Budget	2004-05 Agency Requests	2004-05 Adopted Budget
SOURCE OF FUNDS			
Housing & Urban Development	791,000		816,000
Operating Transfer from Traffic Mitigation			
Prior Year Excess/Reallocation (1)	89,519		69,440
Program Income			
Housing Improvement Program	34,000		34,000
Palo Alto Housing Corporation	10,000		10,000
TOTAL SOURCE OF FUNDS	\$924,519	\$0	\$929,440
USE OF FUNDS			
Public Service			
Emergency Housing Consortium	7,650	10,500	7,650
Palo Alto Housing Corp. - SRO Resident Support Services	22,300	70,002	22,300
Catholic Charities -Long-Term Care Ombudsman	5,550	8,940	5,550
Shelter Network - Haven Family House	19,000	20,000	19,000
Clara Mateo Alliance - Single/Couple Shelter	25,000	28,750	25,000
Clara Mateo Alliance - Family Shelter	20,900	22,000	20,900
Urban Ministry - Drop in Center	17,750	60,000	19,100
St. Vincent de Paul - Day Worker Center	9,500	15,000	9,500
Subtotal: Public Service (2)	\$127,650	\$235,192	\$129,000
Planning and Administration			
City of Palo Alto - CDBG Administration includes 1.2 FTE CDBF Administrative Staff	140,000	147,000	145,200
Fair Housing- Project Sentinel	26,800	26,800	26,800



2004-05 COMMUNITY DEVELOPMENT BLOCK GRANT FUND *CONTINUED*

	2003-04 Adopted Budget	2004-05 Agency Requests	2004-05 Adopted Budget
Subtotal: Planning and Administration (2)	\$166,800	\$173,800	\$172,000
Housing, Economic Development and Capital Projects			
Community Housing Inc. Lytton Gardens Kitchen Renovation	0	53,729	109,695
Palo Alto Housing Corp. - Barker Hotel	0	41,173	41,173
Economic and Social Opportunities (3)	60,000	60,000	30,000
Stevenson House - Senior Housing	45,200	38,260	38,260
City of Palo Alto - Housing Development Fund	100,000	500,000	409,312
Subtotal: Housing, Economic Development and Capital Projects (2)	\$205,200	\$693,162	\$628,440
TOTAL USE OF FUNDS	\$499,650	\$1,102,154	\$929,440
<p>(1) Funds received in excess of revenue estimate for local program income (2003-04 and prior)</p> <p>(2) The Proposed funding will be made at the three primary program activity levels</p> <p>(3) Finance Committee motion on April 6, 2004 reallocated \$30,000 from Housing Development Fund; and another \$30,000 will be reallocated to this capital project at Midyear 2004-05 if performance criteria has been met</p>			



Debt Service Funds

Debt Service Funds

An Overview

Expenses for non-utilities debt service are included in these funds, and are broken down into general and special assessment debt service.

General debt service is funded by revenues and the GF. It also includes repayment of funds borrowed for improvements to the Golf Course as well as for structural improvements to the Civic Center and for the Downtown Parking Project. The estimated General debt service expense for 2004-05 is 1.3 million.

Debt service for the Golf Course Renovations and Civic Center Retrofit is funded by an operating transfer from the GF. The University Avenue Parking Permit fund transfers \$80,000 to support the parking district's share of the Civic Center debt.

The table below describes the three debt issues currently serviced by the GF: 1998 Golf Course improvement, 2002A and 2002B Certificate of Participation (COPS)

General Fund Debt Service			
	1998 Golf Course COP	Series 2002 A (Tax Exempt)	Series 2002B (Taxable)
Issued Date	Feb. 1999	Jan. 2002	Jan. 2002
Principal Issued	\$7,750,000	\$3,500,000	\$3,555,000
Annual Debt Service Payment	\$557,516	\$424,830	\$322,995
Final Payment Date	Sep. 2018	Mar. 2012	Mar. 2022
Estimated Debt Outstanding as of 7/1/2003	\$6,325,000	\$3,200,000	\$3,470,000
Total Interest over life of Debt	\$4,183,244	\$726,625	\$2,837,678

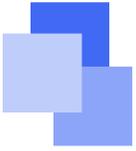
The Golf Course improvement bond was issued in February 1999 to fund infrastructure improvements at the Golf Course. Funding for this debt service comes from a transfer from the GF, and paid for by Golf Course receipts.

In January 2002, the City issued the Series 2002A COPS to refinance the 1992 COPS at a lower interest rate and also issued the Series 2002B COPS to fund the construction of a 2 story, above-ground structure as an extension to the new parking garage on lots S and L.

Special assessment debt includes debt service on the University and California Avenue parking facilities. This debt is paid for by annual assessments on property owners within each of the parking districts.

City of Palo Alto Debt Policy and Legal Debt Limit

For 2004-05, the estimated combined direct debt ratio to assessed valuation for the General Fund (GF) is 0.1 percent. The legal debt margin limit is 15%. The City of Palo Alto is well below the legal limit.



Debt Service Funds
continued

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GENERAL DEBT SERVICE FUND SUMMARY

(\$000)	2002-03 Actual	2003-04 Adjusted Budget	2004-05 Adopted Budget	2004-05 Budget Change
REVENUES				
Other - Interest	56	38	38	0
Subtotal	\$56	\$38	\$38	\$0
GENERAL FUND OPERATING TRANSFERS				
Golf Course Corporation	893	516	520	4
Public Improvement Corp. (Civic Center)	319	341	345	3
Parking 2002B COPS Taxable	300	318	323	5
University Avenue Permit Fund Transfer	80	80	80	0
Subtotal	\$1,591	\$1,255	\$1,267	\$12
TOTAL SOURCE OF FUNDS	\$1,647	\$1,293	\$1,305	\$12
EXPENSES				
Debt Service:				
Golf Course Corporation	702	554	558	4
Public Improvement Corporation	422	421	425	3
Parking 2002 COPS Taxable	321	318	323	5
TOTAL USE OF FUNDS	\$1,446	\$1,293	\$1,305	\$12
NET TO (FROM) RESERVES	\$201	\$0	\$0	\$0

SPECIAL ASSESSMENT DEBT SERVICE FUND SUMMARY

(\$000)	2002-03 Actual	2003-04 Adjusted Budget	2004-05 Adopted Budget	2004-05 Budget Change
REVENUES				
Special Assessments	131	125	123	(2)
Total Source of Funds	\$131	\$125	\$123	\$(2)
Debt Service	126	125	123	(2)
Total Use of Funds	\$126	\$125	\$123	\$(2)
NET TO (FROM) RESERVES	\$4	\$0	\$0	\$0



Internal Service Funds



Internal Service Funds

An Overview

Internal Service Funds provide services to City departments and recover their costs through user charges. Please note the expenses included within these funds are included in the department/fund budgets under the "allocated charges" expenditure category. In other words, these fund expenses do not represent additional expenditure to the City's operating budgets.

Vehicle Replacement and Maintenance Fund

The Vehicle Replacement and Maintenance Fund accounts for the maintenance and replacement of vehicles and equipment used by all City departments.

This fund completed an audit of all vehicles in the City fleet in 2003-04, in search for opportunities to eliminate as many unnecessary vehicles as possible. A dozen vehicles were targeted for either immediate sale or non-replacement at the end of their useful life. Moreover, General Fund equipment replacement schedules continue to be curtailed in 2004-05 with only essential items scheduled for replacement. The fund will need to increase replacement allocations for some key equipment in 2005-06, as further delayed replacement is no longer possible.

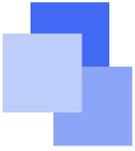
Increases in gasoline and insurance costs continue to raise challenges for the maintenance side of the operation. City departments are facing a 10 percent increase (\$ 0.3 million) in maintenance expense in 2004-05, primarily due to the long-term projections of higher fleet fuel expense. The fund will need to increase allocations over the next few years to reach normal operating fund balance of approximately \$2.1 million.

Technology Fund

This fund manages the citywide Information Technology (IT) activities. The fund is continuing with critical desktop, software, and infrastructure replacements and maintenance activities. The Enterprise Funds are now full participants in this fund as their technology systems become further integrated into the citywide plan.

Staff continues to integrate the SAP general ledger and project management system that went live in July 2003 as well as the December 2003 activation of the associated Human Resources module. The focus for 2004-05 will be to develop the necessary reporting and analytical tools that will result in enhanced efficiencies for City operations.

2004-05 fund balance is projected to decline by one-third to \$8.0 million, primarily due to a \$3.5 million General Fund (GF) allocation reduction. Part of this reduction is due to the \$2.7 capital plan, that has been funded over the past few



Internal Service Funds *continued*

years. The remaining reduction is to provide additional GF flexibility due to continued fiscal unknowns at the State level.

Printing and Mailing Services Fund

The Printing and Mailing Services Fund accounts for central duplicating, and the printing and mailing services provided to all City departments.

In 2004-05, staff will focus on implementing the findings from a cost benefit analysis of the printing operations to determine if the City should continue performing this service in-house. The goal of the evaluation will be to maximize the service provided to City departments at the lowest cost available.

General Benefits and Insurance Fund

The General Benefits and Insurance Fund accounts for employee health benefits, retirement pension contributions, the City's self insured worker's compensation and general liability programs. Citywide benefit expense is increasing 14 percent to \$50.9 million in 2004-05, primarily due to increases in pension contribution requirements (\$7.4 million), health care premiums (\$1.1 million), and worker's compensation costs (\$0.4 million).

Staff continues to examine ways to control citywide benefit and insurance costs. Some recent successes include a two-tiered retiree medical benefit for new hires, a cap on current employee medical benefits at the PERS Choice level, and the reduction or elimination of some minor benefits.

Retiree Health Benefits Fund

This fund manages the payments associated with and reserves dedicated to medical benefits granted to retired employees of the City. 2004-05 marks the first year that retiree medical premiums will be paid from this fund, with associated chargebacks to departments. Retiree benefit expense is estimated to be \$3.2 million, a 15 percent increase from the prior year.

2004-05 INTERNAL SERVICE FUND SUMMARY

(\$000)	Vehicle Replacement and Maintenance Fund	Technology Fund	Printing and Mailing Fund	General Benefits and Insurance Fund	Retiree Health Benefit Fund	Total
REVENUES						
Operating Revenue	5,285	6,004	1,246	31,373	1,920	45,829
Interest Income	156	467	28	1,202	754	2,607
Other Revenue	309	670	7	480	0	1,466
TOTAL SOURCE OF FUNDS	\$5,750	\$7,141	\$1,281	\$33,056	\$2,674	\$49,902
EXPENDITURES						
Operating Expenditures	3,206	8,782	1,244	33,056	3,174	49,461
Depreciation Expense	2,040	56	2	0	0	2,098
Capital Improvement Program	525	2,242	0	0	0	2,767
TOTAL USE OF FUNDS	\$5,771	\$11,081	\$1,246	\$33,056	\$3,174	\$54,327
Net To/From Unrestricted Assets	\$(21)	\$(3,939)	\$35	\$0	\$(500)	\$(4,425)

2004-05 INTERNAL SERVICE FUNDS — UNRESTRICTED ASSETS

(\$000)	Vehicle Replacement and Maintenance Fund	Technology Fund	Printing and Mailing Fund	General Benefits and Insurance Fund	Retiree Health Benefit Fund	Total
CHANGES TO UNRESTRICTED ASSETS						
JUNE 30, 2003						
UNRESTRICTED ASSETS	\$1,971	\$10,431	\$631	\$6,779	\$18,111	\$37,923
2003-04 Projected Changes	176	957	23	0	1,000	2,156
JUNE 30, 2004						
UNRESTRICTED ASSETS	\$2,147	\$11,388	\$654	\$6,779	\$19,111	\$40,079
2004-05 Projected Changes	(21)	(3,933)	35	0	(500)	(4,419)
JUNE 30, 2005						
UNRESTRICTED ASSETS	\$2,126	\$7,455	\$689	\$6,779	\$18,611	\$35,660



Vehicle Replacement and Maintenance

To provide for the timely replacement of vehicles and equipment in accordance with prescribed schedules, to ensure the safe, reliable and efficient operation of vehicles and equipment through systematic preventive maintenance and cost-effective repairs, to provide safe and efficient fuel storage and dispensing facilities.

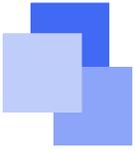
OVERVIEW

Streamlining the management of the City's vehicle fleet will continue into 2005. These measures include reducing the number of vehicles in the fleet, extending the life (where feasible) of many of the remaining vehicles, and implementing other internal efficiencies.

On the maintenance side of the operation, anticipated increases in the cost of fuel, and increased maintenance and repair costs resulting from the deferred replacement of vehicles and equipment necessitate a \$0.3 million (11 percent) increase to department allocated costs in 2005. Relocation of the City's existing compressed natural gas (CNG) station to the downtown area, along with the completion of construction upgrades to the CNG vehicle maintenance facility will also be a focus in 2005.

FUND SUMMARY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Operating Revenue	4,845,664	5,054,255	5,103,933	5,284,710	230,455
Interest Income	180,452	170,600	180,400	156,100	(14,500)
Other Income	(628,982)	598,346	296,009	309,009	(289,337)
TOTAL FUND REVENUES	\$4,397,134	\$5,823,201	\$5,580,342	\$5,749,819	\$(73,382)
Administration	54,785	113,211	113,211	113,211	0
Vehicle Replacement/Additions	2,731,997	2,803,013	2,644,193	2,852,465	49,452
Vehicle Operations/Maintenance	2,750,462	2,729,690	2,797,937	2,804,984	75,294
TOTAL FUND EXPENDITURES	\$5,537,244	\$5,645,914	\$5,555,341	\$5,770,660	\$124,746
TO/FROM RESERVES	\$(1,140,110)	\$177,287	\$25,001	\$(20,841)	\$(198,128)
TOTAL FULL TIME POSITIONS	15.00	16.00	16.00	16.00	0.00
TOTAL TEMPORARY POSITIONS	0.35	0.00	0.00	0.00	0.00

EXPENDITURES BY CATEGORY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Salaries and Benefits	1,160,877	1,402,979	1,483,057	1,486,646	83,667
Contract Services	461,204	286,200	286,200	286,200	0
Supplies and Materials	762,982	815,000	815,000	815,000	0
General Expense	9,719	3,500	3,500	3,500	0
Rents and Leases	1,709	1,500	1,500	0	(1,500)
Facility and Equipment Purchases	4,623	26,000	26,000	26,000	0
Allocated Charges	604,704	573,793	575,273	588,503	14,710
Depreciation Expense	2,531,426	2,153,942	2,039,811	2,039,811	(114,131)
Capital Improvement Program	0	383,000	325,000	525,000	142,000
TOTAL EXPENDITURES	\$5,537,244	\$5,645,914	\$5,555,341	\$5,770,660	\$124,746



Vehicle Replacement and Maintenance *continued*

RESOURCE LEVEL CHANGES

	2004-05 ONGOING	2004-05 ONE-TIME	2004-05 TOTAL
REVENUE CHANGES			
Vehicle Maintenance Reimbursement from Other Funds	286,049		286,049
Vehicle Replacement Reimbursement from Other Funds	(55,594)		(55,594)
Interest Income	(14,500)		(14,500)
TOTAL REVENUE CHANGES	\$215,955		\$215,955
Adjustments (Note 1)		(289,337)	(289,337)
NET REVENUE CHANGES	\$215,955	\$(289,337)	\$(73,382)
EXPENDITURE CHANGES			
Salary and Benefits			
Personnel Benefits Costs * (Note 2)	83,668		83,668
Total Salary and Benefits	\$83,668		\$83,668
Non-Salary			
Capital Program Expense		202,000	202,000
Allocated Charges	14,709		14,709
Depreciation Expense *	(114,131)		(114,131)
Rent and Leases	(1,500)		(1,500)
Total Non-Salary	\$(100,922)	\$202,000	\$101,078
TOTAL EXPENDITURE CHANGES	\$(17,254)	\$202,000	\$184,746
Adjustments (Note 1)		(\$60,000)	(60,000)
NET EXPENDITURE CHANGES	\$(17,254)	\$142,000	\$124,746

*This item was included in the 2004-05 adopted-in-concept budget.

RESOURCE LEVEL NOTES

Note 1: Adjustments include prior year one-time revenue and expenditure items that did not carry forward into the Adopted Budget. Other changes are the result of one-time items that were in the 2003-04 midyear adjustments.

Note 2: The personnel benefits costs have escalated steeply during the year mainly due to health care increases for both current employees and retirees. In addition, workers compensation and citywide liability costs have increased.



Technology Fund

To provide a citywide financial planning mechanism for the timely and cost-effective replacement and upgrade of technology.

OVERVIEW

The Technology Fund will focus on continuing to improve the delivery of information technology services in accordance with the IT Strategic Plan. The IT Strategic Plan was designed to ensure that a cohesive, Citywide management information strategy is in place to address organizational, operational, and technology infrastructure issues. The plan facilitates development and implementation of Citywide priorities for the future. These include the E-Government Strategic Plan, the Geographic Information System (GIS) Strategic Plan, the Citywide IT Security Plan, and the Telecommunications Master Plan.

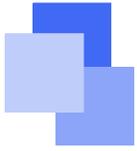
Client Services will maintain the City's desktop computers, along with an extended-life replacement schedule, enacted in 2003 due to the economic downturn.

Infrastructure Services will focus on implementing the Telecommunications Master Plan, developing a Wireless Service Strategic Plan, developing and implementing a disaster recovery plan for the City's mission critical systems, conducting an IT security audit, updating the City's existing telephone system, upgrading the City's network infrastructure, and expanding the internet infrastructure.

Project Management and Application funding will continue implementing of the Enterprise Resources Planning (ERP) system. General Ledger and project management portions (Phase I) of the new SAP financial system was activated on July 1, 2003. The Human Resources system has been implemented as Phase II and went live on December 13, 2003. Extensive training and report development will be the focus into 2005.

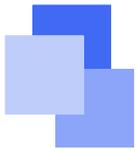
Maintaining a strong commitment to future technology infrastructure needs is evident in the Technology Fund reserve. However, a \$3.9 million reduction in reserve funding is necessary to reduce department allocated expense. This reserve was established to fund the replacement of the City's IT Infrastructure.

FUND SUMMARY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Operating Revenue	5,325,853	8,880,452	8,880,452	6,004,293	(2,876,159)
Interest Income	451,453	263,800	279,000	467,000	203,200
Other Income	503,344	2,613,553	946,632	669,950	(1,943,603)
TOTAL FUND REVENUES	\$6,280,650	\$11,757,805	\$10,106,084	\$7,141,243	\$(4,616,562)
Client Services	1,119,043	2,942,179	2,972,216	2,679,140	(263,039)
Infrastrucutre Services	1,045,360	2,401,072	2,468,931	2,298,004	(103,068)
Project Management and Application	381,466	2,876,874	2,996,570	3,861,305	984,431
Technology Projects	0	2,601,083	913,632	2,242,132	(358,951)
TOTAL FUND EXPENDITURES	\$2,545,869	\$10,821,208	\$9,351,349	\$11,080,581	\$259,373
TO/FROM RESERVES	\$3,734,781	\$936,597	\$754,735	\$(3,939,338)	\$(4,875,935)
TOTAL FULL TIME POSITIONS	0.00	33.15	33.15	33.50	0.35
TOTAL TEMPORARY POSITIONS	0.00	0.00	0.00	0.00	0.00



Technology Fund *continued*

EXPENDITURES BY CATEGORY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Salaries and Benefits	43,890	3,941,459	4,157,127	4,549,507	608,048
Contract Services	1,170,418	2,179,100	2,179,100	2,179,100	0
Supplies and Materials	6,729	257,176	257,176	257,176	0
General Expense	481,434	581,880	591,880	591,880	10,000
Rents and Leases	0	196,500	196,500	195,000	(1,500)
Facility and Equipment Purchases	675,036	674,750	674,750	674,750	0
Allocated Charges	54,294	326,763	324,956	334,808	8,045
Depreciation Expense	114,068	62,497	56,228	56,228	(6,269)
Capital Improvement Program	0	2,601,083	913,632	2,242,132	(358,951)
TOTAL EXPENDITURES	\$2,545,869	\$10,821,208	\$9,351,349	\$11,080,581	\$259,373



Technology Fund *continued*

RESOURCE LEVEL CHANGES

	2004-05 ONGOING	2004-05 ONE-TIME	2004-05 TOTAL
REVENUE CHANGES			
Investment income	203,200		203,200
Reduction in reimbursements from City Departments (Note 4)	(2,876,159)		(2,876,159)
TOTAL REVENUE CHANGES	\$(2,611,359)	\$0	\$(2,611,359)
Adjustments (Note 1)		(2,005,203)	(2,005,203)
NET REVENUE CHANGES	\$(2,611,359)	\$(2,005,203)	\$(4,616,562)
EXPENDITURE CHANGES			
Salary and Benefits			
Personnel Benefit Costs (Note 2)	608,048		608,048
Total Salary and Benefits	\$608,048	\$0	\$608,048
EXPENDITURE CHANGES			
Non-Salary			
Telephone and non-city utilities *	10,000		10,000
CIP project costs	(484,201)	211,750	(272,451)
Allocated charges (Note 3)	(79,955)		(79,955)
Total Non-Salary	\$(554,157)	\$211,750	\$(342,407)
TOTAL EXPENDITURE CHANGES	\$53,891	\$211,750	\$265,640
Adjustments (Note 1)		(6,267)	(6,267)
NET EXPENDITURE CHANGES	\$53,891	\$205,482	\$259,373

*This item was included in the 2004-05 adopted-in-concept budget.

RESOURCE LEVEL NOTES

Note 1: Adjustments include prior year one-time revenue and expenditure items that did not carry forward into the Proposed Budget. Other changes are the result of one-time items that were in the 2003-04 mid-year adjustments.

Note 2: The personnel benefits costs have escalated steeply mainly due to health care increases for both current employees and retirees. In addition, workers compensation and citywide liability costs have increased.

Note 3: Allocated charges are decreasing primarily due to reduction in non-salary expenses.

Note 4: Reduction in Technology Fund expense allocation to General Fund.

SERVICE LEVEL CHANGES

The most visible service level change will be in the desktop replacement program. The current replacement schedule will be extended by one year. from three years to four years. This change will not result in major service level impacts.

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Printing and Mailing Fund

To provide quality printing and mailing services to all City departments in a cost-effective manner with minimum turnaround time.

OVERVIEW

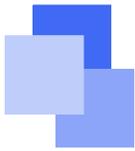
The 2004-05 Printing and Mailing fund expenses are increasing by \$0.3 million compared to the 2003-04 adjusted budget. This is a result of centralizing management of the departmental floor copier contract (\$0.23) million into Printing Services. This does not represent new expense, as offset budget reductions were made for this item.

The Administrative Services Department is currently performing an operational review of Print Shop Services. The results of this study will assist in determining the portfolio of printing services to be retained in-house. Key to the near-term success of operations, is the renegotiation of the copier equipment contract to include two new state-of-the-art high volume production color copier. This new equipment will significantly enhance productivity and functionality to meet changing customer demand.

The operational review will include an updated business model to incorporate new strategies in job-cost estimation and pricing, service-level enhancements as well as general business practices.

FUND SUMMARY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Operating Revenue	978,773	982,786	1,012,886	1,246,319	263,533
Interest Income	27,928	26,300	27,800	27,900	1,600
Other Income	14,511	7,000	7,000	7,000	0
TOTAL FUND REVENUES	\$1,021,212	\$1,016,086	\$1,047,686	\$1,281,219	\$265,133
Printing and mailing	913,917	993,285	1,024,885	1,246,036	252,751
TOTAL FUND EXPENDITURES	\$913,917	\$993,285	\$1,024,885	\$1,246,036	\$252,751
TO/FROM RESERVES	\$107,295	\$22,801	\$22,801	\$35,183	\$12,382
TOTAL FULL TIME POSITIONS	4.15	4.15	4.15	4.15	0.00
TOTAL TEMPORARY POSITIONS	0.00	0.00	0.00	0.00	0.00

EXPENDITURES BY CATEGORY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Salaries and Benefits	238,177	301,611	319,350	315,314	13,703
Contract Services	110,042	68,681	68,681	79,311	10,630
Supplies and Materials	65,542	75,508	75,508	75,758	250
General Expense	334,299	391,287	406,048	405,998	14,711
Rents and Leases	17,159	46,406	45,506	269,385	222,979
Facility and Equipment Purchases	0	11,630	11,630	800	(10,830)
Allocated Charges	142,415	95,805	95,805	97,113	1,308
Depreciation Expense	6,208	2,357	2,357	2,357	0
TOTAL EXPENDITURES	\$913,842	\$993,285	\$1,024,885	\$1,246,036	\$252,751



Printing and Mailing Fund *continued*

RESOURCE LEVEL CHANGES

	2004-05 ONGOING	2004-05 ONE-TIME	2004-05 TOTAL
REVENUE CHANGES			
Interest income	1,600		1,600
Mailing Services	33,000		33,000
Printing Services (Note 1)	230,533		230,533
TOTAL REVENUE CHANGES	\$265,133	\$0	\$265,133
EXPENDITURE CHANGES			
Salary and Benefits			
Salary and Benefits increases (Note 2)	13,703		13,703
Total Salary and Benefits	\$13,703	\$0	\$13,703
Non-Salary			
Facilities and equipment purchases	(10,830)		(10,830)
Equipment Maintenance & Repair	10,630		10,630
Postage expense	14,711		14,711
Rents and leases *	13,861		13,861
Uniforms	250		250
Department Copier Contract (Note 1)	209,118		209,118
Allocated Charges (Note 3)	1,308		1,308
Total Non-Salary	\$239,048	\$0	\$239,048
TOTAL EXPENDITURE CHANGES	\$252,751	\$0	\$252,751

*This item was included in the 2004-05 adopted-in-concept budget.

RESOURCE LEVEL NOTES

Note 1: Citywide floor copier contract will be managed by the Printing and Mailing Fund in 2004-05. Budgeted expense within each department has been moved from rent/lease expense to an allocated charge. This does not represent new expense.

Note 2: The personnel benefits costs have escalated steeply mainly due to health care increases for both current employees and retirees. In addition, workers compensation and citywide liability costs have increased.

Note 3: Allocated charges are increasing primarily due to increases in utility rates.



General Benefits and Insurance Fund

OVERVIEW

The General Benefits and Insurance Fund is jointly managed by Administrative Services and Human Resources Department staff and accounts for health benefits, the City's self-insured worker's compensation and general liability programs.

The below table reflects a net expense reduction of \$13 million from 2003-04 adjusted totals, and is comprised of two components. The first is a \$21.9 million reduction in fund expense. This is due to a change in accounting methodology for administrative leave and other salary-related benefits, resulting from the December 2003 SAP payroll / Human Resources module implementation. These costs are now budgeted within each employee's cost center and not managed through this internal service fund.

The second component of the 2004-05 change is a benefit cost increase of \$6.2 million (14 percent) due to anticipated healthcare premium increases (\$1.1 million) as well as higher pension expense (\$7.4 million). The increasing pension expense poses the greatest challenge to the City; as a percent of total benefit costs, they have grown from 19 to 31 percent over the past year. Recent stock market returns bode well for a slowing of the growth rate in this expense in 2006-07.

2004-05 Workers Compensation expense is increasing by \$0.4 million to \$2.9 million. While the number of claims continues to decline, the cost per claim has grown 110 percent from 1996-97 to 2002-03 (\$3,209 in 2002-03). This is a reflection of systemic medical services cost inflation. The City is taking on greater deductible and risk as a means of containing steep premium increases.

Liability Insurance expense is anticipated to remain flat at \$1.4 million per year. Reductions in self-insured claims are expected to offset continued increases of insurance premiums across all categories.

FUND SUMMARY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Operating Revenue	698,945	890,000	890,000	890,000	0
Interest Income	1,120,421	1,225,400	1,296,400	1,202,400	(23,000)
Other Income	35,600,313	43,939,600	50,272,600	30,963,100	(12,976,500)
TOTAL FUND REVENUES	\$37,419,679	\$46,055,000	\$52,459,000	\$33,055,500	\$(12,999,500)
Operating Expense	37,083,999	46,055,000	52,459,000	33,055,500	(12,999,500)
TOTAL FUND EXPENDITURES	\$37,083,999	\$46,055,000	\$52,459,000	\$33,055,500	\$(12,999,500)
TO/FROM RESERVES	\$335,680	\$0	\$0	\$0	\$0
TOTAL FULL TIME POSITIONS	0.00	0.00	0.00	0.00	0.00
TOTAL TEMPORARY POSITIONS	0.00	0.00	0.00	0.00	0.00

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Retiree Health Benefit Fund

OVERVIEW

This fund manages the payments associated with and reserves dedicated to medical benefits granted to retired employees of the City. 2004-05 marks the first year that retiree medical premiums will be paid from this fund, with associated chargebacks to departments. 2004-05 retiree health benefit expense is estimated to be \$3.2 million, a 15 percent increase from the prior year.

Fund balances are projected to decline by \$0.5 million to \$18.6 million in 2004-05. The Government Accounting Standards Board (GASB) will soon issue a pronouncement on appropriate reserve levels necessary to fund the retiree medical liability, last estimated in 2001 to be near \$94 million. Preliminary indications are that the GASB pronouncement will reduce that liability valuation significantly, by requiring reserves to cover the annual premium expense and that year's portion of the amortized liability. Compared to surrounding jurisdictions, the City of Palo Alto has significant resources set-aside to address the pending GASB pronouncement.

FUND SUMMARY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Interest Income	807,285	0	0	753,900	753,900
Other Income	856,314	0	0	1,920,100	1,920,100
TOTAL FUND REVENUES	\$1,663,599	\$0	\$0	\$2,674,000	\$2,674,000
Operating Expense	0	0	0	3,174,000	3,174,000
TOTAL FUND EXPENDITURES	\$0	\$0	\$0	\$3,174,000	\$3,174,000
TO/FROM RESERVES	\$1,663,599	\$0	\$0	\$(500,000)	\$(500,000)
TOTAL FULL TIME POSITIONS	0.00	0.00	0.00	0.00	0.00
TOTAL TEMPORARY POSITIONS	0.00	0.00	0.00	0.00	0.00

EXPENDITURES BY CATEGORY	2002-03 ACTUALS	2003-04 ADJUSTED BUDGET	2004-05 ADOPTED-IN- CONCEPT	2004-05 ADOPTED BUDGET	2004-05 BUDGET CHANGE
Salaries and Benefits	0	0	0	3,174,000	3,174,000
TOTAL EXPENDITURES	\$0	\$0	\$0	\$3,174,000	\$3,174,000

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Palo Alto Business Improvement District

An Overview

On January 12, 2004, the Palo Alto City Council held a public hearing on the establishment of a Downtown Business Improvement District (BID) and adopted an ordinance establishing the Palo Alto Business Improvement District (BID). The BID for Downtown Palo Alto will provide a variety of services to enhance the economic viability of Downtown Palo Alto. The formation of a BID and the levy of assessments against businesses in the BID to finance improvements and activities benefiting the businesses are authorized by state law (California Streets and Highway Code Section 36500 and following).

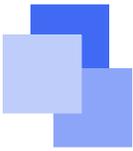
In 2004-05, assessments collected from the Downtown Palo Alto businesses will be used to fund the activities selected by the Advisory Board.

2004-05 Proposed Downtown Business Improvement District (BID) Budget				
	2002-03 Actual	2003-04 Adjusted Budget	Proposed Budget 2004- 05	Change
REVENUE				
Special Assessments		\$76,957	\$153,914	\$76,957
Total Source of Funds	\$0	\$76,957	\$153,914	\$76,957
EXPENSES				
General Operating Expense	\$0	\$76,957	\$153,914	\$76,957
Total Use of Funds	\$0	\$76,957	\$153,914	\$76,957

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Staffing



2004-05 SUMMARY OF POSITION CHANGES *CONTINUED*

FTE

ENTERPRISE FUNDS

2003-04 ADOPTED BUDGET 350.80

2003-04 BAO Position Adjustments

Electrician (WWT/SD)	3.00
Electrician-Lead (WWT/SD)	2.00
Instrumentation Electrician (WWT/SD)	(3.00)
Senior Instrumentation Electrician (WWT/SD)	(2.00)
Water System Operator II (UTL)	1.00
Water Transmission Specialist (UTL)	(1.00)

2003-04 ADJUSTED TOTAL 350.80

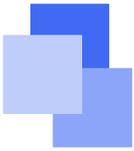
2004-05 New Positions

Associate Planner (REF)	1.00
2004-05 Total New Positions	1.00

Reallocated Positions

Capital Fund reallocation to Refuse Fund	0.15
Police reallocation to Refuse Fund	0.25
Public Works reallocation to Refuse Fund	0.07
Public Works reallocation to Storm Drainage Fund	0.70
Public Works reallocation to Wastewater Treatment Fund	0.05
Storm Drainage Fund reallocation to Capital Fund	(0.55)
Technology Fund reallocation to Utilities Administration Fund	0.15
2004-05 Total Reallocated Positions	0.82

2004-05 TOTAL ADOPTED ENTERPRISE FUND POSITIONS 352.62



2004-05 SUMMARY OF POSITION CHANGES *CONTINUED*

FTE

OTHER FUNDS

2003-04 ADOPTED BUDGET	67.20
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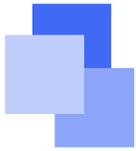
2004-05 Reallocated Positions

ASD reallocation to Technology Fund	0.50
Capital Fund reallocation to Refuse Fund	(0.15)
Public Works reallocation to Capital Fund	1.32
Storm Drainage Fund reallocation to Capital Fund	0.55
Technology Fund reallocation to Utilities Administration Fund	(0.15)
2004-05 Total Reallocated Positions	2.07

2004-05 TOTAL ADOPTED OTHER FUNDS POSITIONS	69.27
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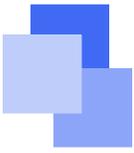
2004-05 TABLE OF ORGANIZATION

	2002-03 Adjusted Budget	2003-04 Adjusted Budget	2004-05 Adopted-in- Concept Budget	2004-05 Adopted Budget	2004-05 Budget Change
GENERAL FUND					
CITY ATTORNEY					
City Attorney	1.00	1.00	1.00	1.00	0.00
Claims Investigator/Paralegal	1.00	1.00	1.00	1.00	0.00
Legal Administrator	1.00	1.00	1.00	1.00	0.00
Legal Secretary-Confidential	3.00	3.00	3.00	3.00	0.00
Paralegal - Confidential	1.00	0.00	0.00	0.00	0.00
Senior Assistant City Attorney	6.50	5.75	5.75	5.75	0.00
TOTAL CITY ATTORNEY	13.50	11.75	11.75	11.75	0.00
City Auditor					
Administrative Assistant (1)	0.75	0.75	0.75	1.00	0.25
City Auditor	1.00	1.00	1.00	1.00	0.00
Deputy City Auditor	1.00	0.00	0.00	0.00	0.00
Senior Auditor	1.00	2.00	2.00	2.00	0.00
TOTAL CITY AUDITOR	3.75	3.75	3.75	4.00	0.25
City Clerk					
Administrative Assistant	1.00	0.00	0.00	0.00	0.00
Assistant City Clerk	1.00	1.00	1.00	1.00	0.00
City Clerk	2.00	1.00	1.00	1.00	0.00
Deputy City Clerk	0.00	1.00	1.00	1.00	0.00
Executive Secretary	2.00	3.00	3.00	3.00	0.00
TOTAL CITY CLERK	6.00	6.00	6.00	6.00	0.00



2004-05 TABLE OF ORGANIZATION *CONTINUED*

	2002-03 Adjusted Budget	2003-04 Adjusted Budget	2004-05 Adopted-in- Concept Budget	2004-05 Adopted Budget	2004-05 Budget Change
City Manager					
Administrative Assistant	1.00	1.00	1.00	1.00	0.00
Assistant City Manager	1.00	1.00	1.00	1.00	0.00
Assistant to City Manager	1.00	1.00	1.00	1.00	0.00
City Manager	1.00	1.00	1.00	1.00	0.00
Deputy Public Communication Officer	1.00	1.00	1.00	1.00	0.00
Executive Assistant	1.00	1.00	1.00	1.00	0.00
Manager, Economic Resources	1.00	1.00	1.00	1.00	0.00
Office Specialist	2.50	1.50	1.50	1.50	0.00
Public Communication Manager	1.00	1.00	1.00	1.00	0.00
Staff Assistant to City Manager	1.00	1.00	1.00	1.00	0.00
TOTAL CITY MANAGER	11.50	10.50	10.50	10.50	0.00
Administrative Services Department					
Accounting Specialist (20)	13.00	12.00	12.00	13.00	1.00
Accounting Specialist-Lead	4.95	4.95	4.95	4.95	0.00
Administrative Assistant	1.00	1.00	1.00	1.00	0.00
Assistant Director, Administrative Services	1.00	1.00	1.00	1.00	0.00
Business Analyst (2) (3)	1.00	0.50	0.50	0.50	0.00
Buyer	1.45	1.95	1.95	1.95	0.00
Contracts Administrator	3.00	2.00	2.00	2.00	0.00
Deputy Director, Administrative Services	1.00	1.00	1.00	1.00	0.00
Deputy Director, ASD/Chief Info.	1.00	0.00	0.00	0.00	0.00
Desktop Technician	6.00	0.00	0.00	0.00	0.00
Director, Administrative Services	1.00	0.85	0.85	0.85	0.00
Executive Assistant	1.00	0.00	0.00	0.00	0.00
Financial Analyst	1.00	1.00	1.00	1.00	0.00
Graphic Designer	0.00	1.00	1.00	1.00	0.00
Manager, Accounting	1.00	1.00	1.00	1.00	0.00
Manager, Budget	1.00	1.00	1.00	1.00	0.00
Manager, Energy Risk	1.00	0.00	0.00	0.00	0.00
Manager, Information Technology	3.00	0.00	0.00	0.00	0.00

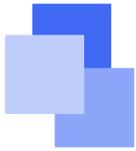


2004-05 TABLE OF ORGANIZATION *CONTINUED*

	2002-03 Adjusted Budget	2003-04 Adjusted Budget	2004-05 Adopted-in- Concept Budget	2004-05 Adopted Budget	2004-05 Budget Change
Manager, Invests., Debts & Projects	1.00	0.00	0.00	0.00	0.00
Manager, Purchasing/Contract Admin.	0.95	0.95	0.95	0.95	0.00
Manager, Real Property	1.00	1.00	1.00	1.00	0.00
Office Specialist	1.00	0.00	0.00	0.00	0.00
Payroll Analyst	2.00	2.00	2.00	2.00	0.00
Senior Accountant	4.00	4.00	4.00	4.00	0.00
Senior Business Analyst (3) (19)	0.00	0.00	0.00	0.50	0.50
Senior Buyer	1.00	1.00	1.00	1.00	0.00
Senior Financial Analyst (2)	10.00	8.75	8.75	7.75	-1.00
Senior Technologist	21.00	0.00	0.00	0.00	0.00
Staff Accountant	3.00	3.00	3.00	3.00	0.00
Staff Secretary	2.00	1.05	1.05	1.05	0.00
Storekeeper	3.00	2.00	2.00	2.00	0.00
Storekeeper-Lead	1.00	1.00	1.00	1.00	0.00
Technologist	2.00	0.00	0.00	0.00	0.00
Warehouse Supervisor	1.00	1.00	1.00	1.00	0.00
TOTAL ADMINISTRATIVE SERVICES	96.35	55.00	55.00	55.50	0.50

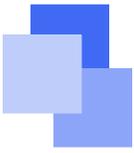
Community Services Department

Administrative Assistant * (4)	1.00	2.00	1.00	1.00	-1.00
Administrator Special Events	1.00	1.00	1.00	1.00	0.00
Building Serviceperson	4.00	4.00	4.00	4.00	0.00
Building Serviceperson-Lead	2.00	2.00	2.00	2.00	0.00
Coordinator, Child Care	1.00	1.00	1.00	1.00	0.00
Coordinator, Library Circulation (4)	1.00	1.00	1.00	0.00	-1.00
Coordinator, Library Programs (4)	2.00	2.00	2.00	0.00	-2.00
Coordinator, Recreation Programs	4.00	3.00	3.00	3.00	0.00
Deputy Director, Community Services *	1.00	0.00	1.00	0.00	0.00
Director, Arts and Culture	1.00	1.00	1.00	1.00	0.00
Director, Community Services	1.00	1.00	1.00	1.00	0.00
Director, Human Services	1.00	1.00	1.00	1.00	0.00
Director, Libraries (4)	1.00	1.00	1.00	0.00	-1.00
Director, Parks and Golf Course	1.00	1.00	1.00	1.00	0.00



2004-05 TABLE OF ORGANIZATION *CONTINUED*

	2002-03 Adjusted Budget	2003-04 Adjusted Budget	2004-05 Adopted-in- Concept Budget	2004-05 Adopted Budget	2004-05 Budget Change
Director, Recreation and Open Space	1.00	1.00	1.00	1.00	0.00
Executive Assistant	1.00	1.00	1.00	1.00	0.00
Facilities Assistant	0.50	0.50	0.50	0.50	0.00
Golf Course Equipment Mechanic	2.00	2.00	2.00	2.00	0.00
Golf Course Maintenance Person	7.00	6.00	6.00	6.00	0.00
Inspector, Field Services	2.00	2.00	2.00	2.00	0.00
Librarian (4)	8.75	6.00	6.00	0.00	-6.00
Library Assistant (4)	4.00	4.00	4.00	0.00	-4.00
Library Associate (4)	3.00	4.00	4.00	0.00	-4.00
Library Specialist (4)	6.50	7.75	7.75	0.00	-7.75
Management Assistant	1.00	1.00	1.00	1.00	0.00
Manager, Arts	2.00	2.00	2.00	2.00	0.00
Manager, Community Services Facilities (5)	1.00	1.00	1.00	0.00	-1.00
Manager, Main Library Services (4)	1.00	1.00	1.00	0.00	-1.00
Office Specialist (4)	8.00	7.00	7.00	6.50	-0.50
Park Maintenance Person	12.50	11.00	11.00	11.00	0.00
Park Planner, Architect	1.00	0.00	0.00	0.00	0.00
Park Ranger	5.00	5.00	5.00	5.00	0.00
Parks and Open Space Assistant	0.75	0.75	0.75	0.75	0.00
Parks Crew-Lead	2.00	2.00	2.00	2.00	0.00
Producer Arts/Science Programs	10.50	10.50	10.50	10.50	0.00
Program Assistant	6.75	5.75	5.75	5.75	0.00
Project Manager	1.00	0.00	0.00	0.00	0.00
Senior Librarian (4)	11.00	10.75	10.75	0.00	-10.75
Senior Ranger	1.00	1.00	1.00	1.00	0.00
Sprinkler System Repairer	5.00	5.00	5.00	5.00	0.00
Staff Secretary *	5.00	4.00	5.00	4.00	0.00
Superintendent, Golf Course	1.00	1.00	1.00	1.00	0.00
Superintendent, Open Space and Sciences	1.00	1.00	1.00	1.00	0.00
Superintendent, Parks	1.00	1.00	1.00	1.00	0.00
Superintendent, Recreation	1.00	1.00	1.00	1.00	0.00
Supervisor, Golf Course	1.00	1.00	1.00	1.00	0.00
Supervisor, Junior Museum	1.00	1.00	1.00	1.00	0.00



2004-05 TABLE OF ORGANIZATION *CONTINUED*

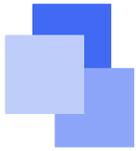
	2002-03 Adjusted Budget	2003-04 Adjusted Budget	2004-05 Adopted-in- Concept Budget	2004-05 Adopted Budget	2004-05 Budget Change
Supervisor, Librarian (4)	4.00	4.00	4.00	0.00	-4.00
Supervisor, Open Space	1.00	1.00	1.00	1.00	0.00
Supervisor, Parks	2.00	2.00	2.00	2.00	0.00
Supervisor, Recreation Program	6.00	6.00	6.00	6.00	0.00
Theater Specialist	1.00	1.00	1.00	1.00	0.00
Volunteer Coordinator	0.75	0.75	0.75	0.75	0.00
TOTAL COMMUNITY SERVICES	153.00	143.75	144.75	99.75	-44.00

Due to funding constraints the Community Services Department budget includes the temporary removal of funding for the following vacant position: 1.0 FTE Program Assistant.

Fire

Accounting Specialist (20)	1.00	1.00	1.00	0.00	-1.00
Administrative Assistant	1.00	1.00	1.00	1.00	0.00
Battalion Chief	5.00	4.00	4.00	4.00	0.00
Chief Officer-Emergency Operations	1.00	1.00	1.00	1.00	0.00
Coordinator, Environmental Protection	1.00	1.00	1.00	1.00	0.00
Deputy Fire Chief	3.00	1.00	1.00	1.00	0.00
Deputy Fire Chief EMT	0.00	2.00	2.00	2.00	0.00
EMS Coordinator (9)	0.00	0.00	0.00	1.00	1.00
EMT Basic	3.00	3.00	3.00	3.00	0.00
Executive Assistant	1.00	1.00	1.00	1.00	0.00
Fire Apparatus Operator (10)	30.00	30.00	30.00	30.00	0.00
Fire Captain (6) (7)	31.00	31.00	31.00	27.00	-4.00
Fire Chief	1.00	1.00	1.00	1.00	0.00
Fire Fighter (7)	42.00	42.00	42.00	45.00	3.00
Fire Inspector	4.00	2.00	2.00	2.00	0.00
Hazardous Materials Inspector	2.00	2.00	2.00	2.00	0.00
Hazardous Materials Specialist	1.00	1.00	1.00	1.00	0.00
Office Specialist (8)	5.50	4.50	4.50	4.00	-0.50
Training Captain (6)	0.00	0.00	0.00	1.00	1.00
TOTAL FIRE	132.50	128.50	128.50	128.00	-0.50

The Fire Department budget includes three Fire Fighter position slots that can be used as overfills during staff shortages. These positions are funded from the Department's overtime budget.



2004-05 TABLE OF ORGANIZATION *CONTINUED*

	2002-03 Adjusted Budget	2003-04 Adjusted Budget	2004-05 Adopted-in- Concept Budget	2004-05 Adopted Budget	2004-05 Budget Change
Human Resources Department					
Administrative Assistant	1.00	1.00	1.00	1.00	0.00
Administrator, Human Resources	5.00	5.00	5.00	5.00	0.00
Business Analyst (14)	1.00	1.00	1.00	0.00	-1.00
Director, Human Resources	1.00	1.00	1.00	1.00	0.00
Human Resources Assistant-Conf.	4.00	3.10	3.10	3.10	0.00
Manager, Employee Relations	1.00	1.00	1.00	1.00	0.00
Manager, Human Resources and Development	1.00	1.00	1.00	1.00	0.00
Manager, Risk and Benefits	1.00	1.00	1.00	1.00	0.00
Senior Business Analyst (14)	0.00	0.00	0.00	1.00	1.00
TOTAL HUMAN RESOURCES	15.00	14.10	14.10	14.10	0.00

Library Department					
Administrative Assistant (4)	0.00	0.00	0.00	1.00	1.00
Coordinator, Library Circulation (4)	0.00	0.00	0.00	1.00	1.00
Coordinator, Library Programs (4)	0.00	0.00	0.00	2.00	2.00
Director, Libraries (4)	0.00	0.00	0.00	1.00	1.00
Librarian (4)	0.00	0.00	0.00	6.00	6.00
Library Assistant (4)	0.00	0.00	0.00	4.00	4.00
Library Associate (4)	0.00	0.00	0.00	4.00	4.00
Library Specialist (4)	0.00	0.00	0.00	7.75	7.75
Manager, Main Library Services (4)	0.00	0.00	0.00	1.00	1.00
Office Specialist (4)	0.00	0.00	0.00	0.50	0.50
Senior Librarian (4)	0.00	0.00	0.00	10.75	10.75
Supervisor, Librarian (4)	0.00	0.00	0.00	4.00	4.00
TOTAL LIBRARY DEPARTMENT	0.00	0.00	0.00	43.00	43.00

Due to funding constraints, the Library Department budget includes the temporary removal of funding for the following vacant position: 1.0 FTE Librarian.

Planning Department					
Administrative Assistant	1.00	1.00	1.00	1.00	0.00
Administrator, Planning & Comm. Env.	1.00	1.00	1.00	1.00	0.00

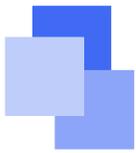


2004-05 TABLE OF ORGANIZATION *CONTINUED*

	2002-03 Adjusted Budget	2003-04 Adjusted Budget	2004-05 Adopted-in- Concept Budget	2004-05 Adopted Budget	2004-05 Budget Change
Assistant Building Official	1.00	1.00	1.00	1.00	0.00
Building Inspector	4.00	4.00	4.00	4.00	0.00
Building Inspector Specialist	3.00	3.00	3.00	3.00	0.00
Building/Planning Technician	4.00	3.00	3.00	3.00	0.00
Chief Building Official	1.00	1.00	1.00	1.00	0.00
Chief Planning Official	1.00	1.00	1.00	1.00	0.00
Chief Transportation Officer	1.00	1.00	1.00	1.00	0.00
City Traffic Engineer	1.00	1.00	1.00	1.00	0.00
Code Enforcement Officer	2.00	2.00	2.00	2.00	0.00
Coordinator, Transp. System Management	1.00	1.00	1.00	1.00	0.00
Director, Planning and Comm. Env.	1.00	1.00	1.00	1.00	0.00
Engineer	2.00	2.00	2.00	2.00	0.00
Engineering Technician II	1.00	1.00	1.00	1.00	0.00
Executive Secretary	1.00	1.00	1.00	1.00	0.00
Manager, Planning	3.00	3.00	3.00	3.00	0.00
Managing Arborist	1.00	1.00	1.00	1.00	0.00
Office Specialist (15)	4.00	3.00	3.00	2.00	-1.00
Planner	7.00	7.00	7.00	7.00	0.00
Plan Checking Engineer (15)	3.00	3.00	3.00	4.00	1.00
Senior Planner	8.00	6.00	6.00	6.00	0.00
Staff Secretary	5.00	4.80	4.80	4.80	0.00
Supervisor, Building Inspection	1.00	1.00	1.00	1.00	0.00
Transportation Projects Manager	1.00	1.00	1.00	1.00	0.00
TOTAL PLANNING AND COMMUNITY ENVIRONMENT	59.00	54.80	54.80	54.80	0.00

Police Department

Administrative Assistant	1.00	1.00	1.00	1.00	0.00
Administrator, Police (11)	1.00	1.00	1.00	0.00	-1.00
Animal Control Officer	4.50	4.50	4.50	4.50	0.00
Animal Services Specialist	1.00	1.00	1.00	1.00	0.00
Animal Services Specialist II	1.00	1.00	1.00	1.00	0.00
Assistant Chief of Police	1.00	0.00	0.00	0.00	0.00



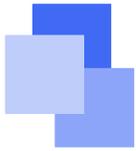
2004-05 TABLE OF ORGANIZATION *CONTINUED*

	2002-03 Adjusted Budget	2003-04 Adjusted Budget	2004-05 Adopted-in- Concept Budget	2004-05 Adopted Budget	2004-05 Budget Change
Business Analyst	1.00	1.00	1.00	1.00	0.00
Chief Communication Technician	1.00	0.00	0.00	0.00	0.00
Code Enforcement Officer (12) (18)	1.00	1.00	1.00	1.75	0.75
Communication Technician (16)	2.00	2.00	0.00	0.00	-2.00
Community Service Officer (12)	6.00	6.00	6.00	5.00	-1.00
Coordinator, Police Technical Services	1.00	1.00	1.00	1.00	0.00
Court Liaison Officer	1.00	1.00	1.00	1.00	0.00
Crime Analyst	1.00	1.00	1.00	1.00	0.00
Office Specialist	1.50	1.00	1.00	1.00	0.00
Parking Enforcement Officer	7.00	7.00	7.00	7.00	0.00
Parking Enforcement Officer - Lead	0.00	1.00	1.00	1.00	0.00
Parking Examiner	0.50	0.50	0.50	0.50	0.00
Police Agent	19.00	19.00	19.00	19.00	0.00
Police Captain	3.00	2.00	2.00	2.00	0.00
Police Chief	1.00	1.00	1.00	1.00	0.00
Police Lieutenant	6.00	6.00	6.00	6.00	0.00
Police Officer	53.00	51.00	51.00	51.00	0.00
Police Records Specialist	10.00	10.00	10.00	10.00	0.00
Police Sergeant	14.00	14.00	14.00	14.00	0.00
Program Assistant	1.00	1.00	1.00	1.00	0.00
Property and Evidence Technician	2.00	2.00	2.00	2.00	0.00
Public Safety Dispatcher (17)	17.00	17.00	16.00	16.00	-1.00
Public Safety Dispatcher-Chief	4.00	4.00	4.00	4.00	0.00
Sr. Administrator (11)	0.00	0.00	0.00	1.00	1.00
Staff Secretary	5.00	4.00	4.00	4.00	0.00
Superintendent, Animal Services	1.00	1.00	1.00	1.00	0.00
Supervisor, Animal Svcs	1.00	1.00	1.00	1.00	0.00
Supervisor, Police Service	4.00	3.00	3.00	3.00	0.00
Veterinarian	1.00	1.00	1.00	1.00	0.00
Veterinarian Technician	2.00	2.00	2.00	2.00	0.00
Volunteer Coordinator	1.00	1.00	1.00	1.00	0.00
TOTAL POLICE	177.50	171.00	168.00	167.75	-3.25



2004-05 TABLE OF ORGANIZATION *CONTINUED*

	2002-03 Adjusted Budget	2003-04 Adjusted Budget	2004-05 Adopted-in- Concept Budget	2004-05 Adopted Budget	2004-05 Budget Change
Public Works Department					
Accounting Specialist	1.00	1.00	1.00	1.00	0.00
Administrative Assistant	1.00	1.00	1.00	1.00	0.00
Administrator, Public Works (13)	1.00	1.00	1.00	0.00	-1.00
Assistant Director Public Works	0.75	0.85	0.85	0.85	0.00
Assistant Engineer (23)	1.50	1.50	1.50	0.40	-1.10
Building Serviceperson	5.00	5.00	5.00	5.00	0.00
Building Serviceperson-Lead	2.00	2.00	2.00	2.00	0.00
Cement Finisher (25)	2.00	2.00	2.00	1.50	-0.50
Cement Finisher- Lead (25)	1.00	1.00	1.00	0.50	-0.50
Coordinator, Public Works Projects	1.00	1.00	1.00	1.00	0.00
Deputy Director, Public Works Operations	0.40	0.40	0.40	0.40	0.00
Director, Public Works/City Engineer	1.00	1.00	1.00	1.00	0.00
Electrician	1.00	1.00	1.00	1.00	0.00
Engineer (29)	2.90	0.10	0.10	1.20	1.10
Engineering Technician III	5.60	4.20	4.20	4.20	0.00
Equipment Operator	2.55	2.55	2.55	2.55	0.00
Facilities Carpenter	1.00	1.00	1.00	1.00	0.00
Facilities Maintenance-Lead	2.00	2.00	2.00	2.00	0.00
Facilities Mechanic	6.00	5.00	5.00	5.00	0.00
Facilities Painter	2.00	2.00	2.00	2.00	0.00
Heavy Equipment Operator	1.90	1.90	1.90	1.90	0.00
Heavy Equipment Operator-Lead	1.05	1.05	1.05	1.05	0.00
Inspector, Field Services (23)	1.00	0.50	0.50	1.00	0.50
Manager, Facilities Maintenance (23)	1.00	1.00	1.00	0.80	-0.20
Manager, Maintenance Operations	0.50	0.50	0.50	0.50	0.00
Managing Arborist	1.00	1.00	1.00	1.00	0.00
Office Specialist	3.50	3.50	3.50	3.50	0.00
Program Assistant	1.00	0.50	0.50	0.50	0.00
Project Engineer (30)	5.00	2.30	2.30	1.20	-1.10
Project Manager	2.00	1.75	1.75	1.75	0.00
Senior Engineer (23)	3.55	0.75	0.75	0.30	-0.45
Senior Project Manager	1.00	1.00	1.00	1.00	0.00



2004-05 TABLE OF ORGANIZATION *CONTINUED*

	2002-03 Adjusted Budget	2003-04 Adjusted Budget	2004-05 Adopted-in- Concept Budget	2004-05 Adopted Budget	2004-05 Budget Change
Sr. Administrator (13) (21) (28)	0.00	0.00	0.00	0.90	0.90
Staff Secretary	2.00	2.00	2.00	2.00	0.00
Superintendent, Public Works Operations	0.80	0.80	0.80	0.80	0.00
Supervisor, Building Services	1.00	1.00	1.00	1.00	0.00
Supervisor, Facilities Management (23)	1.00	1.00	1.00	0.95	-0.05
Supervisor, Facilities Project	1.00	0.00	0.00	0.00	0.00
Supervisor, Inspection/Surveying, P.W.	0.90	0.90	0.90	0.90	0.00
Supervisor, Public Works	1.00	1.00	1.00	1.00	0.00
Surveying Assistant (23)	0.80	0.80	0.80	0.78	-0.02
Surveyor, Public Works (23)	0.80	0.80	0.80	0.78	-0.02
Traffic Control Maintainer- Lead	1.00	1.00	1.00	1.00	0.00
Traffic Control Maintenance I (25)	1.70	1.70	1.70	1.94	0.24
Traffic Control Maintenance II	3.00	3.00	3.00	3.00	0.00
Tree Maintenance Person	1.00	0.00	0.00	0.00	0.00
Tree Trimmer/Line Clearer	9.00	9.00	9.00	9.00	0.00
Tree Trimmer/Line Clearer-Lead	1.00	1.00	1.00	1.00	0.00
Truck Driver (25)	0.85	0.85	0.85	0.91	0.06
TOTAL PUBLIC WORKS	90.05	76.20	76.20	74.06	-2.14
GENERAL FUND AUTHORIZED POSITIONS	758.15	675.35	673.35	669.21	-6.14

Footnotes:

* These positions were adjusted in 2003-04 through a Budget Amendment Ordinance.

- 1 Addition of 0.25 Administrative Assistant to conduct revenue audits for sales tax collections for the City.
- 2 Reclassification of 1.0 Senior Financial Analyst to 1.0 Business Analyst in ASD.
- 3 Reclassification of 1.0 Business Analyst to 1.0 Senior Business Analyst in ASD.
- 4 Transfer 43.0 FTE from Community Services Department to new Library Department.
- 5 Elimination of 1.0 Manager, Community Services Facilities, due to department restructuring.
- 6 Reclassification of 1.0 Fire Captain to 1.0 Training Captain.
- 7 Reclassification of 3.0 Fire Captain to 3.0 Fire Fighter.
- 8 Elimination of 0.50 Office Specialist, due to budget constraints.
- 9 Addition of 1.0 EMS Coordinator to support inter-facility transport program, manage paramedic quality assurance program, and conduct training for EMT and paramedic certification.



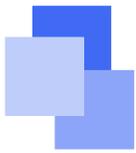
2004-05 TABLE OF ORGANIZATION *CONTINUED*

	2002-03 Adjusted Budget	2003-04 Adjusted Budget	2004-05 Adopted-in- Concept Budget	2004-05 Adopted Budget	2004-05 Budget Change
10	Reclassification of 3.0 Fire Apparatus Operator to 3.0 Fire Apparatus Operator Paramedic.				
11	Reclassification of 1.0 Administrator Police to 1.0 Sr. Administrator.				
12	Reclassification of 1.0 Community Service Officer to 1.0 Code Enforcement Officer.				
13	Reclassification of 1.0 Administrator, Public Works to 1.0 Sr. Administrator.				
14	Reclassification of 1.0 Business Analyst to 1.0 Senior Business Analyst in Human Resources Department.				
15	Reclassification of 1.0 Office Specialist to 1.0 Plan Checking Engineer.				
16	Elimination of 2.0 Communication Technician, due to budget constraints.				
17	Elimination of 1.0 Public Safety Dispatcher, due to budget constraints.				
18	Transfer of 0.25 Code Enforcement Officer from Police Department to the Refuse Fund.				
19	Transfer of 0.50 Sr. Business Analyst from ASD to Technology Fund.				
20	Transfer of 1.0 Accounting Specialist from Fire Department to ASD.				
21	Transfer of 0.07 Public Works Department FTE to Refuse Fund.				
23	Transfer of 1.32 Public Works Department FTE to Capital Fund.				
25	Transfer of 0.70 Public Works Department FTE to Storm Drainage Fund.				
28	Transfer of 0.05 Public Works Department FTE to Wastewater Treatment Fund.				
30	Transfer 2.0 Public Works Department FTE from 1.0 Storm Drainage Fund, 1.0 Wastewater Treatment Fund, and transfer out (0.90) Public Works Department FTE to Capital Fund.				
31	Transfer of (2.0) Public Works Department FTE to 1.0 Storm Drainage Fund and 1.0 Wastewater Treatment Fund, and transfer in 0.90 Capital Fund FTE to Public Works Department.				

ENTERPRISE FUNDS

Refuse Fund

Assistant Engineer (27)	0.25	0.25	0.25	0.40	0.15
Assistant, Director of Public Works	0.10	0.00	0.00	0.00	0.00
Associate Planner (10)	0.00	0.00	0.00	1.00	1.00
Code Enforcement Officer (11)	0.00	0.00	0.00	0.25	0.25
Coordinator Recycling	2.00	2.00	2.00	2.00	0.00
Deputy Director Public Works Operations	0.60	0.60	0.60	0.60	0.00
Engineering Technician III (1)	1.00	1.00	1.00	0.00	-1.00
Environmental Specialist	1.00	1.00	1.00	1.00	0.00
Equipment Operator (19)	2.00	0.00	1.00	0.00	0.00
Executive Assistant	2.00	2.00	2.00	2.00	0.00
Heavy Equip Operator-Lead	1.00	2.00	2.00	2.00	0.00



2004-05 TABLE OF ORGANIZATION *CONTINUED*

	2002-03 Adjusted Budget	2003-04 Adjusted Budget	2004-05 Adopted-in- Concept Budget	2004-05 Adopted Budget	2004-05 Budget Change
Heavy Equipment Operator (19)	3.00	5.00	4.00	5.00	0.00
Landfill Technician (1)	0.00	0.00	0.00	1.00	1.00
Manager, Environmental Control Progr.	1.00	1.00	1.00	1.00	0.00
Manager, Solid Waste	1.00	1.00	1.00	1.00	0.00
Office Specialist	1.00	1.00	1.00	1.00	0.00
Refuse Disposal Attendant	4.00	4.00	4.00	4.00	0.00
Senior Engineer	0.45	0.45	0.45	0.45	0.00
Sr. Administrator (17)	0.00	0.00	0.00	0.05	0.05
Staff Secretary	1.00	1.00	1.00	1.00	0.00
Street Maintenance Assistant	1.00	2.00	2.00	2.00	0.00
Street Sweeper Operator	6.00	6.00	6.00	6.00	0.00
Street Sweeper Operator - Lead	1.00	0.00	0.00	0.00	0.00
Superintendent, Public Works Operations	0.10	0.10	0.10	0.10	0.00
Supervisor, Public Works	2.00	2.00	2.00	2.00	0.00
Surveying Assistant (17)	0.10	0.10	0.10	0.11	0.01
Surveyor, Public Works (17)	0.10	0.10	0.10	0.11	0.01
Truck Driver	1.00	1.00	1.00	1.00	0.00

TOTAL REFUSE FUND	32.70	33.60	33.60	35.07	1.47
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Storm Drainage Fund

Assistant Director Public Works	0.15	0.15	0.15	0.15	0.00
Assistant Engineer (12)	0.25	0.25	0.25	0.00	-0.25
Cement Finisher (14)	1.00	1.00	1.00	1.50	0.50
Cement Finisher - Lead (14)	0.00	0.00	0.00	0.50	0.50
Electrician *	0.00	0.10	0.10	0.10	0.00
Electrician-Lead *	0.00	1.00	1.00	1.00	0.00
Engineer (29)	1.10	1.10	1.10	0.10	-1.00
Engineering Technician III	0.40	0.40	0.40	0.40	0.00
Equipment Operator	0.45	0.45	0.45	0.45	0.00
Heavy Equipment Operator	1.10	1.10	1.10	1.10	0.00
Heavy Equipment Operator-Lead	0.95	0.95	0.95	0.95	0.00
Industrial Waste Inspector (22)	0.90	0.90	0.90	0.00	-0.90
Industrial Waste Investigator (23)	0.00	0.00	0.00	0.90	0.90

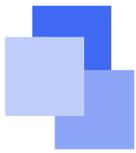


2004-05 TABLE OF ORGANIZATION *CONTINUED*

	2002-03 Adjusted Budget	2003-04 Adjusted Budget	2004-05 Adopted-in- Concept Budget	2004-05 Adopted Budget	2004-05 Budget Change
Instrumentation Electrician *	0.10	0.00	0.00	0.00	0.00
Manager, Maintenance Operations	0.50	0.50	0.50	0.50	0.00
Project Engineer (30)	0.00	0.00	0.00	1.00	1.00
Senior Engineer	1.00	1.00	1.00	1.00	0.00
Senior Instrumentation Electrician *	1.00	0.00	0.00	0.00	0.00
Superintendent Public Works Operations	0.10	0.10	0.10	0.10	0.00
Supervisor Inspection/Surveying, PW (12)	0.10	0.10	0.10	0.00	-0.10
Surveying Assistant (12)	0.10	0.10	0.10	0.00	-0.10
Surveyor, Public Works (12)	0.10	0.10	0.10	0.00	-0.10
Traffic Control Maintenance I (14)	0.30	0.30	0.30	0.06	-0.24
Truck Driver (14)	0.15	0.15	0.15	0.09	-0.06
TOTAL STORM DRAINAGE FUND	9.75	9.75	9.75	9.90	0.15

Wastewater Treatment Fund

Assistant Manager, WQCP	1.00	1.00	1.00	1.00	0.00
Associate Engineer	3.00	3.00	3.00	3.00	0.00
Buyer	1.00	1.00	1.00	1.00	0.00
Chemist	3.00	3.00	3.00	3.00	0.00
Electrician *	0.00	2.90	0.00	2.90	0.00
Electrician-Lead *	0.00	1.00	0.00	1.00	0.00
Engineer (29)	1.00	1.00	1.00	0.00	-1.00
Engineering Technician III (2)	2.00	2.00	2.00	1.00	-1.00
Environmental Specialist	1.00	1.00	1.00	1.00	0.00
Industrial Waste Inspector (22)	0.10	0.10	0.10	1.00	0.90
Industrial Waste Investigator (23)	2.00	2.00	2.00	1.10	-0.90
Instrumentation Electrician *	2.90	0.00	2.90	0.00	0.00
Laboratory Technician, WQCP	2.00	2.00	2.00	2.00	0.00
Maintenance Mechanic, WQCP (3)	8.00	8.00	8.00	7.00	-1.00
Manager, Environmental Compliance	1.00	1.00	1.00	1.00	0.00
Manager, Environmental Control Program	2.00	2.00	2.00	2.00	0.00
Manager, Laboratory Services	1.00	1.00	1.00	1.00	0.00
Manager, WQC Plant	1.00	1.00	1.00	1.00	0.00
Office Specialist	1.00	1.00	1.00	1.00	0.00



2004-05 TABLE OF ORGANIZATION *CONTINUED*

	2002-03 Adjusted Budget	2003-04 Adjusted Budget	2004-05 Adopted-in- Concept Budget	2004-05 Adopted Budget	2004-05 Budget Change
Program Assistant	1.00	1.00	1.00	1.00	0.00
Programmer Analyst	1.00	1.00	1.00	1.00	0.00
Project Engineer (30)	0.00	0.00	0.00	1.00	1.00
Senior Chemist	1.00	1.00	1.00	1.00	0.00
Senior Engineer	1.00	1.00	1.00	1.00	0.00
Senior Instrumentation Electrician *	1.00	0.00	1.00	0.00	0.00
Senior Mechanic, Water Quality Control	1.00	1.00	1.00	1.00	0.00
Senior Operator, Water Quality Control (2)	5.00	5.00	5.00	6.00	1.00
Sr. Administrator (24)	0.00	0.00	0.00	0.05	0.05
Staff Secretary	2.00	2.00	2.00	2.00	0.00
Storekeeper	2.00	2.00	2.00	2.00	0.00
Supervisor, Water Quality Control Operations	5.00	5.00	5.00	5.00	0.00
Water Quality Control Plant Operator II (3)	15.00	15.00	15.00	16.00	1.00
TOTAL WASTEWATER TREATMENT FUND	68.00	68.00	68.00	68.05	0.05

Utilities Department

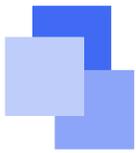
Administration, Electric, Gas, Wastewater Collection and Water

Account Representatives	4.00	3.00	3.00	3.00	0.00
Accounting Specialist	0.00	1.00	1.00	1.00	0.00
Administrative Assistant	1.00	1.00	1.00	1.00	0.00
Administrator, Utilities (6)	1.00	1.00	1.00	0.00	-1.00
Assistant Director Utilities/Administrative Services	1.00	1.00	1.00	1.00	0.00
Assistant Director Utilities/Engineer/Operations	1.00	1.00	1.00	1.00	0.00
Assistant Director Utilities/Resource Management	1.00	1.00	1.00	1.00	0.00
Associate Power Engineer	1.00	1.00	1.00	1.00	0.00
Business Analyst	1.00	1.00	1.00	1.00	0.00
Cathodic Technician	1.00	1.00	1.00	1.00	0.00
Cement Finisher	1.00	1.00	1.00	1.00	0.00
Communications Specialist	0.00	1.00	1.00	1.00	0.00
Contract Administrator	0.00	1.00	1.00	1.00	0.00
Coordinator, Utils. Safety & Security	0.00	1.00	1.00	1.00	0.00



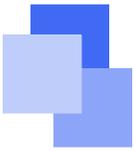
2004-05 TABLE OF ORGANIZATION *CONTINUED*

	2002-03 Adjusted Budget	2003-04 Adjusted Budget	2004-05 Adopted-in- Concept Budget	2004-05 Adopted Budget	2004-05 Budget Change
Coordinator, Utility Projects	3.00	2.00	2.00	2.00	0.00
Customer Service Representative	5.00	5.00	5.00	5.00	0.00
Customer Service Specialist (9)	3.00	3.00	3.00	2.00	-1.00
Customer Service Specialist-Lead (9)	0.00	0.00	0.00	1.00	1.00
Director, Administrative Services (25)	0.00	0.00	0.00	0.15	0.15
Director, Utilities	1.00	1.00	1.00	1.00	0.00
Electric Project Engineer	3.00	3.00	3.00	3.00	0.00
Electric Underground Inspector	2.00	2.00	2.00	2.00	0.00
Electric Utility Compliance Technician	2.00	2.00	2.00	2.00	0.00
Electric Utility Compliance Tech.-Lead	1.00	1.00	1.00	1.00	0.00
Electrical Assistant I	5.00	5.00	5.00	5.00	0.00
Electrician	14.00	14.00	14.00	14.00	0.00
Electrician-Lead	7.00	7.00	7.00	7.00	0.00
Engineer	4.00	4.00	4.00	4.00	0.00
Engineering Manager, Electric	1.00	1.00	1.00	1.00	0.00
Engineering Manager, WGW	1.00	1.00	1.00	1.00	0.00
Engineering Technician III	2.00	2.00	2.00	2.00	0.00
Equipment Operator	2.00	2.00	2.00	2.00	0.00
Executive Secretary (7)	1.00	1.00	1.00	0.00	-1.00
Gas System Technician	3.00	2.00	2.00	2.00	0.00
Heavy Equipment Operator	9.00	9.00	9.00	9.00	0.00
Inspector, Field Services	4.00	4.00	4.00	4.00	0.00
Lineperson/Cable Splicer	10.00	10.00	10.00	10.00	0.00
Lineperson/Cable Splicer-Lead	5.00	5.00	5.00	5.00	0.00
Maintenance Mechanic	2.00	2.00	2.00	2.00	0.00
Manager Utilities Telecommunication	1.00	1.00	1.00	1.00	0.00
Manager, Communications	0.00	1.00	1.00	1.00	0.00
Manager, Electric Operations	1.00	1.00	1.00	1.00	0.00
Manager, Energy Risk	0.00	1.00	1.00	1.00	0.00
Manager, Field and Customer Service	1.00	1.00	1.00	1.00	0.00
Manager, Supply Resources	1.00	1.00	1.00	1.00	0.00
Manager, Utilities Marketing Services	1.00	1.00	1.00	1.00	0.00
Manager, Utilities Operations WGW	1.00	1.00	1.00	1.00	0.00



2004-05 TABLE OF ORGANIZATION *CONTINUED*

	2002-03 Adjusted Budget	2003-04 Adjusted Budget	2004-05 Adopted-in- Concept Budget	2004-05 Adopted Budget	2004-05 Budget Change
Manager, Utilities Rates	1.00	1.00	1.00	1.00	0.00
Marketing Engineer	1.00	1.00	1.00	1.00	0.00
Meter Reader	6.00	5.00	5.00	5.00	0.00
Meter Reader-Lead	1.00	1.00	1.00	1.00	0.00
Office Specialist	2.00	2.00	2.00	2.00	0.00
Program Assistant	1.50	4.00	4.00	4.00	0.00
Project Engineer	6.00	6.00	6.00	6.00	0.00
Project Manager	0.00	0.75	0.75	0.75	0.00
Public Relations Specialist	1.00	0.00	0.00	0.00	0.00
Resource Planner	4.00	4.00	4.00	4.00	0.00
Senior Business Analyst (8)	0.00	0.00	0.00	1.00	1.00
Senior Electric Project Engineer	5.00	5.00	5.00	5.00	0.00
Senior Field Services Representative	1.00	1.00	1.00	1.00	0.00
Senior Market Analyst	3.00	2.00	2.00	2.00	0.00
Senior Project Engineer	4.00	4.00	4.00	4.00	0.00
Senior Resource Originator	1.00	1.00	1.00	1.00	0.00
Senior Resource Planner	4.00	4.00	4.00	4.00	0.00
Senior Technologist (8)	0.00	1.00	1.00	0.00	-1.00
Senior Water System Operator	0.00	1.00	1.00	1.00	0.00
Sr. Administrator (6)	0.00	0.00	0.00	1.00	1.00
Staff Secretary (7)	8.00	6.00	6.00	7.00	1.00
Storekeeper	0.00	1.00	1.00	1.00	0.00
Supervisor Electric Systems	6.00	6.00	6.00	6.00	0.00
Supervisor Shop and Field WGW (5)	1.00	1.00	1.00	0.00	-1.00
Supervisor, Meter Readers & Field Services	0.00	1.00	1.00	1.00	0.00
Supervisor, Utility Construction	2.00	2.00	2.00	2.00	0.00
Supervisor, Wastewater, Gas, Water	4.00	4.00	4.00	4.00	0.00
Tree Maintenance Person	0.00	1.00	1.00	1.00	0.00
Truck Driver	1.00	1.00	1.00	1.00	0.00
Utilities Accounting Technician	1.00	1.00	1.00	1.00	0.00
Utilities Credit/Collection Specialist	1.00	1.00	1.00	1.00	0.00
Utilities Engineering Estimator	6.00	6.00	6.00	6.00	0.00
Utilities Field Service Representative	8.00	8.00	8.00	8.00	0.00



2004-05 TABLE OF ORGANIZATION *CONTINUED*

	2002-03 Adjusted Budget	2003-04 Adjusted Budget	2004-05 Adopted-in- Concept Budget	2004-05 Adopted Budget	2004-05 Budget Change
Utilities Installer/Repairer	14.00	14.00	14.00	14.00	0.00
Utilities Installer/Repairer Assistant	1.00	1.00	1.00	1.00	0.00
Utilities Installer/Repairer-Lead (4)	6.00	6.00	6.00	5.00	-1.00
Utilities Key Account Representative	3.00	3.00	3.00	3.00	0.00
Utilities Locator	3.00	3.00	3.00	3.00	0.00
Utilities Rate Analyst	1.00	1.00	1.00	1.00	0.00
Utilities System Operator	5.00	5.00	5.00	5.00	0.00
Water Meter/Cross Connection Technician	2.00	2.00	2.00	2.00	0.00
Water System Operator II (4) (5)	0.00	3.00	3.00	5.00	2.00
Water Transmission Specialist	2.00	0.00	0.00	0.00	0.00
Water Transmission Specialist - Lead	1.00	0.00	0.00	0.00	0.00
Water Transmission Supervisor	1.00	1.00	1.00	1.00	0.00
TOTAL UTILITIES	227.50	233.75	233.75	233.90	0.15

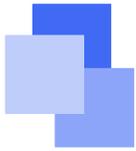
CPA External Services

Human Resources Assistant - Conf.	1.00	0.00	0.00	0.00	0.00
Manager, Information Technology	1.00	0.70	0.70	0.70	0.00
Technologist	5.00	5.00	5.00	5.00	0.00
TOTAL CPA EXTERNAL FUND	7.00	5.70	5.70	5.70	0.00

TOTAL ENTERPRISE FUNDS POSITIONS	344.95	350.80	350.80	352.62	1.82
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Footnotes:

- * These positions were adjusted in 2003-04 through a Budget Amendment Ordinance.
- 1 Reclassification of 1.0 Engineering Technician III to 1.0 Landfill Technician in Refuse Fund.
- 2 Drop 1.0 Engineering Technician III, Add 1.0 Senior Operator Water Quality Control to support Recycling program in Wastewater Treatment Fund.
- 3 Drop 1.0 Maintenance Mechanic, Add 1.0 Water Quality Control Plant Operator II to support Recycling program.
- 4 Drop 1.0 Utility Installer/Repairer-Lead, Add 1.0 Water System Operator II in Utilities Department to comply with legal mandates.
- 5 Drop 1.0 Supervisor, Shop and Field WGW, Add 1.0 Water System Operator II in Utilities Department to comply with legal mandates.
- 6 Reclassification of 1.0 Administrator, Utilities to 1.0 Sr. Administrator in Utilities Department.



2004-05 TABLE OF ORGANIZATION *CONTINUED*

	2002-03 Adjusted Budget	2003-04 Adjusted Budget	2004-05 Adopted-in- Concept Budget	2004-05 Adopted Budget	2004-05 Budget Change
7	Drop 1.0 Executive Secretary, Add 1.0 Staff Secretary due to reorganization of Administrative staff in Utilities Department.				
8	Reclassification of 1.0 Senior Technologist to 1.0 Senior Business Analyst in Utilities Department.				
9	Reclassification of 1.0 Customer Service Specialist to 1.0 Customer Service Specialist-Lead.				
10	Addition of 1.0 Associate Planner for administration of Construction and Demolition Ordinance.				
11	Transfer of 0.25 Police Department FTE to Refuse Fund.				
12	Transfer of 0.55 Storm Drainage Fund FTE to Capital Fund.				
14	Transfer of 0.70 Public Works Department FTE to Storm Drainage Fund.				
17	Transfer of 0.07 Public Works Department FTE to Refuse Fund.				
19	2003-04 reclassification of 1.0 Equipment Operator to 1.0 Heavy Equipment Operator.				
24	Transfer of 0.05 Public Works Department FTE to Wastewater Treatment Fund.				
25	Transfer of 0.15 Technology Fund FTE to Utilities Department.				
27	Transfer of 0.15 Capital Fund FTE to Refuse Fund.				
29	Transfer 2.0 Public Works Department FTE from 1.0 Storm Drainage Fund, 1.0 Wastewater Treatment Fund, and transfer out (0.90) Public Works Department FTE to Capital Fund.				
30	Transfer of (2.0) Public Works Department FTE to 1.0 Storm Drainage Fund and 1.0 Wastewater Treatment Fund, and transfer in 0.90 Capital Fund FTE to Public Works Department.				

OTHER FUNDS

Printing and Mailing Services

Accounting Specialist-Lead	0.05	0.05	0.05	0.05	0.00
Buyer	0.05	0.05	0.05	0.05	0.00
Mailing Services Specialist	1.00	1.00	1.00	1.00	0.00
Manager, Purchasing and Contract Administration	0.05	0.05	0.05	0.05	0.00
Offset Equipment Operator	2.00	2.00	2.00	2.00	0.00
Supervisor Reproduction and Mailing	1.00	1.00	1.00	1.00	0.00

TOTAL PRINTING AND MAILING SERVICES	4.15	4.15	4.15	4.15	0.00
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Technology

Business Analyst	0.00	0.50	0.50	0.50	0.00
Deputy ASD/Chief Information Officer	0.00	1.00	1.00	1.00	0.00
Desktop Technician	0.00	5.00	5.00	5.00	0.00



2004-05 TABLE OF ORGANIZATION *CONTINUED*

	2002-03 Adjusted Budget	2003-04 Adjusted Budget	2004-05 Adopted-in- Concept Budget	2004-05 Adopted Budget	2004-05 Budget Change
Director, Administrative Services (1)	0.00	0.15	0.15	0.00	-0.15
Manager, Information Technology	0.00	3.30	3.30	3.30	0.00
Senior Business Analyst (2)	0.00	0.00	0.00	0.50	0.50
Senior Technologist	0.00	20.00	20.00	20.00	0.00
Sr. Financial Analyst	0.00	0.25	0.25	0.25	0.00
Staff Secretary	0.00	0.95	0.95	0.95	0.00
Technologist	0.00	2.00	2.00	2.00	0.00
TOTAL TECHNOLOGY	0.00	33.15	33.15	33.50	0.35

Due to funding constraints, the Technology Fund budget includes the temporary removal of funding for the following vacant position: 1.0 FTE Manager, Information Technology.

Equipment Management

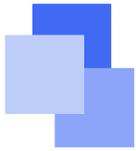
Assistant Fleet Manager	1.00	1.00	1.00	1.00	0.00
Equipment Maintenance Service Person	2.00	2.00	2.00	2.00	0.00
Fleet Manager	1.00	1.00	1.00	1.00	0.00
Fleet Services Coordinator	2.00	2.00	2.00	2.00	0.00
Mobile Service Technician	0.00	1.00	1.00	1.00	0.00
Motor Equipment Mechanic	7.00	7.00	7.00	7.00	0.00
Motor Equipment Mechanic-Lead	1.00	1.00	1.00	1.00	0.00
Staff Secretary	1.00	1.00	1.00	1.00	0.00
TOTAL EQUIPMENT MANAGEMENT	15.00	16.00	16.00	16.00	0.00

Special Revenue

Staff Secretary	0.00	0.20	0.20	0.20	0.00
Planner	0.00	1.00	1.00	1.00	0.00
TOTAL SPECIAL REVENUE	0.00	1.20	1.20	1.20	0.00

Capital

Assistant Engineer (3) (5) (6)	0.00	0.00	0.00	1.20	1.20
Engineer (7)	0.00	2.80	2.80	3.70	0.90
Engineering Technician III	0.00	1.40	1.40	1.40	0.00
Inspector, Field Services (3)	0.00	0.50	0.50	0.00	-0.50



2004-05 TABLE OF ORGANIZATION *CONTINUED*

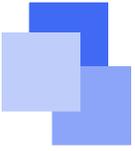
	2002-03 Adjusted Budget	2003-04 Adjusted Budget	2004-05 Adopted-in- Concept Budget	2004-05 Adopted Budget	2004-05 Budget Change
Manager, Facilities Maintenance (3)	0.00	0.00	0.00	0.20	0.20
Park Planner Architect	0.00	1.00	1.00	1.00	0.00
Program Assistant	0.00	1.00	1.00	1.00	0.00
Project Engineer (8)	0.00	2.70	2.70	1.80	-0.90
Project Manager	0.00	1.50	1.50	1.50	0.00
Senior Engineer (3)	0.00	1.80	1.80	2.25	0.45
Supervisor, Facilities Management (3)	0.00	0.00	0.00	0.05	0.05
Supervisor, Inspection/Surv PW (5)	0.00	0.00	0.00	0.10	0.10
Surveying Assistant (3) (5)	0.00	0.00	0.00	0.11	0.11
Surveyor, Public Works (3) (5)	0.00	0.00	0.00	0.11	0.11
TOTAL CAPITAL	0.00	12.70	12.70	14.42	1.72
TOTAL OTHER FUNDS POSITIONS	19.15	67.20	67.20	69.27	2.07

Footnotes:

- 1 Transfer of 0.15 Technology Fund FTE to Utilities Department.
- 2 Transfer of 0.50 Administrative Service Department FTE to Technology Fund.
- 3 Transfer of 1.32 Public Works Department FTE to Capital Fund.
- 5 Transfer of 0.55 Storm Drainage Fund FTE to Capital Fund.
- 6 Transfer of 0.15 Capital Fund FTE to Refuse Fund.
- 7 Transfer 2.0 Public Works Department FTE from 1.0 Storm Drainage Fund, 1.0 Wastewater Treatment Fund, and transfer out (0.90) Public Works Department FTE to Capital Fund.
- 8 Transfer of (2.0) Public Works Department FTE to 1.0 Storm Drainage Fund and 1.0 Wastewater Treatment Fund, and transfer in 0.90 Capital Fund FTE to Public Works Department.

TOTAL CITYWIDE POSITIONS	1122.25	1093.35	1091.35	1091.10	-2.25
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Five overstrength position slots are authorized for use on a temporary basis for retiring employees and/or training of replacement employees. These positions will be funded by the applicable department savings.



2004-05 Table of Organization
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Miscellaneous



Reserve Policies

As revised by City
Council on June 28, 2004

General Fund Reserve Policy

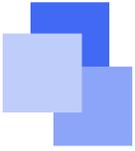
Determination of the appropriate level of General Fund reserves is a policy decision. Some general guidelines have been suggested by the literature in the government finance field. The Government Finance Officers Association (GFOA) recommend that reserve levels be directly related to the degree of uncertainty the local government faces: the greater the uncertainty, the greater the financial resources necessary. Past experience should be used as a guide, with particular attention being paid to the following:

- Diversity of revenue base
- Volatility of revenue structure
- Volatility of political environment
- Consistent operating surpluses/occasional or frequent operation deficits
- Uneven cash flows, requiring short-term borrowing

Diversity of Revenue Base: Palo Alto has a comparatively diverse revenue base: in 2002-03, almost half of the \$105.8 million in General Fund revenues came from non-tax sources. This means that in periods of economic recessions, Palo Alto is somewhat more resilient to revenue reductions than cities in which tax revenue makes up the overwhelming majority of their revenue base. (In contrast, for all cities in California of Palo Alto's size, taxes make up roughly two-thirds of total General Fund revenue.)

Volatility of Revenue Structure: Tax revenues show the most volatility in terms of growth, although Palo Alto's revenues have been relatively more stable than other cities in Santa Clara County or the Bay Area in general. Sales tax is spread broadly across consumer retail, business-to-business sales, and other sales (transportation, food products, and miscellaneous); they are less able to withstand political vagaries, however.

Political Volatility: While Palo Alto's revenues have shown strength and resilience in relation to the general economy, considerable volatility has been introduced by the inability of the State government to deal with its own budget problems. In 1990-91, the State gave counties authority, through SB 2557, to charge cities for the cost of booking prisoners and for property tax administration; this action cost Palo Alto approximately half a million dollars on an annual basis. In 1991-92, the State shifted 47 percent of cities' cigarette tax away to fund trial courts. In addition,



Reserve Policies *continued*

the State took half of all non-parking fines and forfeitures attributable to cities. From 1992-94, the State reduced cities' property tax revenues by almost 15 percent, eliminated the balance of cigarette tax revenues, and extended the definition of booking fees so that counties may potentially double or triple the charges they assess. In November 1996, voters passed Proposition 218, the Right to Vote on Taxes initiative. It further limits the City's ability to raise new funds.

The State has further targeted property tax revenues as an offset to its 2004 and 2005 budget balancing activities. Approximately \$1.5 million (10 percent) in Palo Alto property tax revenues have been targeted for inclusion in the Educational Revenue Augmentation Fund (ERAF) in 2004-05.

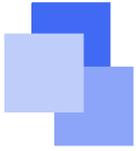
Of all the factors to be considered in setting reserve levels, none appears more critical than political volatility in the current economic environment.

Operating Surplus/Operating Deficit: The City continues its philosophy of "pay as you go" as its preferred approach to operations. This requires a balanced budget and operating result at yearend, along with not funding operating deficits with reserves. Significant progress has been made to slow the ten-year annual expenditure growth rates (4.0 percent), but it still exceeds the expected revenue growth rate by 0.3 percentage points. It will be important to ultimately have long-term revenue growth rates above those for expenditures.

Uneven Cash Flow: General Fund reserves are invested as part of a pool, which includes idle cash in all City funds, including the Enterprise and the Special Revenue Funds. At June 30, 2003, the City's cash and investment portfolio (excluding funds under the management of third party trustees) totaled \$375.6 million. Cash flow projections for the portfolio reflect no need for short-term borrowing, and the City has not experienced this need in the past.

Budget Stabilization Reserve (BSR)

Events in recent years have left little doubt that the City's budget planning can be completely negated by the actions of the State Legislature and the Governor in Sacramento. The General Fund requires a BSR to serve as a repository for unspent operating funds at yearend, as well as pay for one-time unexpected needs that arise outside of the regular budget planning process. The BSR is not meant to fund ongoing operating expense. A reserve level of no less than 15 percent of General Fund operating expenditures, with a target of 18.5 percent, shall be maintained. At the discretion of the City Manager, reserve balance above this level is transferred to the Infrastructure Reserve within the Capital Fund.



Reserve Policies *continued*

Capital Fund Reserve Policy

Reserve for Equity Transfer Stabilization

The Reserve for Equity Transfer Stabilization in the General Fund is designated to replace the equity transfer in the event that the Gas and Electric Funds are unable to make the required annual equity transfer to the General Fund. This reserve is funded at the end of each fiscal year by the Gas and Electric Funds based on a Council approved formula. The transfer is dependent on the positive operating results and reserve balances of the funds. Funding of this reserve will cease when Reserve for Equity Transfer Stabilization reaches 30% of the combined required annual equity transfer of the current year.

Infrastructure Reserve (IR)

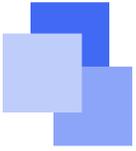
The Infrastructure Reserve (IR) was originally created as a mechanism to accumulate funding required to complete a 10 year, \$100 million infrastructure rehabilitation program that would repair or renovate existing buildings and facilities, streets and sidewalks, parks and open space and transportation systems. Because of the need to maintain infrastructure on a systematic basis, it was recognized that the IR would out of necessity never be exhausted but would act in perpetuity as the source of funding for General Fund infrastructure.

From time to time, the Council has used the IR to fund new capital projects. However, the Council has not changed the original policy, adopted when the Infrastructure Management Plan was approved, to prioritize the care and maintenance of existing infrastructure over the acquisition of new infrastructure.

The reserve would therefore be used primarily to fund the projects identified in the original Infrastructure Master Plan, or any other projects not identified in the plan but which are critical to the maintenance of existing infrastructure. Secondly, should Council choose, the IR may be used for major capital projects involving the acquisition or renovation of infrastructure not previously included in the IMP.

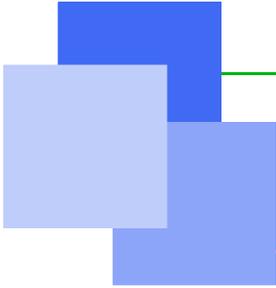
Because the IR is to be used for priority capital projects that will be reviewed by the Council, no maximum reserve level is recommended. A \$2 million minimum balance is required to maintain an ongoing commitment to the City's future infrastructure needs.

Unspent monies from IMP projects will be returned to the IR and retained within the Capital Fund. Investment income from this reserve will also be retained within the IR to fund future capital project needs.

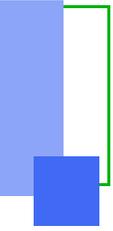


Reserve Policies
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Emergency Preparedness Cross-Departmental Program



Mission

To protect life, property and the environment from natural and man-made disasters through preplanning, training, rapid emergency response and public safety education for the benefit of the community.

This is a new cross-departmental program in 2004-05.

An Overview

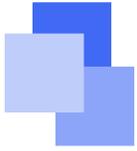
City departments will continue to work together in efforts to refine the City-wide approach to emergency preparedness. A steering committee of department heads, chaired by the Fire Chief, will ensure that all departments coordinate emergency training and response activities. Quarterly Community Disaster Preparedness Group meetings will provide a forum for community, government, and business organizations to review plans and increase emergency preparedness in Palo Alto.

The City's Emergency Preparedness Working Group will conduct an earthquake-training scenario that will include all City departments, the Palo Alto Unified School District, Palo Alto Neighborhood Disaster Preparedness Association (PANDA), Amateur Radio Operators, and other community-based groups. The Police Department will additionally conduct simulation-training exercises to enhance officers' skills in the use of new equipment and the initial response to weapons of mass destruction.

The City will continue to pursue alternative funding sources to support training and equipment needs. Through the use of homeland security grants the City is participating in the Silicon Valley Regional Interoperability Project. Citizens Options for Public Safety (COPS) funds will support the purchase of much needed equipment and fund additional training. Pending funding from a Palo Alto Police Foundation, that is in development, staff hopes to acquire a First Responder Mobile Command Vehicle.

COMPREHENSIVE PLAN OVERVIEW

Departments will work with PAUSD, neighborhoods, civic organizations, on an earthquake disaster scenario (G-10). Enhance regionalized communications with other public safety agencies through the implementation of a new countywide radio interoperability system (N-80).



Emergency Preparedness Cross-Departmental Program *continued*

CONTRIBUTING DEPARTMENTS

Police Department

The Police Department is responsible for coordinating the City's homeland security planning, training, and regional interactions and ensuring seamless radio and data communication between and amongst City departments and outside first responder agencies.

Fire Department

The Fire Department is responsible for providing training to City employees on the deployment of a community alerting system and the implementation of the Standard Emergency Management System (SEMS) protocol for managing critical incidents and potential disasters.

Utilities Department

The Utilities Department is responsible for operating, maintaining, and improving the City's Utilities infrastructure to ensure adequate, safe, economic, reliable, environmentally sound, and efficient delivery of services.

Other Departments

The City Manager and Public Works provide smaller, but significant contributions to the Emergency Preparedness CDP. Public Works staff will continue to be involved in first responder and EOC training. The City Manager will continue to conduct Quarterly Community Disaster Preparedness Group meetings and provide communications to residents, businesses, other organizations, and the media about emergency preparedness issues facing the City.

KEY PLANS

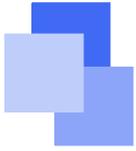
In 2004-05, conduct quarterly Community Disaster Preparedness Group meetings to provide a forum for various community, governmental, and business organizations within Palo Alto to review emergency plans and increase emergency preparedness within the community.

In 2004-05, conduct additional training of Fire Department personnel to enhance technical rescue skills and participate in regional training opportunities with other county technical rescue groups.

In 2004-05, explore the feasibility of partnering the Palo Alto Neighborhood Disaster Preparedness Association (PANDA) and Neighborhood Watch programs to pursue ways the two programs can interact during an emergency.

In 2004-05, acquire a "First Responder Mobile Command Vehicle" with funding provided through alternative sources, including a Palo Alto Police Foundation.

In 2004-05, conduct an earthquake disaster exercise with participation from City departments and representatives from the Palo Alto Unified School District.



Emergency Preparedness Cross-Departmental Program

continued

In 2004-05, conduct simulation training exercises to enhance police officer's skills in the initial response to weapons of mass destruction, including chemical and biological disasters, for the purposes of officer safety and or eliminating further casualties.

In 2004-05, ensure communication between and amongst departments and outside law enforcement and other public safety agencies, through the participation in the

PARTICIPATING DEPARTMENTS	2003-04 ESTIMATED BUDGET	2004-05 ESTIMATED BUDGET
Police Department	\$133,135	\$273,911
Fire Department	\$221,652	\$228,302
Utilities Department	\$61,290	\$62,919
Capital Improvement Program	\$460,000	\$587,500
Total Expenditures	\$876,077	\$1,152,632
Full Time Equivalent (FTE) Positions	3.10	4.08

Silicon Valley Regional Interoperability Project, and implementation of the first phase of integration with the City's radio communication infrastructure.

CIP INFORMATION

The following Capital Improvement Programs (CIP) are related to this cross departmental program:

- Fire Portable Radio Replacement (PD-04010)
- Radio Infrastructure Replacement (TE-05000)
- Disaster Recovery Plan (TE-01012)
- Utility Site Security Improvements (EL-04012)
- SCADA System Upgrades (EL-02010)

2004-05 Estimated Appropriations Limitation

COMPLIANCE CALCULATION (\$Millions)	Combined Funds	General Fund	Capital Projects	Debt Service	Special Revenue
TOTAL BUDGETED APPROPRIATIONS					
2004-05 Proposed Budget (\$ millions)	117.22	101.89	9.43	1.43	4.48
Less: Debt Service Transactions	1.43			1.43	
Capital Outlay	8.48		8.48		
Non-Proceeds of Taxes	43.18	39.08			4.09
Net Adopted Appropriations Subject to Limit	\$64.134	\$62.80	\$0.95	\$0.00	\$0.38
2004-05 Appropriations Limit	89.27				
UNDER LIMIT BY	\$25.14				

COMPUTATION OF APPROPRIATION LIMIT

2003-04 Appropriations Limit	\$85,816,709
2003-04 Santa Clara County Population Change	072%
2003-04 Per Capita Income Change	3.28%
(1.0072) x (1.0328) x \$85,816,709 =	\$89,269,644

The City of Palo Alto remains well within its appropriations limit in 2004-05. Future year limit trends can be made based on average change in regional population and income growth. The appropriations subject to limitation includes proceeds of taxes from the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Improvement Funds. The following is a summary of estimated limits and estimated appropriations subject to the limit.

Historical Appropriations	2000-01	2001-02	2002-03	2003-04	2004-05
Appropriations Subject to the Limit	64.19	71.66	65.96	61.33	64.13
Appropriations Limit	74.77	81.80	83.21	85.82	89.27
Under Limit By	\$10.58	\$10.14	\$17.25	\$24.49	\$25.14
Projected Appropriations	2005-06	2006-07	2007-08	2008-09	2009-10
Appropriations Subject to the Limit	69.261	74.81	80.79	87.25	94.23
Appropriations Limit	94.94	100.97	107.38	114.20	121.45
Under Limit By	\$25.67	\$26.16	\$26.59	\$26.94	\$27.21

Palo Alto: The City

An Overview

Palo Alto is located on the San Francisco Bay Peninsula on a low-lying plain between the Bay and the coastal mountain range to the west about 40 miles south of San Francisco. This town of approximately 60,000 people, in Santa Clara County, is one of a constellation of towns and cities ringing San Francisco Bay and comprising the greater nine-county San Francisco Bay Region, with a population of approximately six million. While it is not a significant population center, Palo Alto enjoys international name recognition and travelers from all over the world come to participate in education or research at Stanford University, training or business with the high technology firms of the Stanford Research Park, or medical care at the Stanford Medical Center. Palo Alto's historic ties to Stanford University and the various institutions affiliated with it, either formally or loosely, creates a much more cosmopolitan character here than evidenced in many other Bay Area communities of similar size.



Palo Alto's residential neighborhoods are distinctive, each with its own character and ambiance. Most neighborhoods also have resident and homeowner organizations, which provide a forum for interacting with city government on neighborhood issues.

The Palo Alto Unified School District (PAUSD) has an international reputation for excellence. Over 90% of PAUSD students enter college and the drop-out rate is approximately 1% (PAUSD, Annual District Profile, 2001-02). In addition, District students score well above the average on standardized tests.

Palo Alto enjoys access to medical care unsurpassed almost anywhere in the world. Two medical facilities of national or international stature are located here, the Palo Alto Medical Foundation and the Stanford Medical Center.

Palo Alto is home to a vibrant business community, with over 91,000 jobs and 4,000 businesses located in the city. The local economy is primarily based on banking, insurance, real estate, as well as the wholesale, retail and service industries.

From city-owned parks in the baylands where birds and aquatic life flourish in a natural habitat to the trails and picnic areas in our grassy foothill preserves, Palo Alto is a city that boasts 34 parks. Indeed, one-third of Palo Alto's 26 square miles is open space, which complements Stanford University's thousands of acres of rolling hills and botanical preserves.

Demographic Statistics

Last Ten Fiscal Years

Fiscal Year	City Size Square Miles	Street Miles	City Population	County Population	School Population
1994-95	25.98	193.12	58,500	1,563,000	8,419
1995-96	25.98	193.12	58,500	1,599,300	9,122
1996-97	25.98	193.12	59,100	1,626,200	9,407
1997-98	25.98	193.12	59,900	1,650,400	9,719
1998-99	25.98	193.12	61,189	1,665,600	9,946
1999-00	25.98	193.12	61,500	1,692,000	9,881
2000-01	25.98	193.12	58,598	1,714,800	10,031
2001-02	25.98	193.12	58,598	1,718,500	9,834
2002-03	25.98	193.12	58,600	1,729,917	10,033
2003-04	25.98	193.12	not available	not available	

SOURCES:

California Department of Finance

Palo Alto Unified School District

Santa Clara County, Planning website: (<http://www.sccplanning.org>)



GANN Resolution

RESOLUTION NO. 8443

RESOLUTION OF THE COUNCIL OF THE CITY OF PALO ALTO DETERMINING THE CALCULATION OF THE APPROPRIATIONS LIMIT OF THE CITY OF PALO ALTO FOR FISCAL YEAR 2004-05

WHEREAS, under Article XIIIIB of the Constitution of the State of California, the City of Palo Alto (City) may not appropriate any proceeds of taxes in excess of its appropriations limit (Limit); and

WHEREAS, since 1990-91, the City is permitted to annually adjust its Limit in accordance with inflation and population adjustment factors; and

WHEREAS, pursuant to Government Code Section 37200, the calculation of the Limit was set forth in the annual budget of the City for fiscal year 2004-05, which will be adopted by ordinance of the Council on June 28, 2004; and

WHEREAS, pursuant to Government Code sections 7901 and 7910, the final calculation of the Limit has been determined, and the adjustment factors on which the calculation is based are a 3.28% percent change in California per capita income and a 0.72% percent change in the population growth for the County of Santa Clara; and

WHEREAS, the documentation used in the determination of the Limit has been made available to the general public for fifteen (15) days prior to the date of adoption of this resolution; and

WHEREAS, according to the final calculation, the City's appropriations subject to limitation are approximately \$25.14 million less than the Limit.

NOW, THEREFORE, the Council of the City of Palo Alto does RESOLVE as follows:

SECTION 1. The Council of the City of Palo Alto hereby finds that, for fiscal year 2004-05, the final calculation of the Appropriations Limit of the City of Palo Alto has been determined in accordance with the adjustment factors referred to above, the documentation used in the determination of the calculation has been made available to the general public for the period of fifteen days as required by law, and the City's appropriations subject to limitation are under the Limit by approximately \$25.14 million.

SECTION 2. The Council hereby adopts the final calculation

of the Appropriations Limit of the City for fiscal year 2004-05, a copy of which is attached hereto as Exhibit A.

SECTION 3. The Council finds that the adoption of this resolution does not constitute a project under the California Environmental Quality Act, and, therefore, no environmental assessment is necessary.

INTRODUCED AND PASSED: June 28, 2004

AYES: BEECHAM, BIRCH, CORDELL, FREEMAN, KLEINBERG, MOSSAR, OJAKIAN

NOES:

ABSENT: KISHIMOTO, MORTON

ABSTENTIONS:

ATTEST:

Donna J. Rogers
City Clerk

APPROVED:

Ben Beechan
Mayor

APPROVED AS TO FORM:

Kellie Small
City Attorney (S.C. Asst)

[Signature]
City Manager

[Signature]
Director, Administrative Services



Budget Adoption Ordinance

ORDINANCE NO. 4833

ORDINANCE OF THE COUNCIL OF THE CITY OF PALO ALTO
ADOPTING THE BUDGET FOR FISCAL YEAR 2004-05

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

A. Pursuant to the provisions of Section 6(g) of Article IV of the Charter of the City of Palo Alto, the City Manager has prepared and submitted to the City Council, by letter of transmittal, a budget proposal for fiscal year 2004-05; and

B. Pursuant to the provisions of Section 12 of Article III of the Charter, the Council did, on June 28, 2004, hold a public hearing on the budget after publication of notice; and

C. In accordance with the provisions of Chapter 8 of Division 1, of Title 7, commencing with Section 66016 of the Government Code, as applicable, the Council did on June 28, 2004, hold a public hearing on the proposed amendments to the Municipal Fee Schedule, after publication of notice and after availability of the data supporting the amendments was made available to the public at least 10 days prior to the hearing.

SECTION 2. Pursuant to Chapter 2.28 of the Palo Alto Municipal Code, the following documents, collectively referred to as "the budget" are hereby approved and adopted for the fiscal year 2004-05:

- (a) The budget document (Exhibit "A") containing the proposed operating and capital budgets submitted on or about May 4, 2004, by the City Manager for fiscal year 2004-05, entitled "City of Palo Alto - City Manager's 2004-05 Proposed Budget" covering General Government Funds, Enterprise Funds and Internal Service Funds, a copy of which is on file in the Office of the City Clerk, to which copy reference is hereby made concerning the full particulars thereof, and by such reference is made a part hereof; and
- (b) The Amendments to the City Manager's Proposed 2004-05 Budget, attached hereto as Exhibit "B," and made a part hereof; and

- (c) The document entitled "2004-05 Proposed Municipal Fee Schedule," attached hereto as Exhibit "C," and made a part hereof; and
- (d) Changes and revised pages in the Table of Organization, attached hereto as Exhibit "D," and made a part hereof; and
- (e) Amendments to the "2004-05 Proposed Municipal Fee Schedule," attached hereto as Exhibit "E" and made a part Hereof; and

SECTION 3. The sums set forth in the budget for the various departments of the City, as herein amended, are hereby appropriated to the uses and purposes set forth therein.

SECTION 4. All expenditures made on behalf of the City, directly or through any agency, except those required by state law, shall be made in accordance with the authorization contained in this ordinance and the budget as herein amended.

SECTION 5. Appropriations for the fiscal years 2003-04 that are encumbered by approved purchase orders and contracts for which goods or services have not been received or contract completed, and/or for which all payments have not been made, by the last day of the fiscal year 2003-04 shall be carried forward and added to the fund or department appropriations for fiscal year 2004-05.

SECTION 6. The City Manager is authorized and directed to make changes in the department and fund totals and summary pages of the budget necessary to reflect the amendments enumerated and aggregated in the budget as shown in Exhibit B and the 2003-04 appropriations carried forward as provided in Section 4.

SECTION 7. As specified in Section 2.04.320 of the Palo Alto Municipal Code, a majority vote of the City Council is required to adopt this ordinance.

SECTION 8. As specified in Section 2.28.140(b) of the Palo Alto Municipal Code, the Council of the City of Palo Alto hereby delegates the authority to invest the City's funds to the Director of Administrative Services, as Treasurer, in accordance with the City's Investment Policy for 2004-05.

SECTION 9. As specified in Section 2.28.020 of the Palo Alto Municipal Code, the Council of the City of Palo Alto hereby approves the 2004-05 Proposed Budget.

SECTION 10. The Council of the City of Palo Alto hereby finds that this is not a project under the California Environmental Quality Act and, therefore, no environmental impact assessment is necessary.

SECTION 11. As provided in Section 2.04.330 (a)(3) of the Palo Alto Municipal Code, this ordinance shall become effective upon adoption; provided that all new increases in Planning Department fees, more specifically described in Exhibit "C," shall become effective sixty (60) days from the date of adoption.

INTRODUCED AND PASSED: June 28, 2004

AYES: BEECHAM, BIRCH, CORDELL, KISHIMOTO, KLEINBERG, MORTON, MOSSAR

NOES: FREEMAN

ABSTENTIONS:

ABSENT: KISHIMOTO

ATTEST:

Wanda J. Rogers
City Clerk

APPROVED:

Ken Beecha
Mayor

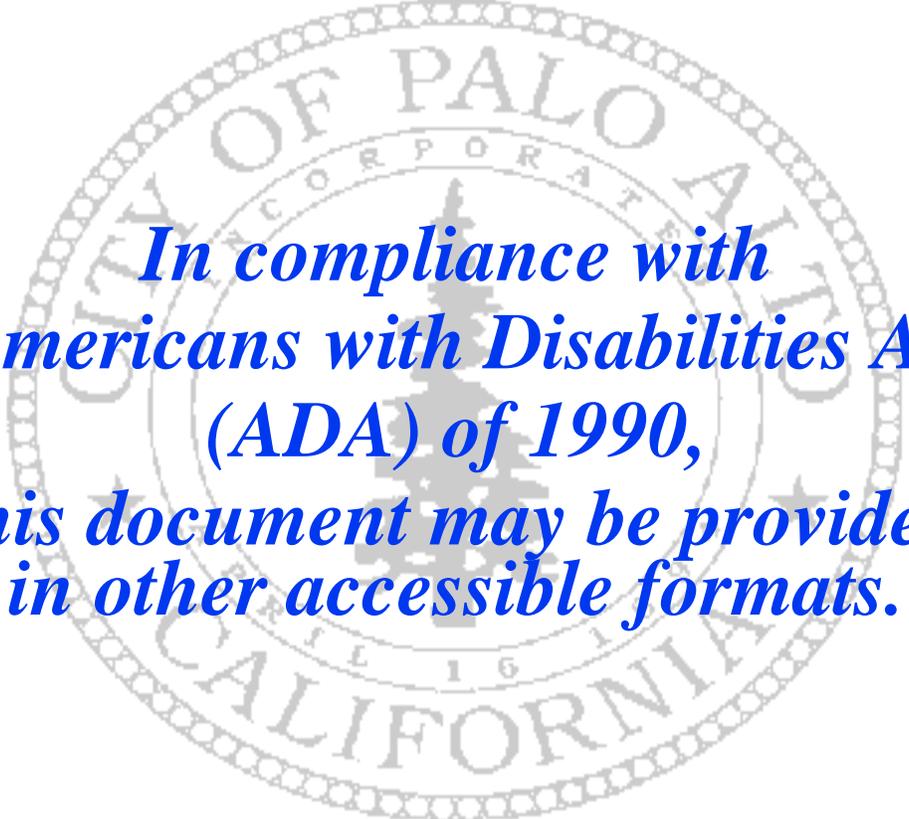
APPROVED AS TO FORM:

Kellie Wood
City Attorney (S.C. Ast)

E. Hume
City Manager

C. J. [Signature]
Director, Administrative Services

AMERICANS WITH DISABILITIES ACT STATEMENT



*In compliance with
Americans with Disabilities Act
(ADA) of 1990,
this document may be provided
in other accessible formats.*

For information contact:

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City of Palo Alto
285 Hamilton Avenue
(650) 329-2550
(650) 328-1199 (TDD)