



City of Palo Alto
2006-07 ADOPTED
Operating Budget





CITY OF PALO ALTO

2006-07

City Council

Judy Kleinberg, *Mayor*
Yoriko Kishimoto, *Vice Mayor*

John Barton Bern Beecham
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Larry Klein Dena Mossar
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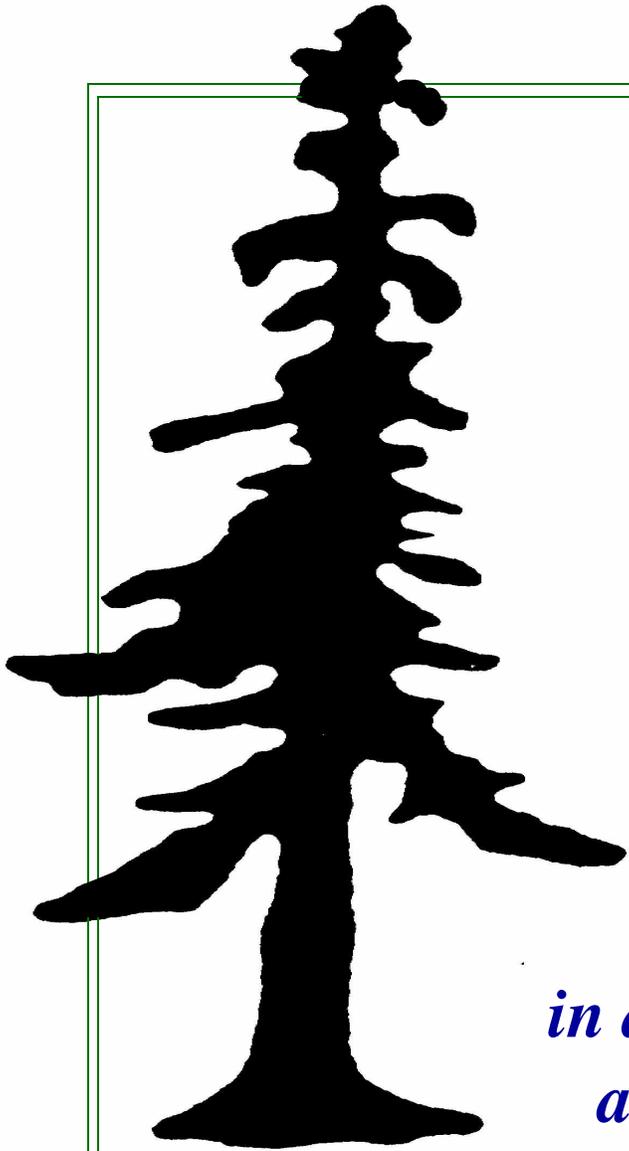
Frank Benest
City Manager

Emily Harrison
Assistant City Manager

Carl Yeats
Director of Administrative Services

Lalo Perez
Assistant Director of Administrative Services

Yoriko Kishimoto
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.

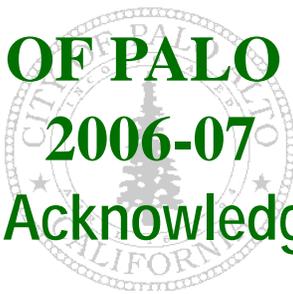
Courtesy - Providing service with respect and concern.

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

2006-07

Budget Acknowledgements

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City Attorney's Office

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City Auditor's Office

Patricia Hilaire

City Clerk's Office

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Budget Awards

*California Society of
Municipal Finance Officers*
Certificate of Award
For
*Excellence in Operating Budgeting
Fiscal Year 2005-2006*

The California Society of Municipal Finance Officers (CSMFO) proudly presents this certificate to

The City of Palo Alto

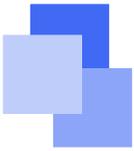
For meeting the criteria established to achieve the EXCELLENCE AWARD in the OPERATING BUDGET CATEGORY.

February 23, 2006

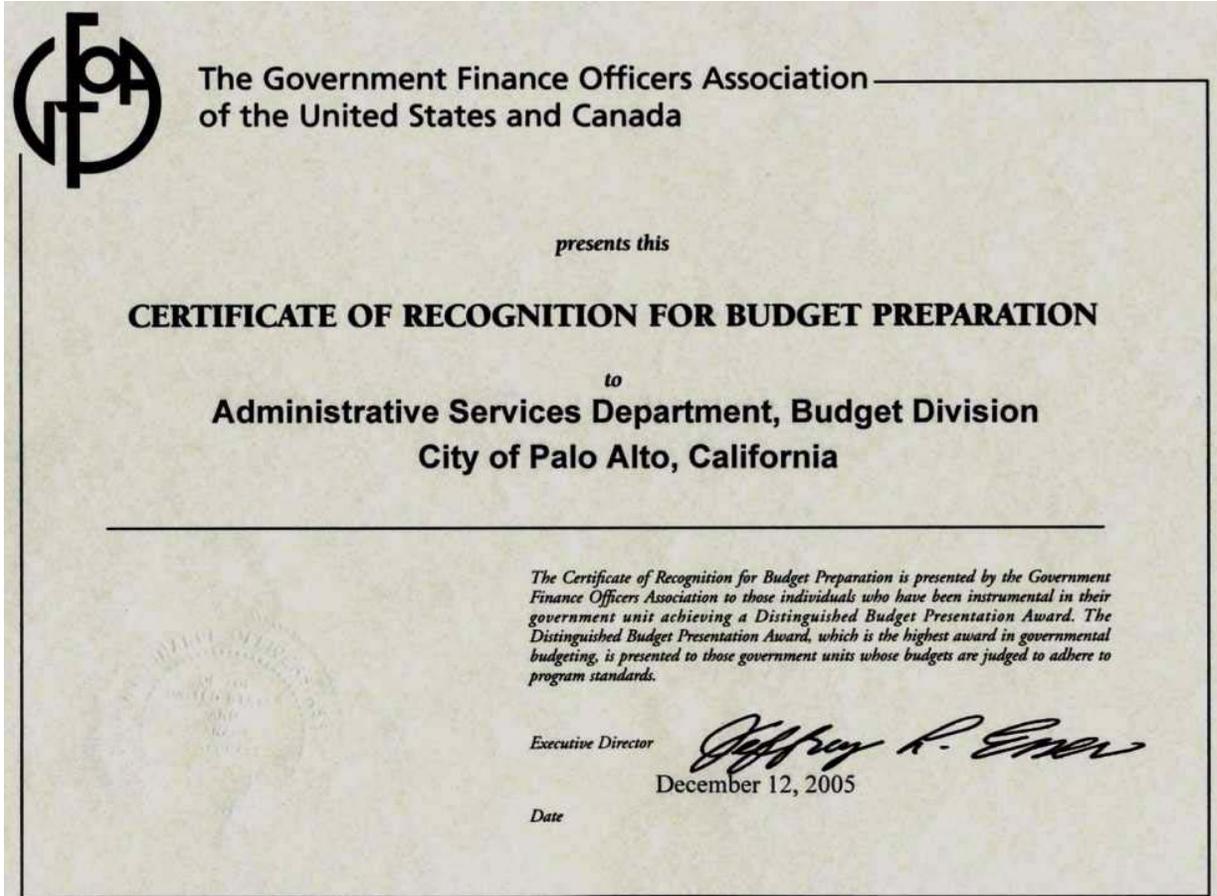


President

Agnes Walker, Chair
Budgeting & Financial Management



BUDGET AWARDS CONTINUED



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May 2, 2006

Honorable City Council

Palo Alto, California

Attention:
Finance Committee**Dear Mayor and Council Members:**

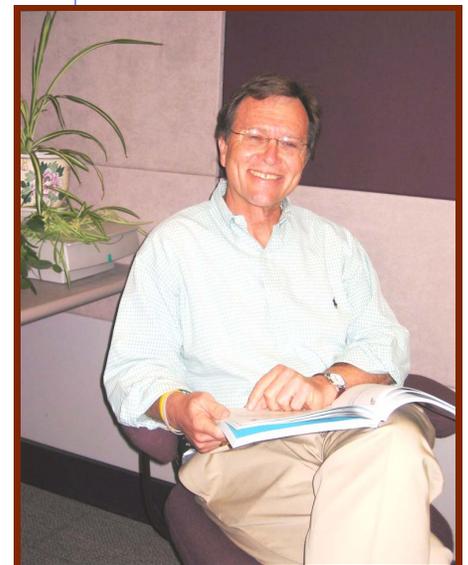
I am pleased to present for City Council's consideration a balanced budget proposal for the 2006-07 fiscal year. This document presents the changes to the 2006-07 spending plan that Council approved last year as part of the 2005-07 Adopted Budget.

With the 2005-07 Adopted Budget, Council approved a spending plan that eliminated a \$5.2 million structural deficit in 2005-06, a deficit of \$3.9 million in 2006-07, and projected shortfalls for the next eight years. The difficult choices made in 2005-06 — an additional 30 positions eliminated, reducing General Fund staffing levels by 10 percent since 2001-02 (back to 1998-99 levels) — have moved the City toward achieving a viable fiscal future. Furthermore, modest surpluses are projected in the near future; for example, the 2006-07 Proposed Budget shows a \$1.7 million surplus. Nevertheless, it is important to keep in mind that numerous funding and expense challenges lie ahead, and thus a steady and disciplined fiscal eye must be trained on the future.

Economic Overview and Long Range Financial Plan

The local and state economies continue to show signs of improvement, with corporate profits improving, unemployment rates dropping, and consumer spending remaining steady. Reflecting this improvement in the economy, City sales and transient occupancy tax revenues have begun slowly trending upward over the past year. On the other hand, job growth on the Peninsula lags at the state and national levels. Technology companies are showing tendencies to address some of their personnel needs by off-shoring jobs and relying on increased productivity among existing employees. Warnings of a burst in the “housing bubble” and recent declines in home sales may portend stagnant or reduced property tax revenue. These and other mixed signals warrant a conservative spending plan for the near future.

Introduction



Frank Benest, City Manager



The economic information above is in line with that in the Long Range Financial Plan (LRFP) presented to Council in January 2006. In fact, the \$1.7 million surplus projected in this budget is the same as that projected in the LRFP for 2006-07. The surplus should fulfill Council's goal of transferring \$1 million to the Infrastructure Reserve (IR). At this time, staff is optimistic that the surpluses projected beyond 2006-07 in the LRFP will be realized as well.

Commitments

The 2006-07 Proposed Budget maintains the fundamental City commitments outlined in the 2005-06 Adopted Budget. These include:

- Maintaining commitments to Council's top priorities, recently revised as the Top 3
- Preserving essential programs
- Maintaining adequate reserve levels, as dictated by Council policy
- Continuing the City's "pay-as-you-go philosophy" - funding ongoing operating expenses without drawing on reserves
- Continuing to support local schools through the \$6 million payment to Palo Alto Unified School District (PAUSD) for Cubberley lease and covenant not to develop

The 2006-07 Proposed Budget designates immediate and future funding for the Council's Top 3 Priorities, funding the initial phases of the Police Building and Library capital improvement projects. In this budget, existing programs are maintained through ongoing revenues, and no new programs are added. The General Fund Budget Stabilization Reserve is above the threshold set by Council policy — 18.5 percent of expenditures — providing a sound buffer for emergencies.

In delivering this Proposed Budget, I am glad to report that despite the recent economic dislocation, the City has maintained its core commitments, delivered essential programs, and is well positioned to meet future financial challenges.



Palo Alto from above

The following represent key differences between the 2005-06 Adjusted Budget and the 2006-07 Proposed Budget:

Revenue

- Overall General Fund revenue increases by \$2.3 million or 1.8 percent
- Sales tax increases by \$1.1 million or 5.6 percent
- Property tax increases by \$2.1 million 11.7 percent
- Utility Users Tax increases by \$0.9 million or 10.0 percent
- Transient Occupancy tax (TOT) increases by \$0.2 million or 3.7 percent

Expense

- Overall General Fund expense increases by \$2.1 million or 1.6 percent
- Capital fund transfer of \$5.6 million remains steady
- Salary expense increases by \$2.0 million. This is primarily due to the City paying additional salary to Fire and Police personnel for their assumption of the employee portion of the pension benefit cost. (This added cost is largely offset by a decrease in the City's employer portion of pension costs.)
- Overall benefit costs decrease by \$0.7 million, primarily due to reduced pension rates across the City

As the above highlights indicate, there are no dramatic changes between the 2005-06 Adjusted and 2006-07 Proposed Budgets. This is consistent with our overall approach to control expenditures while funding core services and Council priorities.

As indicated in the LRFPP various fiscal challenges lie ahead. These include unfunded priorities such as new facilities, retiree medical cost liabilities, expanded library services, and the rehabilitation of existing infrastructure, such as the Roth Building and street maintenance, of which costs exceed current allocations and available resources in the Infrastructure Reserve. On the revenue side, there are ongoing regulatory, legal, and economic threats to revenue sources such as franchise fees, the Utility Users Tax, and to the Sales Tax from nearby retail competition, Internet sales, and businesses vacating the City. These will place considerable pressure on future budgets.

Revenue and Expense Highlights



Bryant St

Challenges

Council has captured several of the key City challenges in defining its Top 3 Priorities:

- Police Building and Library expansion
- Emergency Preparedness
- Increased contribution to Infrastructure Reserve by \$3 million



The Proposed Budget includes funding for the first two priorities; staff will return next fiscal year with recommendations for achieving the third. Preliminary funding for the Police Building and Library services includes \$1.0 million and \$0.4 million, respectively. The Emergency Preparedness Priority is addressed in the capital budget with the inclusion of funding for an emergency notification system (\$0.2 million) in 2006-07 and for a mobile command center (\$0.4 million) in 2007-08. In addition, staff will undertake development of full emergency preparedness plans for major emergencies and flu pandemic.

The fundamental requirement in addressing these challenges is resources. The City must either identify new revenue sources or reallocate existing resources (with a reduction in current services) to address new funding needs and loss of revenues. To meet the goal of raising an additional \$3.0 million for infrastructure rehabilitation, the City will most likely have to combine a revenue increase (e.g., increase Transient Occupancy Taxes) with a reduction in operating or other capital expenditures. Difficult choices lie ahead, but staff is committed to finding efficiencies and cost controls to make those choices less severe.

Restructuring and Span of Control

New to the internal budget process this year was the departments' review of the span of control. Departments reviewed and updated organizational charts with an eye toward increasing their managers' span of control. Department restructuring occurred in the City Attorney's Office with the elimination of 1.4 full time equivalent positions. Additional restructuring and changes to span of control will be presented with the proposed restructuring of the Planning and Community Environment Department. Restructuring and increasing span of control, where possible, will continue to be a focus of the budget process in future years.

Looking Back as We Go Forward

As the 2005-06 fiscal year comes to a close and we look forward to 2006-07, I would like to mention some of the General Fund's notable accomplishments over the past year. These include: constructing the new Stanford/Palo Alto playing fields; completing the Pearson Arastradero Preserve with the purchase of the Bressler property; receiving favorable customer satisfaction scores from residents on the annual citizen survey; acquiring a site for affordable housing on Alma Street; and starting the Charleston/Arastradero Corridor Plan trial. The 2006-07 fiscal year will include work on the Council's Top 3 priorities, improvements to Foothills Park Interpretive Center, initiation of the remodel and expansion of the Animal Shelter, continuing work on the renovation and expansion of the Children's Library, and completion of the Arastradero Gateway Facility.

The Utilities Department has undergone considerable organizational change in 2005-06; these changes are reflected in the 2006-07 Proposed Budget. To address the need for more oversight in operations, a fourth Assistant Director (AD) position has been created, and some of the Utilities Director's outside responsibilities have been delegated to an AD. Moreover, a Utilities Oversight Committee has been created to better coordinate work among City departments and to assist the new Utilities Director (position to be filled in early 2006-07). Plans to restructure the department have been vetted among senior City staff, the Utilities Advisory Commission, and Council, and I am confident that the new structure will address both previous issues and future challenges. Please note that the cost of all new positions has been offset by budget reductions elsewhere in the department.

In addition to internal changes, outside forces have exerted considerable pressures on specific utilities. The Electric and Gas Funds have experienced significant market volatility in commodity costs, while the Water Fund continues to experience commodity changes due to the need for extensive distribution repairs. The regulatory environment for the Electric Fund has been unstable since the beginning of deregulation in the early 1990s. Proposed regulatory changes, such as the California Independent System Operator's (ISO) new

Successes in 2005-06

Enterprise Fund Overview



Mitchell Park-Play Area

guidelines for local capacity requirements, have presented many challenges which staff must and will address.

To manage commodity and distribution pressures, the following utility rate changes are proposed for 2006-07:

- Gas service rate increase of 20 percent due to increased commodity costs and lower sales estimates
- Electric service rate increase of 11.7 percent due to increasing wholesale power and transmission costs
- Water service rate increase of 7 percent due to an expected wholesale water rate increase
- Wastewater collection service rate increase of 5 percent due to increasing operating expenses

In 2006-07, Palo Alto's utilities continue to be a good value for our residents. The average Palo Alto residential utility bill remains 10 percent lower than a similar bill in a PG&E comparison city.



Golf Course Sculpture

Acknowledgments

A special thank you goes to the entire City staff team involved in preparing the 2006-07 Proposed Budget. Carl Yeats, 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. They include David Ramberg, Budget Manager, and his staff: Mary Figone, Amy Javelosa-Rio, Cherie McFadden, Dale Wong and Dave Yuan. Staff throughout the city, in particular Department Budget Coordinators (see acknowledgment page for names), are recognized for their hard work in developing the 2006-07 Proposed Budget.

Frank Benest

City Manager



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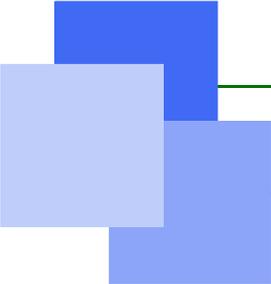
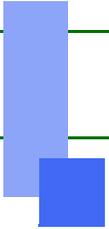
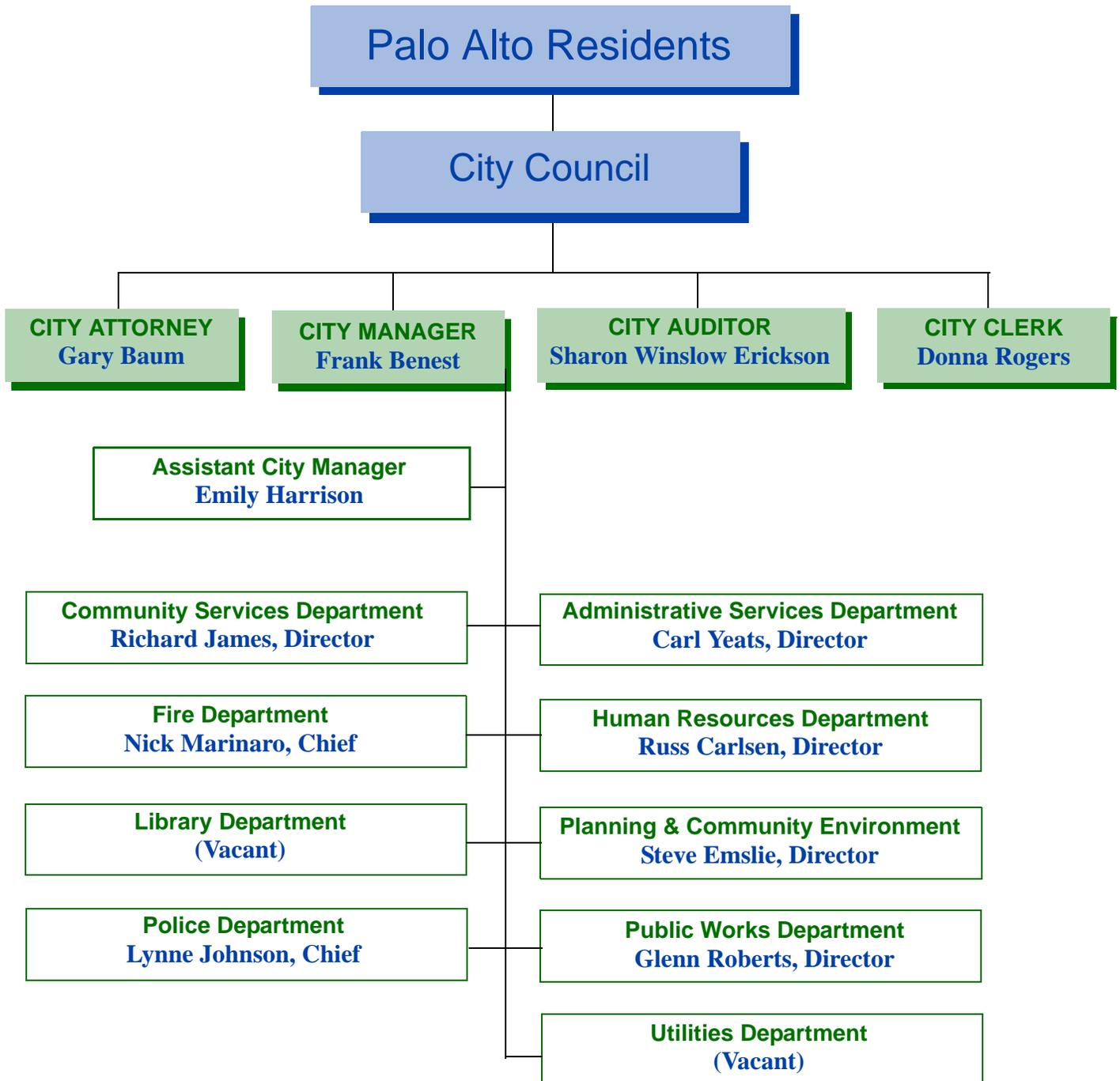


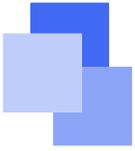
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City of Palo Alto Organization Chart





City of Palo Alto Organization Chart
continued

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The Budget Process and Document

An Overview



Operating Budget Process

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 Three Priorities

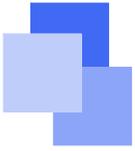
- At the start of the City's budget process, the City Council determines its main focus for the following one-year period. Through an open Council dialogue, the priorities guide both budget development and department priority-setting. The public has the opportunity to provide input into this process as well as during the budget review by the Finance Committee. The following are the Top Three City Council priorities for 2006-07:
 - Emergency and Disaster Preparedness and Response
 - Library/Police Building
 - Increase Infrastructure Funding

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 the main sources of information:

- Community input
- City Council Top Three 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, which provide direction to City departments as they prepare their budget requests.

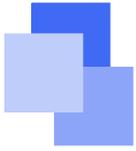


The Budget Process and Document
continued

<p align="center"><i>City of Palo Alto</i></p> <p align="center">BUDGET HEARINGS SCHEDULE</p> <p align="center">with Finance Committee</p> <p align="center">For 2006-07 Budget</p>			
DATE	DESCRIPTION	TIME/ LOCATION	DEPARTMENTS ATTENDING
Tuesday, 4-Apr	Finance Committee	7pm Council Chambers	HSRAP / CDBG
Tuesday, May 2	Finance Committee BUDGET KICK-OFF	7pm Council Chambers	Transmittal of 2006-07 General Fund budget (all departments), Internal Service Funds, External Services
Thursday, 4-May	Finance Committee Special Meeting	7pm Council Chambers	CIP Budget Review: GF and Enterprise Funds
Tuesday, 9-May	Finance Committee	7pm Council Chambers	Utility Department Budget and Public Works Enterprise
Tuesday, 16-May	Finance Committee	7pm Council Chambers	Municipal Fee Schedule, Contracts Greater than \$85K; Wrap-up
Tuesday, 23-May	Finance Committee	7pm Council Chambers	Financing of Infrastructure
Monday, 12-Jun	City Council BUDGET ADOPTION	7pm Council Chambers	BUDGET ADOPTION

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.



The Budget Process and Document *continued*

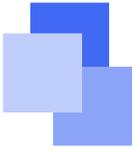
December: Critical to their planning process for the upcoming year, departments are allowed to reallocate staffing and non-salary resources to meet the changing demands placed on service delivery. This step results in no net change to the amount of resources allocated to the department overall.

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 benchmarking measures 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. 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 implemented at each expense item at the cost center level, the department level, the fund level, and the capital project level. Administrative policies 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.

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.

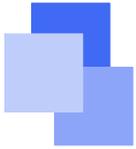
Reasons for initiating a Budget Amendment Ordinance (BAO) include:

- 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

Changes to the layout in 2006-07

Benchmarks: Benchmarks have been included in the budget document and replace impact measures that were formerly in the budget document. Benchmarks are shown for each department and, where applicable, at the division level in each department. The benchmarks show input, output, efficiency, and effectiveness measures. Where possible they are related to the City Auditor's Service Efforts and Accomplishments report. Benchmark data is not shown where prior year data is not available. Benchmark data is shown for the 2006-07 budget year.



The Budget Process and Document *continued*

Document Organization

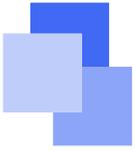
The budget document contains the General Fund, Enterprise Funds, Internal Service Funds, Debt Service Funds, and Special Revenue Funds.

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, 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 City Council's top three priorities
- Resource Level Changes - identifies major resource changes from the base budget
- Service Level Changes - describes changes to service delivery in the upcoming period

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.



The Budget Process and Document *continued*

Understanding the Details

Financial Summaries

Reflected in this document are actual revenues and expenditures for 2004-05; the 2005-06 Adjusted Budget; the 2006-07 Adopted-In-Concept Budget; and the 2006-07 Adopted Budget. The main focus of this discussion along with the dollar amounts in the "Budget Change" column, compares the 2005-06 Adjusted Budget with the 2006-07 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).

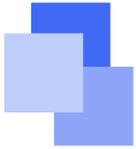
Revenues: Total revenues are displayed for each department and fund. In each department, revenues are shown as either internal or external depending on their source. Revenues include fees collected for cost-recovery purposes by the department or fund for specific services to the public (external revenues), 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 the Building Division 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 budget document includes an administration function within each department-level financial summary. Typical administration expense includes core staff who work on department-wide priorities, as well as allocated costs from internal service funds.



The Budget Process and Document *continued*

Rates and Reserves

The General Fund (GF) has one main reserve - the Budget Stabilization Reserve (BSR). 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.

The Infrastructure Reserve (IR) is located in the General Capital Projects Fund. Annual interest of approximately \$1.0 million accrues to this fund. The General Fund continues to transfer \$3.6 million annually for infrastructure projects.

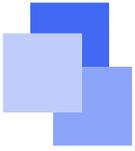
In the Enterprise Funds, rates are the charges to customers for services provided, such as electric and gas services. The total revenue generated by the rates covers expenditures on an ongoing basis. Utility rate increases or decreases are typically staggered to minimize volatility from one year to the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

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



The Budget Process and Document *continued*

Key Budget Terms

employee benefits, the City's self-insured workers' compensation, payroll, and general liability programs. The Technology Fund includes such activities as personal computer desktop, software application, and technology infrastructure replacement and maintenance.

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.

Benchmarking Measures:

Benchmarks are included in the budget document and replace the former impact measures. Benchmarks are shown for each department and where available at the division level in each department. The benchmarks show input, output, efficiency, and effectiveness measures. Where possible they are related to the City Auditor's Service Efforts and Accomplishments report.

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.

Funds:

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

Infrastructure Management Plan (IMP):

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

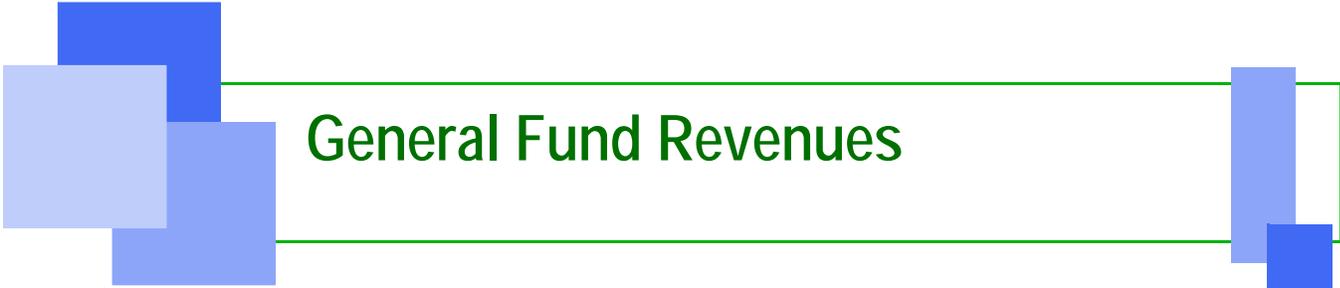
Proposed Budget:

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.



GENERAL FUND





General Fund Revenues

An Overview

The City's "Long Range Financial Plan (LRFP): Forecast 2006-2016," was presented to the Finance Committee in December 2005 (CMR:442:05) and to the full Council in January 2006 (CMR:111:06). The LRFP, and its ten-year revenue and expense forecast, is the foundation upon which this budget is constructed.

As stated in the LRFP, there is slow but steady economic growth at the local, State, and national levels. For 2006-07, the Bay Area can expect slow job growth and moderate gains in real income. Santa Clara County's economic recovery, however, continues to lag compared to the rest of the Bay Area and the State. Concerns that could mar the road to recovery include: high energy costs, consumer debt and lower personal savings rate, rising interest rates, and a potential bubble in the housing market.

Overall, City revenues are expected to increase by \$2.2 million (1.7 percent) in 2006-07 compared to the 2005-06 adjusted budget. This change includes the removal of one-time revenue from 2005-06 for the purchase of the Bressler property. The following sections discuss the City's major revenue sources and their projected levels for 2006-07.

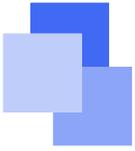
Sales Tax

Sales tax revenues are expected to reach \$21.1 million in 2006-07. This represents a \$1.1 million or 5.6 percent increase over the 2005-06 adjusted budget of \$20.0 million.

Heavily dependent on Bay Area job and income growth and consumer spending, sales tax performance is closely tied to the health of the local economy. Although staff anticipates a solid growth rate for 2006-07, the sustainability of this level of growth is of concern given steady competition from surrounding malls and "big-box" stores, potential auto dealership departures, and the community's reluctance to develop new sales tax revenue generators within City boundaries.

Property Tax

For 2006-07, property tax revenues are anticipated to reach \$20.4 million, a \$2.1 million or 11.7 percent increase over the 2005-06 adjusted budget. A significant portion of this growth, \$1.5 million, is due to the return of ERAF III funds taken away by the State. ERAF III was a State budget compromise whereby the City of Palo Alto lost \$1.5 million in annual vehicle license fee (VLF) for the prior two years. This takeaway was "offered" in exchange for legislative and gubernatorial support for Proposition 1A. Most VLF revenue (projected to equal \$4.1 million for



General Fund Revenues *continued*

2006-07) is now being paid via property tax remittances, known as the "In-Lieu VLF payment".

Transient Occupancy Tax (TOT)

TOT receipts are projected to grow by \$0.2 million or 3.7 percent in 2006-07 (for a total of \$6.4 million). Palo Alto's average occupancy rates and the daily room rates for calendar year 2005 increased by 6.6 percent and \$10 per day, respectively. In comparison, the Peninsula area growth for the same period has been 6.2 percent and \$3 per day. It is expected, at this time, that 2005-06 revenues will be on budget.

Utility Users Tax (UUT)

UUT revenues are anticipated to increase to \$9.2 million, a \$0.6 million or 7.4 percent increase over the 2005-06 adjusted budget. Most of the increase is attributable to higher Utility rates that will cover higher electric and gas commodity costs. Of the \$9.2 million, \$2.2 million is derived from the tax on telephone use. This amount assumes that Verizon Wireless will continue to collect the UUT from its customers. Verizon is challenging the City's tax in court and should Verizon prevail a 2006-07 budget adjustment may be necessary. As much as \$420,000 annually in revenue may be at risk in this dispute.

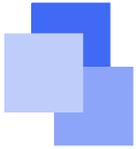
Other Taxes and Fines

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

As a consequence of ERAF III (discussed in the Property Tax section), Vehicle License Fee (VLF) revenues are now paid mainly through property tax remittances. VLF direct payments have decreased to an expected \$0.4 million in 2006-07 and thereafter.

Documentary Transfer taxes are anticipated to rise from \$4.0 million in 2005-06 to \$4.5 million in 2006-07. Projecting transfer taxes is somewhat difficult in that the mix, volume and size of transactions which drive revenues, can change from year to year. Based on historical performance and the steady flow of property transactions to date, the \$4.5 million target appears reasonable.

Revenue from parking fines is expected to decrease by \$0.1 million to \$1.9 million due to fewer parking violations since the new parking garages have opened and the expansion of parking time limits.



General Fund Revenues *continued*

Charges for Services

This revenue category is mainly comprised of external reimbursements and fee-for-service payments generated by General Fund departments such as Stanford University's payment for fire protection services (\$6.6 million), paramedic fees (\$1.7 million), and plan checking fees (\$1.8 million). As compared to the 2005-06 adjusted budget, this category is projected to increase \$0.3 million mainly due to an increase in the Stanford fire contract and plan checking revenue from higher construction activity.

Fees, Permits and Licenses

Revenue in this category is primarily derived from construction-related activity. In 2006-07, revenue in this area is increasing \$0.1 million due to increased construction activity.

Return on Investment

During 2005-06, the City's portfolio yield has stabilized around 4.2 percent. Staff projects interest income of \$2.1 million in 2006-07 which is comparable to the adjusted budget for 2005-06. Though yields on new investments have risen in the past year due to the Federal Reserve Board's rate increases, the City's yield on both maturing and new investments are in the range of low to mid 5.0 percent.

Rental Income

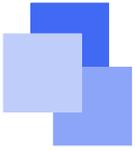
Primarily comprised of rent charged to enterprise funds for use of City land, this revenue category is increasing \$0.7 million in 2006-07 as compared to the 2005-06 adjusted budget. This is due to revised rental values as updated annually.

Charges to Other Funds

This revenue category is the reimbursement received by the General Fund for the provision of administrative services to enterprise and internal services funds. These funds are allocated a charge by the General Fund for such services as legal, human resources, finance, and general administration. This revenue is increasing \$0.2 million in 2006-07 compared to the 2005-06 adjusted budget.

Operating Transfers-In

The equity transfer from the enterprise funds is the largest component of this revenue category, totaling \$14 million. The equity transfer represents the return on the initial investment the City made when the Utility Department, and its utility business, was created more than 100 years ago. This transfer increases 4 percent annually, representing a \$0.6 million increase in 2006-07 over 2005-06.



General Fund Revenues

continued

Other Revenue

This revenue category is mainly comprised of Animal Services revenue from neighboring cities, Palo Alto Unified School District's share of maintenance for athletic fields, and one-time revenue sources. This revenue is decreasing \$3.2 million in 2006-07 compared to the 2005-06 adjusted budget. The decrease is attributed mainly to the revenue received to support the purchase of the Bressler property.

General Fund Expenditures

An Overview

Total General Fund expense is projected to be \$127.7 million in 2006-07, a \$2.4 million increase from 2005-06 adjusted budget figures. The main elements of these changes include:

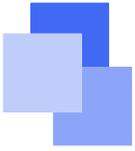
- \$ 2.5 million increase for salary and benefit-related expenses primarily due to the allocation of workers' compensation expense to departments and negotiated salary increases
- \$ 0.6 million increase in the transfer for capital projects resulting in a \$5.6 million total General Fund commitment to the Capital Improvement Fund for infrastructure
- \$ 2.7 million increase associated with the removal from prior years of the one-time budget reduction strategy to defer information technology costs
- \$ 3.0 million one-time expense for the purchase of the Bressler Property in 2005-06 is removed from the 2006-07 Adopted Budget

Departments were given the opportunity to reallocate resources which addressed the need for increased spending in certain areas as a result of shifting priorities. Departments also conducted a review of key expense categories to validate base budget expenditure levels. This review resulted in small modifications to department base budgets to better match actual expenditure levels.

The 2005-07 Adopted Budget ongoing expense reductions helped achieve a balanced budget while eliminating structural deficits projected to be \$5.2 million in 2005-06 and \$3.9 million in 2006-07. This was achieved primarily through the elimination of 30 positions and related salary and benefit costs. The 2006-07 Adopted Budget, as an update to the 2006-07 adopted-in-concept budget approved last year, holds department non-salary expense increases to a minimum.

Employee Benefit Expense Stabilizing (\$2.0 million General Fund increase)

In 2006-07, the effect of rate smoothing by the Public Employees Retirement System (PERS) results in a slight decrease in pension rates leading to an overall reduction in City pension expense of approximately \$0.3 million. This decrease follows several years of steep increases in pension rates. In addition, healthcare expense for both current and retired employees is increasing less than in recent years. Influencing benefit costs at the department level is the affect of the PERS 9 percent reversal for both Police and Fire personnel, implemented for Police personnel in 2005-06 and scheduled to be implemented for Fire personnel in 2006-07. Factoring in the reversal in the 2006-07 budget results in Police and Fire department budgets increasing significantly due to the 9 percent spike in salary costs. This salary increase is largely offset by a corresponding reduction in pension



General Fund Expenditures *continued*

cost for these two groups. The result of this decrease in pension costs is a reduction in the citywide pension cost allocation to all departments resulting in many City departments showing an overall decrease in expense.

The 2006-07 Adopted Budget contains funding for the previously negotiated 3.0 percent salary increase with Palo Alto Peace Officers' Association (PAPOA) (\$0.2 million). The PAPOA contract expires 6/30/07. Negotiations have started or will begin with Service Employees International Union (SEIU) employees (contract expires 4/30/06) and the International Association of Fire Fighters (IAFF) employees (contract expires 6/30/06).

Healthcare premiums are increasing citywide by \$0.3 million (3 percent), a slower rate of increase over the past five years where the City has seen a 50 percent increase.

Internal Service Fund Allocation Increased Allocation (\$3.0 million GF increase)

Intended as a one-time budget reduction strategy in 2004-05 the General Fund contribution to the Technology Fund was reduced by \$3.5 million. This reduced the Technology Fund reserve balance to approximately \$7.3 million in 2004-05. A portion of the General Fund contribution to the Technology Fund resumed with the 2005-06 budget with the remainder funded from the Technology Fund reserve balance. In 2006-07, the General Fund is once again covering its full cost of Technology Fund operating costs. The Technology Fund reserve balance is projected to be \$8 million in 2006-07.

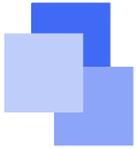
Non-Departmental Expenditures

Payments to Palo Alto Unified School District (PAUSD): 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 PAUSD of \$6.2 million as part of the lease and covenant not to develop the Cubberley Community Center.

Contingency Spending: The second type is budget dollars eventually transferred to another department in order to fund unexpected expense. This includes City Manager and City Council contingency spending as well as compensation increases to be allocated to department budgets later in the year.

Operating Transfers-Out

The General Fund maintains obligations to other funds such as the Storm Drainage Fund, Capital Project Fund and Debt Service Funds. Operating transfers are a



General Fund Expenditures *continued*

means of moving resources between funds. Operating transfers-out are projected to be \$7.4 million in 2006-07. Some of the larger transfers include \$5.4 million to the Capital Project Fund for infrastructure, \$1 million to the Debt Service Fund for debt financing expense, and \$0.9 million to the Storm Drainage Fund for the General Fund's pre-payment of its share of the Storm Drain fee increase passed in 2005-06.

Reserves

The Budget Stabilization Reserve (BSR) is projected to remain at stable levels near its target of 18.5 percent of expenditures, approximately \$24 million. This is within the 15 to 20 percent reserve policy guideline range.

Long Range Financial Plan (LRFP)

As presented to the Finance Committee in December 2005, the LRFP plays a critical role in the development of much of the fundamental analysis in this budget presentation. The model is included in this document with the 2006-07 year updated with adopted budget figures. While continuing a careful balance between projected revenues and expenditures, the model continues to indicate General Fund stability for the next several years.

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 and included as expense within those funds. Capital Project Fund activities are captured as a net transfer of fund balance and also are not included in this operating statement. Here are the highlights from the 2006-07 summary:

- Total City revenues are projected to be \$368 million in 2006-07
- Total City expenditures are projected to be \$385 million in 2006-07
- Total fund balances are projected to be \$262 million in 2006-07

GENERAL FUND SUMMARY

(\$000)	2004-05 Actual	2005-06 Adopted Budget	2005-06 Adjusted Budget	2006-07 Adopted-in- Concept Budget	2006-07 Adopted Budget	2006-07 Budget Change
REVENUES						
Sales Tax	19,308	19,036	20,020	19,751	21,133	1,113
Property Tax	16,700	16,986	18,242	19,613	20,368	2,126
Transient Occupancy Tax	5,686	6,173	6,173	6,401	6,400	227
Utility Users Tax	7,267	8,341	8,522	9,016	9,151	629
Other Taxes and Fines	7,669	6,845	7,830	7,308	7,438	(392)
Charges for Services	17,145	18,760	18,786	19,022	19,053	266
Permits and Licenses	3,453	4,084	4,084	4,136	4,218	134
Return on Investment	1,593	2,215	2,116	2,215	2,048	(68)
Rental Income	12,016	12,332	12,261	12,332	12,951	690
From other agencies	387	204	264	81	81	(183)
Charges to Other Funds	9,378	8,924	8,924	8,979	9,084	159
Other Revenue	1,386	1,721	4,456	1,272	1,292	(3,164)
Total Revenues	\$101,988	\$105,621	\$111,679	\$110,125	\$113,216	\$1,537
Operating Transfers-In	15,425	15,108	15,158	15,584	15,781	623
TOTAL SOURCE OF FUNDS	\$117,413	\$120,729	\$126,837	\$125,709	\$128,998	\$2,161



General Fund Summary *continued*

(\$000)	2004-05 Actual	2005-06 Adopted Budget	2005-06 Adjusted Budget	2006-07 Adopted-in- Concept Budget	2006-07 Adopted Budget	2006-07 Budget Change
EXPENSES						
City Attorney	2,615	2,743	2,880	2,805	2,643	(237)
City Auditor	795	839	860	872	837	(24)
City Clerk	794	923	952	854	932	(20)
City Council	131	164	176	164	179	3
City Manager	1,725	1,751	1,978	1,769	1,803	(176)
Administrative Services	6,703	6,344	6,534	6,850	6,770	236
Community Services	19,138	19,635	20,117	19,571	19,881	(236)
Fire	19,053	20,160	20,339	20,726	22,201	1,862
Human Resources	2,456	2,355	2,610	2,465	2,594	(16)
Library	5,115	5,633	5,899	5,802	5,800	(98)
Planning and Community Environment	9,105	8,766	9,196	9,001	8,762	(434)
Police	22,517	24,314	24,517	25,360	25,686	1,169
Public Works	11,021	11,451	11,561	11,839	12,412	851
Non-Departmental	8,662	9,043	10,862	10,232	9,770	(1,092)
Total Expenses	\$109,830	\$114,120	\$118,480	\$118,310	\$120,270	\$1,790
Operating Transfers Out	6,694	6,572	6,852	6,765	7,439	587
TOTAL USE OF FUNDS	\$116,525	\$120,692	\$125,332	\$125,074	\$127,709	\$2,377
Net Surplus (Deficit)	\$889	\$37	\$1,504	\$635	\$1,289	\$(216)

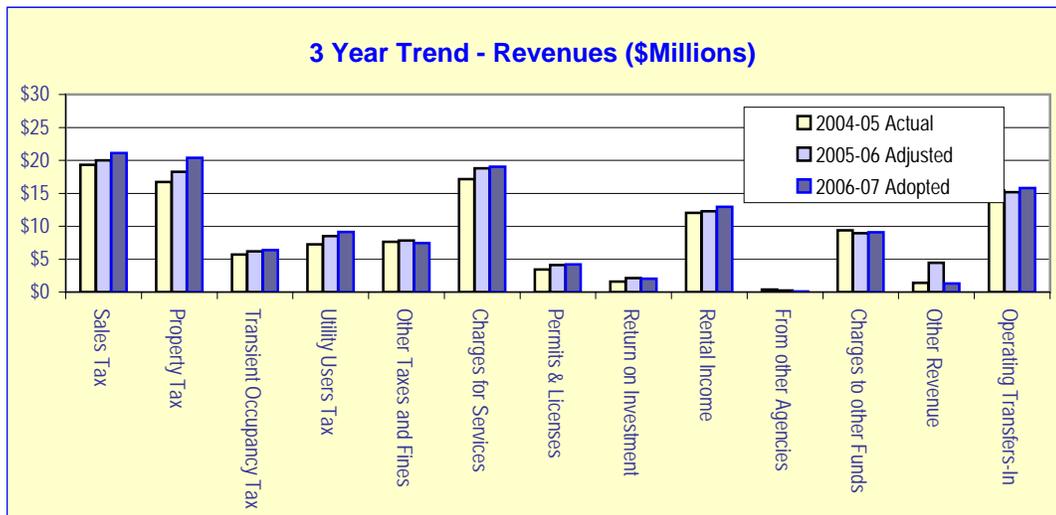
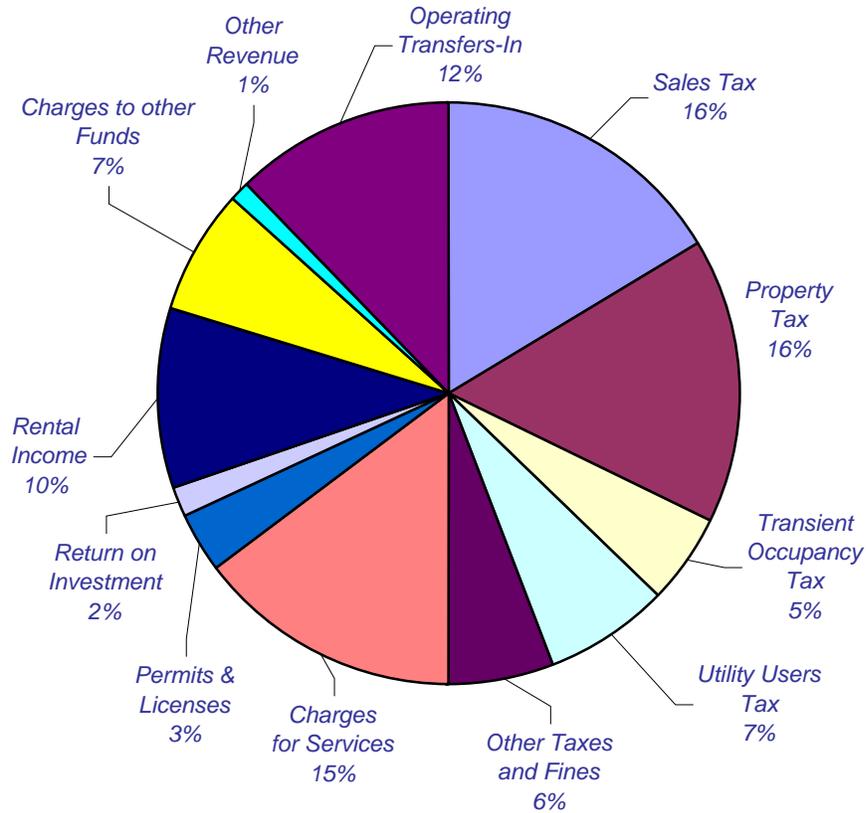
Expenditures by Category	2004-05 Actuals	2005-06 Adjusted Budget	2006-07 Adopted-in- Concept Budget	2006-07 Adopted Budget	2006-07 Budget Change
Salaries and Benefits	79,643,555	81,555,443	82,693,638	84,027,912	2,472,469
Contract Services	8,921,415	10,174,418	9,360,438	9,743,217	(431,201)
Supplies and Materials	2,983,837	3,256,272	3,133,978	3,162,552	(93,720)
General Expense	8,179,652	8,814,491	9,035,245	9,210,298	395,807
Rents and Leases	653,092	606,496	597,189	729,499	123,003
Facilities and Equipment Purchases	328,918	4,066,463	484,504	469,517	(3,596,946)
Allocated Charges	9,119,673	10,006,793	13,004,688	12,926,913	2,920,120
Operating Transfers Out	6,694,435	6,852,056	6,764,573	7,439,159	587,103
TOTAL EXPENDITURES	\$116,524,577	\$125,332,432	\$125,074,253	\$127,709,067	\$2,376,635

GENERAL FUND RESERVES

(\$000)	2004-05 Actual	2005-06 Adopted Changes	2005-06 BAO's	Projected 06/30/06	2006-07 Projected Changes	Projected 06/30/07
RESERVES						
<i>Budget Stabilization Reserve (BSR) Activity:</i>						
BSR	21,066	37	1,467	22,570	1,289	23,859
<i>Other Reserve Activity:</i>						
Encumbrance & Reappropriation	3,668			3,668		3,668
Equity Transfer Stabilization	3,165			3,165		3,165
Inventory of Materials & Supplies	2,697			2,697		2,697
Notes Receivable	1,234			1,234		1,234
TOTAL RESERVES	\$31,830	\$37	\$1,467	\$33,334	\$1,289	\$34,623

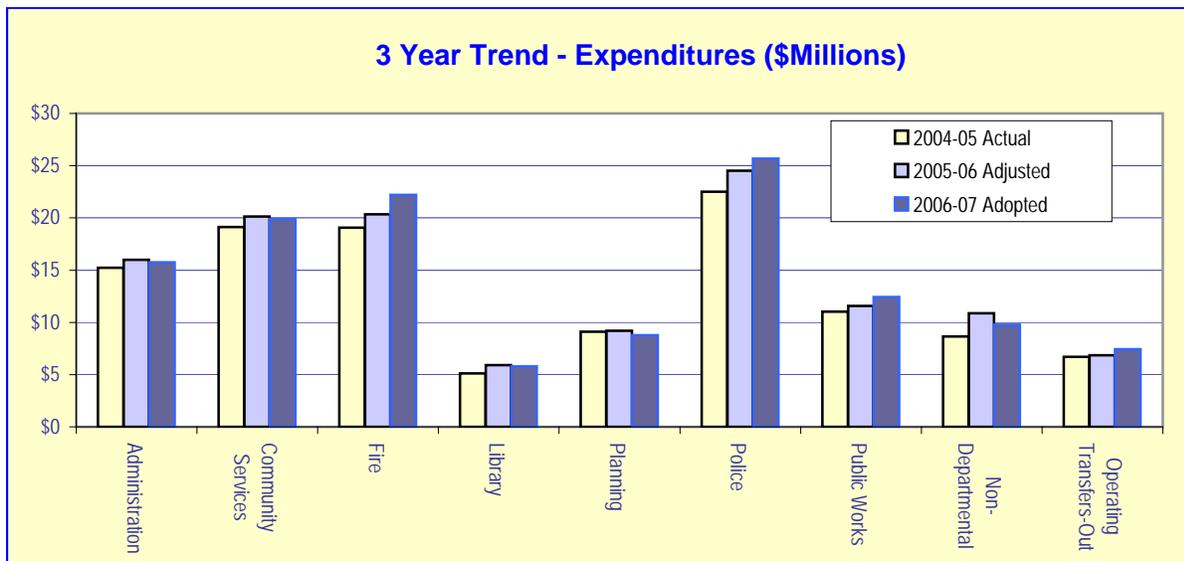
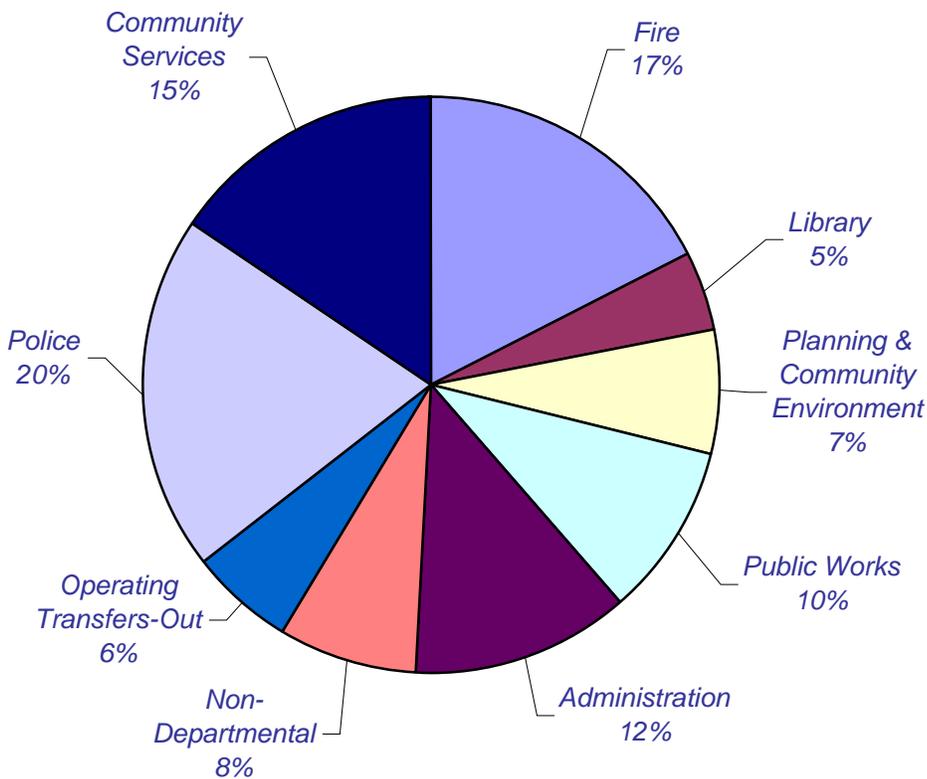
GENERAL FUND REVENUES BY TYPE

\$129.0 Million / Adopted 2006-07



GENERAL FUND EXPENDITURES BY TYPE

\$127.7 Million / Adopted 2006-07



2006-07 PROJECTED OPERATING FUND BALANCES

(\$000)	Projected Ending Balance 06/30/06	Estimated Revenues	Net Fund Transfers	Estimated Expenditures	Projected Ending Balance 06/30/07
GENERAL FUND	\$33,334	\$113,216	\$8,342	\$120,270	\$34,623
CAPITAL FUND	\$17,731	\$2,904	\$7,026	\$16,984	\$10,677
DEBT SERVICE					
Golf Course Debt	762	33	525	558	762
Civic Center Debt	352	5	417	422	352
Parking 2002 COPS (Taxable) Debt	241	5	230	235	241
Special Assessment Debt	106	123	0	123	106
Subtotal	\$1,461	\$166	\$1,172	\$1,338	\$1,461
ENTERPRISE					
Electric Fund	133,924	104,502	(9,460)	108,671	120,296
Gas Fund	9,108	44,953	(3,279)	42,668	8,114
Wastewater Collection Fund	5,496	15,300	(135)	15,023	5,638
Water Fund	7,513	24,355	(2,978)	20,860	8,030
Refuse Fund	11,462	26,613	(263)	26,645	11,167
Storm Drain Fund	302	6,312	(11)	4,508	2,094
Wastewater Treatment Fund	4,673	22,524	(21)	21,405	5,772
External Services Fund	52	1,162	(25)	1,120	69
Subtotal	\$172,530	\$245,723	\$(16,172)	\$240,900	\$161,180
INTERNAL SERVICE					
General Benefits and Insurance Fund	3,581	*	0	*	3,581
Retiree Health Benefit Fund	18,265	*	0	*	18,265
Printing and Mailing Fund	625	*	11	*	636
Technology Fund	8,032	*	98	*	8,130
Vehicle Replacement and Maintenance Fund	3,064	*	(573)	*	2,491
Subtotal	\$33,567	\$0	\$(464)	\$0	\$33,103
SPECIAL REVENUE					
Community Development Fund	1,157	596	0	0	1,753
Street Improvement Fund	116	1,144	(1,463)	0	(203)
Federal and State Revenue Funds	4,781	888	(285)	909	4,475
Housing In-Lieu and Public Benefit Fund	11,151	1,918	0	1,839	11,230



2006-07 Projected Operating Fund Balances

continued

(\$000)	Projected Ending Balance 06/30/06	Estimated Revenues	Net Fund Transfers	Estimated Expenditures	Projected Ending Balance 06/30/07
Special Districts Fund	1,414	922	(1,301)	0	1,035
Traffic Mitigation & Parking In-Lieu Fund	2,096	563	0	0	2,659
Downtown Business Improvement District	107	158	0	154	111
Subtotal	\$20,822	\$6,189	\$(3,049)	\$2,902	\$21,060
TOTAL OPERATING FUNDS	\$279,445	\$368,198	\$(3,145)	\$382,394	\$262,104
* allocation to/from other funds					

TOTAL CITYWIDE REVENUES BY CATEGORY

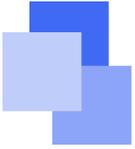
	2004-05 Actuals	2005-06 Adjusted Budget	2006-07 Adopted-in- Concept Budget	2006-07 Adopted Budget	2006-07 Budget Change
Net Sales	176,642,853	195,485,832	213,103,942	208,372,583	12,886,751
Sales Taxes	19,308,290	20,020,000	19,751,000	21,133,000	1,113,000
Property Taxes	16,882,811	18,516,339	19,889,664	20,644,664	2,128,325
Transient Occupancy Tax	5,685,748	6,173,000	6,401,000	6,400,000	227,000
Utility Users Tax	7,266,656	8,522,000	9,016,000	9,151,000	629,000
Other Taxes and Fines	7,686,393	7,840,000	7,318,000	7,447,600	(392,400)
Charges for Services	17,664,723	20,093,193	21,494,179	21,385,272	1,292,079
Permits and Licenses	4,324,605	5,094,809	5,145,991	5,092,414	(2,395)
Return on Investments	11,000,195	12,487,800	12,586,700	11,965,700	(522,100)
Rental Income	12,081,625	12,269,940	12,340,440	13,019,638	749,698
From Other Agencies	3,557,262	3,347,507	2,244,903	3,282,903	(64,604)
Charges to Other Funds	21,340,232	22,111,894	22,967,934	23,188,780	1,076,886
Other Revenue	12,041,929	23,742,805	15,635,619	17,114,670	(6,628,135)
Total Revenues	\$315,483,322	\$355,705,119	\$367,895,372	\$368,198,224	\$12,493,105

The revenue table above shows total City revenues from all City funds as follows: general fund, enterprise funds, capital fund, internal service funds, debt service, and special revenue funds.

TOTAL CITYWIDE EXPENDITURES BY CATEGORY

	2004-05 Actuals	2005-06 Adjusted Budget	2006-07 Adopted-in- Concept Budget	2006-07 Adopted Budget	2006-07 Budget Change
Utility Purchases and Charges	80,494,157	102,120,658	101,951,820	112,001,284	9,880,626
Salaries and Benefits	110,483,059	114,441,737	115,969,365	116,592,870	2,151,133
Contract Services	37,504,652	20,862,775	19,686,329	20,780,417	(82,358)
Supplies and Materials	5,977,456	6,016,917	5,883,534	6,704,192	687,275
Facilities and Equipment Purchases	816,464	4,704,414	979,955	2,006,468	(2,697,946)
General Expense	12,730,099	14,472,778	14,924,517	15,302,648	829,870
Rents and Leases	10,102,639	10,334,854	10,335,107	11,123,863	789,009
Allocated Charges	30,128,717	31,160,045	33,903,346	33,728,242	2,568,197
Debt Service	9,987,776	14,046,405	14,141,662	14,216,457	170,052
Capital Improvement Program	40,600,433	50,404,333	51,781,536	49,938,086	(466,247)
Transfers Out	(26,192,804)	3,613,714	1,841,566	3,144,430	(469,284)
Total Expenditures	\$312,632,648	\$372,178,630	\$371,398,737	\$385,538,957	\$13,360,327
To/(From) Reserves	2,850,674	(16,473,511)	(3,503,365)	(17,340,733)	(867,222)

The expense table above shows total City expenditures from all City funds as follows: general fund, enterprise funds, capital fund, internal service funds, debt service, and special revenue funds. The line above labeled "To/(From) Reserves" shows funding from reserves that is used primarily for rate stabilization in the enterprise funds as well as for capital improvement program (CIP) funding.



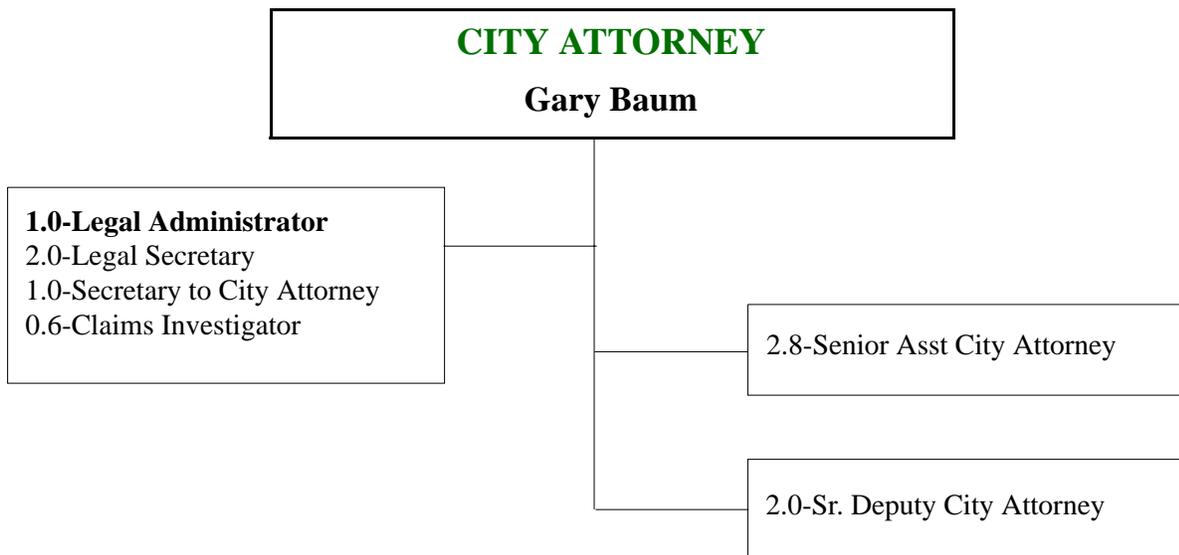
Total Citywide Expenditures by Category
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City Attorney's Office

City Attorney's Office Organizational Chart



**Fiscal Year 2006-07 Position Totals: 10.40 Full-time
0.51 Hourly**



City Attorney

OVERVIEW

In 2006-07, the City Attorney's Office will continue to enhance office productivity and the level of service provided to its customers by completing more assignments while reducing turnaround time. The Office's focus will be on customer service. As requested by Council, the Office will maintain its assistance with conflict of interest issues. The City Attorney will monitor outside counsel bills in an effort to reduce outside counsel costs. The Office will continue its reorganization efforts to increase customer service and reduce general fund cost. The Office will also provide the Police Department with an enhanced level of services, including updates and direct City Attorney involvement. Lastly, the Office will formulate approaches for full cost recovery related to extraordinary legal services that are provided for the benefit of third parties.

COUNCIL PRIORITY IMPLEMENTATION

In 2006-07, the City Attorney's Office will continue to support implementation of the following City Council's Top 3 Priorities:

Emergency and Disaster Preparedness and Response

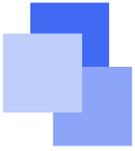
- Draft applicable ordinances, policies and procedures, and additional contracts related to emergency preparedness
- Attend training and exercises

Library/Police Building

- Continue implementation of contract streamlining process by revising contract forms and training staff on new processes
- Continue review of all public works contracts
- Support staff on all efforts related to potential acquisition and development of a new Police Building
- Respond to Council and staff on legal questions relating to the libraries

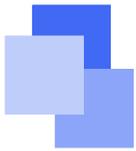
Increase Infrastructure Funding

- Evaluate legality of all proposals for revenue increases or enhancements
- Continue reduction of City Attorney outside counsel expenses
- Continue review and suggestions on issues related to reduction of general fund expenditures

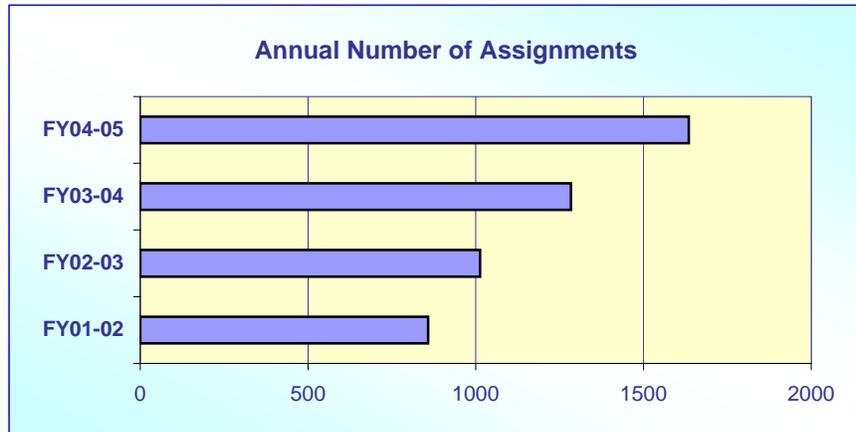


City Attorney *continued*

DEPARTMENT SUMMARY	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET	2006-07 BUDGET CHANGE	% CHG
Administration	207,473	211,784	218,523	223,271	11,487	5%
Consultation and Advisory	1,859,302	1,947,551	1,870,106	1,658,493	(289,058)	(15%)
Litigation and Dispute Resolution	330,534	382,238	382,868	436,994	54,756	14%
Official and Administration Duties	218,131	338,212	333,418	323,881	(14,331)	(4%)
TOTAL EXPENDITURES	\$2,615,440	\$2,879,785	\$2,804,915	\$2,642,639	\$(237,146)	(8%)
TOTAL REVENUES	\$876,857	\$1,154,891	\$1,154,891	\$1,186,063	\$31,172	3%
INTERNAL REVENUES	864,211	1,104,891	1,104,891	1,136,063	31,172	3%
EXTERNAL REVENUES	12,646	50,000	50,000	50,000	0	0%



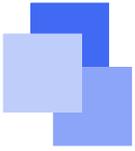
City Attorney *continued*



INPUTS	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET
Salaries and Benefits	1,970,947	2,143,767	2,110,405	1,715,911
Contract Services	534,310	612,430	514,030	748,343
Supplies and Materials	34,878	38,200	38,000	38,000
Facilities and Equipment Purchases	0	2,000	2,000	2,000
General Expense	24,218	26,180	26,980	24,980
Rents and Leases	4,994	5,700	3,500	3,500
Allocated Charges	46,093	51,508	110,000	109,905
Total Expenditures	\$2,615,440	\$2,879,785	\$2,804,915	\$2,642,639
Total Revenues	\$876,857	\$1,154,891	\$1,154,891	\$1,186,063
Total Full Time Positions	12.75	11.80	12.55	10.40
Total Temporary Positions	1.32	0.51	0.51	0.51

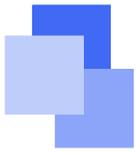
BENCHMARKING MEASURES

	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
Workload Outputs:			
1. Number of work requests processed	1,635	1,798	1,798
2. Number of claims opened and handled (SEA)	144	144	144
3. Number of code enforcement matters referred to City Attorney	14	15	15
Efficiency:			
1. Ratio of work requests per attorney	234	250	250



City Attorney *continued*

	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
2. Percent of claims investigations commenced within 7 days of receipt of claim by department		70%	70%
3. Percent of requests for code enforcement legal support responded to within 10 working days	87%	90%	90%
Effectiveness:			
1. Percent of work requests completed within established time frames - time frame varies based on type of work request	94%	95%	95%
2. Percent of claims resolved within 9 months	70%	75%	75%
3. Number of code enforcement matters closed within 6 months of referral	13	14	14



RESOURCE LEVEL CHANGES

	2006-07 ONGOING	2006-07 ONE-TIME	2006-07 TOTAL
REVENUE CHANGES			
Allocated revenues - internal	31,172		31,172
TOTAL REVENUE CHANGES	\$31,172	\$0	\$31,172
EXPENDITURE CHANGES			
Salary and Benefits			
Eliminate (1.0 FTE) Senior Assistant City Attorney	(202,735)		(202,735)
Eliminate (0.40 FTE) Claims Investigator/Paralegal	(29,578)		(29,578)
Total Salary and Benefits Increase	\$(232,313)	\$0	\$(232,313)
Personnel Benefit Costs (Note 2)	(195,545)		(195,545)
Total Net Salary and Benefits Changes	\$(427,858)	\$0	\$(427,858)
Non-Salary			
Legal contract assistance (Note 4)	232,313	270,000	502,313
Allocated Charges (Note 3)	58,399		58,399
Total Non-Salary Changes	\$290,712	\$270,000	\$560,712
TOTAL EXPENDITURE CHANGES	\$(137,146)	\$270,000	\$132,854
Adjustments (Note 1)		(370,000)	(370,000)
NET EXPENDITURE CHANGES	\$(137,146)	\$(100,000)	\$(237,146)

RESOURCE LEVEL NOTES

Note 1: Adjustments include one-time budget changes from the prior year that were removed from this year's budget as planned.

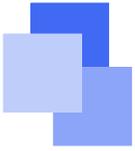
Note 2: Personnel benefit costs are decreasing due to lower employee pension costs and the allocation of workers' compensation costs to reflect actual department case experience.

Note 3: Allocated charges are increasing primarily due to the planned resumption of Technology Fund charges.

Note 4: Legal civil litigation expense increase offset by elimination of 1.40 FTE associated with this legal work.

SERVICE LEVEL CHANGES

Service levels will continue to reflect the 2005-06 elimination of a 0.75 FTE Senior Assistant City Attorney. The Senior Assistant position was vacant and the responsibilities were distributed to other attorneys.



City Attorney *continued*

As a result of a Senior Assistant City Attorney retiring, whose primary responsibility was litigation, the Office of the City Attorney is outsourcing litigation and eliminating this vacant position. In addition, the Office is eliminating the paralegal portion (0.40 FTE) of the Claims Investigator/Paralegal position associated with litigation support. This will include reallocating funds from the eliminated positions totaling (1.40 FTE) to legal contracts to fund outside counsel coverage on litigation matters. It is anticipated that outsourcing litigation will result in a 10 percent reduction in general fund legal fees. Currently, City initiated litigation is sent to outside counsel. This change would add litigation defense and result in all litigation being assigned to outside counsel. The minor amount of advisory work previously handled by the attorney position will be assumed by other attorneys within the Office of the City Attorney. There should not be any change in the level of litigation support provided to the City as a result of these position eliminations.



City Auditor's Office



City Auditor

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

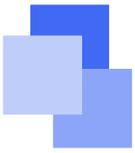
OVERVIEW

The City Auditor's Office conducts performance audits and reviews of City departments, programs, and services. Performance audits 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 coordinates the annual citizen survey and issues the annual City of Palo Alto Service Efforts and Accomplishments report summarizing costs, workload, and performance results for City services for the last five years.

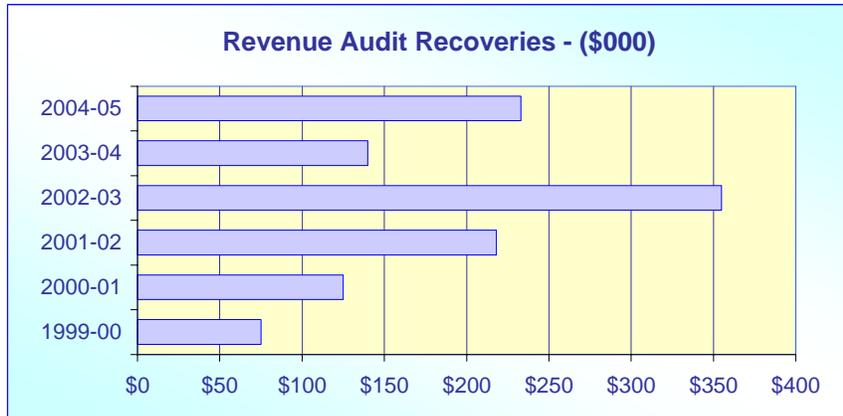
In the first month of each fiscal year, the Auditor's Office presents an annual audit work plan for City Council approval. The Office will continue to report quarterly to the City Council on the status of audit projects and annually on the status of open audit recommendations.

The Office contracts with an independent certified public accountant for the City's annual external financial audit. The Office also conducts and coordinates audits of sales tax, property tax, transient occupancy tax, utility user's tax, and other revenues.

DEPARTMENT SUMMARY	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET	2006-07 BUDGET CHANGE	% CHG
Audit Services	794,630	860,210	871,900	836,686	(23,524)	(3%)
TOTAL EXPENDITURES	\$794,630	\$860,210	\$871,900	\$836,686	\$(23,524)	(3%)
TOTAL REVENUES	\$393,662	\$859,461	\$859,461	\$853,259	\$(6,202)	(1%)
INTERNAL REVENUES	160,768	624,461	624,461	618,259	(6,202)	(1%)
EXTERNAL REVENUES	232,894	235,000	235,000	235,000	0	0%



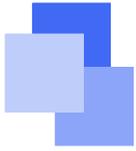
City Auditor *continued*



INPUTS	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET
Salaries and Benefits	569,340	597,541	576,950	541,800
Contract Services	200,084	234,832	234,832	234,832
Supplies and Materials	4,883	4,000	4,000	4,000
General Expense	1,201	1,500	1,500	1,500
Allocated Charges	19,122	22,337	54,618	54,554
Total Expenditures	\$794,630	\$860,210	\$871,900	\$836,686
Total Revenues	\$393,662	\$859,461	\$859,461	\$853,259
Total Full Time Positions	4.00	4.00	4.00	4.00
Total Temporary Positions	0.36	0.12	0.12	0.12

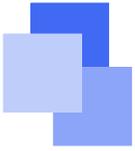
BENCHMARKING MEASURES

	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
Workload Outputs:			
1. Number of audit reports	12	10	10
2. Number of audit recommendations (SEA)	49	40	40
3. Revenue audit recoveries (SEA)	\$232,894	\$235,000	\$235,000
Effectiveness:			
1. Percent of revenue audit cost recovered	141%	200%	200%
2. Percent of open audit recommendations implemented	28%	40%	40%



City Auditor *continued*

	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
Efficiency:			
1. Percent of workplan completed	61%	70%	70%
2. Ratio of audit reports per auditor	4.0	3.3	3.3



RESOURCE LEVEL CHANGES

	2006-07 ONGOING	2006-07 ONE-TIME	2006-07 TOTAL
REVENUE CHANGES			
Allocated revenues - internal	(6,202)		(6,202)
TOTAL REVENUE CHANGES	\$(6,202)	\$0	\$(6,202)
EXPENDITURE CHANGES			
Salary and Benefits			
Personnel Benefit Costs (Note 2)	(34,176)		(34,176)
Adjustments (Note 1)		(21,564)	(21,564)
Total Salary and Benefits Changes	\$(34,176)	\$(21,564)	\$(55,740)
Non-Salary			
Allocated Charges (Note 3)	32,216		32,216
Total Non-Salary	\$32,216	\$0	\$32,216
TOTAL EXPENDITURE CHANGES	\$(1,960)	\$(21,564)	\$(23,524)

RESOURCE LEVEL NOTES

Note 1: Adjustments include one-time budget changes from the prior year that were removed from this year's budget as planned.

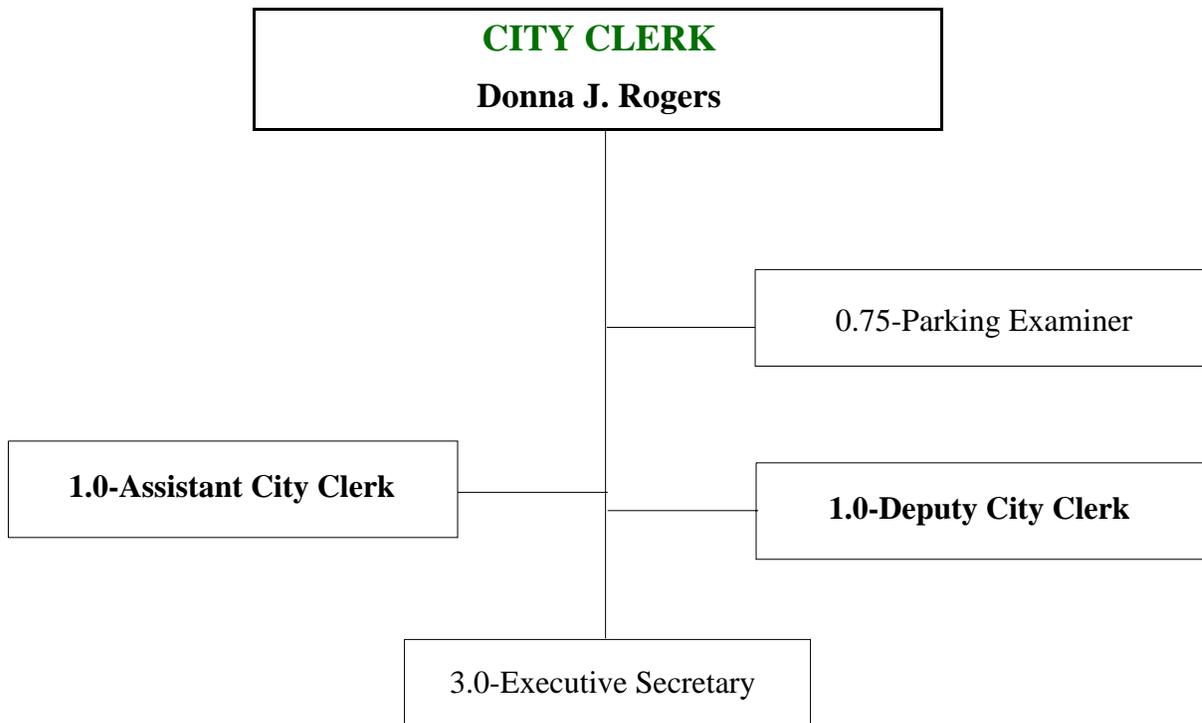
Note 2: Personnel benefit costs are decreasing due to lower employee pension costs and the allocation of workers' compensation costs to reflect actual department case experience.

Note 3: Allocated charges are increasing primarily due to the planned resumption of Technology Fund charges.



City Clerk's Office

City Clerk's Office
Organizational Chart



Fiscal Year 2006-07 Position Totals: **6.75 Full-time**
0.58 Hourly



City Clerk

To foster community awareness and civic involvement by providing timely and accurate records of the activities of City Policy makers.

OVERVIEW

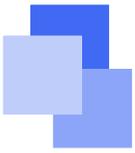
In 2006-07, the City Clerk's Office will continue to meet the needs of the public, City Council, and staff in the following areas: City Council support services, agenda packet process, board and commission recruitment, City Council events, City Council minutes, elections, conflict of interest, and legislative records management. The Office will be responsible for maintaining the Internet presence of the department and of the City Council.

The Administrative Hearing section of the Police Department is being transferred to the City Clerk's Office in 2006-07. This will include a 0.75 FTE Parking Examiner, a 0.48 FTE hourly Administrative Specialist I, and other operating costs associated with these positions which will continue residing at the Mitchell Park Community Center.

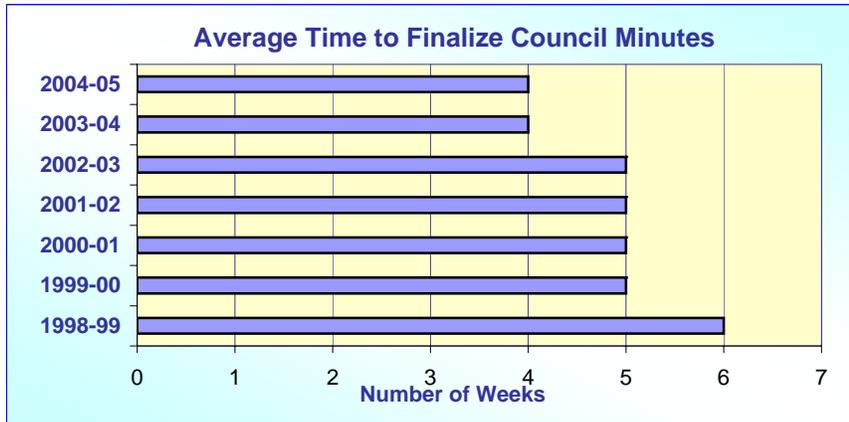
COUNCIL PRIORITY IMPLEMENTATION

The City Clerk's Office is not directly involved in the City Council's Top 3 Priorities. In an administrative capacity, the Office will work closely with City staff to ensure the agendas, minutes, packets, and public hearing notices reflect those priorities.

DEPARTMENT SUMMARY	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET	2006-07 BUDGET CHANGE	% CHG
Administration	80,721	79,450	102,683	99,299	19,849	25%
Public Information	75,470	88,511	88,572	82,952	(5,559)	(6%)
Council Support Services	484,957	479,283	482,846	461,638	(17,645)	(4%)
Election/Conflict of Interest	71,845	213,994	89,710	84,451	(129,543)	(61%)
Legislative Records Management	80,705	91,080	90,237	85,731	(5,349)	(6%)
Administrative Citations	0	0	0	117,816	117,816	0%
TOTAL EXPENDITURES	\$793,698	\$952,318	\$854,048	\$931,887	\$(20,431)	(2%)
TOTAL REVENUES	\$161,055	\$243,332	\$243,332	\$241,643	\$(1,689)	(1%)
INTERNAL REVENUES	160,440	239,582	239,582	239,693	111	0%
EXTERNAL REVENUES	615	3,750	3,750	1,950	(1,800)	(48%)



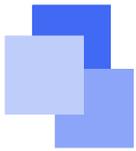
City Clerk *continued*



INPUTS	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET
Salaries and Benefits	649,603	661,058	651,461	724,806
Contract Services	50,808	68,729	68,959	70,829
Supplies and Materials	5,820	6,196	6,176	6,696
Facilities and Equipment Purchases	0	0	3,000	0
General Expense	35,585	158,567	36,720	39,780
Allocated Charges	51,882	57,768	87,732	89,776
Total Expenditures	\$793,698	\$952,318	\$854,048	\$931,887
Total Revenues	\$161,055	\$243,332	\$243,332	\$241,643
Total Full Time Positions	6.00	6.00	6.00	6.75
Total Temporary Positions	0.21	0.10	0.10	0.58

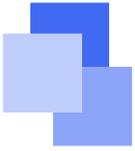
BENCHMARKING MEASURES

	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
Workload Outputs:			
1. Number of city council agendas posted with City Manager Reports to the website four days prior to council meeting	43	50	50
2. Number of formal public records requests	40	52	52
3. Number of city council minutes finalized (SEA)	35	38	38
Efficiency:			
1. Average time to post city council agendas	4 days	4 days	4 days



City Clerk *continued*

	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
2. Average time to address formal public records requests	10 days	10 days	10 days
3. Average time to finalize city council minutes (SEA)	4 weeks	4 weeks	4 weeks
Effectiveness:			
1. Percent of city council agendas posted	98%	98%	98%
2. Percent of formal public records requests addressed within 10 days	98%	98%	98%



RESOURCE LEVEL CHANGES

	2006-07 ONGOING	2006-07 ONE-TIME	2006-07 TOTAL
REVENUE CHANGES			
Allocated revenues - internal	111		111
Transfer of Administrative Hearing Operations revenue from Police Department	1,000		1,000
Subscriptions fee revenue	(2,800)		(2,800)
TOTAL REVENUE CHANGES	\$(1,689)	\$0	\$(1,689)
EXPENDITURE CHANGES			
Salary and Benefits			
Transfer of (0.50 FTE) Parking Examiner from Police Department	56,695		56,695
Add (0.25 FTE) Parking Examiner	28,348		28,348
Transfer of hourly Administrative Specialist from Police Department (0.48 FTE)	24,540		24,540
Total Salary and Benefits Changes	\$109,583	\$0	\$109,583
Personnel Benefit Costs (Note 2)	(45,835)		(45,835)
Total Net Salary and Benefits Changes	\$63,748	\$0	\$63,748
Non-Salary			
Transfer of facility maintenance and security expense - Administrative Hearing Operations	2,100		2,100
Transfer of office supplies - Administrative Hearing Operations	500		500
Allocated Charges (Note 3)	32,008		32,008
Total Non-Salary Changes	\$34,608	\$0	\$34,608
TOTAL EXPENDITURE CHANGES	\$98,356	\$0	\$98,356
Adjustments (Note 1)		(118,787)	(118,787)
NET EXPENDITURE CHANGES	\$98,356	\$(118,787)	\$(20,431)

RESOURCE LEVEL NOTES

Note 1: Adjustments include one-time budget changes from the prior year that were removed from this year's budget as planned.

Note 2: Personnel benefit costs are decreasing due to lower employee pension costs and the allocation of workers' compensation costs to reflect actual department case experience.

Note 3: Allocated charges are increasing primarily due to the planned resumption of Technology Fund charges.



City Council



City Council

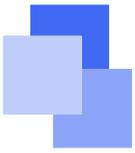
OVERVIEW

In 2006-07, the City Council will continue to address the needs of the community through various public meetings and activities. Much of the focus will be on the Council's Top 3 Priorities which include: Emergency and Disaster Preparedness and Response, Library/Police Building, and Increased Infrastructure Funding.

The 2006-07 City Council Adopted Budget is primarily comprised of City Council salaries, healthcare benefits, and general expense.

DEPARTMENT SUMMARY	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET	2006-07 BUDGET CHANGE	% CHG
City Council Operations	131,222	176,346	164,020	179,228	2,882	2%
TOTAL EXPENDITURES	\$131,222	\$176,346	\$164,020	\$179,228	\$2,882	2%
TOTAL REVENUES	\$67,060	\$52,811	\$52,811	\$59,944	\$7,133	14%
INTERNAL REVENUES	67,060	52,811	52,811	59,944	7,133	14%
EXTERNAL REVENUES	0	0	0	0	0	0%

INPUTS	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET
Salaries and Benefits	91,746	104,961	105,135	98,843
Contract Services	5,020	31,000	10,000	30,000
Supplies and Materials	2,100	2,930	2,930	2,930
General Expense	32,356	37,455	45,955	47,455
Total Expenditures	\$131,222	\$176,346	\$164,020	\$179,228
Total Revenues	\$67,060	\$52,811	\$52,811	\$59,944
Total Full Time Positions	9.00	9.00	9.00	9.00
Total Temporary Positions	0.00	0.00	0.00	0.00



RESOURCE LEVEL CHANGES

	2006-07 ONGOING	2006-07 ONE-TIME	2006-07 TOTAL
REVENUE CHANGES			
Allocated revenues - internal	7,133		7,133
NET REVENUE CHANGES	\$7,133	\$0	\$7,133
EXPENDITURE CHANGES			
Salary and Benefits			
Personnel Benefit Costs (Note 2)	(6,117)		(6,117)
Total Salary and Benefits Changes	\$(6,117)	\$0	\$(6,117)
Non-Salary			
General expense for Council meeting meals	1,500		1,500
Other contract services for one year pilot program for Police Auditor		20,000	20,000
Total Non-Salary Changes	\$1,500	\$20,000	\$21,500
TOTAL EXPENDITURE CHANGES	\$(4,617)	\$20,000	\$15,383
Adjustments (Note 1)		(12,501)	(12,501)
NET EXPENDITURE CHANGES	\$(4,617)	\$7,499	\$2,882

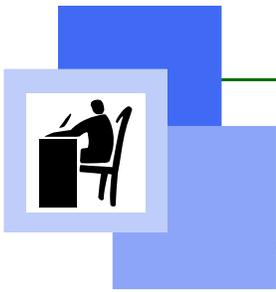
RESOURCE LEVEL NOTES

Note 1: Adjustments include one-time budget changes from the prior year that were removed from this year's budget as planned.

Note 2: Personnel benefit costs are decreasing due to lower employee pension costs and the allocation of workers' compensation costs to reflect actual department case experience.



City Manager's Office



City Manager

To lead City staff in implementing City Council policies and priorities and providing efficient, quality services to the community.

OVERVIEW

In 2006-07, the City Manager's Office will oversee efforts to address the City Council's Top 3 Priorities: Emergency and Disaster Preparedness and Response, Library/Police Building, and Increased Infrastructure Funding.

Emergency and Disaster Preparedness and Response: The Manager's Office will continue to provide leadership to the Emergency Preparedness Steering and Working Committees as they update the Emergency Plan. A communications plan for the Council and Emergency Council will be a key product. The Office will continue to lead the Citizens Corps Council, which leverages public, business and non-governmental agencies in disaster planning and work on joint planning with the Palo Alto Unified School District, especially on the preparation of a Pandemic Influenza preparedness plan.

Library/Police Building: In addition to overseeing the General Fund Infrastructure Management Plan implementation, the Manager's Office will oversee implementation of the recommendations coming from the Public Safety Building Blue Ribbon Task Force and the Library Advisory Commission's work to forge a long-range plan that addresses facilities needs. Recruiting a new Library Director will be critical to the latter, as will coordination with community organizations such as Friends of the Library and the Palo Alto Library Foundation.

Increase Infrastructure Funding: The Manager's Office will continue to lead City efforts to increase new General Fund revenues and to decrease expenses. Employee costs make up the majority of General Fund expenses. All labor contracts except Police are up for negotiations this year, a key focus will be controlling rising retirement and medical costs while ensuring a competitive position in the labor market. The Manager's Office also coordinates City lobbying efforts for state and federal funding for infrastructure projects.

The Utilities Department faces enormous financial challenges in the volatile energy commodity market and because of water cost increases resulting from the long-range reconstruction plan for the Hetch-Hetchy water system. Recruitment of a new Director will be key. The Department has undergone a comprehensive organizational evaluation and will be implementing planned changes in 2006-07. This includes creation of a Utilities Risk Oversight Committee, composed of the Assistant City Manager, Administrative Services Director, Utilities Director, and Public Works Director, with the City Auditor in an advisory capacity. Coordination and strategic direction for all City enterprise funds, including Refuse, Storm Drainage, and the Regional Water Quality Control Plant are the overall goals.

Finally, the Manager's Office continues its leadership in carrying out the City Sustainability Policy, through such efforts as implementation of the zero waste policy, long-range solid waste planning, Green Power, and incorporation of green building principles in new and renovated City facilities.

COUNCIL PRIORITY IMPLEMENTATION

In 2006-07, the City Manager's Adopted Budget will implement the City Council's Top 3 Priorities as follows:

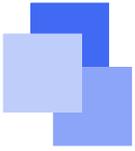
Emergency and Disaster Preparedness and Response

- Oversee the City's emergency preparedness efforts as they relate to preparedness, response, and recovery

Library/Police Building

- Present the Council with information necessary to make decisions on the libraries and the police building

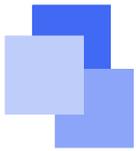
Increase Infrastructure Funding



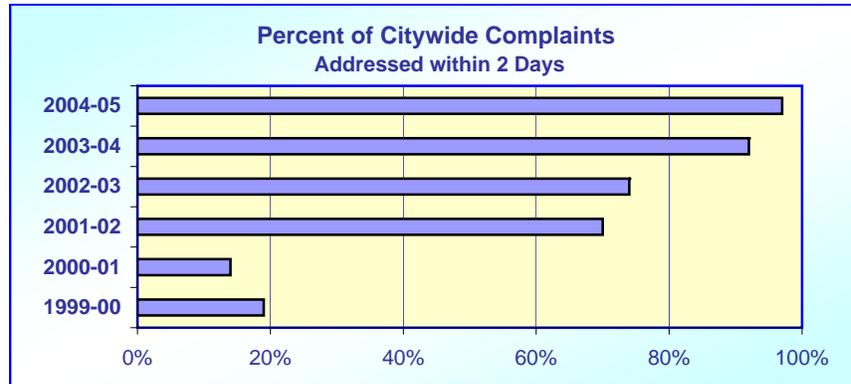
City Manager *continued*

- Identify appropriate budget reductions and revenue enhancements to identify a \$3 million increase in infrastructure funding

DEPARTMENT SUMMARY	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET	2006-07 BUDGET CHANGE	% CHG
Administration	175,778	325,248	235,301	247,483	(77,765)	(24%)
City Management	1,011,778	1,134,751	1,111,369	1,196,745	61,994	5%
Public Communication	259,683	244,097	202,360	180,033	(64,064)	(26%)
Economic Development	277,350	274,223	219,836	178,391	(95,832)	(35%)
TOTAL EXPENDITURES	\$1,724,589	\$1,978,319	\$1,768,866	\$1,802,652	\$(175,667)	(9%)
TOTAL REVENUES	\$437,690	\$411,805	\$411,805	\$361,899	\$(49,906)	(12%)
INTERNAL REVENUES	437,655	411,805	411,805	361,899	(49,906)	(12%)
EXTERNAL REVENUES	35	0	0	0	0	0%



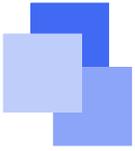
City Manager *continued*



INPUTS	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET
Salaries and Benefits	1,548,736	1,619,159	1,408,293	1,442,176
Contract Services	85,528	225,250	144,500	166,750
Supplies and Materials	5,078	11,486	10,550	11,558
Facilities and Equipment Purchases	0	300	300	300
General Expense	29,713	61,110	84,296	61,038
Rents and Leases	6	500	500	500
Allocated Charges	55,528	60,514	120,427	120,330
Total Expenditures	\$1,724,589	\$1,978,319	\$1,768,866	\$1,802,652
Total Revenues	\$437,690	\$411,805	\$411,805	\$361,899
Total Full Time Positions	10.50	8.50	8.50	9.50
Total Temporary Positions	0.59	0.25	0.25	0.25

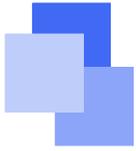
BENCHMARKING MEASURES

	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
Workload Outputs:			
1. Number of responses to actionable complaints	87	100	100
2. Number of business outreach contacts (SEA)	48	60	60
Efficiency:			
1. Percent of complaints addressed within two days	97%	97%	98%
2. Percent of business outreach contacts within one month	4%	5%	5%



City Manager *continued*

	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
Effectiveness:			
1. Percent rating public information services as good or excellent (SEA survey)	74%	76%	80%
2. Percent rating economic development services as good or excellent (SEA survey)	55%	58%	61%



City Manager *continued*

RESOURCE LEVEL CHANGES

	2006-07 ONGOING	2006-07 ONE-TIME	2006-07 TOTAL
REVENUE CHANGES			
Allocated revenues - internal	(49,906)		(49,906)
TOTAL REVENUE CHANGES	\$(49,906)	\$0	\$(49,906)
EXPENDITURE CHANGES			
Salary and Benefits			
Add Assistant to City Manager (1.0 FTE)	149,748		149,748
Personnel Benefit Costs (Note 2)	(157,510)		(157,510)
Adjustments (Note 1)		(169,222)	(169,222)
Total Salary and Benefits Changes	\$(7,762)	\$(169,222)	\$(176,984)
Non-Salary			
Allocated Charges (Note 3)	59,817		59,817
Total Non-Salary	\$59,817	\$0	\$59,817
TOTAL EXPENDITURE CHANGES	\$52,055	\$(169,222)	\$(117,167)
Adjustments (Note 1)		(58,500)	(58,500)
NET EXPENDITURE CHANGES	\$52,055	\$(227,722)	\$(175,667)

RESOURCE LEVEL NOTES

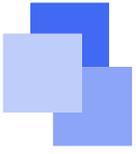
Note 1: Adjustments include one-time budget changes from the prior year that were removed from this year's budget as planned.

Note 2: Personnel benefit costs are decreasing due to lower employee pension costs and the allocation of workers' compensation costs to reflect actual department case experience.

Note 3: Allocated charges are increasing primarily due to the planned resumption of Technology Fund charges.

SERVICE LEVEL CHANGES

Addition of Assistant to City Manager position: the focus of this position will be to enhance oversight of City departments. Also, the Council has asked staff to focus on facilitating public-private partnerships as part of the strategy to reallocate resources to infrastructure and this will be a key part of this position.



City Manager *continued*

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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-Sr 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
1.0-Staff Accountant
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

INFORMATION TECHNOLOGY
1.0-Staff Secretary

PROJECT MGMT, APPLICATIONS
1.0-IT Manager (Frozen)
10.0-Sr Technologist

CLIENT SERVICES
1.0-IT Manager
4.0-Sr Technologist
1.0-Technologist
4.0-Desktop Technician

INFO TECH SERV PROVIDER
1.0-IT Manager
2.0-Sr Technologist
6.0-Technologist
1.0-Desktop Technician

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
4.0-Storekeeper

RISK MANAGEMENT
1.0-Risk Manager

PURCHASING & CONTRACTS
1.0-Manager, Purch/Contr Admin
3.0-Contract Administrator
1.0-Lead Account Specialist
1.0-Account Specialist
3.0-Buyer

PRINTING & MAIL SERVICES
1.0-Repro & Mail Supervisor
1.0-Offset Equip Operator, Lead
1.0-Offset Equipment Operator
1.0-Mail Services Specialist

Fiscal Year 2006-07 Position Totals: 97.00 Full-time
1.00 IT Manager (Frozen)
1.20 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 2006-07, the Administrative Services Department (ASD) will focus on the following:

Infrastructure Master Plan: ASD will continue to support the Infrastructure Management Team in implementing the Infrastructure Management Plan, known as "CityWorks." A high priority and also a City Council Top 3 Priority for 2006-07 is to identify an additional \$3 million annually, through revenue enhancements and expenditure reductions, to maintain the rehabilitation and replacement of the City's existing infrastructure. These funds are required, to replenish the depleted Infrastructure Reserve, to ensure that the estimated \$10 million per year necessary to maintain the City's infrastructure in good condition is maintained.

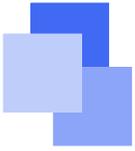
Revenue Enhancements: Staff is working to identify new funding sources for new facilities such as the new library, police building, and ongoing infrastructure needs. Staff will explore funding through a mix of increasing taxes and/or reducing expenditures. Council directed staff to evaluate increasing the Transient Occupancy Tax from 10 to 12 percent and to examine other potential sources such as general obligation bonds.

Financial Analysis: In 2006-07, staff will provide financial analysis during the upcoming labor negotiations; inform the Blue Ribbon Task Force about financing methods for a new Police Building; draft an RFP for broadband fiber services to homes and businesses; participate in the evolving Energy Risk Management Program; and prepare the next update to the City's Long Range Financial Plan, with an additional document for each utility. Lastly, staff will be actively involved in implementing a Business Registry Fee.

Financial Reporting: Staff continues to refine SAP financial reports and train citywide departments. ASD is also assisting Utilities staff with quarterly Utilities Advisory Commission reporting. In preparation for Government Accounting Standards Board (GASB) statement 45, staff is completing a baseline actuarial study to identify the level of the City's unfunded liability; this will allow Council to determine the direction the City will take to address funding of medical costs for retirees.

Business Process Re-engineering: The Department will continue to concentrate major resources on the SAP post-implementation. Planned system improvements include improved user friendliness via a web-based user interface, greater integration between functions such as budget, payroll, and human resources, and provision of ad-hoc web-based reporting. Other enhancements will include a simplified time tracking, project work-order management, enhanced system reporting capabilities, and exploration of steps required to upgrade SAP. In addition, staff will help Utilities issue an RFP for evaluating SAP use for utility billing. Staff will also explore steps required to upgrade SAP to the next version.

Property Acquisition and Management: Staff will continue to provide real estate services to the City Manager and other City Departments. The Real Estate Division will work with Environmental Volunteers in its efforts to relocate, remodel, and renovate the Lucie Stern Maritime Museum at its new Baylands location. Other projects include: Palo Alto Airport lease, the Palo Alto Depot Bike Station lease, sale of transfer of development rights for the Lucie Stern Maritime Museum, purchase of the former Los Altos Treatment Plant site and securing a site for the emergency water supply reservoir.



Administrative Services *continued*

Purchasing: The division will continue to focus on improving the City's purchasing process by revising solicitation templates to facilitate the procurement process. In 2006-07, the focus will be on the construction template. The CAL-Card program, which is fully integrated into SAP, has been rolled out to all City departments. This program helps decentralize incidental, low-dollar transactions to free up key staff for contract development and administration. ASD staff will continue to incorporate contract streamlining ideas into daily activities, processes, and training to expedite and track contracts more easily.

Cable Franchising: ASD is charged with managing the cable franchise between Comcast and the Joint Powers Authority. (The Joint Powers Authority includes the Cities of Palo Alto, East Palo Alto, and Menlo Park, the Town of Atherton, and 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, oversee public, education and government (PEG) channel resources, collect franchise fees, and distribute them to Joint Powers Authority members. Continued implementation of the institutional network (I-Net) is planned for the upcoming year. The I-Net links schools, libraries, public buildings, and community centers within the Joint Powers' service area with the capability of providing data, video, and voice communications.

NEW PROGRAM UPDATE

The Administrative Services Department plans to accomplish the following in new program implementation:

- Implement Council's direction on a plan for funding the liability for non-pension post-employment benefits (such as medical). This accounting is covered under Government Accounting Standards Board (GASB) statements 43 and 45
- Continue to evaluate potential for moving City employees from leased spaces to City-owned facilities
- Revise the Purchasing solicitation template for construction bids
- Implement a new business registry
- Update the 2007-17 Long Range Financial Plan and Forecast and present it to the Finance Committee and Council in the Winter 2006
- Assist in the preparation of a Long Range Financial Plan for all utility funds

COUNCIL PRIORITY IMPLEMENTATION

In 2006-07, the Administrative Services Department will continue to support implementation of the following City Council's Top 3 Priorities:

Emergency and Disaster Preparedness and Response

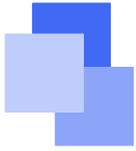
- Document plans for Accounts Payable, Purchasing, and Payroll to operate in the event of an emergency
- Develop a disaster recovery plan for data loss in the event of an emergency

Library/Police Building

- Evaluate funding options for new facilities such as new libraries and the police building
- Present recommendations on new revenues or new resources such as general obligation bonds

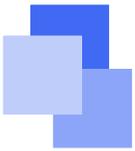
Increase Infrastructure Funding

- Facilitate an increase of \$3 million per year in CityWorks funding by recommending: new revenue sources; enhancements to existing revenue sources; and specific expenditure reductions as required to close the funding gap

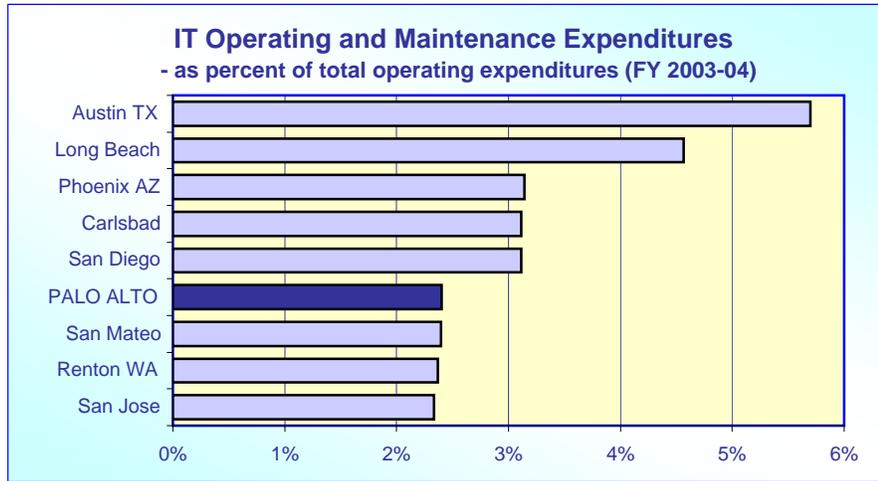


Administrative Services *continued*

DEPARTMENT SUMMARY	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET	2006-07 BUDGET CHANGE	% CHG
Administration	812,671	642,852	1,018,084	1,014,774	371,922	58%
Accounting	1,920,073	1,986,592	1,965,201	2,023,685	37,093	2%
Purchasing	1,200,562	1,149,137	1,148,136	1,172,404	23,267	2%
Real Estate	445,462	504,436	494,827	464,672	(39,764)	(8%)
Treasury	1,437,909	1,373,847	1,362,469	1,238,197	(135,650)	(10%)
Budget	886,422	877,050	861,104	856,569	(20,481)	(2%)
TOTAL EXPENDITURES	\$6,703,099	\$6,533,914	\$6,849,821	\$6,770,301	\$236,387	4%
TOTAL REVENUES	\$3,528,932	\$2,968,354	\$2,968,354	\$2,955,185	\$(13,169)	0%
INTERNAL REVENUES	3,477,433	2,911,054	2,911,054	2,897,885	(13,169)	0%
EXTERNAL REVENUES	51,499	57,300	57,300	57,300	0	0%



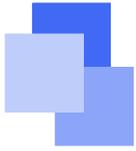
Administrative Services *continued*



INPUTS	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET
Salaries and Benefits	5,901,208	5,600,909	5,420,601	5,354,264
Contract Services	258,093	340,546	344,334	333,804
Supplies and Materials	62,750	90,561	93,931	94,431
Facilities and Equipment Purchases	1,807	6,700	6,200	6,700
General Expense	117,012	124,483	117,825	122,613
Allocated Charges	362,229	370,715	866,930	858,489
Total Expenditures	\$6,703,099	\$6,533,914	\$6,849,821	\$6,770,301
Total Revenues	\$3,528,932	\$2,968,354	\$2,968,354	\$2,955,185
Total Full Time Positions	55.50	50.59	50.59	50.65
Total Temporary Positions	1.55	0.48	0.48	0.00

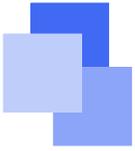
BENCHMARKING MEASURES

	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
Workload Outputs:			
1. Number of Accounts Payable checks issued (SEA)	16,813	15,500	14,500
2. Number of purchasing documents processed (SEA)	3,268	3,200	3,000
3. Number of Real Property acquisitions and conveyances (fees, easements, BMR, permits, leases and document transfer tax)	150	150	150
4. Cash and investments (in millions), excluding bond proceeds (SEA revised)	\$ 362.1	\$ 353.9	\$ 353.9



Administrative Services *continued*

	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
Effectiveness:			
1. Percent of invoices paid within 30 days (estimated) (SEA)	80%	83%	83%
2. Percent of purchases/contracts completed within established timeframes (estimated)	80%	80%	80%
3. Average time (in days) to complete each Real Property acquisition and conveyance	20	20	20
4. Rate of return on investments compared to the annual average yield on a three-year Treasury note (SEA revised)	+0.96%	+0.02%	+0.02%
Efficiency:			
1. Average cost to issue an Accounts Payable check (estimated)	\$ 37	\$ 29	\$ 29
2. Average cost to process a Purchase Order/Contract (estimated)	\$ 207	\$ 218	\$ 240
3. Average cost to complete each Real Property acquisition and conveyance (estimated)	\$ 950	\$ 900	\$900
4. Investment income (in millions) earned by half-time Treasury employee	\$ 15.6	\$ 15.2	\$ 14.7



Administrative Services *continued*

RESOURCE LEVEL CHANGES

	2006-07 ONGOING	2006-07 ONE-TIME	2006-07 TOTAL
REVENUE CHANGES			
Allocated revenues - internal	(13,169)		(13,169)
TOTAL REVENUE CHANGES	\$(13,169)	\$0	\$(13,169)
EXPENDITURE CHANGES			
Salary and Benefits			
Personnel Benefit Costs (Note 1)	(246,648)		(246,648)
Total Salary and Benefits Changes	\$(246,648)	\$0	\$(246,648)
Non-Salary			
Reduce contract agency personnel	(4,742)		(4,742)
Allocated Charges (Note 2)	487,777		487,777
Total Non-Salary Changes	\$483,035	\$0	\$483,035
TOTAL EXPENDITURE CHANGES	\$236,387	\$0	\$236,387

RESOURCE LEVEL NOTES

Note 1: Personnel benefit costs are decreasing due to lower employee pension costs and the allocation of workers' compensation costs to reflect actual department case experience.

Note 2: Allocated charges are increasing primarily due to the planned resumption of Technology Fund charges.



**Community Services
Department**

Community Services Department Organizational Chart



COMMUNITY SERVICES DIRECTOR

Richard James

CUBBERLEY CENTER & HUMAN SERVICES

- 1.0-Division Mgr Cubberley Center & Human Services**
- 2.0-Program Assistant
- 2.0-Building Serviceperson, Lead
- 3.0-Building Serviceperson
- 1.0-Management Assistant
- 1.0-Staff Secretary
- 1.0-Coordinator, Child Care
- 0.75- Prod Arts/Science Program

RECREATION AND YOUTH SCIENCES ADMINISTRATION

- 1.0-Division Mgr, Recreation & Youth Sciences**
- 1.0-Staff Secretary
- 0.5-Office Specialist

RECREATION

- 1.0-Administrator, Special Events**
- 3.0-Coordinator, Recreation Programs
- 5.0-Supervisor, Recreation Programs
- 2.0-Office Specialist
- 1.0-Building Service Person
- 0.75-Program Assistant

YOUTH SCIENCES

- 1.0-Supervisor, Jr Museum**
- 3.0-Producer Arts/Science Program
- 1.0-Office Specialist
- 2.25- Program Assistant

OPEN SPACE

- 1.0-Division Manager, Open Space**
- 1.0-Supervisor, Open Space
- 1.0-Senior Ranger
- 1.0-Producer Arts/Science Program
- 5.0-Park Ranger
- 0.75-Parks & Open Space Assistant

ADMINISTRATION

- 1.0-Administrative Assistant
- 1.0-Senior Administrator

ARTS & CULTURE

ADMINISTRATION

- 1.0- Division Mgr Arts & Culture (frozen)**
- 1.0- Program Assistant

ART CENTER

- 1.0- Manager, Arts**
- 4.0- Producer Arts
- 2.0- Office Specialist
- 0.75-Volunteer Coordinator

CHILDREN'S & COMMUNITY THEATRE

- 1.0- Manager, Arts**
- 1.0-Theatre Specialist
- 2.0-Program Assistant
- 1.0-Program Assistant (frozen)
- 3.5-Producer Arts

GOLF & PARKS

ADMINISTRATION

- 1.0-Division Mgr, Parks & Golf Course**
- 1.0-Staff Secretary

GOLF

- 1.0-Superintendent, Golf Course**
- 1.0-Golf/Parks Crew Lead
- 5.0-Golf Course Maintenance Person
- 1.0-Sprinkler System Repair Person
- 1.0-Golf Course Equipment Mechanic

PARKS

ADMINISTRATION

- 1.0-Park Superintendent**
- CITY PARKS & FACILITIES**
- 1.0-Supervisor, Parks (frozen)**
- 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-Parks Crew, Lead
- 2.0-Sprinkler System Repair Person
- 6.0-Park Maintenance Person
- 1.0-Park Maintenance Lead

Fiscal Year 2006-07 Position Totals:

- 96.25 Full-time**
- 1.00 Division Manager , Arts & Culture (frozen)**
- 1.00 Program Assistant (frozen)**
- 1.00 Parks Supervisor (frozen)**
- 49.37 Hourly**



Community Services

To engage individuals and families in creating a strong and healthy community through parks, recreation, social services, arts and sciences.

OVERVIEW

In 2006-07, the Community Services Department (CSD) will provide the Palo Alto Community with the services and programs summarized below:

Arts and Culture Division

The Arts and Culture Division will provide performing arts, music and dance programs to children, adults and youth while responding to increased demand for family programs. Through public and private partnerships with the Palo Alto Art Center Foundation and Friends of the Palo Alto Children's Theatre, the division is planning to renovate and upgrade each respective facility. The separate facilities continue to support each other in their programming needs.

The division will continue the administration and management of the Art Center, Children's Theatre, and Community Theatre to accommodate the responsibilities of the frozen position of Director of Arts and Culture. The responsibilities also include Public Art Commission, Neighbors Abroad, Cubberley Artist Studios, Civic Center Lobby exhibitions, and art community relations.

Parks and Golf Division

Parks Services will commence maintenance and coordinated programming for the Stanford/Palo Alto Community Playing Fields, and plan and coordinate multiple CityWorks park projects scheduled for Hoover, Hopkins, Ramos, Mitchell, Boulware, and Bowden Parks. Other parks projects include: providing restrooms at Seale Park, a landscape project at the Cubberley Center and median landscaping on San Antonio Road and El Camino Real. In addition, Parks Services will continue the Palo Alto Unified School District (PAUSD) athletic field renovation project at the Briones and Nixon schools. Ongoing coordination with the Friends of Parks group will provide opportunities for enhancing parks infrastructure. Additionally, the division will be restructuring and reorganizing staff workload as part of implementing the 2006 City Auditor Parks Maintenance Audit recommendations. Finally, the Parks and Golf Division will commence implementation of the Department Strategic Plan in 2006-07.

Golf Services will continue marketing the facility in order to maintain customer service and related revenues. Included in the 2006-07 adopted budget is funding for an operational analysis to determine best management practices and operations regarding the future management and oversight of the golf division.

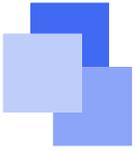
Cubberley Community Center and Human Services Division

The 35-acre community center hosts community artists, dance groups, childcare centers, Foothill College and many non-profit groups. The thriving center will continue to provide a full array of community facilities including fields, tennis courts, a track, gymnasiums, a theatre and classrooms, all of which are available for public rental.

The division, through its Human Services function, provides assistance to people in need by providing grants to non-profit organizations and offering the Family Resources and the Seasonal Worker Program. Staff works with a number of community groups to identify areas of concern. These groups include the Human Relations Commission, the Child Care Advisory Committee and the Extended School Child Care Directors Group. In 2006-07, staff will be developing a marketing plan for the center's theatre and specific Human Services programs.

Recreation and Youth Sciences Division

The newly formed Recreation and Youth Sciences Division will continue to provide a diverse range of programs and



Community Services *continued*

activities for the community. Over the year, staff will continue to focus on creating a culture of fitness and healthy living in Palo Alto by encouraging the involvement of individuals and families in activities that are creative and fun. The division will adjust programs and services to reflect changing community demographics, which among other things will include a sharp rise in the number of adults over the age of 55. Staff will work diligently to recover additional program costs through fees, partnerships, grants, and donations.

Recreation services will also continue to focus efforts on youth and teen programming as it relates to the Youth Master Plan. The division will pursue collaborative programming efforts with other agencies serving youth to better target quality services for this age group. The division will emphasize customer services, while efficiently marketing new and existing programs and classes, will measure customer satisfaction through surveys and other evaluation methods. Recreation Division will continue to encourage program participants to use the on-line, Internet based registration system to facilitate a more efficient registration process.

The Junior Museum and Zoo will continue working with the Friends of the Junior Museum and Zoo group to explore funding options 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 science classes, outreach programs, and camps.

Open Space Division

The Open Space Division will provide ecology and natural history interpretive programs for youth and adults through campfire, outreach programs, and guided nature walks. Ranger staff will continue to provide protection of open space areas and safety to park visitors through patrols, fire prevention and response to emergency calls for service. Projects will continue to be implemented to rebuild aging infrastructure by improving trail tread and drainage problems on trails in the foothills, replacing wooden foot bridges in Foothills Park, and enhancing picnic areas and camp sites. In the next year, staff will continue to partner with volunteer organizations such as Save The Bay, Friends of Foothills Park and Acterra to restore degraded habitat with native plants. Staff will use non-toxic methods such as biological agents, grazing goats, and systematic mowing to control non-native weeds and thistle in open space areas. With the assistance of specialized consultants, staff will begin developing a comprehensive Baylands Conservation Plan that will provide guidelines for staff in managing natural resources such as native vegetation, the duck pond bird sanctuary, and other wildlife habitat through best management practices.

Since the 13-acre Open Space Trust property (Bressler Ranch) was purchased in September 2005 to complete the Pearson Arastradero Preserve, restoration work has been initiated to contain the spread of invasive weeds on the property. An \$85,000 State Riparian Creek Restoration grant will be used to remove a 900-foot cement culvert from the property in order to eventually re-plant willows and other native plants along the historic channel route. The creek restoration project will be completed in 2006-07.

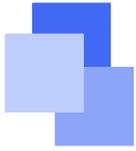
Restructuring

The Department initiated a series of department-wide organizational restructuring in 2005-06, which change the presentation of financial information. Consequently, 2006-07 reflects the new structure. In order to present a comparative financial data, "2004-05 Actuals" in the department summary section of this budget document were adjusted to conform to the 2005-06 and 2006-07 budget presentation.

NEW PROGRAM UPDATE

The Community Services Department has restructured as a cost-saving measure and removed one management level.

- Recreation, Open Space and Sciences has been restructured to form two separate divisions: Recreation and Youth Sciences (RAYS) and Open Space



Community Services *continued*

- Arts and Culture now has Co-Division Managers, as the Director of Arts and Culture position has been frozen
- Cubberley Community Center and Human Services operate as one division hosting local community and non-profit groups and providing an extensive outreach program for those in need
- Recreation will continue to consolidate youth services into the Mitchell Park Community Center, providing more effective programs and easier access to teen programs
- The Parks Division is integrating Heritage Park and Stanford/Palo Alto fields into their maintenance operations in coordination with the Public Works Department

COUNCIL PRIORITY IMPLEMENTATION

The 2006-07 Community Services Department Adopted Budget will implement two of the City Council's Top 3 Priorities as follows:

Increase Infrastructure Funding

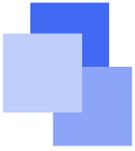
Community Services is actively seeking private and grant funding for the replacement of aging infrastructure and the enhancement of park and community center facilities. The Open Space Division will continue to implement trail restoration recommendations from the Arastradero Trail Master Plan using funds from the State Non-motorized Trail grant program. A channelized creek that runs through the recently acquired Arastradero Gateway property will be daylighted and restored using funds from the State Riverine and Riparian Habitat grant program and donated plant materials from the Acterra native plant nursery. Segments of the Bay Trail at the Baylands Nature Preserve will be improved using Bay Trail grant funds. Grant revenues received for infrastructure funding may help diminish the need for infrastructure reserve funding.

Emergency and Disaster Preparedness and Response

Open Space park rangers will work closely with the Fire Department to update the Wildland Fire policies and procedures to ensure rapid response to fires in the foothills. Staff will continue to provide specialized training for park rangers in law enforcement, fire fighting and emergency response techniques in order to provide maximum security and safety for park visitors and open space natural resources.

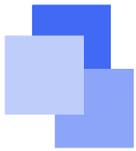
Arts and Culture Division Emergency Plans and Procedures will be reviewed, updated, and disseminated to all staff. Emergency plans and procedures for Children's programs will be made compatible with PAUSD emergency plans and procedures. Community Theatre contract groups will undergo orientation and training in appropriate emergency plans and procedures. Staff will also participate in emergency plans and procedures training and refresher meetings.

The Cubberley Community Center (CCC) is a planned emergency response center. CCC will be made ready as a shelter at all times to respond to any disaster or emergency.



Community Services *continued*

DEPARTMENT SUMMARY	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET	2006-07 BUDGET CHANGE	% CHG
Administration	626,927	769,707	817,112	808,246	38,539	5%
Arts and Culture	3,056,393	3,069,658	2,968,657	2,909,663	(159,995)	(5%)
Parks and Golf Course	5,960,067	6,339,418	6,163,169	6,293,441	(45,977)	(1%)
Cubberley and Human Services	2,957,055	3,321,636	3,191,625	3,357,637	36,001	1%
Open Space	1,696,348	1,907,495	1,861,419	1,823,462	(84,033)	(4%)
Recreation and Youth Sciences	4,841,184	4,709,108	4,569,420	4,688,650	(20,458)	0%
TOTAL EXPENDITURES	\$19,137,974	\$20,117,022	\$19,571,402	\$19,881,099	\$(235,923)	(1%)
TOTAL REVENUES	\$6,465,367	\$7,243,264	\$7,216,136	\$7,281,230	\$37,966	1%
INTERNAL REVENUES	10,184	48,659	48,659	135,159	86,500	178%
EXTERNAL REVENUES	6,455,183	7,194,605	7,167,477	7,146,071	(48,534)	(1%)



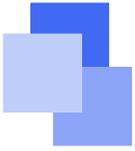
Community Services *continued*



INPUTS	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET
Salaries and Benefits	11,061,298	11,249,985	10,701,040	10,848,862
Contract Services	3,036,024	3,108,258	2,985,350	3,174,864
Supplies and Materials	759,409	883,652	841,053	847,557
Facilities and Equipment Purchases	86,355	81,974	73,845	68,964
General Expense	1,266,253	1,504,805	1,487,730	1,497,145
Rents and Leases	18,756	16,265	8,969	13,466
Allocated Charges	2,909,879	3,272,083	3,473,415	3,430,241
Total Expenditures	\$19,137,974	\$20,117,022	\$19,571,402	\$19,881,099
Total Revenues	\$6,465,367	\$7,243,264	\$7,216,136	\$7,281,230
Total Full Time Positions	99.25	98.25	94.25	99.25
Total Temporary Positions	58.75	47.93	50.93	49.37

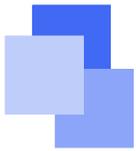
BENCHMARKING MEASURES

	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
Workload Outputs:			
1. Number of services and programs	1,400	1,400	1,402
2. Total Open Space acres of land operated and maintained (SEA)	3,731	3,731	3,744
Efficiency:			
1. Total number of participants in all classes, theatre events, concerts, and camps	140,800	140,000	140,000
2. Number of acres per ranger of Open Space (SEA)	466	466	468



Community Services *continued*

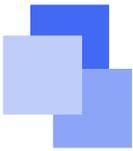
	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
Effectiveness:			
1. Percent of participants responding good to excellent on evaluation surveys (SEA)	87%	89%	89%
2. Maintenance and operations cost per acre of Open Space		\$467	\$467



Community Services *continued*

RESOURCE LEVEL CHANGES

	2006-07 ONGOING	2006-07 ONE-TIME	2006-07 TOTAL
REVENUE CHANGES			
Arts and Culture			
Reduce donations for summer concerts		(40,000)	(40,000)
Reduce donations to align revenues to actual	(3,000)		(3,000)
Eliminate art sales revenue from the Art Center	(1,040)		(1,040)
Parks and Golf			
New revenue from lawn bowling	20,000		20,000
Cubberley and Human Services			
Grants and donations for Family Resources Program		86,500	86,500
Recreation and Youth Sciences			
Increase advertising revenues from "Enjoy" catalog	8,900		8,900
Reduce revenues due to elimination of "Dog Run Special Event"	(3,500)		(3,500)
Reduce revenues due to revenues going directly to Recreation Foundation	(10,000)		(10,000)
TOTAL REVENUE CHANGES	\$11,360	\$46,500	\$57,860
Adjustments (Note1)		(19,894)	(19,894)
NET REVENUE CHANGES	\$11,360	\$26,606	\$37,966
EXPENDITURE CHANGES			
Salary and Benefits			
Parks and Golf			
Restore Parks Superintendent position (1.0 FTE) (Note 4)	142,452		142,452
Freeze Parks Supervisor position (1.0 FTE) (Note 4)	(122,309)		(122,309)
Total Salary and Benefits Changes	\$20,143	\$0	\$20,143
Personnel Benefit Costs (Note 2)	(206,070)		(206,070)
Adjustments (Note1)	(215,196)		(215,196)
Total Net Salary and Benefits Changes	\$(401,123)	\$0	\$(401,123)
Non-Salary			
Parks and Golf			
Increase contract services - funding for Golf Course economic study		70,000	70,000
Adjust contractor share of Golf Course range and cart fees	36,300		36,300
Increase Golf Course contract management fee	12,749		12,749
Cubberley and Human Services			
Increase HSRAP funding		35,492	35,492



Community Services *continued*

	2006-07 ONGOING	2006-07 ONE-TIME	2006-07 TOTAL
Arts and Culture			
Restore funding for summer concerts	30,000		30,000
Total Non-Salary Changes	\$79,049	\$105,492	\$184,541
TOTAL EXPENDITURE CHANGES	\$(322,074)	\$105,492	\$(216,582)
Adjustments (Note 1)		(177,500)	(177,500)
Allocated charges (Note 3)	158,159		158,159
NET EXPENDITURE CHANGES	\$(163,915)	\$(72,008)	\$(235,923)

RESOURCE LEVEL NOTES

Note 1: Adjustments include one-time budget changes from the prior year that were removed from this year's budget as planned.

Note 2: Personnel benefit costs are decreasing due to lower employee pension costs and the allocation of worker's compensation costs to reflect actual department case experience.

Note 3: Allocated charges are increasing primarily due to the planned resumption of Technology Fund charges and adopted utility rate increases.

Note 4: The Parks Superintendent position (1.0 FTE) was removed from the 2006-07 Adopted-In-Concept Budget, however, this position is reinstated in the 2006-07 Adopted Budget. The increase in cost is offset by freezing and removing funding for the Parks Supervisor position (1.0 FTE).

SERVICE LEVEL CHANGES

Since January 2004 and included in this adopted budget, the Community Services Department has eliminated 10 percent of its total workforce and 23 percent of its management staff. Due to the economic environment and adopted budget reductions, service level decreases within the Community Services Department are as follows:

Parks and Golf Division

- The frequency of Park and Golf athletic field, landscape, and turf maintenance is reduced and may result in park degradation

Recreation and Youth Sciences Division

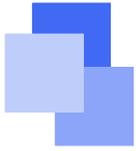
- The Dog's Best Friend Run is eliminated due to lack of City funding; staff was not able to secure outside funding. Some staff support for the May Fete Parade and Chili Cook-off is eliminated. The additional workload due to reduced hourly support for the May Fete Parade and Chili Cook-off will be absorbed by remaining Recreation staff and volunteers

Open Space Division

- The popular Wildlife Camp, introduced in summer 2005, will be expanded from one to five sessions to generate additional program revenue

Arts and Culture Division

- The downtown Brown Bag concerts at noon will be eliminated in Summer 2007



Community Services *continued*

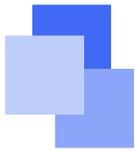
HUMAN SERVICE CONTRACTS

EXPENDITURE CATEGORY	ADOPTED BUDGET 2005-06	AGENCY REQUESTS 2006-07	ADOPTED BUDGET 2006-07		
			ONGOING	ONE-TIME	TOTAL
Sole Source Contractors					
Avenidas - Senior Services (1)	420,216	447,750	420,216		420,216
PACCC - Child Care Subsidy and Outreach (1)	425,720	469,625	425,720		425,720
Second Harvest Food Bank - Operation Brown Bag (1)	7,372	7,372	7,372		7,372
Project Sentinel - Palo Alto Mediation Program (1), (2)	65,641	68,923	61,149	4,492	65,641
Sole Source Contractors Subtotal	918,949	993,670	914,457	4,492	918,949
HUMAN RESOURCE ALLOCATION PROCESS					
Two-Year Contractors					
Adolescent Counseling Services	90,000	106,266	90,000		90,000
Alliance for Community Care - Homeless Outreach	24,000	95,033	24,000		24,000
Community Association for Rehabilitation - Disabilities Services	40,353	64,387	40,353		40,353
Community Technology Alliance- Subsidized Housing Website	12,300	13,853	12,300		12,300
La Comida - Senior Nutrition	33,000	35,048	33,000		33,000
MayView Health Center - Health Care Food Bank for low-income	17,000	17,000	17,000		17,000
Peninsula Center for Blind & Visually Impaired	0	17,647	0		0
Senior Adult Legal Assistance	8,800	8,800	8,800		8,800
Support Network for Battered Women	18,000	25,000	18,000		18,000
Inn Vision -Urban Ministry of Palo Alto - Hot Meal Program (3)	67,000	67,000	36,000	31,000	67,000
Bay Area Community Resources/Youth Community Service	12,000	25,000	12,000		12,000
Parents Helping Parents, Inc. (PHP)	0	10,000	0		0
Peninsula Association for Retarded Children and Adult (PARCA)	0	24,800	0		0
Community Technology Alliance (HMIS SCI)	0	15,000	0		0
Community Health Awareness Council	9,000	11,600	9,000		9,000
YMCA of the Mid-Peninsula	0	28,000	0		0
Two-Year Contractors Subtotal	331,453	564,434	300,453	31,000	331,453
TOTAL	\$1,250,402	\$1,558,104	\$1,214,910	\$35,492	\$1,250,402

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

(2) Includes one-time grant of \$4,492 in 2005-07

(3) Includes one-time grant of \$31,000 in 2005-07



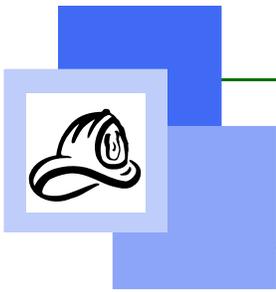
Community Services *continued*

GOLF COURSE FINANCIAL SUMMARY

	2003-04 ACTUALS	2004-05 ACTUALS	2005-06 PROJECTED	2006-07 ADOPTED BUDGET
Revenues				
Tournament fees	\$9,688	\$3,031	\$3,000	\$3,600
Green Fees	2,126,478	2,027,302	2,255,000	2,255,000
Monthly play cards	152,343	152,980	166,000	170,000
Driving range	393,506	371,245	424,000	415,000
Cart/club rentals	277,701	278,128	366,000	300,000
Proshop lease	14,825	27,513	33,000	32,000
Restaurant lease	4,000	40,426	49,000	67,200
Coffee Shop Utilities	2,160	10,800	22,000	22,000
Interest Income - Debt Service	42,208	32,207	33,000	32,000
TOTAL REVENUE	\$3,022,909	\$2,943,632	\$3,351,000	\$3,296,800
Expenditures				
Debt Expenses				
Debt Service	553,616	557,516	555,769	558,211
Closure of Debt Service Project Fund	(192,000)			
Loan payment to Vehicle Replacement Fund for CIP 10025	155,337			
Subtotal	516,953	557,516	555,769	558,211
Operating Expenses				
Salaries	554,938	535,985	563,000	544,687
Benefits	295,720	402,852	353,000	248,741
Miscellaneous				
Supplies and Materials	163,936	126,906	188,000	188,103
General Expense	336	570	50	
Rents and Leases	4,008			
Facilities and Equipment Purchases	1,502	456		
Allocated Charges	437,717	402,325	411,000	419,323
Cost Plan	284,097	321,580	342,167	337,348
Subtotal	1,742,254	1,790,674	1,857,217	1,738,202
Contract Services				
Miscellaneous	81,442	50,448	55,000	54,530
Range fees	157,402	141,361	169,600	166,000
Cart rentals	103,172	112,273	146,400	120,000
Club rentals	7,909	8,375	13,200	9,000
Fixed management fees	332,071	322,254	323,489	336,000
Credit card fees	32,699	32,762	33,000	33,000
Subtotal	714,695	667,473	740,689	718,530
TOTAL EXPENSES	\$2,973,902	\$3,015,663	\$3,153,675	\$3,014,943
Annual Net	\$49,007	\$(72,031)	\$197,325	\$281,857



Fire Department



Fire

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

OVERVIEW

In 2006-07, the Fire Department will continue to provide confined space rescue training for the Fire, Public Works and Utilities Departments. The Department will also continue to evaluate opportunities for providing services to neighboring jurisdictions. Sunnyvale, Mountain View, and Santa Clara County Fire Departments participate in training classes conducted by Palo Alto Fire. The Department will continue to prepare City staff and the community for major disaster mitigation, preparedness, response, and recovery through the Office of Emergency Services (OES) and the Palo Alto Neighborhood Disaster Activity (PANDA) program. Legally mandated training will be conducted. National Incident Management System (NIMS) training will be provided to city employees and elected officials. Terrorism Awareness (AWR-160) training will be provided to all emergency first responders, Executive Staff, City Council, and Emergency Standby Council officials.

The Fire Prevention Bureau will continue to focus on improving efficiency through the following: ongoing cross-training; re-evaluating inspection priorities; continued integration of existing data management systems (such as the automated billing process for annual hazardous materials and fire safety permits); cost effective implementation of new automated data management systems; and development of new methods to gather and use of information to improve emergency response capabilities. In 2006-07, the Bureau plans to complete the integration of an online hazardous materials reporting system with the City's geographic information system (GIS) for emergency response use. Updated and current run maps will be placed on all fire apparatus. The Bureau will complete mandated inspections and meet plan check turn around goals. One Fire Inspector position will be added in 2006-07 to offset increased new construction-related workload.

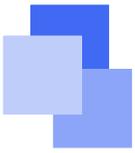
The Department will continue to operate a Basic Life Support (BLS) ambulance along with the necessary BLS staff. The ambulance will be available for inter-facility transports. The Fire Department implemented a BLS downgrade program in the Fall of 2005-06. This enhancement increases the level of service to the community and increases the efficiency of the current Emergency Medical Services (EMS) system without additional cost to the City. The program is projected to achieve full cost recovery through revenue generated from fees. The Department will continue to pursue aggressive marketing strategies to attract customers to the BLS program under the supervision of the new EMS Coordinator. The feasibility to implement Advanced Life Support (ALS) inter-facility transports will be investigated in 2006-07.

In 2006-07, the Fire Department will continue to actively explore restructuring strategies and opportunities to promote cost-savings and organizational efficiency. In 2006-07, the Department plans to place in service two additional ALS engine companies. The Department will be reclassifying three Firefighter/Medic positions in an ongoing effort to staff the City's Engine Companies with ALS capability. Municipal fees for BLS and ALS transport and related services were increased in 2005-06 to be consistent with the industry standard and to compensate for new Medical and Medicare regulations that are anticipated to negatively impact the insurance collection rates.

In an effort to maintain full staffing and control overtime costs in 2006-07, an enhanced hiring process will be implemented to fill Firefighter vacancies as soon as possible. Three vacant firefighter positions will be filled at the end of 2005-06.

NEW PROGRAM UPDATE

The Fire Department has accomplished the following in new program implementation:



Fire *continued*

Paramedics On Engine Companies

- Through position reclassifications approved in-concept in the 2005-07 Adopted Budget, the Department is planning to place three additional reclassified Paramedics on Engine Companies in 2006-07 resulting in an increase in authorized Firefighter/Medic positions from 20 to 23. This will provide all of the seven front-line engine companies with ALS capability. All necessary equipment has been received and engines have been appropriately outfitted.

Basic Life Support (BLS) Ambulance Service

- A pilot program in 2003-04, the BLS transport program will expand to include Basic Life Support downgrades. This program is permitted under Santa Clara County Emergency Medical Services (EMS) guidelines. This enhancement to the program will allow Paramedics on the scene to relegate non-emergency, lower-level medical calls to be transported by the BLS unit. The result will be increased availability of ALS units for priority calls. This will enable the Palo Alto Fire Department to transport the majority of medical calls for which the ALS units are currently unavailable. There will be less reliance on the outside County ambulance provider and an increase in billable medical calls. Increased revenues from this program will offset any increased program costs. In 2006-07, the concept of ALS inter-facility capability will be aggressively pursued. This enhancement is anticipated to expand the inter-facility transport customer base.

Live Fire Training

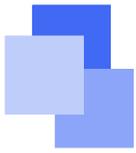
- Nine Training Coordinators were certified as Fire Control Specialists in 2005-06. Live fire training was conducted in Fall 2005-06 with participation by multiple fire agencies from Santa Clara and San Mateo Counties. In 2006-07, the Department plans on using live fire training to enhance our capabilities to respond to structure fires and emergency situations. The training will emphasize fire ground safety with a live fire setting. This type of experience is invaluable for learning to handle real fire conditions. Major consideration will be given to community education and acceptance of this type of training. Live fire training will be cost neutral and may reduce costs by replacing fire simulation equipment that the Department must currently rent or purchase.

Pre-Incident Plan (New)

- In 2005-06, the Fire Department began distributing information to assist building owners and businesses to prepare a basic Pre-fire Incident Plan for use by emergency responders. The pre-incident program has attracted interest from fire agencies in California and outside the state.
- In coordination with the Planning Department, the Department identified several brochures published by other organizations that can be distributed to the community to assist in emergency preparedness and earthquake retrofit requirements. In 2006-07, Fire will work to obtain distribution rights for these brochures to the community, and Fire and Planning will then begin distributing these brochures.

Data Management Systems

- **Hazardous Materials:** In coordination with other agencies and local industry, the Department will continue to develop an online process for collecting required hazardous materials inventories and associated information. The Fire Department will act as project manager for two state-funded projects to further enhance this system.
- **Run Maps:** In 2005-06, the Department updated the run map information and implemented a new GIS-based emergency response run map program. In 2006-07, the Department, in coordination with other city departments, will integrate automatic GIS map updates, hazardous materials information, and pre-incident facility information for use on mobile data computers on response vehicles. The GIS-based maps will ultimately replace paper-based maps.
- In 2005-06, the Department implemented the fire inspection-tracking module in its data management system. Two department-wide training courses were held. In 2006-07, a new module will be implemented to track



Fire *continued*

training sessions. Other modules will be evaluated for later implementation. Training sessions began in Fall 2005-06 for all response personnel and will continue through 2006-07.

- Prehospital Care Tracking System (PCTS) data collection and reporting: In 2006-07, the Department will continue to explore the feasibility of using computers in the field to capture medical call information. The electronic patient care report will expedite delivery of medical information to hospitals for legal documentation and billing. This will expedite billing and satisfy state reporting requirements.

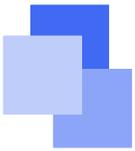
COUNCIL PRIORITY IMPLEMENTATION

In 2006-07, the Fire Department will implement the City Council's Top 3 Priorities as follows:

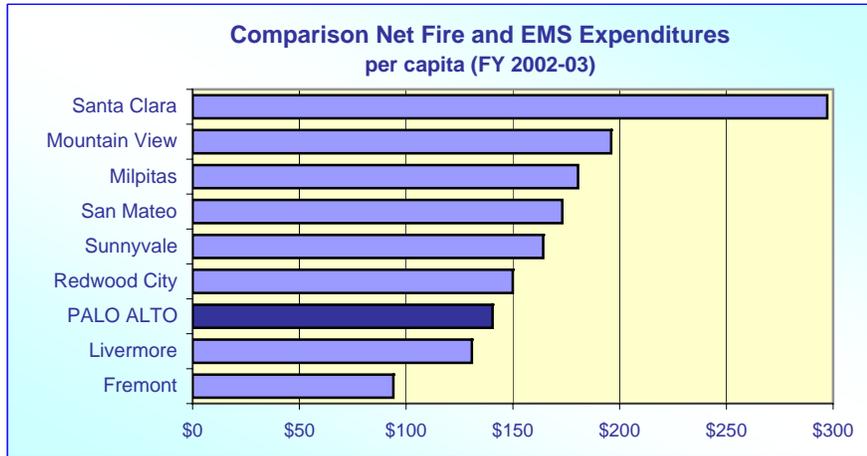
Emergency and Disaster Preparedness and Response

The Fire Department will be charged with taking the lead for emergency preparedness, response and recovery. These efforts will be coordinated in collaboration with other city departments, community groups and public entities. Efforts will include updating the City of Palo Alto's Emergency Plan and developing a public health addendum to plan for a pandemic event. Another objective will be to open dialogue and form collaborative relationships with community groups, outside agencies, the Palo Alto Unified School District, Stanford University, health care services and the faith community. Training endeavors will include preparing additional community volunteers, Council Members, the Emergency Standby Council. Citywide training in the mandated NIMS and terrorism awareness will be a priority. Response efforts will focus on the integration, improvement and enhancement of communications plans and procedures that will include implementing recommendations of the City Manager resulting from the 2005 storm events. A final objective will be to identify a workable planning process for disaster recovery efforts.

DEPARTMENT SUMMARY	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET	2006-07 BUDGET CHANGE	% CHG
Fire Administration	802,062	1,024,756	1,395,168	1,441,238	416,482	41%
Emergency Response	13,884,290	14,414,412	14,485,005	15,501,650	1,087,238	8%
Environmental Safety Management	1,807,587	1,968,893	1,924,063	2,225,328	256,435	13%
Training and Personnel	1,735,331	1,994,829	1,978,307	2,135,133	140,304	7%
Records and Information Management	823,890	936,374	943,154	897,694	(38,680)	(4%)
TOTAL EXPENDITURES	\$19,053,160	\$20,339,264	\$20,725,697	\$22,201,043	\$1,861,779	9%
TOTAL REVENUES	\$8,870,342	\$9,342,296	\$9,389,332	\$9,697,089	\$354,793	4%
INTERNAL REVENUES	303,906	299,365	299,365	299,368	3	0%
EXTERNAL REVENUES	8,566,436	9,042,931	9,089,967	9,397,721	354,790	4%



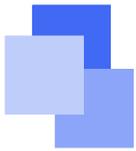
Fire *continued*



INPUTS	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET
Salaries and Benefits	16,954,210	17,656,447	17,596,403	19,097,004
Contract Services	349,741	573,643	468,589	473,589
Supplies and Materials	179,192	318,415	320,619	320,619
Facilities and Equipment Purchases	119,837	208,034	224,943	224,943
General Expense	15,157	38,037	37,975	41,975
Allocated Charges	1,435,023	1,544,688	2,077,168	2,042,913
Total Expenditures	\$19,053,160	\$20,339,264	\$20,725,697	\$22,201,043
Total Revenues	\$8,870,342	\$9,342,296	\$9,389,332	\$9,697,089
Total Full Time Positions	128.00	126.00	126.00	127.00
Total Temporary Positions	0.75	0.49	0.49	0.49

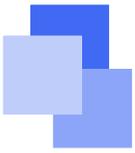
BENCHMARKING MEASURES

	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
Workload Outputs:			
1. Total Responses to emergency calls	6,414	6,700	6,800
2. Number of training opportunities through PANDA classes	25	21	21
3. Number of fire safety, bike safety, and disaster preparedness presentations (SEA)	219	200	200
4. Number of ordinary hazard facilities inspected for fire safety (SEA)	1,488	1,400	1,500
5. Number of bike safety classes conducted (New)	35	38	38



Fire *continued*

	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
Efficiency:			
1. Average emergency response time for all calls (SEA)	5:09	6:00	6:00
2. Number of PANDA volunteers recruited and trained	110	85	90
3. Number of residents provided with fire safety, bike safety, and disaster preparedness training	16,253	5,850	5,850
4. Percent of ordinary hazard facilities inspected annually for fire safety	34%	30%	30%
5. Number of 3rd and 5th graders trained in bicycle safety (New)	2,175	2,300	2,400
Effectiveness:			
1. Percent rating fire services as good or excellent (Palo Alto Fire Department Post Incident Customer Satisfaction Survey)	95%	90%	90%
2. Percent of PANDA volunteers who completed training	98%	90%	90%
3. Percent of residents rating fire prevention and education good or excellent (SEA survey)	82%	85%	85%
4. Percent of ordinary hazard fire safety inspections where facility was found in compliance or returned to compliance within department standards	95%	95%	95%
5. Percent of students trained (New)	95%	98%	100%



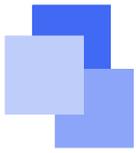
RESOURCE LEVEL CHANGES

	2006-07 ONGOING	2006-07 ONE-TIME	2006-07 TOTAL
REVENUE CHANGES			
Stanford fire services	468,996		468,996
Los Altos Hills	(45,000)		(45,000)
Paramedic service	(44,636)		(44,636)
Inspection	17,000		17,000
Plan checking	100,000		100,000
Permits and licenses	(13,850)		(13,850)
TOTAL REVENUE CHANGES	\$482,510	\$0	\$482,510
Adjustments (Note 1)		(127,717)	(127,717)
NET REVENUE CHANGES	\$482,510	\$(127,717)	\$354,793
EXPENDITURE CHANGES			
Salary and Benefits			
Add Fire Inspector (1.0 FTE)	138,344		138,344
Reclassify Firefighter (3.0 FTE) to Firefighter Paramedic (3.0 FTE)	27,540		27,540
Reduce Overtime in Station 8 for Los Altos Hills	(60,000)		(60,000)
Increase Overtime in Station 8 for wildland season	170,000		170,000
Total Salary and Benefits Changes	\$275,884	\$0	\$275,884
Salary Increase (Note 4)	810,212		810,212
Personnel Benefit Costs (Note 2)	391,174		391,174
Adjustments (Note 1)		(36,715)	(36,715)
Total Net Salary and Benefits Changes	\$1,477,270	\$(36,715)	\$1,440,555
Non-Salary			
Allocated Charges (Note 3)	488,010		488,010
Adjustments (Note 1)		(66,786)	(66,786)
Total Non-Salary Changes	\$488,010	\$(66,786)	\$421,224
TOTAL EXPENDITURE CHANGES	\$1,965,280	\$(103,501)	\$1,861,779

RESOURCE LEVEL NOTES

Note 1: Adjustments include one-time budget changes from the prior year that were removed from this year's budget as planned.

Note 2: Personnel benefit costs are increasing primarily due to the allocation of workers' compensation costs to reflect actual department case experience.



Fire *continued*

Note 3: Allocated charges are increasing primarily due to the planned resumption of Technology Fund charges.

Note 4: As provided in the current contract with International Association of Fire Fighters (IAFF), effective July 1, 2006, the City will discontinue paying IAFF and Fire Chief's Association (FCA) employees' nine percent pension contribution and salaries will be increased the corresponding nine percent.

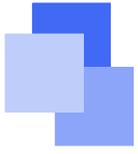
SERVICE LEVEL CHANGES

Emergency Medical Services: The program enhancement with BLS downgrades will provide an increased level of service on medical calls in the Palo Alto/Stanford communities and result in increased revenues generated for ambulance transport. Non-emergent patients will be transported to receiving facilities in a more efficient and timely manner. The addition of one ALS staffed Engine Company 2006-07 will result in seven front-line engine companies having the capability, when fully staffed, for paramedic intervention with the arrival of the first response unit on scene. The Fire Department is investigating the feasibility of upgrading the BLS inter-facility transport to be ALS inter-facility capable.

Office of Emergency Services: The Office of Emergency Services is conducting a public education campaign to assist neighborhoods in developing disaster preparedness plans that identify vulnerable populations and their preparedness. The outreach will be coordinated with community-based organizations.

Fire Prevention Bureau: Workload has increased and is expected to continue at the current levels through 2006-07. New construction plan reviews are expected to be 35 percent above 2004-05 levels. The addition of one Fire Inspector is anticipated to reduce the turn-around time of Fire plan checks from 40 to 30 days and will allow the Department to reallocate the Hazardous Materials Inspectors' time to conduct more routine hazardous materials compliance inspections.

Emergency Response: For 2006-07, the City Council has authorized funding of \$170,000 in the fire department operational budget to staff Fire Station #8 located in Foothills Park for the 120 day period during the wildland season from approximately July 1, 2006 through November 1, 2006. The station will be staffed for 12 hours a day with a Captain, Operator and Firefighter. Station #8 personnel will respond to all emergency medical and fire calls in the foothills and surrounding areas.



Fire *continued*

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**Human Resources
Department**

Human Resources Department

Organizational Chart



HUMAN RESOURCES DIRECTOR

Russ Carlsen

0.75-Sr Administrator
1.00-Administrative Assistant
1.00-Administrator, HR
1.00-HR Assistant

HUMAN RESOURCES DEVELOPMENT

1.0-Mgr Human Res & Dev
1.0-Office Specialist

EMPLOYMENT

1.0-Administrator, HR
0.6-H.R. Assistant

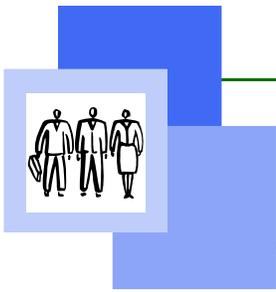
RISK MANAGEMENT, BENEFITS & SAFETY

1.0-Mgr Risk & Benefits
2.0-Administrator, H.R.
1.0-HR Assistant

COMPENSATION & EMPLOYEE RELATIONS

1.0-Mgr Employee Relations
1.0-Administrator, HR
1.0-HR Assistant

**Fiscal Year 2006-07 Position Totals: 15.35 Full-time
0.03 Hourly**



Human Resources

To recruit, develop, and retain a diverse, well-qualified, and professional workforce for the City of Palo Alto.

OVERVIEW

The Human Resources Department provides a wide range of employee and employment services for the City of Palo Alto including recruitment, orientation, training, certification, professional development, benefits administration, and labor relations. The Department also provides support services to the City departments related to employee relations, performance evaluations, compensation, job classifications, risk management, work place safety, organizational development, and employee assistance. City staff is the primary customer of the department. In serving staff, the Department assists other City departments to carry out their core missions.

Specific goals for 2006-07 include: updating classification and compensation information; analyzing all health care related costs; enhancing training for safety, technology, and specialized work skills; focusing attention on employee retention and development; enhancing injury and illness prevention programs; refining the Human Resources Information System; improving the Human Resources website; partnering with other departments to assess and improve City operations; and developing a human resources strategic plan.

Under the Standard Emergency Management System, the Human Resources Department serves as the Logistics, Finance, and Safety area of the City's Emergency Operations Center. As the City updates emergency preparedness and disaster response plans, the Department will continue to participate in emergency preparedness drills and training for the National Incident Management System and Weapons of Mass Destruction Awareness.

NEW PROGRAM UPDATE

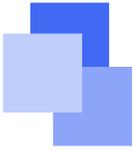
The Human Resources Department accomplished the following in new program implementation:

Employee Compensation, Employment, and Employee Relations

- Completed SEIU contract negotiations and implemented contractual obligations and SEIU clerical compensation and classification study with recommendations to Executive Staff
- Assisted with Management compensation and classification study
- Completed benchmark survey for Fire Chief, Fire Fighters, and SEIU Classified Personnel
- Implemented Fingerprinting Policy for all new hires, successfully filled 100 positions, and sustained Citywide turnover at 7.4 percent
- Maintained zero claims filed for unlawful recruitment practices, maintained sustained discrimination complaints or claims at zero percent, and successfully resolved 65 percent of all grievances prior to arbitration
- Updated Employment website for easier navigation and application process, implemented an Exit web site to describe the "step-by-step" process for leaving a position within the City, and implemented a Q & A website for Employment questions
- Streamlined the process for Police Officer Trainee applicants and implemented a formalized, creative recruitment process to attract Lineman candidates to the City
- Updated Employment section of the City's Policies & Procedures manual

Risk Management and Benefits

- Changed dental claims administrator which is expected to save \$62,000 annually in claims costs due to new provider network
- Changed group life, accidental death and dismemberment, and long term disability plan carrier which is expected



Human Resources *continued*

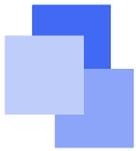
to save approximately \$270,000 annually in premium payments

- Implemented new pre-designation process for Management Excess Benefit plan to be in compliance with IRS section 125 rules
- Implemented 20-year PERS vesting schedule for PAPOA members hired after January 1, 2006
- Continued to implement the City Auditor's Workers' Compensation program recommendations
- Completed Request for Proposals for Employee Assistance program and Workers' Compensation third-party administrator services
- Completed an evaluation and implemented the Emergency Heat Illness Standard recently adopted by the Cal/ OSHA Standards Board

Employee Development/Worklife

- Provided customized training to staff employees in City policies and procedures, project management, supervisor/management, technology and safety/mandated. Due to budget reductions, re-evaluated training program to include only essential training
- Coordinated and managed the Management Talent Exchange Program for San Mateo and Santa Clara counties, generating \$20,000 to cover coordination costs for Fall 2005
- Successfully coordinated transition training which focused on resume writing, interviewing, and networking skills
- Generated two new training series for organization support staff: Project Management and Administrative Services Support Certificates
- Provided water distribution licensing courses through American Water Works Association for Public Works and Utilities employees

DEPARTMENT SUMMARY	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET	2006-07 BUDGET CHANGE	% CHG
Administration	154,043	237,529	205,466	617,277	379,748	160%
Employee Relations	511,411	649,330	587,936	708,914	59,584	9%
Employment	490,785	556,205	518,994	275,751	(280,454)	(50%)
Employee Development/Worklife	645,403	525,412	515,288	448,637	(76,775)	(15%)
Risk Management and Employee Benefits	654,384	641,525	636,968	543,426	(98,099)	(15%)
TOTAL EXPENDITURES	\$2,456,026	\$2,610,001	\$2,464,652	\$2,594,005	\$(15,996)	(1%)
TOTAL REVENUES	\$1,066,559	\$1,166,976	\$1,166,976	\$1,187,289	\$20,313	2%
INTERNAL REVENUES	967,740	1,036,976	1,036,976	1,162,289	125,313	12%
EXTERNAL REVENUES	98,819	130,000	130,000	25,000	(105,000)	(81%)

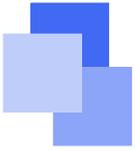


Human Resources *continued*

INPUTS	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET
Salaries and Benefits	1,860,377	1,959,971	1,829,152	1,892,462
Contract Services	386,683	386,705	331,455	379,955
Supplies and Materials	16,875	21,880	21,880	21,880
Facilities and Equipment Purchases	3,290	7,489	8,989	8,989
General Expense	25,462	62,762	46,339	64,339
Rents and Leases	43,000	43,120	43,120	43,120
Allocated Charges	120,339	128,074	183,717	183,260
Total Expenditures	\$2,456,026	\$2,610,001	\$2,464,652	\$2,594,005
Total Revenues	\$1,066,559	\$1,166,976	\$1,166,976	\$1,187,289
Total Full Time Positions	14.10	15.35	14.60	15.35
Total Temporary Positions	1.00	0.00	0.00	0.03

BENCHMARKING MEASURES

	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
Workload Outputs:			
1. Number of updates to Human Resources website	65	79	85
2. Number of grievances	18	18	10
3. Number of contracts negotiated	2	2	5
4. Number of employee training classes	16,000 hours	8,000 hours	8,000 hours
Efficiency:			
1. Number of hits to Human Resources website	13,200	13,700	13,750
2. Number to arbitration	1	0	2
3. Number of unfair labor practices upheld by Public Employment Relations Board	0	0	0
4. Number of employees who completed a training course	600	563	600
Effectiveness:			
1. Number of updates completed	68	83	90
2. Cost of settlement	\$0	\$0	\$0
3. Number of contracts completed within 60 days of expiration	1	1	3
4. Percent of classroom hours offered and delivered	90%	94%	90%



Human Resources *continued*

RESOURCE LEVEL CHANGES

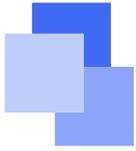
	2006-07 ONGOING	2006-07 ONE-TIME	2006-07 TOTAL
REVENUE CHANGES			
Allocated revenues - internal	125,313		125,313
Training fee	(125,000)		(125,000)
Management Talent Exchange Program (MTEP) fee	20,000		20,000
TOTAL REVENUE CHANGES	\$20,313	\$0	\$20,313
EXPENDITURE CHANGES			
Salary and Benefits			
Personnel Benefit Costs (Note 2)	(67,510)		(67,510)
Total Salary and Benefits Changes	\$(67,510)	\$0	\$(67,510)
Non-Salary			
Increase in program & project consultants		50,000	50,000
Increase in relocation		23,000	23,000
Increase in other contract services	48,500		48,500
Allocated Charges (Note 3)	55,186		55,186
Total Non-Salary	\$103,686	\$73,000	\$176,686
TOTAL EXPENDITURE CHANGES	\$36,176	\$73,000	\$109,176
Adjustments (Note 1)		(125,172)	(125,172)
NET EXPENDITURE CHANGES	\$36,176	\$(52,172)	\$(15,996)

RESOURCE LEVEL NOTES

Note 1: Adjustments include one-time budget changes from the prior year that were removed from this year's budget as planned.

Note 2: Personnel benefit costs are decreasing due to lower employee pension costs and the allocation of workers' compensation costs to reflect actual department case experience.

Note 3: Allocated charges are increasing primarily due to the planned resumption of Technology Fund charges.



Human Resources *continued*

SERVICE LEVEL CHANGES

In Risk Management and Employee Benefits, continuing emphasis will be placed on educating employees about health care costs in conjunction with exploring options to reduce active and retiree medical costs with all units.

The Senior Administrator position will focus on improving the workflow of the Human Resources Information System and developing new protocols and procedures to enhance and improve the effectiveness of the department.

Human Resources will continue to evaluate opportunities for creating efficiencies as the workload increases due to recent and forthcoming labor negotiations.

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Library Department



Library

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

OVERVIEW

The Library Department will continue to provide collections, services and programs at current levels to customers at the Main and Mitchell Park Libraries. Existing service hours at the College Terrace and Downtown branches will be maintained, and the process to convert the collections and shelving to the popular reading model will continue.

The Children's Library closed in December 2005 for an extensive renovation and expansion project. It is scheduled to reopen in 2008. This project is jointly funded by the City of Palo Alto Capital Improvement Program, federal grants, and private donations raised by the Palo Alto Library Foundation and the Friends of the Palo Alto Library. While the project will not result in sufficient space to support growth of the collection, longstanding severe overcrowding in this facility will be alleviated, deteriorating mechanical systems will receive a much-needed upgrade, and the historic structure will be seismically braced.

While Children's Library is closed, services for young people are being provided at the Main Library where two-thirds of the collection from Children's Library have been temporarily housed. Children's collections have also been augmented at the Mitchell Park and the Downtown libraries. In 2006-07, work will be completed on a capital project that will reconfigure the existing floor plan at Main Library. The project will facilitate the use of self-service checkout stations, add bookstore-style display shelving for popular collections, improve staff efficiency and reduce work injuries by moving the return and check-in operations from the public area to the staff workroom. To provide the additional space required for these new services at Main Library, the collections support staff (Technical Services) will be relocated into a portion of the Downtown Branch Library.

Working with the Administrative Services Department, the Department's website will be redesigned in 2006 in sync with the planned upgrade to the City's web pages.

The Library Department will continue to seek ways to improve its volunteer program by providing more structured recruitment, training and supervision, and more rewarding opportunities for volunteers. The restructured position of Library Volunteer Coordinator will lead this effort.

Strengthening the Library's commitment to local schools will continue to be a major theme in 2006-07. Staff, particularly the recently restructured position of School Liaison Librarian, will work closely with school librarians, teachers and principals in Palo Alto's public and private schools, to complement their curricula and provide students with education support and the best in recreational reading.

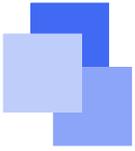
Based on Council directions, staff will take action on recommendations contained in the Library Advisory Commission's long range plan, *Library Service Model Analysis and Recommendations*, presented to the Council in the summer of 2006.

NEW PROGRAM UPDATE

The Library Department accomplished the following in new program implementation:

Information and Technology

- Implemented a new web-based integrated library system that manages the public access catalog, circulation system, and staff business applications
- Installed a public computer management system to control time limits, reservations, and printing from Internet stations



Library *continued*

- Doubled the number of public use PCs and upgraded all with new equipment and software
- Installed new express self-service circulation checkout stations at College Terrace and Downtown libraries
- Provided new digital library service to provide web access to e-books and digital audiobooks
- With grant funding from the Friends of the Library, began a free loaner laptop service at Main and Mitchell Park libraries to provide increased access to electronic resources without requiring additional floor space for workstations
- Installed wireless networks for public Internet access at Downtown and College Terrace libraries, and upgraded existing networks at Main and Mitchell Park libraries with financial support from the Friends of the Library
- Increased the number of licensed databases offered to library card-holders with financial support from the Friends of the Library
- Conducted a feasibility study for use of radio frequency identification technology (RFID) and automated materials handling (AMH) to improve efficiencies in the circulation and inventory control of library materials

Library Collections

- Expanded the size of the Chinese and Russian language collections
- Increased the outsourcing of processing and cataloging of some library materials to improve efficiency and reallocate staffing to direct customer service

Library Programs and Services

- Assisted in the publication and presentation to the City Council of the Library Advisory Commission's recommended long range plan: *Library Service Model Analysis and Recommendations*
- Introduced children's services at Main Library and expanded children's services at Downtown Library following temporary closure of Children's Library in December 2005
- Restructured the department to create a School Liaison Librarian position to work closely with school librarians, teachers, and principals in Palo Alto's public and private schools
- Restructured the department to create a Volunteer Coordinator to improve the Library's volunteer program
- Restored Saturday service hours at the Downtown Branch Library

Library Facilities

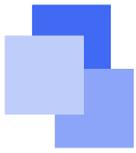
- Launched construction of the renovation and expansion project for Children's Library
- Began physical improvements project at Main Library to expand area for popular materials, facilitate self-service, and improve staff efficiency

Partnerships

- Worked with the Palo Alto Library Foundation in continued fundraising for furniture and fixtures for the renovated Children's Library and to improve teen spaces at Main and Mitchell Park libraries
- Increased number of volunteer hours worked annually since 2002-03 by 86 percent
- Worked with PAUSD to issue over 800 new library cards to students in 2005-06
- Worked with the Friends of the Library in support of their fundraising activities on behalf of the Library

COUNCIL PRIORITY IMPLEMENTATION

In 2006-07, the Library Department will implement the City Council's Top 3 priorities as follows:

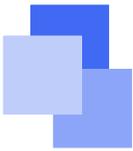


Library *continued*

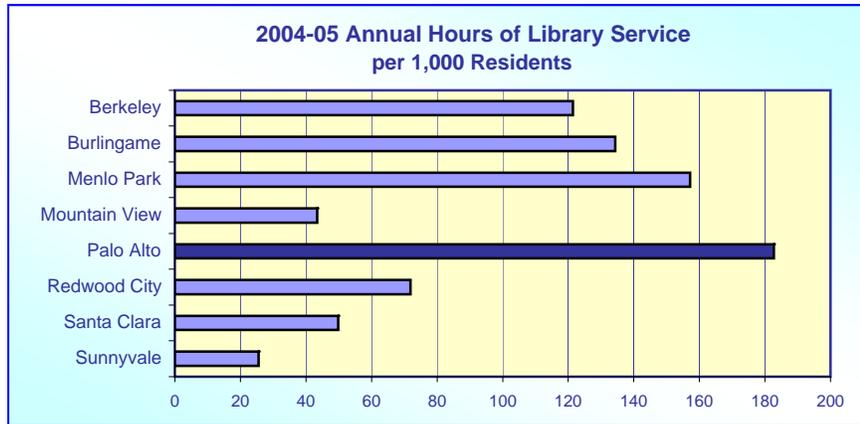
Library/Police Building

- Work with the Library Advisory Commission to implement recommendations adopted from the Commission's library service model report to City Council
- Coordinate with the Public Works Department on any capital project that may result from the Library Advisory Commission recommendations on the service model adopted by City Council.
- CIP Project Library Services Model Analysis (PE-07011) is created to address one of the City Council's Top 3 Priorities.

DEPARTMENT SUMMARY	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET	2006-07 BUDGET CHANGE	% CHG
Library Services Administration	636,253	494,366	384,358	498,547	4,181	1%
Collection and Technical Services	1,984,637	1,547,050	1,541,116	1,529,182	(17,868)	(1%)
Public Services	2,493,975	3,857,263	3,876,466	3,772,578	(84,685)	(2%)
TOTAL EXPENDITURES	\$5,114,865	\$5,898,679	\$5,801,940	\$5,800,307	\$(98,372)	(2%)
TOTAL REVENUES	\$233,247	\$199,444	\$168,371	\$152,880	\$(46,564)	(23%)
INTERNAL REVENUES	0	0	0	0	0	0%
EXTERNAL REVENUES	233,247	199,444	168,371	152,880	(46,564)	(23%)



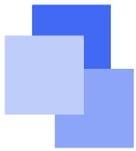
Library *continued*



INPUTS	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET
Salaries and Benefits	4,007,283	4,528,283	4,392,739	4,402,931
Contract Services	79,101	162,043	123,590	118,054
Supplies and Materials	624,744	640,400	631,431	629,852
Facilities and Equipment Purchases	45,989	118,190	43,246	36,740
General Expense	19,073	18,656	19,410	25,720
Rents and Leases	27,075	27,856	27,395	30,906
Allocated Charges	311,600	403,251	564,129	556,104
Total Expenditures	\$5,114,865	\$5,898,679	\$5,801,940	\$5,800,307
Total Revenues	\$233,247	\$199,444	\$168,371	\$152,880
Total Full Time Positions	44.00	44.00	44.00	44.25
Total Temporary Positions	11.70	12.78	12.78	13.61

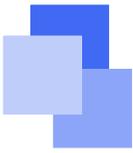
BENCHMARKING MEASURES

	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
Workload Outputs:			
1. Percent of citizens who have used libraries or their services more than 12 times during last year (SEA)	25%	30%	30%
2. Number of new titles/number of new volumes added to the collection	9,577/19,634	10,500/21,000	10,200/20,000
3. Number of items circulated	1,282,888	1,200,000	1,200,000
4. Number of hours open annually	11,268	10,445	10,400
5. Number of library programs	519	510	510



Library *continued*

	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
Efficiency:			
1. Percent of Palo Alto residents who are library cardholders (SEA)	59%	60%	60%
2. Number of new titles/number of volumes in the collection per capita	2.66/3.84	2.6/3.80	2.6/3.80
3. Percent of first-time circulations checked out at self-service stations	24%	62%	85%
4. Number of hours of operation per FTE (SEA)	202	183	183
5. Number of people attending programs (SEA)	31,141	31,000	31,000
Effectiveness:			
1. Percent of citizens rating quality of public library services good or excellent (SEA)	80%	80%	80%
2. Percent rating variety of library materials good or excellent (SEA survey)	75%	70%	70%
3. Number of items circulated per capita (SEA)	20.8	19.5	19.5
4. Number of library visits per hour	86.4	87.9	88.0
5. Number of attendees per program	60	61	61



RESOURCE LEVEL CHANGES

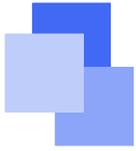
	2006-07 ONGOING	2006-07 ONE-TIME	2006-07 TOTAL
REVENUE CHANGES			
Reduce library fines and reservations	(15,000)		(15,000)
Eliminate special service fee	(3,500)		(3,500)
Reduce charges on lost books and miscellaneous fees	(2,670)		(2,670)
Increase miscellaneous revenues	3,385		3,385
Increase donations and reimbursements from other agencies	2,294		2,294
TOTAL REVENUE CHANGES	\$(15,491)	\$0	\$(15,491)
Adjustments (Note1)		(31,073)	(31,073)
NET REVENUE CHANGES	\$(15,491)	\$(31,073)	\$(46,564)
EXPENDITURE CHANGES			
Salary and Benefits			
Add: Library Specialist (0.25 FTE)	18,179		18,179
Personnel Benefit Costs (Note 2)	(117,980)		(117,980)
Total Salary and Benefits Changes	\$(99,801)	\$0	\$(99,801)
Adjustments (Note1)		(25,551)	(25,551)
Total Net Salary and Benefits Changes	\$(99,801)	\$(25,551)	\$(125,352)
Non-Salary			
Increase supplies and equipment rental-offset by revenues	2,200		2,200
Reduce office supplies	(6,000)		(6,000)
Allocated charges (Note 3)	152,856		152,856
Total Non-Salary Changes	\$149,056	\$0	\$149,056
TOTAL EXPENDITURE CHANGES	\$49,255	\$(25,551)	\$23,704
Adjustments (Note1)		(122,076)	(122,076)
NET EXPENDITURE CHANGES	\$49,255	\$(147,627)	\$(98,372)

RESOURCE LEVEL NOTES

Note 1: Adjustments include one-time budget changes from the prior year that were removed from this year's budget as planned.

Note 2: Personnel benefit costs are decreasing due to lower employee pension costs and the allocation of worker's compensation costs to reflect actual department case experience.

Note 3: Allocated charges are increasing primarily due to the planned resumption of Technology Fund charges.



Library *continued*

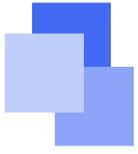
SERVICE LEVEL CHANGES

Service Level Increases

- The 2006-07 budget includes an increase to purchase supplies and rent equipment to continue the popular coffee service at the Main Library. This service, begun in 2004 as a pilot program funded by the Friends of the Library, has proven to be successful and provides sufficient revenue to cover the cost of the service. Expense increase is off-set by a revenue increase.

Service Level Decreases

- None are proposed



Library *continued*

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Planning and Community Environment

Planning and Community Environment Department Organizational Chart



PLANNING & COMMUNITY ENVIRONMENT DIRECTOR
Steve Emslie

ADMINISTRATION
1.0-Administrator
1.0-Administrative Assistant

ASSISTANT DIRECTOR

PLANNING & TRANSPORTATION
1.0-Chief Planning & Transportation Official
 1.0-Executive Secretary
 1.0-Planning Arborist
 2.0-Code Enforcement Officer
CURRENT PLANNING
1.0-Planning Mgr
 1.0-Staff Secretary
 3.0-Senior Planner
 3.0-Planner
 1.0-Assoc Planner (Sustainability Coordinator)
 1.0-Planning Technician
ADVANCE PLANNING
1.0-Planning Manager (Advance Planning)
 2.0-Staff Secretary
 1.0-Senior Planner (Housing)
 1.0-Senior Planner (GIS)
 1.0-Senior Planner
 1.0-Planner (CDBG)
 1.0-Planner (Historic)
 1.0-Planner (GIS)
 2.0-Planner
TRANSPORTATION
1.0-Transportation Manager
 1.0-Staff Secretary
 2.0-Transportation Engineers
 1.0-Associate Transportation Engineer
 1.0-Engineering Technician
 0.5-Commute Coordinator

BUILDING
1.0-Chief Building Official
 1.0-Staff Secretary
PLAN CHECK/COUNTER SERVICES
1.0-Asst Building Official
 3.0-Plan Check Engineer
 3.0-Building Technician
 1.0-Office Specialist (Receptionist)
 1.0-Office Specialist (Inspection Scheduler)
INSPECTION SERVICES
1.0-Inspection Services Supervisor
 1.0-Building Inspector Specialist (Structural)
 1.0-Building Inspector Specialist (Electrical)
 1.0-Building Inspector Specialist (Plumbing/Mech)
 4.0-Building Inspector

Fiscal Year 2006-07 Position Totals:

55.50 Full-time
1.16 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, and plans and programs that maintain and enhance the City as a safe, vital, and attractive community.

OVERVIEW

In 2006-07, the Department of Planning and Community Environment will reorganize department management to improve service and efficiency, and will make substantial progress on an extension to the City's Comprehensive Plan. Other goals include improving bicycle and pedestrian safety on school commute corridors, completing the Zoning Ordinance Update, developing affordable housing, and reviewing/inspecting over 3,000 construction projects.

On June 5, 2006, the City Council approved a department reorganization that included consolidating the Planning and Transportation Divisions and adding an Assistant Director. The Department's focus in 2006-07 will be on implementing the changes to the organizational structure and on filling vacancies. This includes vacancies in the Building Division resulting from the retirement of the Chief Building Official and Assistant Building Official. The purpose of the reorganization is to provide additional management oversight and to rearrange staff, enhancing service quality.

The long-range planning section of the Department will complete or make considerable progress on several studies. The Comprehensive Plan extension will be the most time-intensive, but Department work on the Zoning Update Ordinance will also continue. Code sections awaiting approval include multi-family, commercial and mixed use, special purpose districts, and general regulations such as performance standards and parking. In coordination with the Administrative Services Department, the Department will continue efforts to retain auto dealerships and evaluate the feasibility of repurposing the MSC site.

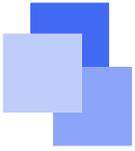
Transportation planning will emphasize bicycle and school commute safety. The most visible result will be the two-year Charleston-Arastradero Corridor Plan Trial which will be installed before the start of the 2006-07 school year. The Department will also make changes to Maybell Avenue to make it more bicycle friendly, consistent with its designation as a Bicycle Boulevard in the Bicycle Transportation Plan.

The Department will continue to improve the service it provides to the construction and business communities and to residents. By the end of 2005-06, the Planning and Building Divisions will have performed over 12,000 inspections, checked over 2,500 plan sets, and completed over 300 planning entitlements. In 2006-07, it expects higher application volumes based on the increasing number of building permit applications received. Both divisions continue to seek opportunities to improve service by streamlining processes and improving communication with both applicants and residents.

Technology is an integral part of those efforts. Currently, residents can access a weekly report showing new planning applications in the City, and the redesigned Development Center website provides information to property owners and contractors. Use of Velocity Hall, the City's public building permit database, continues to grow. All of these features are available on the Department's website: www.cityofpaloalto.org/planning-community

NEW PROGRAM UPDATE

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



Planning and Community Environment *continued*

Code Enforcement

- Performed comprehensive code enforcement sweeps during November elections to ensure compliance with campaign sign regulations

Transportation Safety and Alternatives

- Continued to implement the Bicycle Transportation Plan by initiating construction of the Maybell/Donald Bike Boulevard
- Working with Public Works to fund and plan the Charleston/Arastradero Corridor Plan trial. Construction will be completed by the beginning of the 2006-07 school year

Housing & CDBG

- Working with the Real Estate Division of the Administrative Services Department and Community Working Group, the Department began acquisition of an affordable housing project on Alma Street near Colorado Avenue. The Alma Gardens acquisition will be paid for in part from Community Development Block Grant (CDBG) funds.
- Completed a comprehensive study of the City's Below Market Rate program, including a unit inventory
- Awarded \$780,000 in Community Development Block Grants

Customer Service

- Continued a comprehensive training program for Current Planning staff

Long Range Planning

- Completed the low density residential zoning section of the Zoning Ordinance Update
- Completed an urban design charette for the East Meadow Way industrial area in cooperation with the American Institute of Architects. The results of the charette will provide guidance to planners, Boards, and Commissions in the event property owners choose to convert to housing

COUNCIL PRIORITY IMPLEMENTATION

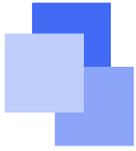
The 2006-07 Planning and Community Environment Department's Adopted Budget will implement the City Council's Top 3 Priorities as follows:

Emergency and Disaster Preparedness and Response

- In 2006, the Building Division will present its draft of the Local Hazard Mitigation Plan for Council consideration
- The Building Division will maintain preparedness to evaluate building safety in the event of a natural disaster

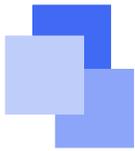
Library/Police Building

- The Planning Division will continue to assign key staff members to review City infrastructure projects to ensure the quick and effective completion of the review process
- The Transportation Division will continue improving the City's bicycle infrastructure by implementing the Bicycle Transportation Plan. Planned improvements for 2006-07: Completion of the Maybell-Donald bicycle boulevard and Charleston-Arastradero corridor plan trial construction, and initiate construction of the Park Boulevard bike boulevard.

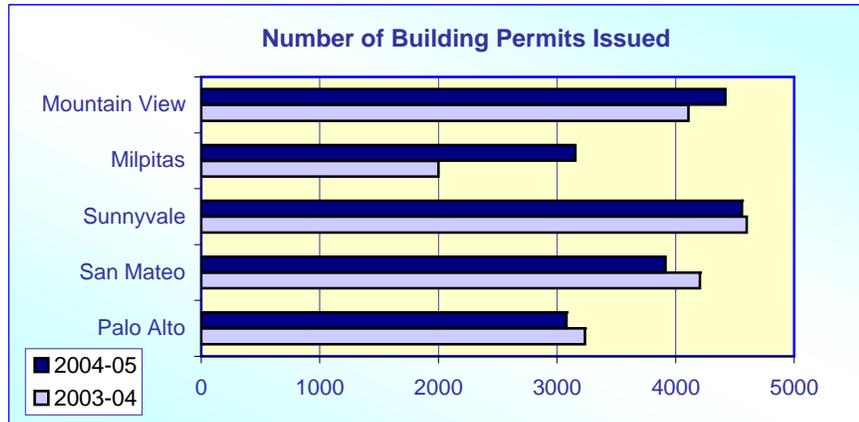


Planning and Community Environment *continued*

DEPARTMENT SUMMARY	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET	2006-07 BUDGET CHANGE	% CHG
Administration	658,340	418,837	586,396	631,705	212,868	51%
Planning	3,965,234	3,878,333	3,819,653	3,488,345	(389,988)	(10%)
Building	2,861,674	3,052,326	3,053,968	3,078,844	26,518	1%
Transportation	1,619,719	1,846,204	1,541,462	1,563,267	(282,937)	(15%)
TOTAL EXPENDITURES	\$9,104,967	\$9,195,700	\$9,001,479	\$8,762,161	\$(433,539)	(5%)
TOTAL REVENUES	\$4,178,185	\$5,324,870	\$5,145,670	\$5,194,723	\$(130,147)	(2%)
INTERNAL REVENUES	11,557	128,000	128,000	128,000	0	0%
EXTERNAL REVENUES	4,166,628	5,196,870	5,017,670	5,066,723	(130,147)	(3%)



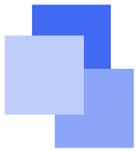
Planning and Community Environment *continued*



INPUTS	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET
Salaries and Benefits	6,608,011	6,563,370	6,492,279	6,249,137
Contract Services	1,411,816	1,454,722	1,111,740	1,049,720
Supplies and Materials	48,907	63,996	68,820	67,820
Facilities and Equipment Purchases	7,822	9,435	19,435	20,535
General Expense	224,675	298,976	280,252	363,222
Rents and Leases	393,285	369,395	369,395	325,047
Allocated Charges	410,451	435,806	659,558	686,680
Total Expenditures	\$9,104,967	\$9,195,700	\$9,001,479	\$8,762,161
Total Revenues	\$4,178,185	\$5,324,870	\$5,145,670	\$5,194,723
Total Full Time Positions	54.80	53.30	53.30	53.30
Total Temporary Positions	6.14	0.14	0.14	1.16

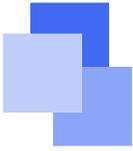
BENCHMARKING MEASURES

	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
Workload Outputs:			
1. Number of building permits issued (SEA)	3,081	3,255	3,250
2. Number of building inspections completed (SEA)	12,186	12,712	12,700
3. Number of planning applications completed (SEA)	318	333	330
4. Number of zoning plan checks completed	1,118	1,138	1,100
5. Number of code enforcement cases completed (SEA)	554	313	315
6. Number of shuttle boardings (SEA)	169,048	174,119	174,000



Planning and Community Environment *continued*

	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
7. Average number of City employees participating in the City commute program each month	117	104	115
Efficiency:			
1. Number of building permits issued (per plan checker/building technician FTE)	440	543	540
2. Number of building inspections (per inspector FTE)	2,031	1,850	1,850
3. Number of planning applications completed (per current planner FTE)	53	56	55
4. Number of zoning plan checks completed (per current planner FTE)	186	190	190
5. Number of code enforcement cases (per code enforcement officer FTE)	277	157	157
6. City's cost per Palo Alto Shuttle rider	\$1.92	\$1.90	\$1.93
Effectiveness:			
1. Percent of building plan checks completed within 4 week target - target is 90% (SEA)	86%	90%	90%
2. Percent of building inspection requests responded to within one day - target is 90% (SEA)	91%	90%	90%
3. Average number of weeks to complete staff-level applications (represents 98% of total volume) (SEA)	10.7 weeks	12.4 weeks	12.0 weeks
4. Percent of zoning plan checks completed within 4 week target	91%	89%	90%
5. Percent of code enforcement cases resolved within 120 days of date received (SEA)	91%	96%	90%
6. Percent of residents surveyed rating the ease of walking in Palo Alto as "good" or "excellent" (SEA survey)	84%	86%	87%
7. Percent of residents surveyed rating the ease of bicycle travel in Palo Alto as "good" or "excellent" (SEA survey)	80%	82%	84%



Planning and Community Environment *continued*

RESOURCE LEVEL CHANGES

	2006-07 ONGOING	2006-07 ONE-TIME	2006-07 TOTAL
REVENUE CHANGES			
Plan check fee	28,797		28,797
Building - new construction permit	113,235		113,235
Architectural review fee	(9,675)		(9,675)
Zone plan check fee	11,496		11,496
TOTAL REVENUE CHANGES	\$143,853	\$0	\$143,853
Adjustments (Note 1)		(274,000)	(274,000)
TOTAL NET REVENUE CHANGES	\$143,853	\$(274,000)	\$(130,147)
EXPENDITURE CHANGES			
Salary and Benefits			
Increase Hourly Staff (offset by new revenue)	39,053		39,053
Personnel Benefit Costs (Note 2)	(353,279)		(353,279)
TOTAL SALARY AND BENEFITS CHANGES	\$(314,226)	\$0	\$(314,226)
Non-Salary			
Increase bank service charge expense (offset by new revenue)	10,000		10,000
Increase other general expense (reimbursed by parking district)	9,950		9,950
Allocated Charges (Note 3)	250,869		250,869
TOTAL NON-SALARY CHANGES	\$270,819	\$0	\$270,819
TOTAL EXPENDITURE CHANGES	\$(43,407)	\$0	\$(43,407)
Adjustments (Note 1)		(390,132)	(390,132)
NET EXPENDITURE CHANGES	\$(43,407)	\$(390,132)	\$(433,539)

RESOURCE LEVEL NOTES

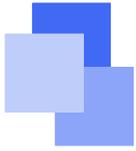
Note 1: Adjustments include one-time budget changes from the prior year that were removed from this year's budget as planned.

Note 2: Personnel benefit costs are decreasing due to lower employee pension costs and the allocation of workers' compensation costs to reflect actual department case experience.

Note 3: Allocated charges are increasing primarily due to the planned resumption of Technology Fund charges.

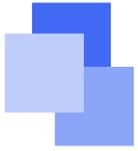
SERVICE LEVEL CHANGES

The Department's focus in 2006-07 will be on implementing the restructuring plan approved in May 2006 by filling vacancies and completing approved organizational changes. Customer service and efficiency will continue to be



Planning and Community Environment *continued*

priorities in the implementation. The Department has already made substantial improvements to its customer service and its business practices, including increasing resident notice of construction projects, implementing electronic notice, implementing a web site where contractors can get information and forms, and streamlining zoning code procedures. Managers and staff will continue to seek means of improving efficiency and customer service, including staff training programs, increasing the use of technology, and improving forms and handouts.



Planning and Community Environment *continued*

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Police Department



Police Department Organizational Chart

POLICE CHIEF
Lynne Johnson

POLICE PERSONNEL SERVICES

1.0-Police Lieutenant
1.0-Police Agent/Officer
1.0-Staff Secretary
1.0-Program Asst
0.5-Volunteer Coordinator

ADMINISTRATION

1.0-Senior Administrator
1.0-Administrative Assistant

TECHNICAL SERVICES

1.0-Coordinator, Technical Serv
1.0-Business Analyst
1.0-Police Records Specialist
1.0-Crime Analyst
1.0-Supervisor, Police Services
1.0-Community Service Officer
1.0-Communications Technician

DISPATCHING SERVICES

1.0-Supervisor, Police Services
4.0-Publ Safety Dispatcher, Chief
16.0-Public Safety Dispatcher

INFORMATION MANAGEMENT

1.0-Supervisor, Police Services
9.0-Police Records Specialist

FIELD SERVICES

1.0-Police Captain
1.0-Police Agent/Officer
1.0-Staff Secretary

FIELD SERVICES (PATROL)

4.0-Police Lieutenants
10.0-Police Sergeants
50.0-Police Agent/Officers
0.5-Code Enforcement Officer
1.0-Community Service Officer

TRAFFIC/ PARKING SERVICES

1.0-Police Lieutenant
2.0-Police Sergeant
6.0-Police Agent/Officer
1.0-Community Serv Officer
1.0-Parking Enforcement Officer-Lead
7.0-Parking Enforcement Officer

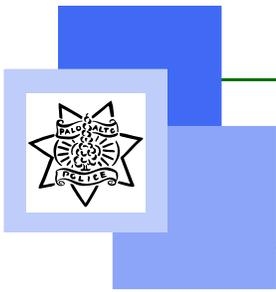
INVESTIGATIVE SERVICES

1.0-Police Captain
1.0-Staff Secretary
1.0-Court Liaison
1.0-Community Serv Officer
2.0-Police Sergeant
12.0-Police Agent/Officer
2.0-Property/Evidence Technician

ANIMAL SERVICES

1.0-Superintendent, Animal Serv
1.0-Supervisor, Animal Serv
1.0-Veterinarian
4.5-Animal Control Officer
1.0-Animal Service Specialist
1.0-Animal Service Specialist II
2.0-Veterinarian Technician
0.5-Volunteer Coordinator

**Fiscal Year 2006-07 Position Totals: 164.00 Full-time
3.06 Hourly**



Police

To proudly serve and protect the public with respect and integrity.

OVERVIEW

In 2006-07, the Police Department will continue the reorganization of the department. The transfer of the Parking Examiner, staff support, and other funding to the City Clerk's Office will reduce the potential conflict of interest in the hearing process. This workgroup is responsible for the adjudication of contested parking citations and Palo Alto Municipal Code violations, and holds public hearings related to matters such as taxicab licenses and dangerous dogs. Several years ago, the California Supreme Court confirmed that due process is violated when a hearing officer has an interest in the outcome of the hearing over which he or she presides.

The Department will continue its efforts in community policing and outreach to ensure officer accountability to the community and increase trust between police officers and the community. The Department will implement the five-year strategic plan, based in part on interviews with diverse members of the community.

In conjunction with the Fire, Utilities, and Public Works Departments and the City Manager's Office, the Police Department will continue to play a key role in coordinating the 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 ongoing participation in the countywide Radio Interoperability Project; continue replacement of the City's radio infrastructure; and complete integration of wireless mapping with the City's GIS system.

Traffic safety and calming will continue to be a high priority with continuing focus on speed reduction, red light violations, and bicycle and pedestrian safety. Through the use of State funds, the Department will continue participation in "You Drink, You Drive, You Lose" with the goal of reducing the number of victims killed and injured in alcohol-related motor vehicle accidents.

In cooperation with Public Works, the Department will begin construction of the Palo Alto Animal Shelter (PAAS) expansion and remodel. This project is necessary to provide animal sheltering services to Sunnyvale and to improve services and lower costs for Palo Alto residents and other participants in the PAAS. Scheduled completion of the project and initiating sheltering services to Sunnyvale are projected for mid-2007.

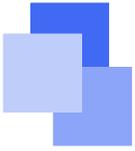
Work will continue on the Police Building project. Based on a report by the Blue Ribbon Task Force (BRTF), Council will direct staff on size, location, and financing options of a new police building.

NEW PROGRAM UPDATE

The Police Department has accomplished the following in new program implementation:

Police/Community Relations

- Developed a five-year strategic plan for the Police Department. Department representatives met with internal and external stakeholders including neighborhood associations, Human Relations Commission (HRC), youth and child development groups, the business community, the faith community, and City Council Members. As a result of these meetings short-term and long-term goals were developed.
- Through data analysis and interviews with officers and downtown merchants, the Department developed strategies and trained personnel on effectively working with the homeless.
- The City Auditor conducted a police community survey on service requests and vehicle traffic stops. The majority of respondents on both surveys rated their contact good or excellent overall.



Police *continued*

- Began implementation of the new Mobile Audio Video (MAV) system for patrol vehicles. Presented draft MAV policy to City Council in 2005-06.
- Completed training of all personnel in the Tools for Tolerance program at the Museum of Tolerance in Southern California. All police officers and non-sworn personnel participated in the 17-hour training session specifically geared to educate law enforcement officers on race relations and related issues.
- The Department continues to compile and report demographic data on police contacts to City Council on a quarterly basis and is now able to compare its data with those of other communities.
- Worked with Stanford University to integrate a human interaction survey into the Department's Citizens Academy, involving police officers and community focus groups. The survey is aimed at enhancing an awareness of how human interactions create barriers and influence relations between police officers and community members.

Training

- As the result of an outside audit, revisions were made to the Police Department's Field Training program to ensure that the most effective training techniques and strategies would be used. New officers will receive the appropriate levels and quality of training, especially in conflict situations, before assuming the role of a solo officer.

Traffic Safety and Calming Efforts

- Awarded \$25,000 grant from the Office of Traffic Safety (OTS) to conduct a seat belt enforcement campaign during a 21-day period between May and June 2006.
- Through the use of State funds from OTS, the Department participated 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.
- Through a grant from the State Department of Alcohol Beverage Control (ABC), Palo Alto conducted undercover under-age drinking decoy operations in an attempt to reduce the number of injuries and deaths associated with under-age drinking.
- In a collaborative effort with the PAUSD and the PTA, the Department conducted an enhanced education and enforcement campaign to enhance safe passage of students going to and from school.

County-Wide Interoperability Project

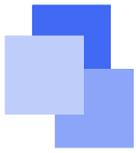
- Palo Alto continues to provide a leadership role in the Silicon Valley Regional Interoperability project. Two pilot projects are now operational - voice over internet protocol (VoIP) radio connection between Sunnyvale Department of Public Safety and Santa Clara Police and Fire Departments and a single-site private broadband network at San Jose State University.
- Worked with state legislators to draft legislation on interoperable communications standards, conducted outreach to generate support for the bill, and provided testimony before legislative committees.

Wireless 9-1-1 Implementation

- Palo Alto continues to take a leadership role on wireless 9-1-1 implementation. Bay Area wireless implementation is at approximately 70 percent, one of the highest rates in the State.

CAD/GIS Mapping Integration

- In 2005-06, the Department implemented the first fully integrated Computer Aided Dispatch (CAD) system with the City's Graphical Information System (GIS) in Santa Clara County. This enhancement will improve the delivery of emergency services and provide an accurate picture of deployed resources during an emergency.



Police *continued*

Animal Services Division

- As a result of the 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 for animal sheltering services, the Department completed design work for the remodel and expansion of the Palo Alto Animal Shelter (PAAS). Construction work will follow, with a completion date of mid-2007.
- Created a transition plan to accept Sunnyvale animals and to keep the shelter open during construction. The Department is also working with Sunnyvale Public Safety to go over PAAS policies and procedures and to develop job duties associated with new hourly staff.

Technical Services

- The Police Department is currently in the second year of a multi-year replacement plan of the City's radio infrastructure to ensure reliable and effective telecommunications for Police, Fire, Public Works, Utilities, and Animal Services.
- The Department continues to support the Fire Department's technology upgrade to ensure mutual sharing of data, information and the system. The focus in 2005-06 was on completing data clean-up in the various police and fire Records Management Systems (RMS), as well as significant enhancements to the statistical reporting and management of information. A new fire inspection automation module was implemented and department-wide training on new and existing applications for the Fire Department was completed.
- The migration to next generation wireless technology for public safety and GIS access will continue in 2006-07. Wireless local area network systems have been installed to transmit public safety information from the field to the department's networks, as well as a planned pilot program to test Automatic Vehicle Location (AVL) technology with the Fire Department.

Police Building

- The City Council authorized the formation of a BRTF, comprised of community members, to generate ideas and make recommendations on a new facility for the Police Department. The BRTF will evaluate the needs of the Police Department, review studies and space planning documents, evaluate the suitability of potential sites within Palo Alto, and evaluate the appropriate building size including the current Police Department building located at the Civic Center.

COUNCIL PRIORITY IMPLEMENTATION

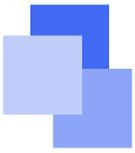
In 2006-07, the Police Department will implement the City Council's Top 3 Priorities as follows:

Emergency and Disaster Preparedness and Response

- In conjunction with the Fire, Utilities, and Public Works Departments and the City Manager's Office, the Police Department will continue to play a key role in coordinating the 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 ongoing participation in the countywide Radio Interoperability Project; continue replacement of the City's radio infrastructure; and complete integration of wireless mapping with the City's GIS system.

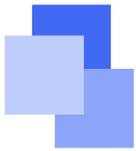
Library/Police Building

- Work will continue on the Police Building Project. Based on a report by the BRTF, Council will direct staff on size, location, and financing options for a new police building.

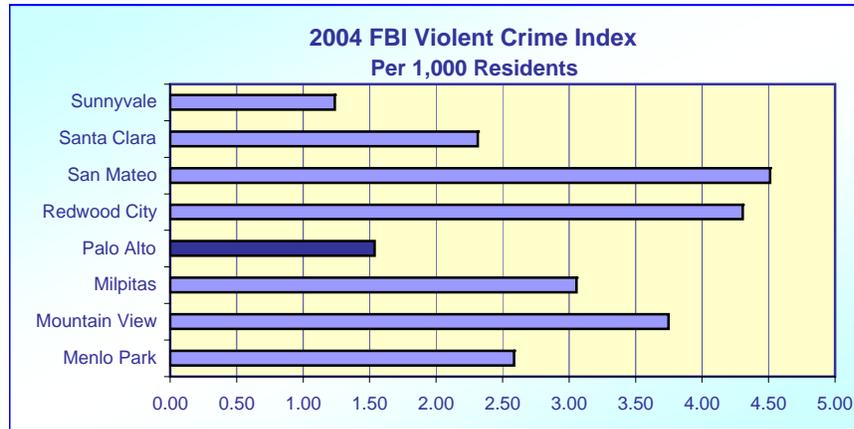


Police *continued*

DEPARTMENT SUMMARY	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET	2006-07 BUDGET CHANGE	% CHG
Administration	852,886	446,597	376,552	338,178	(108,419)	(24%)
Field Services	9,364,419	10,277,866	10,593,673	11,425,518	1,147,652	11%
Technical Services	4,596,386	5,430,604	6,043,469	5,893,581	462,977	9%
Investigations and Crime Prevention Services	3,072,756	3,195,995	3,278,673	3,191,201	(4,794)	0%
Traffic Services	1,466,555	1,637,087	1,597,576	1,436,523	(200,564)	(12%)
Police Personnel Selection	739,629	943,656	894,951	884,203	(59,453)	(6%)
Animal Services	1,399,980	1,490,948	1,473,218	1,463,358	(27,590)	(2%)
Parking Services	1,024,606	1,093,794	1,101,485	1,053,444	(40,350)	(4%)
TOTAL EXPENDITURES	\$22,517,217	\$24,516,547	\$25,359,597	\$25,686,006	\$1,169,459	5%
TOTAL REVENUES	\$4,516,891	\$4,882,909	\$4,946,818	\$4,708,476	\$(174,433)	(4%)
INTERNAL REVENUES	449,903	449,902	462,902	462,902	13,000	3%
EXTERNAL REVENUES	4,066,988	4,433,007	4,483,916	4,245,574	(187,433)	(4%)



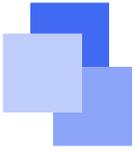
Police *continued*



INPUTS	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET
Salaries and Benefits	18,896,956	20,877,681	21,004,054	21,347,684
Contract Services	1,242,331	1,167,382	1,163,006	1,185,006
Supplies and Materials	541,077	428,827	407,055	408,555
Facilities and Equipment Purchases	55,613	58,630	92,600	92,600
General Expense	311,394	320,987	256,705	256,705
Rents and Leases	1,421	2,960	2,960	2,960
Allocated Charges	1,468,425	1,660,080	2,433,217	2,392,496
Total Expenditures	\$22,517,217	\$24,516,547	\$25,359,597	\$25,686,006
Total Revenues	\$4,516,891	\$4,882,909	\$4,946,818	\$4,708,476
Total Full Time Positions	168.75	164.50	164.50	164.00
Total Temporary Positions	4.62	4.32	4.32	3.06

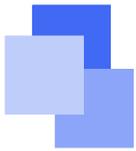
BENCHMARKING MEASURES

	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
Workload Outputs:			
1. Number of total calls for service (SEA)	52,233	50,000	50,000
Efficiency:			
1. Average response time from receipt to on-scene urgent calls (SEA revised)	7:50	10:00	10:00
2. Average response time from receipt to on-scene emergency calls (SEA)	5:01	6:00	6:00



Police *continued*

	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
3. Average response time from receipt to on-scene - non-emergency calls (SEA revised)	18:15	45:00	45:00
Effectiveness:			
1. Percentage of those surveyed rating police services as good or excellent (SEA survey)	87%	90%	90%



Police *continued*

RESOURCE LEVEL CHANGES

	2006-07 ONGOING	2006-07 ONE-TIME	2006-07 TOTAL
REVENUE CHANGES			
Parking citation revenue	95,000		95,000
Stanford communications dispatching services	(126,363)		(126,363)
Communications reimbursement	13,000		13,000
TOTAL REVENUE CHANGES	\$(18,363)	\$0	\$(18,363)
Adjustments (Note 1)		(156,070)	(156,070)
NET REVENUE CHANGES	\$(18,363)	\$(156,070)	\$(174,433)
EXPENDITURE CHANGES			
Salary and Benefits			
Transfer Parking Examiner to City Clerk's Office (0.50 FTE)	(56,695)		(56,695)
Transfer hourly Administrative Specialist to City Clerk's Office (0.48 FTE)	(24,540)		(24,540)
Total Salary and Benefits Changes	\$(81,235)	\$0	\$(81,235)
Salary Increase (Note 4)	873,755		873,755
Personnel Benefit Costs (Note 2, Note 4)	(322,518)		(322,518)
Total Net Salary and Benefits Changes	\$470,002	\$0	\$470,002
Non-Salary			
Additional two crossing guards expense	22,000		22,000
Allocated Charges (Note 3)	732,604		732,604
Total Non-Salary Changes	\$754,604	\$0	\$754,604
TOTAL EXPENDITURE CHANGES	\$1,224,606	\$0	\$1,224,606
Adjustments (Note 1)		(55,147)	(55,147)
NET EXPENDITURE CHANGES	\$1,224,606	\$(55,147)	\$1,169,459

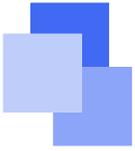
RESOURCE LEVEL NOTES

Note 1: Adjustments include one-time budget changes from the prior year that were removed from this year's budget as planned.

Note 2: Personnel benefit costs are decreasing due to lower employee pension costs.

Note 3: Allocated charges are increasing primarily due to the planned resumption of Technology Fund charges.

Note 4: As previously approved by Council, the City will discontinue paying Palo Alto Police Officer's Association (PAPOA) employees' nine percent pension contribution and salaries will be increased the corresponding nine percent.



Police *continued*

SERVICE LEVEL CHANGES

Service Level Increases

- With expected grants from the Office of Traffic Safety (OTS) for the "You Drink, You Drive, You Lose" campaign and the Alcohol Beverage Control (ABC) for minor decoy operations, the Department will continue to focus on reducing the number of victims killed and injured in alcohol-related motor vehicle accidents, alert the public and liquor licensees of under-age drinking, and educate young people about the penalties of attempting to purchase, possess, or consume alcoholic beverages.
- Increase in the adult school crossing guard contract will accommodate two additional crossing guard locations for a total of 28 locations controlled. Locations are selected based on criteria approved by the City Council. Criteria include numbers of children crossing, their ages, volume of traffic, and number of traffic collisions.
- New County protocol requires a coroner's inquest on all officer-related fatalities. Palo Alto will share in the costs of this new program.
- Parking Enforcement Officers will be responsible for maintaining supplies in new daily parking permit machines in two public parking garages

Service Level Decreases

- The transfer of the Parking Examiner, staff support, and other funding to the City Clerk's Office will reduce the potential conflict of interest in the hearing process. This workgroup is responsible for the adjudication of contested parking citations and Palo Alto Municipal Code violations. Public hearings are held on matters such as taxicab licenses and dangerous dogs.



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-Administrator, IMP
 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

2.0-Sr Engineer
 2.0-Project Engineer
 3.0-Engineer
 1.0-Engineering Tech III
 1.0-Architect/Park Planner
 1.0-Project Mgr

PRIVATE DEVELOPMENT

1.0-Sr Project Mgr
 1.0-Project Engineer
 1.0-Engineer
 4.0-Engineering Tech III

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

FACILITIES MANAGEMENT

1.0-Mgr. Facility Maint. & Proj
 1.0-Engineer
 1.0-Staff Secretary

FACILITIES REHABILITATION

1.0-Project Mgr
 1.0-Office Specialist
 1.0-Engineering Tech III

FACILITIES MAINT.

1.0-Supv, Facilities Mgt.
 0.5-Office Specialist
 2.0-Facilities Maint-Lead
 5.0-Facilities Mechanic
 2.0-Facilities Painter
 1.0-Facilities Carpenter
 1.0-Electrician

BUILDING SERVICES

1.0-Supervisor, Bldg Serv
 2.0-Bldg Svc Pers-Lead
 4.0-Bldg Service Person

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-Manager Laboratory Services
 1.0-Sr Chemist
 3.0-Chemist
 2.5-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
 1.0-Programmer Analyst
 1.0-Project Engineer

ENVIRONMENTAL COMPLIANCE

1.0-Mgr. Environmental Compliance
 1.0-Staff Secretary

ENVIRONMENTAL CONTROL PROGRAMS

2.0-Mgr. Environmental Ctrl Prgrm
 1.0-Program Asst
 1.0-Environmental Specialist
 3.0-Associate Engineer
 2.0-Industrial Waste Investigator
 1.0-Industrial Waste Inspector
 1.0-Engineer Technician III
 0.5-Engineer Tech I

OPERATIONS AND REFUSE

1.0-Deputy Director, Public Works
 1.0-Staff Secretary

STREETS

1.0-Superintendent, Operations
 1.0-Traf Control Maint-Lead
 3.0-Traf Control Maint II
 2.0-Traf Control Maint.I
 1.0-Heavy Equip Oper-Lead
 2.0-Heavy Equip Oper
 3.0-Equip Oper
 1.0-Truck Driver

TREES

1.0-Managing Arborist
 2.0-Project Manager { .75 Utl Line Clr }
 1.0-Office Specialist
 1.0-Tree Maint Person { 1.0 Utl Line Clr }
 1.0-Tree Trim/Line Clear-Lead
 9.0-Tree Trim/Line Clear

LANDFILL OPERATIONS

1.0-Supv Public Woks
 1.0-Landfill Technician
 4.0-Refuse Disposal Attendant
 1.0-Heavy Equip Oper-Lead
 4.0-Heavy Equip Oper

SIDEWALKS

1.0-Mgr Maint Oper
 2.0-Asst Engineer
 1.0-Cement Finisher-Lead
 3.0-Cement Finisher

STREET SWEEPING OPERATIONS

1.0-Mgr. Maint Ops
 6.0-Str Sweeper Operator
 1.0-Heavy Equip Oper-Lead
 1.0-Heavy Equip Operator
 1.0-Truck Driver
 2.0-Street Maint Assistant

STORM DRAIN OPERATIONS

1.0-Electrician-Lead
 1.0-Heavy Equip Oper-L
 1.0-Heavy Equip Operator

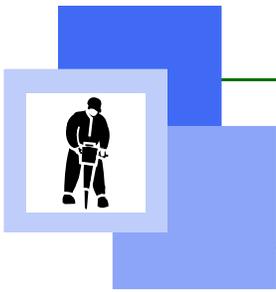
REFUSE

1.0-Mgr Solid Waste
1.0-Mgr Environmental Controls
1.0-Senior Engineer
 1.0-Environmental Specialist
 2.0-Executive Assistant
 2.0-Recycling Coordinator
 1.0-Office Specialist
 1.0-Staff Secretary

Fiscal Year 2006-07 Position Totals:

213.50 Full-time

0.71 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

In 2006-07, Public Works Engineering will continue to focus on projects identified in the Infrastructure Management Plan (IMP). This includes the annual street maintenance program and the renovation/expansion of the Children's Library and the Animal Shelter. The Children's Library and Animal Shelter improvements include upgrades of building electrical and mechanical systems, interior refurbishment such as new paint and flooring, Americans with Disabilities Act (ADA) improvements, roof replacements, addition of floor space for expanded programs, and seismic evaluation and upgrades. Public Works Engineering is providing lead staff support to the Police Building Blue Ribbon Task Force (BRTF), and in 2006-07 will assist the BRTF in completing its work to meet the Council's goal of making a decision on the project by December 2006. Engineering will also work with the Library Department to develop a Library Service Model Analysis resulting in a comprehensive plan for the library system.

In addition, photovoltaic panels will be installed at three City sites: the Municipal Service Center, Cubberley Community Center, and Baylands Interpretive Center promoting sustainability and the City's commitment to alternative energy. The Division will also continue supporting Palo Alto private development activity including issuance of street opening and encroachment permits, certificates of compliance under the Subdivision Map Act, and support of the Planning Department with plan review of grading and drainage issues.

With the addition of Parks and Open Space IMP projects to the responsibilities of the Engineering Division in 2005-06, Public Works Engineering expects to complete construction in 2006-07 of the Alma Street Landscaping Improvements Phase I, College Terrace Parks Improvements, and Mitchell Park Improvements Phase III. Also in 2006-07, construction will commence on Hoover, Ramos, and Boulware Parks.

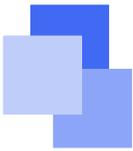
In 2006-07, Public Works Facilities Management will continue to focus on the delivery of custodial, maintenance, and rehabilitation services to achieve maximum life expectancy of the City's buildings and building systems. Implementation of the Infrastructure Management Plan will continue to be a focus, with projects in 2006-07 including mechanical and electrical upgrades at the Civic Center and the Municipal Service Center (pending the outcome of the auto dealership study), accessibility upgrades, interior refurbishment, roof replacement, and improvements to the Foothill Park Interpretive Center.

In the Operations Division of Public Works, all sidewalk repair program activities will continue in order to reduce the current backlog. Staff will also be providing street sweeping service to the residents and businesses of Palo Alto to maintain the aesthetic quality of the City's streets and neighborhoods and to meet federal, state, and local requirements for pollution prevention. The Tree Section of the Operating Division will continue administering the ongoing street tree replacement program.

The Public Works Department also manages three Enterprise Funds: the Refuse, Storm Drainage and Wastewater Treatment Funds. The Department is also responsible for the Vehicle Replacement and Maintenance Fund, which is an Internal Service Fund. Details for these funds are located in the Enterprise and Internal Service (Other) Funds section of this document.

NEW PROGRAM UPDATE

The Public Works Department will accomplish the following in new program implementation:



Public Works *continued*

In 2006-07, Public Works Engineering will continue to provide technical support to the BRTF. The BRTF is comprised of community members whose goal is to bring ideas, solutions and recommendations to address building a proposed facility for the Police Department. The BRTF will evaluate the needs of the Police Department, review the studies and space planning documents, evaluate the suitability of potential sites within Palo Alto and evaluate the building size including the current Police Department building located at the Civic Center.

The lease for the Cowper/Webster Garage (Lot J) expires in December 2006. At that time, the City will resume maintenance of the garage. Partial year funding has been included in Facilities Management's budget in 2006-07 for maintenance of the structure, elevators, lighting, life safety systems, and custodial services.

The Stanford/Palo Alto Playing Fields and the Arastradero Gateway Facility will be completed in 2006-07. Upon completion, Facilities Management will begin maintenance services at these facilities in coordination with the Community Services Department.

COUNCIL PRIORITY IMPLEMENTATION

In 2006-07, Public Works will implement the City Council's Top 3 Priorities as follows:

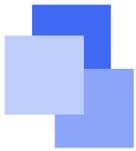
Increase Infrastructure Funding

- Continue resurfacing and reconstructing City streets to maintain rideability and extend life
- Continue the sidewalk repair project to alleviate the existing backlog of sidewalk replacement
- Continue the ongoing Roof Replacement Program
- Continue upgrading the mechanical and electrical system at Cubberley

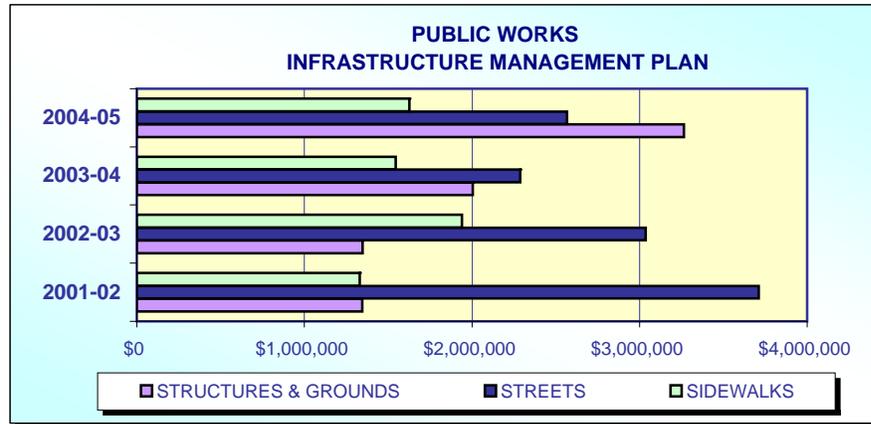
Library/Police Building

- Continue developing plans for Police Building expansion or replacement
- Assist Library Department with the Library Service Model Analysis

DEPARTMENT SUMMARY	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET	2006-07 BUDGET CHANGE	% CHG
Administration	616,449	794,051	1,016,733	1,027,483	233,432	29%
Streets	2,040,210	2,100,408	2,086,615	2,427,392	326,984	16%
Sidewalks	522,175	0	0	0	0	0%
Trees	1,796,146	2,142,933	2,126,578	2,362,871	219,938	10%
Structures and Grounds	4,273,970	4,590,754	4,691,207	4,697,804	107,050	2%
Engineering	1,771,991	1,932,601	1,917,952	1,896,378	(36,223)	(2%)
TOTAL EXPENDITURES	\$11,020,941	\$11,560,747	\$11,839,085	\$12,411,928	\$851,181	7%
TOTAL REVENUES	\$1,505,589	\$2,535,050	\$2,658,583	\$2,791,531	\$256,481	10%
INTERNAL REVENUES	1,218,787	2,051,850	2,180,383	2,303,331	251,481	12%
EXTERNAL REVENUES	286,802	483,200	478,200	488,200	5,000	1%



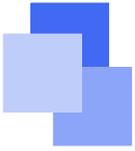
Public Works *continued*



INPUTS	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET
Salaries and Benefits	7,053,840	6,934,106	6,848,126	7,312,032
Contract Services	1,281,876	1,808,878	1,860,053	1,777,471
Supplies and Materials	698,124	745,729	687,533	708,654
Facilities and Equipment Purchases	8,205	7,046	9,946	7,746
General Expense	19,794	34,319	28,300	33,860
Rents and Leases	30,000	30,700	31,350	170,000
Allocated Charges	1,929,102	1,999,969	2,373,777	2,402,165
Total Expenditures	\$11,020,941	\$11,560,747	\$11,839,085	\$12,411,928
Total Revenues	\$1,505,589	\$2,535,050	\$2,658,583	\$2,791,531
Total Full Time Positions	74.06	67.90	67.90	67.90
Total Temporary Positions	0.66	0.66	0.66	0.19

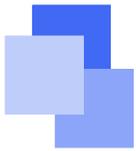
BENCHMARKING MEASURES

	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
Workload Outputs:			
1. STREETS: Number of potholes repaired (SEA)	3,221	1,670	1,670
2. TREES: Number of trees pruned or removed (SEA)	4,775	5,200	5,200
3. FACILITIES: Total Square Footage maintained by Facilities Maintenance section	1,402,225	1,402,225	1,613,392
4. ENGINEERING: Private Development: Number of permits issued	276	250	250



Public Works *continued*

	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
Efficiency:			
1. STREETS: Potholes filled per hour	3.1	1.2	1.2
2. TREES: Person hours per tree	1.7	2.2	2.2
3. FACILITIES: Facilities maintenance cost per square foot for maintenance work	\$1.42	\$1.48	\$1.48
4. ENGINEERING: Private Development: Number of permits per FTE	92	83	90
Effectiveness:			
1. STREETS: Percent completed within 15 days (SEA)	76%	80%	80%
2. TREES: Percent of urban forest pruned	14%	12%	12%
3. FACILITIES: Percent of repairs completed in 3 weeks	100%	100%	100%
4. ENGINEERING: Private Development: Revenues received	\$147,059	\$175,000	\$160,000



Public Works *continued*

RESOURCE LEVEL CHANGES

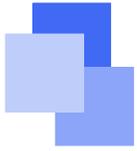
	2006-07 ONGOING	2006-07 ONE-TIME	2006-07 TOTAL
REVENUE CHANGES			
Other permit	5,000		5,000
Street cut fees (Note 4)	24,500		24,500
Allocated revenues - internal	151,981		151,981
Operating transfer from Capital Projects Fund for crack sealing at parking garages		75,000	75,000
TOTAL REVENUE CHANGES	\$181,481	\$75,000	\$256,481
EXPENDITURE CHANGES			
Salary and Benefits			
Reclassify 1.0 FTE from Assistant Engineer to Engineering Tech III	(12,017)		(12,017)
Reclassify 1.0 FTE from Assistant Engineer to Associate Engineer	10,677		10,677
Reclassify 1.0 FTE from Coordinator, Public Works to Administrator	16,658		16,658
City Internship Program		9,600	9,600
Personnel Benefit Costs (Note 2)	353,020		353,020
Total Salary and Benefits Changes	\$368,338	\$9,600	\$377,938
Non-Salary			
Allocated Charges (Note 3)	402,184		402,184
Contract Services for crack sealing at parking garages		75,000	75,000
Maintenance for new facilities, including Stanford playing fields, Hoover Park restrooms, and Homer tunnel/park lighting	70,300		70,300
Maintenance for parking garages (Note 5)	58,000		58,000
Reallocation of non-salary expense to salary and benefits for reclassification of 1.0 FTE from Coordinator, Public Works to Administrator and for City Internship Program	(16,658)	(9,600)	(26,258)
Total Non-Salary Changes	\$513,826	\$65,400	\$579,226
Adjustments (Note 1)		(105,983)	(105,983)
TOTAL EXPENDITURE CHANGES	\$882,164	\$(30,983)	\$851,181

RESOURCE LEVEL NOTES

Note 1: Adjustments include one-time budget changes from the prior year that were removed from this year's budget as planned.

Note 2: Personnel benefit costs are increasing primarily due to the allocation of workers' compensation costs to reflect actual department case experience.

Note 3: Allocated charges are increasing primarily due to the planned resumption of Technology Fund charges.



Public Works *continued*

Note 4: Revenue from fees imposed on entities making any excavation on City-owned streets. This fee is collected to reimburse the City for the shortened life of the streets caused by excavation.

Note 5: Expenses are reimbursed by the Parking Assessment Districts via a transfer to the General Fund at the fund level.



ENTERPRISE FUNDS



Enterprise Funds



Utilities Department

Organizational Chart

ELECTRIC & GWG ENGINEERING

1.0-Asst Director Util Engineering
1.0-Engineering Mgr - Electric
 1.0-Program Assistant
 5.0-Sr Electric Project Engineer.
 3.0-Electric Project Engineer
 1.0-Power Engineer
 5.0-Util Engr Estimator
 1.0-Util Engr Estimator-Lead
 2.0-Engr Tech III
1.0-Engineering Mgr - GWG
 2.0-Staff Secretary
 1.0-Supv Util Constr-Inspection
 4.0-Sr Project Engineer
 6.0-Project Engineer
 4.0-Engineer
 3.0-Inspector, Field Svc

DIRECTOR OF UTILITIES Vacant

UTILITIES ADMINISTRATION

1.0-Administrative Asst
1.0-Sr Administrator
 1.0-Communications Specialist
 1.0-Utilities Accounting Technician
 1.0-Program Assistant

ELECTRIC & GWG OPERATIONS

1.0-Asst Director Utility Operations
 1.0-Program Assistant
 1.0-Coord Util Safety & Security
1.0-Mgr Electric Operations
 2.0-Office Specialist
 2.0-Staff Secretary
 5.0-Supv Elect Systems
 7.0-Electrician-Lead
 14.0-Electrician
 4.0-Elec Asst I
 2.0-Elec Undgd Inspec
 5.0-Lineper/Cable Spl-Lead
 10.0-Lineper/Cable Spl
 3.0-Heavy Equip Oper
 1.0-Util Comp Tech-Lead
 2.0-Util Comp Tech
 2.0-Util Locator
 5.0-Util Syst Operator
1.0-Mgr Utility Operations GWG
 1.0-Staff Secretary
 2.0-Coord Utility Proj
 5.0-Supv GWG
 1.0-Supv Water Trans
 1.0-Sr Water Sys Oper
 1.0-Cathodic Tech
 5.0-Water Sys Oper II
 2.0-Wtr Mtr Crs Cn Technician
 1.0-Inspector, Field Svc
 2.0-Gas System Tech
 6.0-Heavy Equip Oper
 2.0-Equip Operator
 2.0-Maint Mech
 1.0-Cement Finisher
 1.0-Util Locator
 5.0-Util Install/Rep-Lead
 15.0-Util Install/Rep
 1.0- Util Install/Rep Assistant
 1.0- Truck Driver
 1.0- Sr Utility Field Service Rep
 8.0- Field Service Rep.
 1.0- Sr Mechanic

RESOURCE MANAGEMENT

1.0-Assist Director, Resource Mgmt
 1.0-Staff Secretary
1.0-Manager Supply Resources
 1.0-Sr Resource Originator
 3.0-Sr Resource Planner
 4.0-Resource Planner
 1.0-Sr Mkt Analyst

CUSTOMER SUPPORT SERVICES

1.0-Asst Dir Util/Cust Support Svc
 1.0-Program Assistant
 1.0-Staff Secretary
1.0-Mgr Utility Rates
1.0-Mgr Util Mkt Svcs
 1.0-Sr.Business Analyst
 2.0-Sr Mkt Analyst
 1.0-Util Rate Analyst
1.0-Mgr Fld & Cust Svcs
 1.0-Customer Svr Spec-Lead
 5.0-Customer Svc Rep
 2.0-Customer Svc Spec
 1.0-Util Credit/Col Spec
 1.0-Meter Reader-Lead
 5.0-Meter Reader
 3.0-Util Key Account Rep
 1.0-Marketing Engineer
 3.0-Util Account Rep
1.0-Mgr Utilities Telecom
 1.0-Office Specialist
 1.0-Sr Resource Planner
 1.0-Coordinator, Utility Projects

Fiscal Year 2006-07 Position
Totals: 229.0 Full-time
4.26 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. A financial summary of the funds follows this overview and includes discussion and pertinent information in each fund section.

UTILITY RATE CHANGES

This 2006-07 Adopted Budget includes a number of utility rate adjustments. The average monthly residential Utilities bill is expected to increase by \$28.35 or 11.6 percent for combined utility services, including the Utility Users Taxes.

The size and timing of rate adjustments take into account current and future revenue requirements and reserve levels. They may also cushion the impacts on customer bills by spreading rate adjustments during consecutive or alternate years. Details of each rate adjustment are further discussed in the overview and within each fund's section.

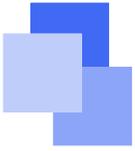
- Gas Fund - A rate increase of 20 percent effective July 1, 2006, due to increased commodity costs and lower sales estimates
- Water Fund- A rate increase of 7 percent effective July 1, 2006, due to wholesale water rate increase
- Wastewater Collection Fund - A rate increase of 5 percent effective July 1, 2006, due to increased operating expenses

Rent

Enterprise Funds pay market-based rental fees for the sites needed to conduct their business operations. The rent paid for City-owned sites are adjusted annually after conducting an independent appraisal of all sites.

Reserves

Since no revenue or expense forecast is perfect, some Utilities Reserves serve as "balancing accounts" with revenues coming in or going out. This financial system allows for cash that is used to mitigate the risk of commodity price swings, or provide insurance against default by our wholesale suppliers. Other Reserves are used to provide cash for replacement parts during an emergency infrastructure failure, or represent temporary "parking" for planned expenditures. Reserve levels that are above Guidelines are returned to customers in the form of lower future rates, or used to pay for higher expenses, which also result in lower future rates.



Enterprise Funds *continued*

UTILITIES DEPARTMENT OVERVIEW

The Guidelines will be reviewed during 2006-07 to determine the lowest practical Reserve level needed for fiscal prudence.

The total Utilities Reserve Balances (Supply and Distribution Rate Stabilization, Emergency Plant Replacement, etc.) are decreasing by \$13.4 million in 2006-07. These decreases represent cash draw downs for increased costs in the Capital Improvement Program and increases in supply expenses.

The Department plans to focus on customer service, infrastructure reliability, and cost containment. These high priority areas are aligned with the strategies and objectives of the Department's strategic plan. Restructuring efforts to address these challenges began in 2005-06 and will continue into 2006-07.

The Utilities Department continues to face significant challenges as energy commodity and transmission costs continue to fluctuate. 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 electric industry structure with greater complexity than in the past, resulting in likely increases to transmission costs paid by the City. The City continues to be involved in several regulatory interventions and legal proceedings to advocate for the City's interests. 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.

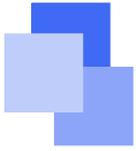
Utilities Department Expenditure Highlights

Due to a combination of factors, including higher electric supply costs associated with the expiration of the long-term Western Area Power Administration (WAPA) electric contract, and higher transmission costs from the California Independent System Operator (CAISO), costs increased considerably in 2005-06.

The City continues to face legal costs related to regulatory proceedings and impending contract review and negotiation in electric, gas, and water services. However, the budget for legal expense was reduced in 2005-06. In 2006-07, expenditure levels for legal matters are expected to approximate those levels reflected in the 2005-06 budget.

Overall water commodity costs are expected to increase by \$0.5 million due to an anticipated rise in wholesale water rates in 2006-07.

In the past few years, actual consumption levels were lower-than-forecasted and low-use customers not providing sufficient revenue to cover the cost to serve them. Consequently, annual revenues have not kept pace with the fixed expenses of the water distribution system.



Enterprise Funds *continued*

CPAU Capital Improvement Program (CIP)

Palo Alto's wastewater treatment costs will increase by more than \$0.3 million in 2006-07. The costs of operating the regional treatment plant are distributed among its partners.

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.

In the 2006-07 budget period, planned CIP expenditures for the Electric Fund total \$10.0 million.

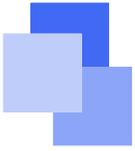
New CIP projects include rebuilding and replacing certain underground electric systems and electric distribution system conversions to 4 or 12 kV.

The Wastewater Collection Fund has budgeted \$4.4 million for 2006-07. Included are projects to rehabilitate collection systems and manholes, and to reduce groundwater and rainfall seepage into the pipelines.

Utilities Department Program Highlights

The Palo Alto Green Program offers "new" renewable energy (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. As of January 30, 2006, there were 3,795 active participants in Palo Alto Green. This represents 13.8% of all electric accounts, of which 3,674 are residential customers and 121 are business customers. This accomplishment has placed the Palo Alto Green as the number one renewable energy program in the country.

Customers now have the ability to access account services over the Internet. Through "My Utilities Account" (MUA), customers can view current account balances and due dates; access billing histories; view historical consumption data; update or add phone numbers and/or e-mail addresses; and send secure messages about accounts. Increased usage of MUA should improve business efficiencies by reducing customer call traffic in the Customer Service Center. On-line and telephone acceptance of customer credit card payments for utility bills is being explored by several Departments, including Utilities. Issues such as interfaces with IT systems, impacts on the Utilities Phone Center operations from processing times, and cost-allocation of banking fees to customers remain to be resolved. Another customer service initiative, the Automated Meter Reading Pilot Project (AMR), will evaluate multiple technologies capable of being used to remotely read expensive-to-read meters, including those with difficult or hazardous access, meters in remote locations, or the most frequently read meters such as apartments with high tenant turnover rates. The evaluation period of the study will determine



Enterprise Funds *continued*

if AMR will yield more accurate meter readings, improve operational efficiencies, and expand customer satisfaction.

Customer investments in commercial and industrial electric and natural gas energy efficiency have slowed 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 Electric and Gas Public Benefit and Water Efficiency programs. By identifying savings opportunities now, customers will be able to implement the recommendations when their internally-generated funds to upgrade their infrastructure systems become available in the future.

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

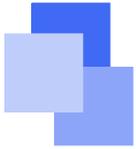
Electric Utility Challenges

Since the December 2004 expiration of the City's 40-year contract with the Western Area Power Administration (WAPA), which had supplied most of the City's electric supply needs, the Electric Utility has worked diligently to address the resulting supply gap. Council has approved the Long-term Electric Acquisition Plan (LEAP) that adopts a diversified approach to meeting the energy deficit. In order to ensure that customers are receiving the highest level of value from the Electric Utility, plans have been adopted to focus on improving customer service, increasing infrastructure reliability, promoting energy efficiency to help customers control their usage, and limiting cost increases to the minimum level possible in the adopted budget. The need to hold down costs is pressing, as utility ratepayers continue to face additional financial challenges in the local economy. Spending priorities continue to be aligned with the Utilities Department's Strategic Plan.

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.

Gas Utility Challenges

Extreme volatility continues to characterize gas commodity expense. Council has approved risk management policies and guidelines, resulting in a commodity-hedging program with a three-year "laddering" approach to purchasing gas. This has helped our customers by stabilizing prices in spite of marketplace volatility, unlike a neighboring utility service territory where market costs are passed on to customers on a monthly basis. During the winter months at the end of 2005 and into 2006, the price differential between the two gas utilities was as high as 40.8



Enterprise Funds *continued*

Water Utility Capital Work

percent. Staff is actively involved in advocating regulatory forums to avoid transportation cost increases.

The City's water supplier, the San Francisco Public Utilities Commission (SFPUC), has embarked on a series of capital projects to upgrade its aqueducts and water transmission system. The \$4.3 billion price tag does not include the cost of new supplies, and the wholesale water rates paid by the Water Utility to the SFPUC are expected to increase for the next 10-15 years.

Comprised of the cities, water districts, and private companies that purchase water from SFPUC, 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. These infrastructure improvements, however, will result in significantly greater reliability to the system which provides Palo Alto, and many neighboring communities, with one of the highest quality sources of drinking water in the nation.

PUBLIC WORKS UTILITY FUNDS

Refuse

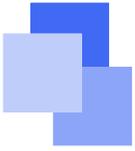
The Refuse Fund continues to exceed the State mandate of reducing waste by 50 percent. The City's current rate is 62 percent, an improvement of 5 percent over the prior year.

Due to increasing financial obligations, along with the need to bring reserve balances in alignment with Council-approved guidelines, rate increases were adopted for 2004-05 and 2005-06. However, no rate increases are planned for 2006-07.

In late summer 2006, staff will present an implementation plan to achieve Zero Waste goals. The goal of Zero Waste is to reduce the amount of waste going to landfills by 90% or more.

Storm Drain

In April 2005, property owners approved an increase in the Storm Drainage Fee through a mail ballot process conducted in accordance with Proposition 218. As a result, the fee was increased from \$4.25 per month to a revised rate of \$10.00 per month for the typical single-family residential ratepayer. The increased revenue will provide funding for high-priority storm drain capital improvements. In 2006-07, efforts will include construction work to connect storm drains along Clara



Enterprise Funds *continued*

Drive to the Matadero Storm Water Pump Station, as well as construction work on storm drain improvements in the Gailen Avenue/Bibbits Drive area. Staff will also focus on the design of the San Francisquito Creek Storm Water Pump Station and on city-wide storm drain maintenance.

Wastewater Treatment

Revenues in the Wastewater Treatment Fund will show an increase of \$0.9 million in 2006-07, due to growth in contract cities revenue. An estimated \$5.3 million in capital improvement is planned in 2006-07. CIP projects include: Replacement of Existing Reclaimed Water Pipes, Landfill Gas Incineration, Plant Equipment Replacement and System Flow Meter Replacement Program.

CITY OF PALO ALTO EXTERNAL SERVICES FUND

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. Seven municipal contracts have been signed with the cities of Emeryville, Menlo Park, Atherton, Los Altos Hills, Alameda, Saratoga, and Morgan Hill. Fund expenditures are fully supported by revenue generated from these contracts.

2006-07 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	87,348	43,850	13,679	22,312	22,183	5,236	18,794	0	213,401
Interest Income	5,699	450	586	976	409	60	469	0	8,649
Other Income	11,456	653	1,036	1,067	4,022	1,016	3,261	1,162	23,674
TOTAL SOURCE OF FUNDS	\$104,502	\$44,953	\$15,300	\$24,355	\$26,613	\$6,312	\$22,524	\$1,162	\$245,723
EXPENDITURES									
Utility Purchases and Charges	62,864	26,758	6,917	6,813	8,648	0	0	0	112,001
Salaries and Benefits	10,615	3,528	1,389	3,832	3,449	884	7,873	846	32,415
Contract Services	3,422	649	333	489	3,514	352	1,729	119	10,607
Supplies and Materials	760	456	145	441	349	98	1,280	11	3,540
Facilities and Equipment Purchases	112	42	11	12	27	12	41	0	257
General Expense	2,034	309	46	271	2,985	8	144	9	5,807
Rents and Leases	3,800	248	143	1,869	4,303	6	26	0	10,394
Allocated Charges	6,182	2,944	1,553	2,305	2,973	540	4,171	135	20,801
Debt Service	8,862	947	129	774	398	947	822	0	12,878
Subtotal	\$98,651	\$35,881	\$10,666	\$16,806	\$26,645	\$2,846	\$16,085	\$1,120	\$208,700
Equity Transfer	8,736	2,955	0	2,514	0	0	0	0	14,205
Capital Improvement Program	10,020	6,787	4,357	4,054	0	1,662	5,320	0	32,200
Operating Transfers Out	724	324	135	464	263	11	21	25	1,968
TOTAL USE OF FUNDS	\$118,131	\$45,948	\$15,158	\$23,838	\$26,908	\$4,520	\$21,426	\$1,145	\$257,074
To/From Reserves	\$(13,628)	\$(994)	\$142	\$517	\$(295)	\$1,792	\$1,099	\$17	\$(11,350)

ENTERPRISE FUND RESERVES

Reserves (\$000)	2006-07 Projected Beginning Balance	2006-07 Changes	2006-07 Projected Ending Balance	2006-07 Reserve Guideline Range
ELECTRIC FUND				
Emergency Plant Replacement	2,567	58	2,625	5,783
Distribution Rate Stabilization	11,700	(2,231)	9,469	5,433 -10,866
Supply Rate Stabilization	44,098	(8,951)	35,147	28,467 -56,933
Calaveras	73,163	(1,353)	71,810	71,760
Public Benefit	1,583	(1,151)	432	
Central Valley O&M	145	0	145	
Underground Loan	668	0	668	
Subtotal	\$133,924	\$(13,628)	\$120,296	
GAS FUND				
Emergency Plant Replacement	972	38	1,010	2,371
Distribution Rate Stabilization	4,678	(1,750)	2,928	3,133- 6,266
Supply Rate Stabilization	2,506	718	3,224	10,012- 20,023
Debt Service Reserve	952	0	952	
Subtotal	\$9,108	\$(994)	\$8,114	
WASTEWATER COLLECTION FUND				
Emergency Plant Replacement	632	37	669	
Rate Stabilization	4,864	105	4,969	4,415 -8,830
Subtotal	\$5,496	\$142	\$5,638	
WATER FUND				
Emergency Plant Replacement	1,279	75	1,354	2,587
Rate Stabilization	5,454	442	5,896	7,108 -14,215
Debt Service Reserve	780	0	780	
Subtotal	\$7,513	\$517	\$8,030	
REFUSE FUND				
Rate Stabilization	4,043	(432)	3,611	2,218 - 4,437
Landfill Closure and Postclosure Care Reserve	6,829	137	6,966	
Water Resources Board	590	0	590	
Subtotal	\$11,462	\$(295)	\$11,167	
STORM DRAINAGE FUND				
Rate Stabilization	302	1,792	2,094	
Subtotal	\$302	\$1,792	\$2,094	

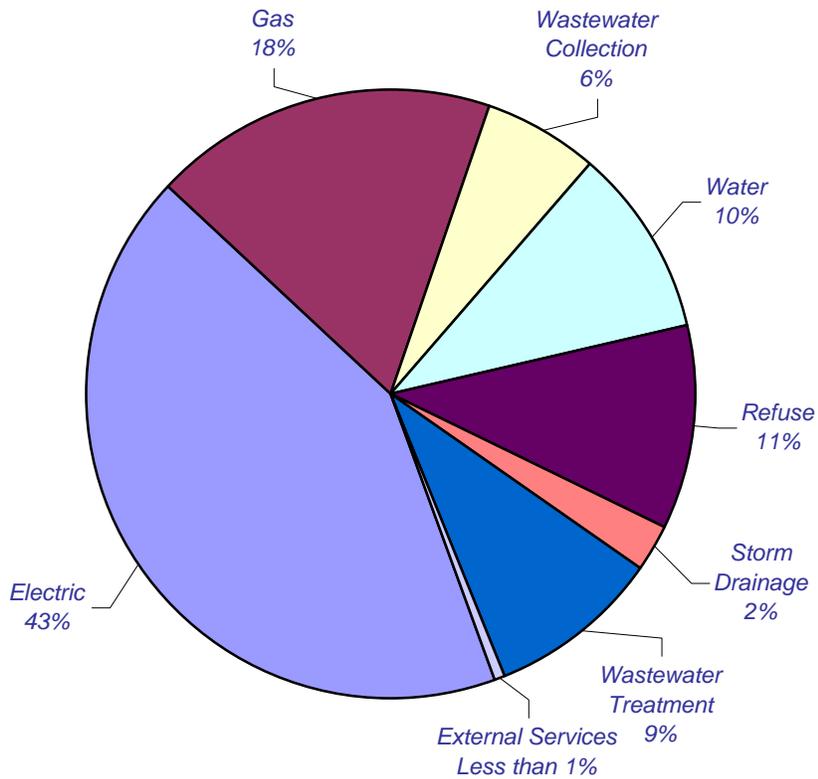


ENTERPRISE FUND RESERVES *CONTINUED*

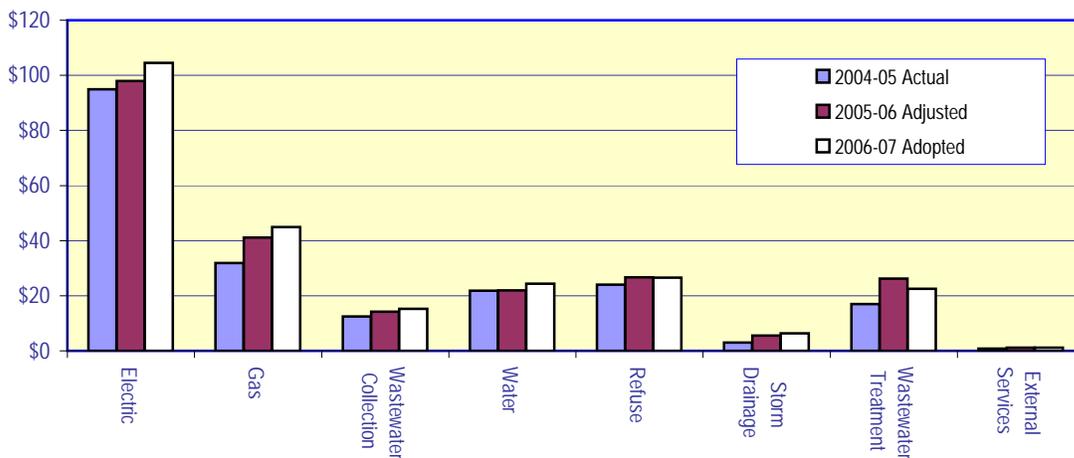
Reserves (\$000)	2006-07 Projected Beginning Balance	2006-07 Changes	2006-07 Projected Ending Balance	2006-07 Reserve Guideline Range
WASTEWATER TREATMENT FUND				
Emergency Plant Replacement	1,895	388	2,283	1,544
Rate Stabilization	2,775	711	3,486	2,815 - 5,629
Bond Proceeds (Restricted)	3	0	3	
Subtotal	\$4,673	\$1,099	\$5,772	
EXTERNAL SERVICES FUND				
Information Technology RSR	52	17	69	
Subtotal	\$52	\$17	\$69	
TOTAL RESERVES	\$172,530	\$(11,350)	\$161,180	
Emergency Plant Replacement	7,345	596	7,941	
Rate Stabilization	80,472	(9,579)	70,893	
Bond Proceeds (Restricted)	3	0	3	
Debt Service Reserve	1,732	0	1,732	
Calaveras	73,163	(1,353)	71,810	
Public Benefit	1,583	(1,151)	432	
Central Valley O&M	145	0	145	
Underground Loan	668	0	668	
Shasta Rewind Loan	0	0	0	
Conservation Loan	0	0	0	
Water Resources Board	590	0	590	
Landfill Closure and Postclosure Care Reserve	6,829	137	6,966	
TOTAL RESERVES	\$172,530	\$(11,350)	\$161,180	

ENTERPRISE FUND REVENUES BY FUND

\$245.7 Million / Adopted 2006-07

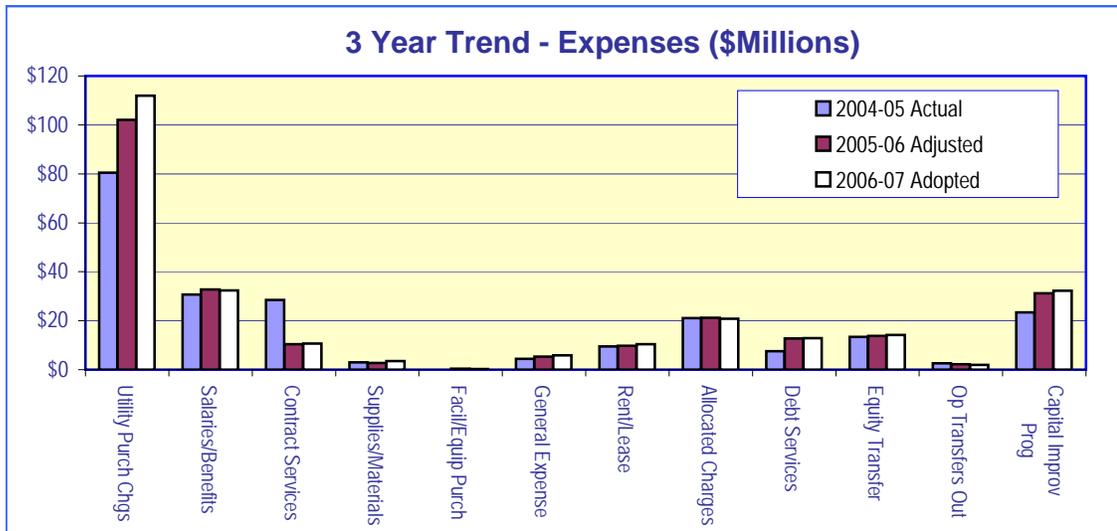
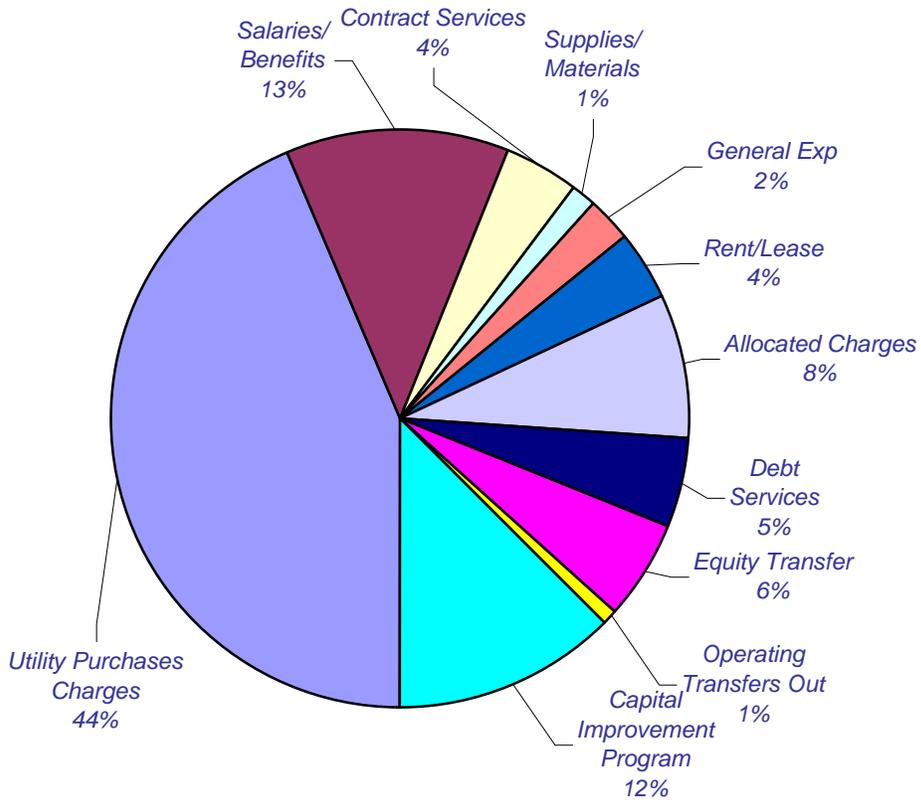


3 Year Trend - Revenues (\$Millions)



ENTERPRISE FUND EXPENDITURES BY CATEGORY

\$257.1 Million / Adopted 2006-07



AVERAGE RESIDENTIAL MONTHLY UTILITY BILL

Utility	Adjusted 2005-06 Bill	Projected 2006-07 Bill	\$ Difference	% Difference
Electric (650KWH)	57.93	57.93	-	0.0%
Water (14CCF)	54.12	58.17	4.05	7.5%
Gas (100/30TH)	69.76	90.97	21.21	30.4%
Sewer	21.85	23.48	1.63	7.5%
Refuse	21.38	21.38	-	0.0%
Storm Drain	10.00	10.20	0.20	2.0%
User Tax	9.09	10.35	1.26	13.9%
Total Monthly Bill	\$244.13	\$272.48	\$28.35	11.6%

COMMENTS:

2005-06 Electric average increase is 11.5%, effective 7-1-05

2005-06 Gas System average increase is 15%, effective 7-1-05

2005-06 Sewer average increase is 12%, effective 7-1-05

2005-06 Refuse average increase is 8%, effective 7-1-05

2006-07 Gas System average increase is 20%, effective 7-1-06

2006-07 Water average increase is 7%, effective 7-1-06

2006-07 Sewer average increase is 5%, effective 7-1-06

2006-07 Storm Drain will increase by CPI at 2%, effective 7-1-06



Electric Fund



Electric Fund

To provide valued utility services to customers and dependable returns to the City.

OVERVIEW

In 2006-07, the City of Palo Alto Utilities (CPAU) plans to focus on improving customer satisfaction by increasing infrastructure reliability, preserving supply cost advantages, increased marketing of energy efficiency, and overall cost containment. The need to hold down costs is even more pressing as utility ratepayers continue to face financial challenges in the slowed economy. These high priority areas are aligned with the strategies and objectives of the Department's strategic plan. Efforts begun in 2005-06 to restructure the department to face these challenges will continue in 2006-07. Some of the results of these efforts are included in this adopted budget.

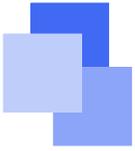
Of paramount importance to the Utilities Department is the integrity of the infrastructure required to achieve a high level of reliability for our customers. Capital projects planned in 2006-07 include: the start of the construction for Underground District 41; ongoing system improvements and upgrades; continued work on the installation of services, transformers, and meters for new customers; upgrading existing services; utility site security enhancements; and the relocation of the Alma Substation. The terrorist events of 2001 prompted a re-evaluation of distribution facilities security. A study was commissioned, and the recommendations were implemented. Security and safety measures continue to be reviewed on an ongoing basis.

In a cooperative effort between the Operations and Customer Services divisions, the Electric Utility will evaluate a number of technologies for the Automated Meter Reading (AMR) pilot program. This limited-scale deployment of specialized meters is being made to determine the most appropriate data collection methodology should the City decide to deploy an AMR solution to increase meter reading speed and accuracy.

The Fiber Optic Utility offers, to the Palo Alto business community, a high-level of expertise in the design, construction, and operation of fiber optic network service. Currently, CPAU provides service to approximately 110 business customers either indirectly, through resellers or directly. Several departments within the City are using the fiber system to improve service delivery to the citizens and businesses of Palo Alto. During the next year, the Fiber Optic Utility will aggressively market the dark fiber infrastructure system in order to attract new customers. This effort will be supported by the implementation of an improved rate structure and pricing methodologies.

The landscape that impacts commodity and transmission costs presents significant challenges as costs continue to fluctuate. Wholesale electric costs have increased 58 percent since 2004 and 71 percent since 2003. Actions taken by the Federal Energy Regulatory Commission (FERC) and the California Independent System Operator (ISO) to promote changes to the industry's structure will result in greater complexity and, most likely, increased transmission and local capacity costs. The City also continues to be involved with several regulatory interventions to advocate for the City's interests while state and federal agencies work to develop a coherent and viable energy policy. Staff will continue to devote a significant amount of time in the coming year to ensure that a diversified, reliable, cost-effective, and renewable portfolio is developed and managed.

The new Western Area Power Administration (WAPA) contract provides about 40 percent of the energy and none of the supply reliability of the previous contract. Therefore, the City was left with a substantial and varying "energy gap" that started in 2005. Due to extremely high wholesale electric prices, supply costs are projected to increase as the City continues to make supply commitments to fill the energy gap. However, due to the long-term contract with WAPA and low-cost contracts from suppliers, overall costs for electricity are still significantly less than market cost. In 2003, the Council approved several Long-term Energy Acquisition Plan (LEAP) objectives and guidelines along with an implementation plan to address the energy gap. Key elements of the plan include energy efficiency, renewable power, market contracts, local generation, exploring transmission alternatives, and management of hydro energy production uncertainties.



Electric Fund *continued*

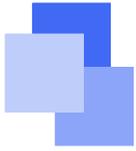
The purchase of renewable resources to meet the Council-approved Renewable Portfolio Standard for Palo Alto will continue. Plans call for the procurement of additional renewable energy supplies during the fiscal year to meet the Council-approved 20 percent target. Additionally, in the coming year, staff will bring to Council recommendations related to climate change and greenhouse gas reduction. The changing market structure in California has resulted in tremendous transmission-related cost increases. Staff will study alternate transmission delivery options and bring recommendations to Council. Significant progress has been made in developing a long-term energy efficiency plan, purchasing wind and landfill gas power, market-based contracts, improving transmission infrastructure, and investigating gas-fired power plants.

The City is a member of the Northern California Power Agency (NCPA). It is likely that changes to the membership arrangements may impact the cost and effectiveness of the agency. Staff will be involved in monitoring and participating in strategies that continue to enhance the value the agency provides the City.

Rate stabilization reserves (RSR) are maintained and managed in accordance with Council-approved guidelines. The RSR provides a cushion for sudden changes in commodity costs and other operating expenses. The aim is to reduce the frequency of rate adjustments and absorb any sudden cost increases. Additionally, the Council-approved LEAP Implementation Plan specifies the need to maintain adequate supply rate stabilization reserves to ensure stable rates in an environment of uncertainty. The reserves are not used to solve long-term financial needs or to address major catastrophic events. Rates are established such that revenues adequately cover current operating, capital, and financial obligations. In the event reserves exceed the maximum guideline, the excess is typically applied toward a rate reduction, customer rebate, or financial obligation. In the event reserves fall below the minimum guideline, a rate increase is typically instituted.

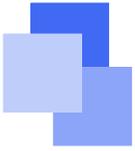
The present electric supply reserve guideline is to maintain reserves of 51.5 percent to 103 percent of purchase costs. In 2006-07, that guideline range is projected at \$28.4 million to \$56.9 million.

For 2006-07, no rate increase is included. The ending Distribution RSR balance is expected to be \$9.5 million, which is above the minimum guideline level of \$5.9 million. The ending Supply RSR balance is expected to be \$35.1 million, which is within the Council-approved guideline range of \$28.5 million to \$56.9 million. One-time regulatory and legal contingencies were not included in the reserve projections. The Calaveras Reserve ending balance will be \$71.8 million for 2006-07.



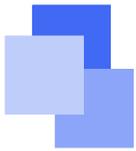
Electric Fund *continued*

FUND SUMMARY	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET	2006-07 BUDGET CHANGE	% CHG
Net Sales	73,768,470	84,669,184	95,557,256	87,347,912	2,678,728	3%
Interest Income	5,470,354	6,023,400	6,023,400	5,698,700	(324,700)	(5%)
Other Income	15,742,570	7,209,191	10,225,744	11,455,760	4,246,569	59%
TOTAL FUND REVENUES	\$94,981,394	\$97,901,775	\$111,806,400	\$104,502,372	\$6,600,597	7%
Administration	6,351,059	5,614,244	5,362,706	5,094,320	(519,924)	(9%)
General Services						
CIP	631,360	160,509	195,001	140,000	(20,509)	(13%)
Operations	1,684,209	2,055,455	2,121,802	1,883,294	(172,161)	(8%)
Resource Management						
Purchases	41,010,151	55,212,320	58,949,880	62,864,431	7,652,111	14%
CIP	0	500,000	0	0	(500,000)	(100%)
Operations	20,680,917	2,228,562	2,152,794	2,238,961	10,399	0%
Customer Marketing and Financial Services	1,523,619	1,829,457	1,821,443	1,888,413	58,956	3%
Distribution System						
Systems Improvement(CIP)	3,783,896	5,325,477	10,080,000	7,980,001	2,654,524	50%
Customer Design and Connection Services(CIP)	2,865,196	1,506,790	1,600,000	1,600,000	93,210	6%
Operations	6,665,980	8,531,756	8,568,670	8,460,946	(70,810)	(1%)
Commercial Telecommunication						
Customer Design & Connection(CIP)	342,097	300,000	300,000	300,000	0	0%
Operations	661,026	845,672	853,346	773,191	(72,481)	(9%)
Public Benefit	1,898,298	2,514,110	2,751,829	3,063,820	549,710	22%
Debt Service	4,928,325	8,697,000	8,787,000	8,861,795	164,795	2%
Equity Transfer	8,234,222	8,481,248	8,735,686	8,735,686	254,438	3%
Rent	3,122,565	3,114,390	3,129,146	3,521,441	407,051	13%
Operating Transfers Out	920,932	704,067	473,359	724,472	20,405	3%
TOTAL FUND EXPENDITURES	\$105,303,852	\$107,621,057	\$115,882,662	\$118,130,771	\$10,509,714	10%
TO/FROM RESERVES	\$(10,322,458)	\$(9,719,282)	\$(4,076,262)	\$(13,628,399)	\$(3,909,117)	



Electric Fund *continued*

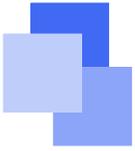
INPUTS	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET
Utility Purchases and Charges	41,010,151	55,212,320	58,949,880	62,864,431
Salaries and Benefits	10,358,123	11,002,543	11,124,091	10,614,506
Contract Services	20,660,473	3,239,257	3,213,575	3,421,584
Supplies and Materials	637,508	714,890	714,890	760,074
Facilities and Equipment Purchases	10,869	133,480	133,480	112,280
General Expense	1,191,828	1,697,786	1,915,914	2,034,113
Rents and Leases	3,375,551	3,379,050	3,407,966	3,800,261
Allocated Charges	6,353,321	6,566,640	6,251,820	6,181,568
Debt Service	4,928,325	8,697,000	8,787,000	8,861,795
Equity Transfer	8,234,222	8,481,248	8,735,686	8,735,686
Capital Improvement Program	7,622,549	7,792,776	12,175,001	10,020,001
Operating Transfers Out	920,932	704,067	473,359	724,472
Total Expenditures	\$105,303,852	\$107,621,057	\$115,882,662	\$118,130,771
Total Full Time Positions	114.16	115.48	115.48	114.89
Total Temporary Positions	3.29	3.29	3.29	2.94



Electric Fund *continued*

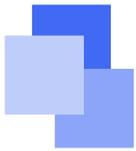
BENCHMARKING MEASURES

	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
Workload Outputs:			
1. Average purchase cost per MWH (SEA)	\$41.25	\$57.17	\$67.35
2. The Revenue Bond credit rating is AA- (SP-F2.1)	AA-	AA-	AA-
3. Percent of electricity from Palo Alto Green Program (SEA)	2.1%	2.1%	5.0%
4. Percent of customers enrolled in Palo Alto Green Program (SEA)	12.6%	12.6%	15%
Efficiency:			
1. The difference in the commodity average system rate for Palo Alto customers, compared to the average rate of other California municipal and investor-owned utilities, will be equal to or less than zero. A figure less than zero indicates a lower utility bill for customers (New)	NA	<0	<0
2. The difference in the distribution average system rate for Palo Alto customers, compared to the average rate of other California municipal and investor-owned utilities will be equal to or less than zero. A figure less than zero indicates a lower utility bill for customers (New)	NA	<0	<0
3. Customer outages will be equal to or less than 60 minutes in duration as reported in the nationally recognized Electric System Average Interruptible Duration Index (SAIDI) (SP-C2.1)	63.68	63.68	<60 minutes/ cus/yr
4. The number of customer outages will be equal to or less than 3 per customer per year as reported in the nationally recognized System Average Interruption Frequency Index (SAIFI) (New)	<3	<3	<3
Effectiveness:			
1. The Customer Satisfaction rating from an outside rating agency, measured against other California utilities will be equal to or greater than the state average. The scale is from one to ten with ten being the highest (SP-C1.1)	7.9	8.0	>8.0
2. The citizen survey rating for good or excellent electric services will be equal to or greater than the prior years rating (SEA)	68%	>68%	>68%
3. Increase annual purchase of electricity from renewable fuel sources to meet Council-directed targets of (1) 7.7% renewable power by 2006 (2)10% renewable power by 2010 and (3) 20% renewable power by 2015 (New)	2.4%	6.7%	7.7%



Electric Fund *continued*

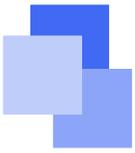
RESERVES (\$000)	2006-07 PROJECTED BEGINNING BALANCE	2006-07 CHANGES	2006-07 PROJECTED ENDING BALANCE	2006-07 RESERVE GUIDELINE RANGE
Emergency Plant Replacement	\$2,567	\$58	\$2,625	\$5,783
Distribution Rate Stabilization	11,700	(2,231)	9,469	5,433 -10,866
Supply Rate Stabilization	44,098	(8,951)	35,147	28,467 -56,933
Calaveras	73,163	(1,353)	71,810	71,760
Public Benefit	1,583	(1,151)	432	
Central Valley O&M	145		145	
Underground Loan	668		668	
TOTAL RESERVES	\$133,924	\$(13,628)	\$120,296	



Electric Fund *continued*

RESOURCE LEVEL CHANGES

	2006-07 ONGOING	2006-07 ONE-TIME	2006-07 TOTAL
REVENUE CHANGES (\$000)			
Net Sales	2,604		2,604
Palo Alto Green	75		75
Under-grounding District Utility Fee	200		200
Surplus Energy Revenue	2,471		2,471
CIP Reimbursement (Note 1)	1,110		1,110
Interest Income	(324)		(324)
Operating Transfer from Other Funds	(35)		(35)
Central Valley Project Loan Repayments (Note 2)	400		400
Cable TV	100		100
TOTAL REVENUE CHANGES	\$6,601	\$0	\$6,601
EXPENDITURE CHANGES (\$000)			
Salary and Benefits			
Drop 1.0 FTE Supervisor Electric Systems (Note 3)	(146)		(146)
Drop 1.0 FTE Electric Utility Compliance Technician (Note 4)	(113)		(113)
Add 0.45 FTE Assistant Director, Utilities Engineering	94		94
Reclassify 1.0 FTE from Associate Power Engineer to Power Engineer	16		16
Reclassify 1.0 FTE from Utility Engineering Estimator to Lead Utility Engineering Estimator	8		8
Personnel Benefits Costs (Note 5)	(199)		(199)
Total Salary and Benefits Changes	\$(340)	\$0	\$(340)
Non-Salary			
Contract Services	(75)		(75)
Legal (Note 6)	10		10
Supplies and Materials	49		49
General Expense	24		24
Joint Debt Service	165		165
Public Benefit Program	534		534
Rent and Leases	421		421
Electric Commodity (Note 7)	7,044		7,044
Palo Alto Green	208		208
Equity Transfer	254		254
Allocated Charges (Note 8)	(596)		(596)
Capital Improvement Program (Note 9)	2,179		2,179



Electric Fund *continued*

	2006-07 ONGOING	2006-07 ONE-TIME	2006-07 TOTAL
Central Valley Project Loan Advances (Note 2)	400		400
Operating Transfers Out	21		21
COBUG	212		212
Total Non-Salary Changes	\$10,850	\$0	\$10,850
TOTAL EXPENDITURE CHANGES	\$10,510	\$0	\$10,510

RESOURCE LEVEL NOTES

Note 1: Payment from SBC for capital project.

Note 2: 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 3: Offset by addition of WGW Supervisor in WGW Operations.

Note 4: Offset by addition of Senior Mechanic in WGW Operations.

Note 5: Personnel benefit costs are decreasing due to lower employee pension costs and the allocation of workers' compensation costs to reflect actual department case experience.

Note 6: Increase in legal is due to claims relating to utilities matters.

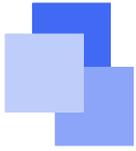
Note 7: Increase due to increase in transmission cost and other power-related cost.

Note 8: Decrease in allocated charges is due to adjustment in allocation of utilities administration charges.

Note 9: Change includes project for relocation of Alma substation. Projected expenditures for this project are \$1.8 million for 2006-07.

SERVICE LEVEL CHANGES

LEAP is a planning methodology for managing 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, staff will recommend long-term portfolio elements and short-term power purchases. During 2006-07, implementation of the LEAP initiatives will continue. LEAP initiatives include energy efficiency, cogeneration, renewable resource power, transmission upgrades, market-based contracts and natural gas-fired power plants. Service level impacts include securing favorable energy supplies for CPAU customers through both short-term and long-term planning horizons. The average cost of electric commodity in 2006-07 is expected to be (as of January 2006) approximately 6.2 cents/kwh compared to market prices that exceed 8.7 cents/kwh, an approximately 30 percent savings. Sales figures are based on the sale of 977 million kwh to our customers.



Electric Fund *continued*

Electric efficiency, conservation and load management programs and services will be more closely aligned with energy and demand costs, transmission costs, resource adequacy requirements and management of the load growth associated with increased economic activity within the city. Enhanced home repair and rebate programs will be targeted to low-income customers. Greater outreach will be made to the small commercial market sector to increase their awareness of Utilities services and to help them control their Electric Utility costs.

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Gas Fund

To provide valued utility services to customers and dependable returns to the City.

OVERVIEW

In 2006-07, the City of Palo Alto Utilities (CPAU) plans to focus on customer service, infrastructure reliability, maintaining an excellent safety record, managing energy portfolio risk, providing stable and low supply costs, and containing salary and non-salary costs. These high priority areas are aligned with the strategies and objectives of the CPAU strategic plan. Efforts begun in 2005-06 to restructure the department to meet these challenges will continue in 2006-07. Some of the results of these efforts are included in this adopted budget.

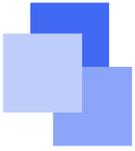
Of paramount importance to the Utilities Department is the focus on the integrity of the infrastructure required to achieve a high level of reliability for our customers. Capital projects planned in 2006-07 include: the construction phase of Gas Main Replacement Project 16 to replace leaking, inadequately sized, and structurally deficient ABS gas mains and services; the design phase of Gas Main Replacement Project 17 for the same purpose; ongoing system improvements and upgrades; continued work with the installation of services; meters for new customers; and upgrading existing services. The terrorist events of 2001 prompted a re-evaluation of distribution facilities security. A study was commissioned and the recommendations were implemented. Security and safety measures continue to be reviewed on an ongoing basis.

In a cooperative effort between the Operations and Customer Services divisions, the Gas Utility will evaluate a number of technologies for the Automated Meter Reading (AMR) pilot program. This limited-scale deployment of specialized meters is being made to determine the most appropriate data collection methodology should the City decide to deploy an AMR solution to increase meter reading speed and accuracy.

The 1997 Gas Accord resulted in open access to the Pacific Gas and Electric Company (PG&E) intrastate transportation market. The Gas Accord structure was extended through the end of 2005. In addition, an all-party settlement resulted in local transportation rates acceptable to the City for two years beginning January 1, 2005. Staff will continue to allocate resources to protect CPAU interests. The main areas of interest for CPAU are preservation of low-cost transportation benefits, fair allocation of costs, and reliable transportation to the City.

Council approved the Gas Utility Long-term Plan (GULP) objectives and guidelines in 2003-04. Council also approved, in September 2004, an implementation plan that examined a range of transportation, storage, supply, and efficiency alternatives. The primary objectives of the GULP are to hedge volatile wholesale energy prices and to 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 residential and small commercial customers. Council approved Gas Enabling Agreements with several suppliers that allow the City to diversify credit risk. A three-year gas laddering strategy has been utilized to guide the gas purchasing strategy. The three-year laddering purchase strategy has kept natural gas rates relatively stable despite the rapid increase in natural gas and oil prices. Natural gas prices are approximately 42 percent higher than prices in 2004 and 72 percent higher than prices in 2003. Due to the laddering strategy, Palo Alto customers are currently paying significantly less for gas than they might be paying if CPAU purchased its gas in the spot market.

In spite of the availability of alternative suppliers in the deregulated market, the City's largest commercial and industrial gas customers have remained steadfast buyers of natural gas from CPAU. Large customers can choose between a market-based rate and a CPAU "contract" rate that locks in their usage at guaranteed prices for either a 12-month or 24-month period. Staff provides critical market information to help customers make the best gas supply choices possible.

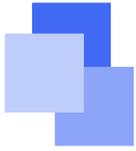


Gas Fund *continued*

Rate stabilization reserves (RSR) are maintained and managed in accordance with Council-approved guidelines. The RSR provides a cushion for sudden changes in commodity costs and other operating expenses. The aim is to reduce the frequency of rate adjustments and absorb any sudden cost increases. The reserves are not used to solve long-term financial needs or to address major catastrophic events. Rates are established such that revenues adequately cover current operating, capital, and financial obligations. In the event reserves exceed the maximum guideline, the excess is typically applied toward a rate reduction, customer rebate, or financial obligation. In the event reserves fall below the minimum guideline, a rate increase is typically instituted.

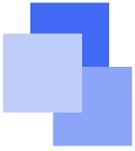
The present natural gas supply reserve guideline is to maintain reserves within 37.5 percent to 75 percent of purchase costs. In 2006-07, the Supply RSR guideline range is projected to be \$10 million to \$20 million. With a gas rate increase of 20 percent in 2006-07, the Adopted Budget results in a total reserve balance of approximately \$8.1 million. The Gas Supply RSR ending balance is projected to end at \$3.2 million, which is lower than the minimum guideline of \$10 million. The ending Distribution RSR is projected to be \$2.9 million, which is slightly below the minimum guideline of \$3.1 million.

The current and projected levels of the Gas Supply Rate Stabilization Reserve are almost 50 percent below the minimum guideline. While management is concerned about this, the reserve level is being closely monitored and the City's risk management and "laddering" purchase strategy are limiting the risk exposure of the reserve. For example, supply risk has been mitigated through the strategy of purchasing significant portions of the forward gas needs; already purchased natural gas supplies for Palo Alto's load total 77 percent for 2006-07; 54 percent for 2007-08, and 14 percent for 2008-09. Risk exposure, particularly credit risk, is continually being evaluated to ensure that our Supply Reserves are adequate, even at reduced Reserve balance levels. The City's policy of only purchasing supplies from a set of high rated counterparties is a significant factor in moderating credit risk.



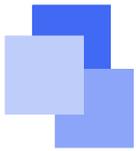
Gas Fund *continued*

FUND SUMMARY	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET	2006-07 BUDGET CHANGE	% CHG
Net Sales	29,915,268	39,826,000	40,388,000	43,850,000	4,024,000	10%
Interest Income	588,204	673,300	673,300	450,300	(223,000)	(33%)
Other Income	1,326,351	636,180	653,180	653,180	17,000	3%
TOTAL FUND REVENUES	\$31,829,823	\$41,135,480	\$41,714,480	\$44,953,480	\$3,818,000	9%
Administration	2,555,145	2,493,377	2,415,139	2,407,926	(85,451)	(3%)
Resource Management						
Purchases	18,805,359	25,471,000	20,643,195	26,697,800	1,226,800	5%
Operations	4,380,063	1,057,141	1,001,644	856,362	(200,779)	(19%)
Customer Marketing and Financial Services	1,171,691	1,350,143	1,347,424	1,403,847	53,704	4%
Distribution System						
Systems Improvement(CIP)	4,804,162	3,437,885	5,326,000	6,223,999	2,786,114	81%
Customer Design and Connection Services(CIP)	497,434	552,828	562,999	563,000	10,172	2%
Operations	2,551,608	2,769,280	2,767,359	3,014,174	244,894	9%
Public Benefits	227,195	345,337	386,871	406,793	61,456	18%
Debt Service	569,427	947,273	946,558	946,558	(715)	0%
Equity Transfer	2,785,635	2,869,204	2,955,280	2,955,280	86,076	3%
Rent	127,550	142,845	149,936	147,752	4,907	3%
Operating Transfers Out	514,167	247,280	157,572	324,379	77,099	31%
TOTAL FUND EXPENDITURES	\$38,989,436	\$41,683,593	\$38,659,977	\$45,947,870	\$4,264,277	10%
TO/FROM RESERVES	\$(7,159,613)	\$(548,113)	\$3,054,503	\$(994,390)	\$(446,277)	



Gas Fund *continued*

INPUTS	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET
Utility Purchases and Charges	18,915,859	25,573,000	20,750,295	26,757,800
Salaries and Benefits	3,036,600	3,440,773	3,484,355	3,528,481
Contract Services	4,327,220	895,500	844,245	649,145
Supplies and Materials	245,507	146,520	146,520	456,120
Facilities and Equipment Purchases	27,367	55,290	55,290	42,490
General Expense	251,405	256,219	297,864	309,243
Rents and Leases	214,968	234,555	249,646	247,662
Allocated Charges	2,799,685	3,027,266	2,883,353	2,943,713
Debt Service	569,427	947,273	946,558	946,558
Equity Transfer	2,785,635	2,869,204	2,955,280	2,955,280
Capital Improvement Program	5,301,596	3,990,713	5,888,999	6,786,999
Operating Transfers Out	514,167	247,280	157,572	324,379
Total Expenditures	\$38,989,436	\$41,683,593	\$38,659,977	\$45,947,870
Total Full Time Positions	45.26	45.11	45.11	45.95
Total Temporary Positions	2.15	2.15	2.15	1.14

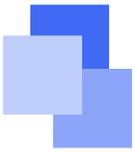


Gas Fund *continued*

BENCHMARKING MEASURES

	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
Workload Outputs:			
1. Percent of class one gas leaks repaired within Department of Transportation (DOT) Timelines (New)		100%	100%
2. Percent of total miles of pipeline replaced annually (SEA- 2.8%)	2.8%	2.9%	5.7%
3. Average purchase cost (per therm)	\$0.57	\$0.77	\$0.80
4. The Revenue Bond credit rating is AA-. (SP-F2.1)	AA-	AA-	>AA-
Efficiency:			
1. The difference in the commodity average system rate for Palo Alto customers, compared to the average rate of other California municipal and investor-owned utilities will be equal to or less than zero. A figure less than zero indicates a lower utility bill for customers. (New)		<0	<0
2. The difference in the distribution average system rate for Palo Alto customers, compared to the average rate of other California municipal and investor-owned utilities, will be equal to or less than zero. A figure less than zero indicates a lower utility bill for customers. (New)		<0	<0
Effectiveness:			
1. The Customer Satisfaction rating from an outside rating agency, measured against other California utilities will be equal to or greater than the state average. The scale is from one to ten with ten being the highest. (SP-C1.1)	7.9	8.0	>8.0
2. The citizen survey rating for good or excellent gas services will be equal to or greater than the prior years rating. (SEA)	68%	>68%	>68%

RESERVES (\$000)	2006-07 PROJECTED BEGINNING BALANCE	2006-07 CHANGES	2006-07 PROJECTED ENDING BALANCE	2006-07 RESERVE GUIDELINE RANGE
Emergency Plant Replacement	\$972	\$38	\$1,010	\$2,371
Distribution Rate Stabilization	4,678	(1,750)	2,928	3,133- 6,266
Supply Rate Stabilization	2,506	718	3,224	10,012- 20,023
Debt Service Reserve	952	0	952	
TOTAL RESERVES	\$9,108	\$(994)	\$8,114	



Gas Fund *continued*

RESOURCE LEVEL CHANGES

	2006-07 ONGOING	2006-07 ONE-TIME	2006-07 TOTAL
REVENUE CHANGES (\$000)			
Net Sales (Note 1)	4,024		4,024
Interest Income	(223)		(223)
Connection Charges	17		17
TOTAL REVENUE CHANGES	\$3,818	\$0	\$3,818
EXPENDITURE CHANGES (\$000)			
Salary and Benefits			
Add 0.20 FTE Assistant Director, Utilities Engineering	42		42
Reclassify 1.0 FTE from Supervisor, WGW to Coordinator, Utility Projects	(47)		(47)
Add 0.30 FTE WGW Supervisor (Note 2)	39		39
Add 0.33 FTE Senior Mechanic (Note 3)	37		37
Personnel Benefits Costs (Note 4)	(142)		(142)
Total Salary and Benefits Changes	\$(71)	\$0	\$(71)
Non-Salary			
Legal	5		5
Supplies and Materials	58		58
General Expenses	39		39
Rents and Leases	13		13
Equity Transfer	86		86
Allocated Charges (Note 5)	(77)		(77)
Gas Commodity	1,185		1,185
Capital Improvement Program	2,949		2,949
Operating Transfers To Other Funds	77		77
Total Non-Salary Changes	\$4,335	\$0	\$4,335
TOTAL EXPENDITURE CHANGES	\$4,264	\$0	\$4,264

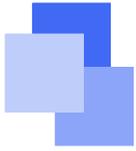
RESOURCE LEVEL NOTES

Note 1: Adopted 20 percent rate increase for 2006-07.

Note 2: Offset by drop of Supervisor- Electric Systems in the Electric Fund.

Note 3: Offset by drop of Utilities Compliance Technician in the Electric Fund.

Note 4: Personnel benefit costs are decreasing due to lower employee pension costs and the allocation of workers' compensation costs to reflect actual department case experience.



Gas Fund *continued*

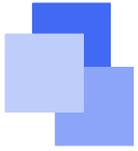
Note 5: Decrease in allocated charges is due to adjustment in allocation of utilities administration charges.

SERVICE LEVEL CHANGES

Gas Utility Long-term Plan (GULP) 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, staff will continue to purchase gas in a 3-year laddering strategy with creditworthy suppliers. The average cost of gas commodity in 2006-07 is expected to be (as of January 2006) approximately 7.4 \$/MMBtu compared to market prices that exceed 9.3 \$/MMBtu, a savings of approximately 20 percent. Sales figures are based on the sale of 32.162 million therms.

The Gas Utility has continued to review the cost-effectiveness of providing 24/7 customer support by the Field Service staff due to very high "per-call" costs for the few calls that are currently received late in the evening or early morning hours, primarily between 10pm and 6:30am. Utility Managers are evaluating the possibility of scaling-back on-site coverage for late evening/early morning hours and continue to respond to those calls using "on-call" staff. This schedule will be subject to change depending upon customer demand and business needs.

Natural gas efficiency and conservation programs and services will be more closely aligned with supply costs and with the load growth resulting from recovering economic activity within the city. Enhanced home repair and rebate programs will be targeted to low-income customers. Greater outreach will be made to the small commercial market sector in order to increase these businesses' awareness of Utilities services and to help them control their utility costs.

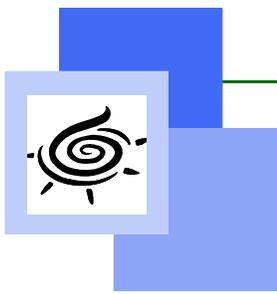


Gas Fund *continued*

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Wastewater Collection Fund



Wastewater Collection Fund

To provide valued utility services to customers and dependable returns to the City.

OVERVIEW

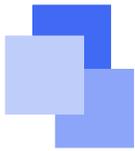
City of Palo Alto Utilities (CPAU) plans to focus on customer service, infrastructure reliability, and containment of salary and non-salary costs during the next budget cycle. These high priority areas are aligned with the strategies and objectives of the Department's strategic plan. Efforts begun in 2005-06 to restructure the department to meet these challenges will continue in 2006-07. Some of the results of these efforts are included in this adopted budget.

Consistent with the department-wide goal of focusing on reliability, staff will continue the design and construction stages of several major capital improvement projects (CIP) based on the 1989 Wastewater Collection System Master Plan. The 1989 Master Plan targeted top priority work in its CIP recommendations. Over the past 17 years most of the top priority CIP work has been completed. In 2006-07, staff will continue overlapping the design and construction elements of rehabilitation and augmentation projects. Specifically, construction will begin for Project 19, as will design of Project 20. Since current technology allows for the dynamic modeling of collection systems, an updated master plan and model will be used to provide Engineering staff with data for planning future CIP projects. This higher quality dynamic analysis may reduce the need for future CIP expenditures.

A contract started in 2005-06 to provide services to customers with sewer blockages will continue in 2006-07. This program has resulted in better customer service and reduced overtime. Success of the program will be thoroughly evaluated using a survey of customers served by the contractor.

The Wastewater Utility will be monitoring and evaluating a recent change to wastewater pricing, to determine the customer satisfaction impacts on qualifying commercial and industrial customers. Rather than establish wastewater cost from a water-consumption-derived formula, the new formula determines evaporative losses by customers using cooling towers, and subtracts those losses from customer bills.

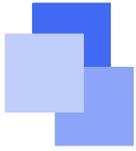
In 2006-07, the adopted wastewater rate increase of 5 percent is expected to generate approximately \$0.7 million in additional revenue. The Rate Stabilization Reserve (RSR) ending balance is projected to be approximately \$5.0 million, which is above the minimum guideline level of \$4.4 million.



Wastewater Collection Fund *continued*

FUND SUMMARY	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET	2006-07 BUDGET CHANGE	% CHG
Net Sales	11,847,487	12,995,652	14,397,652	13,678,652	683,000	5%
Interest Income	423,249	528,400	528,400	585,600	57,200	11%
Other Income	216,436	722,400	696,200	1,036,200	313,800	43%
TOTAL FUND REVENUES	\$12,487,172	\$14,246,452	\$15,622,252	\$15,300,452	\$1,054,000	7%
Administration	906,007	1,227,984	1,172,930	1,243,990	16,006	1%
Customer Marketing and Financial Services	318,074	295,743	305,894	281,656	(14,087)	(5%)
Collection System						
Treatment Plant Charges	5,906,294	6,587,950	6,917,347	6,917,347	329,397	5%
Systems Improvement(CIP)	3,597,490	3,973,953	3,990,000	3,989,999	16,046	0%
Customer Design & Connection(CIP)	206,349	358,687	367,000	366,999	8,312	2%
Operations	1,464,332	1,594,713	1,610,338	2,016,442	421,729	26%
Debt Service	79,242	129,305	128,645	128,645	(660)	(1%)
Rent	66,539	75,182	79,189	77,955	2,773	4%
Operating Transfers Out	86,551	53,230	50,418	135,126	81,896	154%
TOTAL FUND EXPENDITURES	\$12,630,878	\$14,296,747	\$14,621,761	\$15,158,159	\$861,412	6%
TO/FROM RESERVES	\$(143,706)	\$(50,295)	\$1,000,491	\$142,293	\$192,588	

INPUTS	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET
Utility Purchases and Charges	5,906,294	6,587,950	6,917,347	6,917,347
Salaries and Benefits	1,391,796	1,207,548	1,281,034	1,388,778
Contract Services	(312,007)	154,600	116,100	333,100
Supplies and Materials	153,168	59,310	59,310	145,010
Facilities and Equipment Purchases	7,415	11,150	13,650	11,150
General Expense	32,964	38,500	30,500	46,000
Rents and Leases	124,488	135,182	144,789	143,255
Allocated Charges	1,357,128	1,587,332	1,522,968	1,552,750
Debt Service	79,242	129,305	128,645	128,645
Capital Improvement Program	3,803,839	4,332,640	4,357,000	4,356,998
Operating Transfers Out	86,551	53,230	50,418	135,126
Total Expenditures	\$12,630,878	\$14,296,747	\$14,621,761	\$15,158,159
Total Full Time Positions	23.51	22.11	22.11	24.18
Total Temporary Positions	0.97	0.97	0.97	0.12

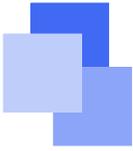


Wastewater Collection Fund *continued*

BENCHMARKING MEASURES

	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
Workload Outputs:			
1. Number of miles of sewer lines cleaned/treated annually (SEA)	115	115	>115
Efficiency:			
1. Responses to notification of reportable incidents of sewer overflow will be within 2 hours for 95 percent of the time.	95%	95%	95%
Effectiveness:			
1. A satisfaction survey regarding the response to wastewater backups will have a 75 percent approval rating for the contractor. (New)		75%	75%
2. The citizen survey rating the quality of sewer services either good or excellent will be equal to or greater than the prior years rating. (SEA)	82%	82%	>82%

RESERVES (\$000)	2006-07 PROJECTED BEGINNING BALANCE	2006-07 CHANGES	2006-07 PROJECTED ENDING BALANCE	2006-07 RESERVE GUIDELINE RANGE
Emergency Plant Replacement	\$632	\$37	\$669	\$
Rate Stabilization	4,864	105	4,969	4,415 -8,830
TOTAL RESERVES	\$5,496	\$142	\$5,638	



Wastewater Collection Fund *continued*

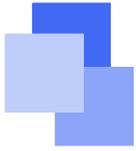
RESOURCE LEVEL CHANGES

	2006-07 ONGOING	2006-07 ONE-TIME	2006-07 TOTAL
REVENUE CHANGES (\$000)			
Net Sales (Note 1)	683		683
Interest Income	57		57
Other Income (Note 2)	314		314
TOTAL REVENUE CHANGES	\$1,054	\$0	\$1,054
EXPENDITURE CHANGES (\$000)			
Salary and Benefits			
Add 0.15 FTE Assistant Director, Utilities Engineering	31		31
Add 1.0 FTE Utility Installer/Repairer	92		92
Reclassify 1.0 FTE from Supervisor, WGW to Coordinator, Utility Projects	37		37
Add 0.30 FTE WGW Supervisor (Note 3)	40		40
Add 0.33 FTE Senior Mechanic (Note 4)	37		37
Personnel Benefits Costs (Note 5)	(101)		(101)
Total Salary and Benefits Changes	\$136	\$0	\$136
Non-Salary			
Treatment Plant Charges	329		329
Contract Services (Note 6)	119		119
Supplies and Materials (Note 7)	86		86
Legal (Note 8)	60		60
General Expense	7		7
Rent and Leases	8		8
Operating Transfer	82		82
Capital Improvement Program	95		95
Allocated Charges (Note 9)	(61)		(61)
Total Non-Salary Changes	\$725	\$0	\$725
TOTAL EXPENDITURE CHANGES	\$861	\$0	\$861

RESOURCE LEVEL NOTES

Note 1: Adopted rate increase of 5 percent in 2006-07.

Note 2: Increase in other income is due to the net change of an increase in connection charges and a decrease in ground water discharge fees.



Wastewater Collection Fund *continued*

Note 3: Offset by drop of Supervisor- Electric Systems in the Electric Fund.

Note 4: Offset by drop of Utilities Compliance Technician in the Electric Fund.

Note 5: Personnel benefit costs are decreasing due to lower employee pension costs and the allocation of workers' compensation costs to reflect actual department case experience.

Note 6: Increase in contract services is mainly due to outside contract for sewer cleaning services.

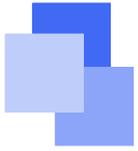
Note 7: Increase in supplies and materials is due to increase in costs for construction materials and training and safety supplies.

Note 8: Increase in legal is due to claims relating to utilities matters.

Note 9: Decrease in allocated charges is due to adjustment in allocation of utilities administration charges.

SERVICE LEVEL CHANGES

In order to improve service to our customers, the Department contracted with an outside vendor for wastewater calls. Customer surveys will assist in the monitoring of this contract to ensure continued customer satisfaction.



Wastewater Collection Fund *continued*

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Water Fund



Water Fund

To provide valued utility services to customers and dependable returns to the City.

OVERVIEW

In 2006-07, the City of Palo Alto Utilities (CPAU) plans to focus on customer service, infrastructure reliability, water quality, and containment of salary and non-salary costs. In addition, CPAU will work to provide 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 updated strategic plan. Efforts begun in 2005-06 to restructure the department to face these challenges will continue in 2006-07. Some of the results of these efforts are included in this adopted budget.

Of paramount importance to the Utilities Department is the integrity of the infrastructure required to achieve a high level of reliability for our customers. Capital projects planned in 2006-07 include the construction phase of Water Main Replacement Project 20 to replace structurally deficient water mains; the design phase of Water Main Replacement Project 21 for the same purpose; system improvements and upgrades for underground vaults and above ground water regulation facility locations; continued work with the installation of services; meters for new customers; and upgrading existing services. The terrorist events of 2001 prompted a re-evaluation of distribution facilities security. A study was commissioned and the recommendations were implemented. Security and safety measures continue to be reviewed on an ongoing basis.

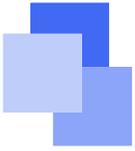
Due to the critical need to ensure sufficient water supplies during emergency situations, CPAU has accelerated the implementation of the recommendations of the 1999 Water Wells, Regional Storage, and Distribution Study. This study was commissioned to evaluate ways to improve the operation and reliability of the City's water distribution system, particularly during emergency situations. Funded through a combination of rates, reserves, and bonds, project expenditures will total approximately \$22.0 million over the next several years. Phase II of the study can start after the Environmental Impact Review (EIR) is certified by the City Council sometime in 2006-07. Design of the Phase II projects will run concurrently with the design and construction for the reservoirs pumps and wells.

Due to strict water quality standards from the Department of Health Services and the need for qualified staff to test the water, efforts will continue to monitor and test the water in compliance with existing mandates.

In a cooperative effort between the divisions of Operations and Customer Services, the Water Utility will evaluate a number of technologies for the Automated Meter Reading (AMR) pilot program. This limited-scale deployment of specialized meters is being made to determine the most appropriate data collection methodology should the City decide to deploy an AMR solution to increase meter reading speed and accuracy.

Palo Alto's water supplier, the San Francisco Public Utilities Commission (SFPUC), has provided rate projections indicating that the City's wholesale costs will steadily increase over the next 10-15 years. This is due to the planned \$4.3 billion construction program to repair and upgrade the SFPUC's regional water delivery system. Palo Alto has supported these system improvements and has advocated for prompt implementation of the SFPUC's Water System Improvement Project (WSIP) program. 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 in 2002 and is an effective advocate for its member agencies, including the City. BAWSCA monitors SFPUC performance and actively advocates for its agencies' concerns. Staff will continue to 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 for the next two years include the development of principles for negotiation of the post-2009 contract as well as the development of terms under which BAWSCA or the new regional financing authority will finance the SFPUC's WSIP projects. BAWSCA's Board, which is comprised of elected officials from each agency, will be closely involved with the development of the new contract.



Water Fund *continued*

A Water Integrated Resource Plan (WIRP) to evaluate all available supply alternatives is underway. 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 groundwater in droughts or on an ongoing basis. All alternatives are being evaluated on the basis of cost, reliability, and availability during 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. Other options are under evaluation.

The current Water Utility Revenue Requirement requires a rate increase of 7 percent to pay for increased supply and operating expenses.

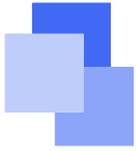
Prior to July 2003, the Water Utility's rate structure was comprised of a monthly meter charge and volumetric charges. Since 2003-04 water rates have been based entirely on projected volumetric water sales to customers, with no minimum bill.

The elimination of the average monthly residential meter charge of \$5.00 has increased the volatility of water revenue due to weather, with revenue being lower than budgeted for a second year in a row. In addition to reduced weather-related consumption, there have been increased market saturations of efficiency improvements from home remodeling (low flow toilets and plumbing fixtures) and installation of new, higher efficiency, lower consumption appliances.

It is imperative, however, that customers have both an accurate price signal and an incentive to use water efficiently. The inverted block rate design continues to provide an incentive for customers to manage their consumption through efficiency and conservation.

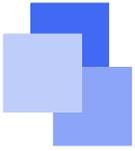
Rate stabilization reserves (RSR) are maintained and managed in accordance with Council-approved guidelines. The RSR provides a cushion for sudden changes in commodity costs and other operating expenses. The aim is to reduce the frequency of rate adjustments and absorb any sudden cost increases. The reserves are not used to solve long-term financial needs or to address major catastrophic events. Rates are established such that revenues adequately cover current operating, capital, and financial obligations. In the event reserves exceed the maximum guideline, the excess is typically applied toward a rate reduction, customer rebate, or financial obligation. In the event reserves fall below the minimum guideline, a rate increase is typically instituted.

With a water rate increase of 7 percent, the Adopted Budget for 2006-07 results in an ending RSR balance of \$5.9 million. This is below the minimum of \$7.1 million.



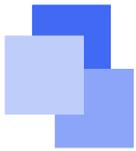
Water Fund *continued*

FUND SUMMARY	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET	2006-07 BUDGET CHANGE	% CHG
Net Sales	20,765,820	20,709,951	23,288,951	22,311,951	1,602,000	8%
Interest Income	794,876	800,900	800,900	975,900	175,000	22%
Other Income	237,871	425,100	434,100	1,067,434	642,334	151%
TOTAL FUND REVENUES	\$21,798,567	\$21,935,951	\$24,523,951	\$24,355,285	\$2,419,334	11%
Administration	2,111,448	1,904,893	1,817,384	1,840,639	(64,254)	(3%)
Resource Management						
Purchases	6,719,065	6,281,090	6,868,000	6,813,408	532,318	8%
Operations	371,701	456,514	461,023	481,146	24,632	5%
Customer Marketing and Financial Services	1,039,038	1,350,906	1,373,955	1,473,966	123,060	9%
Distribution System						
Systems Improvement(CIP)	4,486,478	2,903,721	3,208,000	3,730,999	827,278	28%
Customer Design and Connection Services(CIP)	272,202	315,824	323,000	322,999	7,175	2%
Operations	3,269,902	3,235,038	3,302,307	3,641,956	406,918	13%
Debt Service	465,895	775,041	774,465	774,465	(576)	0%
Equity Transfer	2,369,556	2,440,643	2,513,862	2,513,862	73,219	3%
Rent	1,368,184	1,505,998	1,511,944	1,780,913	274,915	18%
Operating Transfers Out	741,262	892,448	110,693	463,914	(428,534)	(48%)
TOTAL FUND EXPENDITURES	\$23,214,731	\$22,062,116	\$22,264,633	\$23,838,267	\$1,776,151	8%
TO/FROM RESERVES	\$(1,416,164)	\$(126,165)	\$2,259,318	\$517,018	\$643,183	



Water Fund *continued*

INPUTS	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET
Utility Purchases and Charges	6,719,065	6,281,090	6,868,000	6,813,408
Salaries and Benefits	3,658,719	3,557,198	3,591,280	3,832,002
Contract Services	291,128	396,397	412,856	488,856
Supplies and Materials	369,806	228,600	229,100	440,700
Facilities and Equipment Purchases	2,994	53,610	53,610	11,610
General Expense	160,217	236,489	253,400	271,400
Rents and Leases	1,444,833	1,595,124	1,601,070	1,868,739
Allocated Charges	2,232,576	2,385,931	2,325,297	2,305,313
Debt Service	465,895	775,041	774,465	774,465
Equity Transfer	2,369,556	2,440,643	2,513,862	2,513,862
Capital Improvement Program	4,758,680	3,219,545	3,531,000	4,053,998
Operating Transfers Out	741,262	892,448	110,693	463,914
Total Expenditures	\$23,214,731	\$22,062,116	\$22,264,633	\$23,838,267
Total Full Time Positions	39.52	39.75	39.75	41.23
Total Temporary Positions	1.09	1.09	1.09	1.00

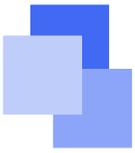


Water Fund *continued*

BENCHMARKING MEASURES

	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
Workload Outputs:			
1. Average Cost per 100 Cubic Feet (CCF)	\$1.14	\$1.06	\$1.15
2. The Revenue Bond credit rating is AA-. (SP-F2.1)	AA-	AA-	>AA-
Efficiency:			
1. The difference in the average system rate for Palo Alto customers, compared to the average rate of other California municipal and investor-owned utilities will be equal to or less than zero. A figure less than zero indicates a lower utility bill for customers. (New)		<0	<0
2. A comparison of the annual CPAU water system losses (unaccounted-for losses), measured against the national average will be less than 0%. (New)		<0%	<0%
Effectiveness:			
1. The Customer Satisfaction rating from an outside rating agency, measured against other California utilities will be equal to or greater than the state average. The scale is from one to ten with ten being the highest. (SP-C1.1)	7.9%	8.0%	>8.0%
2. The citizen survey rating for good or excellent water services will be equal to or greater than the prior years rating. (SEA)	81%	81%	75%
3. The percent of water main breaks responded to within one hour will be 95 percent or greater. (New)	95%	95%	95%
4. Compliance with all required California Department of Health Services and EPA testing for water quality will be 100 percent. This indicates that the Water System Operators (Class 5) have a perfect record. (SEA)	100%	100%	100%

RESERVES (\$000)	2006-07 PROJECTED BEGINNING BALANCE	2006-07 CHANGES	2006-07 PROJECTED ENDING BALANCE	2006-07 RESERVE GUIDELINE RANGE
Emergency Plant Replacement	\$1,279	\$75	\$1,354	\$2,587
Rate Stabilization	5,454	442	5,896	7,108 -14,215
Debt Service Reserve	780		780	
TOTAL RESERVES	\$7,513	\$517	\$8,030	



Water Fund *continued*

RESOURCE LEVEL CHANGES

	2006-07 ONGOING	2006-07 ONE-TIME	2006-07 TOTAL
REVENUE CHANGES (\$000)			
Net Sales (Note 1)	1,602		1,602
Interest Income	175		175
Connection Charges	509		509
Operating Transfers In	133		133
TOTAL REVENUE CHANGES	\$2,419	\$0	\$2,419
EXPENDITURE CHANGES (\$000)			
Salary and Benefits			
Add 0.20 FTE Assistant Director, Utilities Engineering	42		42
Reclassify 1.0 FTE from Supervisor, WGW to Coordinator, Utility Projects	(9)		(9)
Add 0.40 FTE WGW Supervisor (Note 2)	53		53
Add 0.34 FTE Senior Mechanic (Note 3)	38		38
Personnel Benefits Costs (Note 4)	133		133
Total Salary and Benefits Changes	\$257	\$0	\$257
Non-Salary			
Water Commodity	532		532
Supplies and Materials (Note 5)	161		161
Contract Services for Water Transmission	100		100
General Expense	34		34
Rent	275		275
Operating Transfers to Other Funds	(355)		(355)
Capital Improvement Program	846		846
Allocated Charges (Note 6)	(74)		(74)
Total Non-Salary Changes	\$1,519	\$0	\$1,519
TOTAL EXPENDITURE CHANGES	\$1,776	\$0	\$1,776

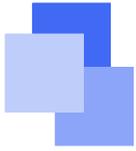
RESOURCE LEVEL NOTES

Note 1: Adopted 7 percent rate increase for water service.

Note 2: Offset by drop of Supervisor- Electric Systems in the Electric Fund.

Note 3: Offset by drop of Utilities Compliance Technician in the Electric Fund.

Note 4: Personnel benefit costs are increasing primarily due to the allocation of workers' compensation costs to reflect actual department case experience.



Water Fund *continued*

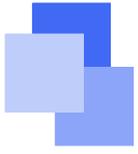
Note 5: Increase in supplies and materials is primarily due to increase in costs for construction and other materials.

Note 6: Decrease in allocated charges is due to adjustment in allocation of utilities administration charges.

SERVICE LEVEL CHANGES

In partnership with the Santa Clara Valley Water District (SCVWD), CPAU is participating in several water conservation "Best Management Practices" (BMP) programs. These will enable Palo Alto to meet its 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 expand promotion of dedicated irrigation water meters for use by commercial customers.

Sales figures are based on the sale of 5.381 Million CCFs of water. Each CCF is 100 cubic feet or 748 gallons of water. CCFs are the billing units for utility bills. Utility bills are based on the sale of CCFs.

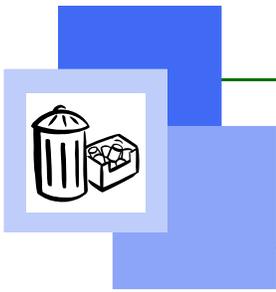


Water Fund *continued*

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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

In accordance with State mandate requiring each City to divert a minimum of 50 percent of its waste, the City of Palo Alto's diversion rate for 2004 has been determined to be 62 percent, up 5 percent from 2003.

The Palo Alto Sanitation Company (PASCO) fleet of collection vehicles used for recycling has been converted to compressed natural gas in 2006, ahead of the 2007 forecasted date. The current solid waste and recyclable materials handling services agreement with PASCO is scheduled to end in July 2009. City staff has begun the process of preparing a timeline for a new agreement. It is estimated that June 2008 will be the completion date for awarding a new contract. Staff is planning to award the contract one year prior to the actual termination date in 2009 to allow for a transition period between the possible change of contractors.

In 2007, the Sunnyvale Materials Recover and Transfer (SMaRT) Station will begin replacing several key pieces of the mechanical sorting system that have reached the end of their useful lives. Sunnyvale staff has estimated that, during construction, the efficiency of this sorting line will be reduced and the recovery rate of recyclables will decrease from the current 18 percent to 4 percent for approximately a seven-month period. This will cause additional expenses for the SMaRT Station and will affect Palo Alto's overall diversion for 2007.

Staff has been working with the zero-waste task force and will be presenting a zero waste implementation plan to Council in late summer 2006.

In anticipation of the landfill closure, staff will begin planning for relocation of the current recycling center, toll booth, and scale so that filling can occur in those areas.

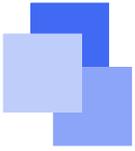
The Rate Stabilization Reserve (RSR) is expected to have an ending balance of \$3.6 million.

NEW PROGRAM UPDATE

Staff will be presenting a Zero Waste implementation plan to Council in late summer 2006. Once this plan is approved, elements of the program will begin.

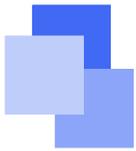
COUNCIL PRIORITY IMPLEMENTATION

At Council's direction, staff continues work on achieving the zero waste goal in Palo Alto. In January 2005, a task force of residents and businesses was formed to assist in the creation of a zero waste policy and zero waste strategic plan. In October 2005, City Council 1) Approved a zero waste strategic plan that would act as a framework to guide City officials in the planning and decision-making process; 2) Adopted a zero waste resolution that set goals to strive for zero waste by 2021; and 3) Directed staff to develop a Zero Waste Operation Plan (ZWOP) describing action plans, programs and measures that could be implemented to achieve the zero waste goal. Staff is currently working on the development of the ZWOP and is planning to return to Council with recommendations in late summer 2006.



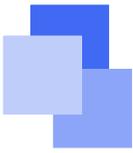
Refuse Fund *continued*

FUND SUMMARY	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET	2006-07 BUDGET CHANGE	% CHG
Net Sales	19,490,355	22,182,654	22,182,654	22,182,654	0	0%
Interest Income	437,065	549,500	549,500	408,700	(140,800)	(26%)
Other Income	4,067,683	3,964,923	3,958,923	4,021,697	56,774	1%
TOTAL FUND REVENUES	\$23,995,103	\$26,697,077	\$26,691,077	\$26,613,051	\$(84,026)	0%
Administration	1,564,009	1,454,501	1,495,771	1,501,198	46,697	3%
Solid Waste						
Systems Improvement(CIP)	304,718	0	0	0	0	0%
Operations	5,254,854	5,753,340	5,584,284	5,485,155	(268,185)	(5%)
Collection, Hauling and Disposal						
Payment to PASCO	7,942,788	8,466,298	8,466,298	8,648,298	182,000	2%
Operations	3,612,730	4,540,658	4,384,706	4,606,127	65,469	1%
Street Sweeping	1,645,196	1,735,417	1,748,999	1,717,552	(17,865)	(1%)
Debt Service	395,292	398,126	398,126	398,126	0	0%
Rent	4,288,747	4,288,747	4,288,747	4,288,747	0	0%
Operating Transfers Out	259,505	215,057	248,907	263,098	48,041	22%
TOTAL FUND EXPENDITURES	\$25,267,839	\$26,852,144	\$26,615,838	\$26,908,301	\$56,157	0%
TO/FROM RESERVES	\$(1,272,736)	\$(155,067)	\$75,239	\$(295,250)	\$(140,183)	



Refuse Fund *continued*

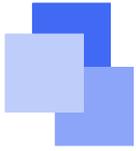
INPUTS	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET
Utility Purchases and Charges	7,942,788	8,466,298	8,466,298	8,648,298
Salaries and Benefits	3,352,627	3,569,639	3,603,211	3,448,825
Contract Services	2,145,613	3,567,054	3,292,206	3,514,006
Supplies and Materials	114,412	348,746	348,746	348,746
Facilities and Equipment Purchases	337	26,500	26,500	26,500
General Expense	2,518,112	2,984,680	2,984,680	2,984,680
Rents and Leases	4,288,747	4,352,947	4,302,947	4,302,947
Allocated Charges	3,945,688	2,923,097	2,944,217	2,973,075
Debt Service	395,292	398,126	398,126	398,126
Capital Improvement Program	304,718	0	0	0
Operating Transfers Out	259,505	215,057	248,907	263,098
Total Expenditures	\$25,267,839	\$26,852,144	\$26,615,838	\$26,908,301
Total Full Time Positions	35.07	34.70	34.70	34.70
Total Temporary Positions	0.00	0.00	0.00	0.10



Refuse Fund *continued*

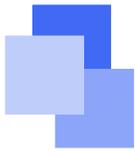
BENCHMARKING MEASURES

	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
Workload Outputs:			
1. SOLID WASTE: Tons of total waste diverted at all locations (landfill, SMaRT, others)	114,458	97,000	97,000
2. SOLID WASTE: Number of households serviced through Household Hazardous Waste Program	4,284	3,500	3,500
3. COLLECTION, HAULING & DISPOSAL: Number of complaints regarding PASCO service	346	0	0
4. COLLECTION, HAULING & DISPOSAL: Tons of waste recycled through SMaRT (The 04/05 measure has been changed to reflect only Palo Alto waste recycled through SMaRT Station. The 06/07 estimates are low due to anticipated construction at SMaRT Station in FY07.)	8,630	8,600	4,630
5. COLLECTION, HAULING & DISPOSAL: Recycling Program Expense (New)	1,861,045	1,991,645	1,991,645
6. STREET SWEEPING: Number of residential curb miles swept (15,877) (SEA)	14,213	14,289	14,289
7. STREET SWEEPING: Number of business curb miles swept annually (3,181)	2,959	3,030	3,030
Efficiency:			
1. SOLID WASTE: Percent of total waste diverted	62%	>50%	>50%
2. SOLID WASTE: Percent of households serviced through Household Hazardous Waste Program (26,048 from 2000 census)	17%	13%	13%
3. COLLECTION, HAULING & DISPOSAL: Number of complaints resolved within 24 hours	346	all	all
4. COLLECTION, HAULING & DISPOSAL: Percent of total waste processed through SMaRT Station that was recycled.	18.9%	18.3%	18.3%
5. COLLECTION, HAULING & DISPOSAL: Total cost per Ton for Recycling	\$123.54	\$122.23	\$124
6. STREET SWEEPING: Percent of residential curb miles swept	90%	90%	90%
7. STREET SWEEPING: Percent of business curb miles swept	93%	95%	95%
Effectiveness:			
1. SOLID WASTE: Number of years diversion goals met or exceeded since 2000	5	6	7
2. SOLID WASTE: Tons of HHW diverted from illegal dumping	153	125	125
3. COLLECTION, HAULING & DISPOSAL: Percentage of residents rating PASCO service as excellent	83	100	100
4. COLLECTION, HAULING & DISPOSAL: Tons of recyclables diverted from landfill	9,799	9,000	9,000
5. COLLECTION, HAULING & DISPOSAL: Total tonnage of recyclables collected	15,064	16,294	15,775
6. STREET SWEEPING: Cubic yards of debris removed from street along residential curbs	12,859	12,213	12,213
7. STREET SWEEPING: Cubic yards of debris removed from street along business curbs	1,053	937	937



Refuse Fund *continued*

RESERVES (\$000)	2006-07 PROJECTED BEGINNING BALANCE	2006-07 CHANGES	2006-07 PROJECTED ENDING BALANCE	2006-07 RESERVE GUIDELINE RANGE
Rate Stabilization Reserve	\$4,043	\$(432)	\$3,611	\$2,218 - 4,437
Landfill closure and postclosure care reserve	6,829	137	6,966	
Water Resources Board Reserve	590		590	
TOTAL RESERVES	\$11,462	\$(295)	\$11,167	



Refuse Fund *continued*

RESOURCE LEVEL CHANGES

	2006-07 ONGOING	2006-07 ONE-TIME	2006-07 TOTAL
REVENUE CHANGES (\$000)			
Interest Income	(141)		(141)
Other Income (Note 1)	57		57
TOTAL REVENUE CHANGES	\$(84)	\$0	\$(84)
EXPENDITURE CHANGES (\$000)			
Salary and Benefits			
Reclassify 1.0 FTE Truck Driver to Street Sweeper Operator	7		7
Personnel Benefit Costs (Note 2)	(128)		(128)
Total Salary and Benefits Changes	\$(121)	\$0	\$(121)
Non-Salary			
Rental- Tools & Equipment		(50)	(50)
Contract Services for RFQ and RFP to rebid PASCO contract		225	225
Contract Services for Waste Characterization Study		(120)	(120)
Other Contract Services	(4)		(4)
PASCO Contract	182		182
Contract Services- Palo Alto Share of Smart Station Costs		(154)	(154)
Transfers to Other Funds	48		48
Allocated Charges (Note 3)	50		50
Total Non-Salary Changes	\$276	\$(99)	\$177
TOTAL EXPENDITURE CHANGES	\$155	\$(99)	\$56

RESOURCE LEVEL NOTES

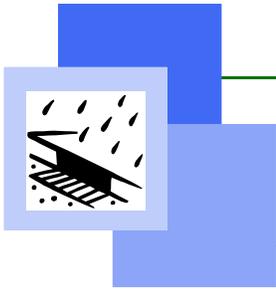
Note 1: Increase in other income includes rental income for Utilities' use of the Los Altos site.

Note 2: Personnel benefit costs are decreasing due to lower employee pension costs and the allocation of workers' compensation costs to reflect actual department case experience.

Note 3: Net increase in allocated charges is primarily due to an increase in administration charges and an increase in vehicle maintenance charges.



Storm Drainage Fund



Storm Drainage Fund

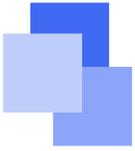
To operate, maintain, replace, and augment the storm drainage system to ensure adequate local drainage and storm water quality for discharge to the creeks and the San Francisco Bay.

OVERVIEW

In 2006-07, staff will continue to implement the enhanced storm drain program, which includes storm drain maintenance, urban runoff pollution prevention, and storm drain system capital improvements. These activities are funded by the Storm Drainage Fee increase approved by property owners in April 2005. In 2006-07, engineering staff will focus on the design of a new storm water pump station on San Francisquito Creek; the construction of storm drain improvements in the Gailen Avenue/Bibbits Drive area and along Clara Drive; and City-wide storm drain system repairs. Projects will be reviewed with the Storm Drain Oversight Committee.

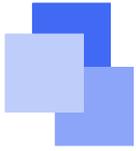
Staff will continue to coordinate with the Santa Clara Valley Water District and the Federal Emergency Management Agency on flood control and flood insurance issues. Staff will also assist with review of land development applications to ensure compliance with storm water quality regulations. Staff will work with its partner agencies in the Santa Clara Valley Urban Runoff Pollution Prevention Program to obtain a new National Pollutant Discharge Elimination System (NPDES) permit from the Regional Water Quality Control Board for discharge of storm water to local creeks and San Francisco Bay. In addition, staff will actively participate in the San Francisquito Creek Joint Powers Authority's partnership with the US Army Corps of Engineers to identify a comprehensive solution to creek and tidal flooding problems in the watershed. Operations staff will continue to conduct an enhanced level of storm drain maintenance made possible as a result of the Storm Drainage Fee increase.

FUND SUMMARY	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET	2006-07 BUDGET CHANGE	% CHG
Net Sales	2,466,350	4,860,000	5,389,000	5,235,660	375,660	8%
Interest Income	15,598	21,200	21,200	60,000	38,800	183%
Other Income	479,109	615,091	745,302	1,016,251	401,160	65%
TOTAL FUND REVENUES	\$2,961,057	\$5,496,291	\$6,155,502	\$6,311,911	\$815,620	15%
Administration	563,191	493,854	506,640	508,517	14,663	3%
Systems Improvements						
Systems Improvement(CIP)	13,824	2,633,797	3,239,773	1,662,388	(971,409)	(37%)
Operations	339,602	148,986	150,278	128,934	(20,052)	(13%)
Operations & Maintenance	1,105,026	1,290,282	1,297,218	1,261,432	(28,850)	(2%)
Debt Service	640,949	950,320	946,865	946,865	(3,455)	0%
Operating Transfers Out	13,036	5,086	10,836	11,435	6,349	125%
TOTAL FUND EXPENDITURES	\$2,675,628	\$5,522,325	\$6,151,610	\$4,519,571	\$(1,002,754)	(18%)
TO/FROM RESERVES	\$285,429	\$(26,034)	\$3,892	\$1,792,340	\$1,818,374	



Storm Drainage Fund *continued*

INPUTS	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET
Salaries and Benefits	1,096,471	931,925	944,144	883,607
Contract Services	196,914	351,629	351,629	351,629
Supplies and Materials	26,689	98,250	98,250	98,250
Facilities and Equipment Purchases	0	11,621	11,621	11,621
General Expense	110,728	8,200	8,200	8,200
Rents and Leases	744	6,000	6,000	6,000
Allocated Charges	576,273	525,497	534,292	539,576
Debt Service	640,949	950,320	946,865	946,865
Capital Improvement Program	13,824	2,633,797	3,239,773	1,662,388
Operating Transfers Out	13,036	5,086	10,836	11,435
Total Expenditures	\$2,675,628	\$5,522,325	\$6,151,610	\$4,519,571
Total Full Time Positions	9.90	9.50	9.50	9.50
Total Temporary Positions	0.00	0.00	0.00	0.00

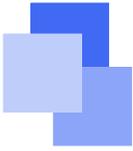


Storm Drainage Fund *continued*

BENCHMARKING MEASURES

	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
Workload Outputs:			
1. Number of industrial storm water inspections conducted	177	180	180
2. Linear feet of storm drain pipelines cleaned annually	316,024	100,000	100,000
3. Total dollar value of storm drain Improvements compl. capital expenditures (New)			\$1,373,000
Efficiency:			
1. Number of industrial storm water inspections per FTE	177	180	180
2. Pounds of debris removed by hydroflushing pipelines	140,900	150,000	150,000
3. Total dollar value of storm drain improvements per FTE (New)			\$950,000
Effectiveness:			
1. Percent of industrial sites in compliance with storm water regulations	89%	90%	90%
2. Number of resident calls regarding ponding problems	80	100	100
3. Percent of storm drain improvement projects completed within planned budget			100%

RESERVES (\$000)	2006-07 PROJECTED BEGINNING BALANCE	2006-07 CHANGES	2006-07 PROJECTED ENDING BALANCE	2006-07 RESERVE GUIDELINE RANGE
Distribution RSR	\$302	\$1,792	\$2,094	\$
TOTAL RESERVES	\$302	\$1,792	\$2,094	



Storm Drainage Fund *continued*

RESOURCE LEVEL CHANGES

	2006-07 ONGOING	2006-07 ONE-TIME	2006-07 TOTAL
REVENUE CHANGES (\$000)			
Net Sales (Note 1)	376		376
Interest Income	39		39
Operating Transfer from General Fund (Note 2)	401		401
TOTAL REVENUE CHANGES	\$816	\$0	\$816
EXPENDITURE CHANGES (\$000)			
Salary and Benefits			
Personnel Benefit Costs (Note 3)	(38)		(38)
Total Salary and Benefits Changes	\$(38)	\$0	\$(38)
Non-Salary			
Debt Service Expense	(3)		(3)
Capital Improvement Program	(982)		(982)
Operating Transfers to Other Funds	6		6
Allocated Charges	14		14
Total Non-Salary Changes	\$(965)	\$0	\$(965)
TOTAL EXPENDITURE CHANGES	\$(1,003)	\$0	\$(1,003)

RESOURCE LEVEL NOTES

Note 1: Increase in net sales is due to the storm drainage fee increase adjusted for inflation as allowed by the approved ballot measure and due to a recalculation of sales to City departments.

Note 2: Increase in transfer from General Fund reflects the pre-payment of storm drainage fees on City-owned General Fund properties as specified by the approved ballot measure.

Note 3: Personnel benefit costs are decreasing due to lower employee pension costs and the allocation of workers' compensation costs to reflect actual department case experience.



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.

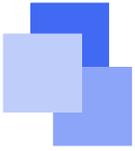
OVERVIEW

The Public Works Department will continue pollution prevention and enforcement programs targeted at the key pollutants impairing San Francisco Bay's ecosystem: mercury, pesticides, and heavy metals. In 2005-06, over 95 percent of dental offices installed required mercury separators and substantial mercury reductions were achieved. Additionally, proactive efforts will be taken to insure that other chemicals (pharmaceutical compounds, by-products of chlorination) do not increase to harmful levels.

In 2006-07, \$5.3 million in Capital Improvement Program (CIP) expense is planned. CIP projects include: Replacement of Existing Reclaimed Water Pipes and extending reclaimed water to Mountain View's "North of Bayshore Business Park". A \$4.0 million State Grant and \$8.0 million reimbursement from the City of Mountain View will pay for the majority of the reclaimed water project. The CIP also includes Plant Equipment Replacement and System Flow Meter Replacement Programs.

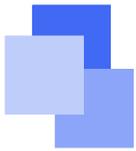
In 2006-07, the Rate Stabilization Reserve (RSR) is expected to have an ending balance of \$3.5 million which is above the \$2.8 million minimum guideline level.

FUND SUMMARY	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET	2006-07 BUDGET CHANGE	% CHG
Net Sales	15,887,300	17,900,874	18,794,419	18,794,419	893,545	5%
Interest Income	475,891	466,000	466,000	469,300	3,300	1%
Other Income	597,428	7,860,645	3,260,645	3,260,645	(4,600,000)	(59%)
TOTAL FUND REVENUES	\$16,960,619	\$26,227,519	\$22,521,064	\$22,524,364	\$(3,703,155)	(14%)
Administration	1,754,247	1,807,745	1,881,880	1,887,815	80,070	4%
Operations						
Systems Improvement(CIP)	1,561,408	9,201,074	5,200,000	5,320,000	(3,881,074)	(42%)
Operations	9,494,846	10,628,473	10,932,305	10,731,363	102,890	1%
Environmental Compliance	2,286,835	2,770,491	2,768,465	2,643,829	(126,662)	(5%)
Debt Service	503,019	817,373	821,907	821,907	4,534	1%
Operating Transfers Out	37,181	22,851	22,033	20,630	(2,221)	(10%)
TOTAL FUND EXPENDITURES	\$15,637,536	\$25,248,007	\$21,626,590	\$21,425,544	\$(3,822,463)	(15%)
TO/FROM RESERVES	\$1,323,083	\$979,512	\$894,474	\$1,098,820	\$119,308	



Wastewater Treatment Fund *continued*

INPUTS	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET
Salaries and Benefits	7,246,182	8,163,894	8,230,531	7,872,960
Contract Services	1,030,204	1,688,420	1,695,780	1,729,380
Supplies and Materials	1,418,321	1,139,800	1,139,800	1,279,800
Facilities and Equipment Purchases	0	41,000	41,000	41,000
General Expense	151,712	143,650	143,650	143,650
Rents and Leases	216	25,500	25,500	25,500
Allocated Charges	3,689,293	4,004,445	4,306,389	4,170,717
Debt Service	503,019	817,373	821,907	821,907
Capital Improvement Program	1,561,408	9,201,074	5,200,000	5,320,000
Operating Transfers Out	37,181	22,851	22,033	20,630
Total Expenditures	\$15,637,536	\$25,248,007	\$21,626,590	\$21,425,544
Total Full Time Positions	68.05	68.45	68.45	68.45
Total Temporary Positions	0.63	0.33	0.33	0.13

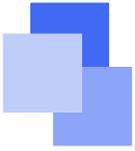


Wastewater Treatment Fund *continued*

BENCHMARKING MEASURES

	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
Workload Outputs:			
1. OPERATIONS: Millions of Gallons Treated	8,497	8,400	8,400
2. OPERATIONS: Tons of solids Incinerated	8,729	8,400	8,400
3. OPERATIONS: Number of samples analyzed	10,000	10,000	10,000
4. ENVIRONMENTAL COMPLIANCE: Number of industries regulated	99	101	101
5. ENVIRONMENTAL COMPLIANCE: Number of permits issued	55.0	33.7	33.7
6. ENVIRONMENTAL COMPLIANCE: Number of industrial discharge tests	13,841	13,000	13,000
Efficiency:			
1. OPERATIONS: Treatment Cost in \$/MG Treated (total O&M cost; exclude CIP)	\$1,232	\$1,427	\$1,427
2. OPERATIONS: Solids disposal \$/Ton	\$206	\$225	\$225
3. OPERATIONS: Number of employees per Millions of Gallons per Day Treated	2.32	2.40	2.40
4. ENVIRONMENTAL COMPLIANCE: Number of businesses regulated per FTE (#/6 FTE)	16.5	16.8	16.8
5. ENVIRONMENTAL COMPLIANCE: Number of permits issued per FTE (#/6 FTE)	9.2	5.6	5.6
6. ENVIRONMENTAL COMPLIANCE: Number of industrial discharge tests per FTE (#/6 FTE)	2,307	2,166	2,166
Effectiveness:			
1. OPERATIONS: Fish Toxicity (Percent survival)	100%	95%	95%
2. OPERATIONS: Compliance with Discharge Permit (Percent compliance)	100%	95%	95%
3. OPERATIONS: Reclaimed water delivered (million gallons per year)	81.0	80.0	80.0
4. ENVIRONMENTAL COMPLIANCE: Percent of Dental offices in compliance	98%	90%	95%
5. ENVIRONMENTAL COMPLIANCE: Percent of Commercial businesses in compliance	98%	98%	98%
6. ENVIRONMENTAL COMPLIANCE: Percent of discharge tests in compliance	99.4%	98.0%	98.0%

RESERVES (\$000)	2006-07 PROJECTED BEGINNING BALANCE	2006-07 CHANGES	2006-07 PROJECTED ENDING BALANCE	2006-07 RESERVE GUIDELINE RANGE
Emergency Plant Replacement	\$1,895	\$388	\$2,283	\$1,544
Distribution RSR	2,775	711	3,486	2,815 - 5,629
Bond Proceeds (Restricted)	3		3	
TOTAL RESERVES	\$4,673	\$1,099	\$5,772	



Wastewater Treatment Fund *continued*

RESOURCE LEVEL CHANGES

	2006-07 ONGOING	2006-07 ONE-TIME	2006-07 TOTAL
REVENUE CHANGES (\$000)			
Net Sales	894		894
Interest Income	3		3
Reimbursements for CIP Costs from State and Local Agencies	(4,100)		(4,100)
Operating Transfer from Water Fund	(500)		(500)
TOTAL REVENUE CHANGES	\$(3,703)	\$0	\$(3,703)
EXPENDITURE CHANGES (\$000)			
Salary and Benefits			
Personnel Benefit Costs (Note 1)	(293)		(293)
Total Salary and Benefit Changes	\$(293)	\$0	\$(293)
Non-Salary			
Debt Service Expense	5		5
Contract Services	1		1
Capital Improvement Program (Note 2)	(3,879)		(3,879)
Cost Increases in Plant Operations (Note 3)	180		180
Operating Transfer to Other Funds	(2)		(2)
Allocated Charges (Note 4)	166		166
Total Non-Salary Changes	\$(3,529)	\$0	\$(3,529)
TOTAL EXPENDITURE CHANGES	\$(3,822)	\$0	\$(3,822)

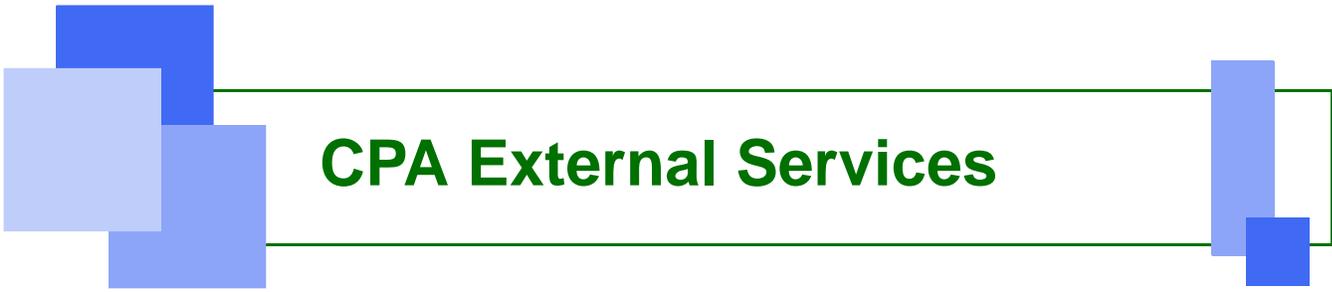
RESOURCE LEVEL NOTES

Note 1: Personnel benefit costs are decreasing due to lower employee pension costs and the allocation of workers' compensation costs to reflect actual department case experience.

Note 2: Change includes project to replace existing reclaimed water pipe. Projected expenditures for this project are \$8,000,000 in 2005-06, and \$4,000,000 in 2006-07.

Note 3: Cost increases for plant operations include increases for chemical supplies, laboratory testing, valve replacements, electric motors, and pump replacements.

Note 4: Allocated charges are increasing primarily due to increases in gas charges.



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.

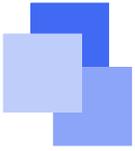
OVERVIEW

The City provides information technology (IT) services to municipalities through the Information Technology Services Provider (ITSP) program. The ITSP program started with contracts to provide services to Los Altos and East Palo Alto. Since then, five (new and renewed) municipal contracts have been established with the cities of Emeryville, Atherton, Los Altos Hills, Saratoga, and, most recently, with the City of Morgan Hill. Fund expenditures are fully supported by revenue generated from these contracts. The following services are offered by ITSP:

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

In 2006-07, ITSP staff will work to ensure that revenues continue to cover expenses through service rate adjustments as appropriate. Staff will also focus on maintaining a high-level of customer satisfaction throughout the contract cities.

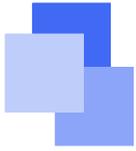
FUND SUMMARY	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET	2006-07 BUDGET CHANGE	% CHG
Interest Income	(12,855)	0	0	0	0	0%
Other Income	766,079	1,180,837	1,180,837	1,162,370	(18,467)	(2%)
TOTAL FUND REVENUES	\$753,224	\$1,180,837	\$1,180,837	\$1,162,370	\$(18,467)	(2%)
Information Technology Services	726,202	1,159,300	1,163,678	1,145,211	(14,089)	(1%)
TOTAL FUND EXPENDITURES	\$726,202	\$1,159,300	\$1,163,678	\$1,145,211	\$(14,089)	(1%)
TO/FROM RESERVES	\$27,022	\$21,537	\$17,159	\$17,159	\$(4,378)	



CPA External Services *continued*

INPUTS	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET
Salaries and Benefits	555,651	861,856	868,956	846,194
Contract Services	122,319	119,000	119,000	119,000
Supplies and Materials	27	11,000	11,000	11,000
General Expense	3,717	9,400	9,400	9,400
Allocated Charges	44,488	133,044	130,322	134,617
Operating Transfers Out	0	25,000	25,000	25,000
Total Expenditures	\$726,202	\$1,159,300	\$1,163,678	\$1,145,211
Total Full Time Positions	5.70	6.00	6.00	6.00
Total Temporary Positions	0.00	0.00	0.00	0.00

RESERVES (\$000)	2006-07 PROJECTED BEGINNING BALANCE	2006-07 CHANGES	2006-07 PROJECTED ENDING BALANCE	2006-07 RESERVE GUIDELINE RANGE
Information Technology RSR	\$52	\$17	\$69	\$
TOTAL RESERVES	\$52	\$17	\$69	



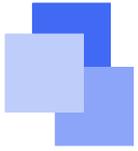
CPA External Services *continued*

RESOURCE LEVEL CHANGES

	2006-07 ONGOING	2006-07 ONE-TIME	2006-07 TOTAL
REVENUE CHANGES (\$000)			
Charges for Services	(18)		(18)
TOTAL REVENUE CHANGES	\$(18)	\$0	\$(18)
EXPENDITURE CHANGES (\$000)			
Salary and Benefits			
Personnel Benefit Costs (Note 1)	(16)		(16)
Total Salary and Benefits Changes	\$(16)	\$0	\$(16)
Non-Salary			
Allocated Charges	2		2
Total Non-Salary Changes	\$2	\$0	\$2
TOTAL EXPENDITURE CHANGES	\$(14)	\$0	\$(14)

RESOURCE LEVEL NOTES

Note 1: Personnel benefit costs are decreasing due to lower employee pension costs and the allocation of workers' compensation costs to reflect actual department case experience.



CPA External Services *continued*

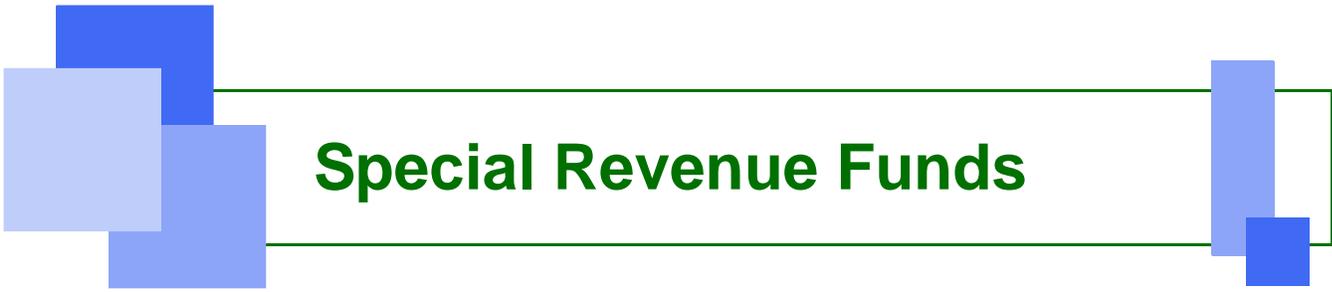
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OTHER FUNDS



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 is \$0.6 million for 2006-07.

Street Improvement Funds (SIF)

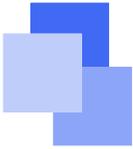
Revenue in this Fund comes from the State gas tax and from Federal and State grants earmarked for street improvements. The SIF provides funds for transportation and traffic-related capital projects. Based on projected gas tax revenues and interest income earnings, revenues are estimated to be \$1.13 million for 2006-07.

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 2006-07, there is a decrease of \$68,000 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 subsidized Housing Program. Any new projects will be brought to the Council for specific appropriation. Other revenue includes proceeds from the anticipated sale



Special Revenue Funds *continued*

of below market rate housing units. In 2006-07, the City plans to partner with Community Working Group and Eden Housing to acquire property for housing adjacent to the Alma substation.

Special Districts Funds

Revenue in this Fund comes from parking permits and is used for maintenance of parking facilities within the University and California Avenue business districts. The parking permit fees for the parking facilities within the University Avenue business district are increasing in 2006-07 due to additional operating and maintenance expense associated with the two new parking garages.

Traffic Mitigation and Parking In-Lieu Funds

Traffic mitigation fee revenue is derived 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 is a result of a senior housing project on Hamilton Avenue and contributions and mitigation fees paid related to 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)

The Downtown Business Improvement District was established by an ordinance adopted in January 2004. The BID has been in operation for three years.

The BID has completed a survey of all BID businesses to identify priorities for members in the district. The top two priorities were street cleanliness and issues related to the homeless in the downtown area. In response to these issues, the Palo Alto Business and Professional Association (which operates the BID under contract with the City) has initiated the Downtown Streets Team, a national model, empowering the homeless to care for the streets and take responsibility for cleanliness of the area. In addition, twice a year there is a marketing effort for restaurants, Dine Downtown, providing a fixed price menu for dining. The Palo Alto Business and Professional Association will continue to operate the Downtown Palo Alto BID for 2006-07.

2006-07 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			821	250					1,071
Parking Permit/In-Lieu Fees				400	874	480			1,754
Development Impact Fees	553								553
Interest Income	43	19	15	119	48	83	16	4	347
Operating Transfers			35	250					285
Other Revenue			17	9					26
Business Improvement District (BID) Special Assessment								154	154
Loan Payoff				500					500
Property Sale				375					375
Total Source of Funds	\$596	\$1,144	\$888	\$1,902	\$922	\$563	\$16	\$158	\$6,189
EXPENDITURES									
CDBG Project Expenditures			909						909
Planning/Public Works Department Transfer for Street Improvement Cost Recovery		292							292
Street Improvement Fund CIP Transfer		1,170							1,170
Parking Facilities Debt Service Transfer					80				80
Parking Garage Maintenance/ Operations Transfer to General Fund					905				905
Parking Lot Sweeping Transfer to Refuse Fund					116				116
Parking Facilities Transfer to Capital Projects Fund					200				200
CDBG Projects Transfer from HIP Revenues			35						35
Below Market Rate (BMR) Program Management Contract				95					95



2006-07 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
BMR Loan Program				280					280
Residential Housing In-Lieu				255					255
Commercial Housing In-Lieu			250	1,150					1,400
Senior Services Grant							59		59
BID Operating Expense								154	154
Total Use of Funds	\$0	\$1,462	\$1,194	\$1,780	\$1,301	\$0	\$59	\$154	\$5,951
NET TO (FROM) RESERVES	\$596	\$(319)	\$(306)	\$122	\$(379)	\$563	\$(44)	\$4	\$238

CONSOLIDATED SPECIAL REVENUE FUNDS

(\$000)	2004-05 Actual	2005-06 Adjusted Budget	2006-07 Adopted-in- Concept Budget	2006-07 Adopted Budget	2006-07 Budget Change
REVENUES					
Gas Tax	1,145	1,125	1,125	1,125	0
Federal and State Grants	99	107	0	250	143
Federal CDBG	566	779	821	821	42
Housing In-Lieu	656	400	400	400	0
Traffic Mitigation Fees	0	200	200	200	0
Developer Impact Fees	0	553	553	553	0
Parking Mitigation Fees	872	1,010	1,010	874	(136)
BID Assessment	135	154	154	154	0
Interest Income	398	355	355	347	(8)
Other Revenue	584	686	496	1,181	495
Subtotal	\$4,455	\$5,369	\$5,114	\$5,904	\$535
OPERATING TRANSFER FROM:					
Housing Improvement	0	35	35	35	0
Housing In-Lieu Commerical		250	0	0	(250)
CDBG		0	0	250	250
Subtotal	\$0	\$285	\$35	\$285	\$0
TOTAL SOURCE OF FUNDS	\$4,455	\$5,654	\$5,149	\$6,189	\$535



Consolidated Special Revenue Funds *continued*

(\$000)	2004-05 Actual	2005-06 Adjusted Budget	2006-07 Adopted-in- Concept Budget	2006-07 Adopted Budget	2006-07 Budget Change
EXPENDITURES					
General Expense	643	1,640	1,550	2,902	1,262
OPERATING TRANSFERS					
Operating Transfer to General Fund	704	1,100	1,162	1,198	98
Operating Transfer to CDBG	47	285	35	35	(250)
Operating Transfer to Debt Service	80	80	80	80	0
Operating Transfer to CIP	2,990	1,882	1,770	1,370	(512)
Operating Transfer to Refuse	91	113	113	116	3
Operating Transfer to Housing	0	0	0	250	250
Subtotal	\$3,912	\$3,460	\$3,161	\$3,049	\$(411)
TOTAL USE OF FUNDS	\$4,555	\$5,100	\$4,711	\$5,951	\$851
NET TO (FROM) RESERVES	\$(100)	\$554	\$438	\$238	\$(316)

2006-07 COMMUNITY DEVELOPMENT BLOCK GRANT FUND

	2005-06 Adopted Budget	2006-07 Agency Requests	2006-07 Adopted Budget
SOURCE OF FUNDS			
Housing & Urban Development	779,281		711,680
Prior Year Excess/Reallocation (1)	91,358		239,104
Program Income			
Housing Improvement Program	35,000		35,000
Palo Alto Housing Corporation	10,000		10,000
TOTAL SOURCE OF FUNDS	\$915,639	\$0	\$995,784
USE OF FUNDS			
Public Service			
Emergency Housing Consortium - Palo Alto HOMES project	8,000	10,063	7,760
Palo Alto Housing Corporation - SRO Resident Support Services	23,000	59,897	20,270
Catholic Charities - Long-Term Care Ombudsman	6,000	8,940	5,800
Shelter Network - Haven Family House	19,000	30,000	16,375
Clara Mateo Alliance - Single/Couple Shelter	21,000	30,000	18,322
Clara Mateo Alliance - Family Shelter	21,392	25,000	18,725
Urban Ministry - Drop in Center	24,000	30,000	21,250
St. Vincent de Paul - Day Worker Center	0	10,000	0
Mid-Peninsula Alano Club - MPAC Operations	5,000	16,000	5,000
Subtotal: Public Service (2)	\$127,392	\$219,900	\$113,502
Planning and Administration			
City of Palo Alto - CDBG Administration includes 1.20 FTE CDBG Administrative Staff	138,056	155,000	124,536
Fair Housing - Project Sentinel	26,800	26,800	26,800
Subtotal: Planning and Administration (2)	\$164,856	\$181,800	\$151,336
Housing, Economic Development & Capital Projects			
Community Housing Inc. New Elevator for Health Care Center	86,575	150,000	0



2006-07 Community Development Block Grant Fund *continued*

	2005-06 Adopted Budget	2006-07 Agency Requests	2006-07 Adopted Budget
Economic and Social Opportunities	60,000	60,000	63,300
Emergency Housing Consortium - Our House Youth Program	75,000	0	0
Stevenson House - Windows/Doors	0	351,799	370,000
Stevenson House - Senior Housing - Fire Alarm Upgrades	0	45,100	47,646
Community Working Group- Alma Garden Apartments Acquisition	0	250,000	250,000
City of Palo Alto - Housing Development Fund	401,816	0	0
Subtotal: Housing, Economic Development & Capital Projects (2)	\$623,391	\$856,899	\$730,946
TOTAL USE OF FUNDS	\$915,639	\$1,258,599	\$995,784
(1) Funds received in excess of revenue estimate for local program income (2005-06 and prior)			
(2) The funding will be made at the three primary program activity levels			



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 General Fund (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 new commercial building adjacent to lots S and L parking structure on Bryant and Florence. The estimated General debt service expense is \$1.2 million for 2006-07.

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.

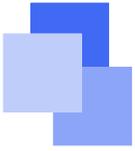
The table below describes the three debt issues currently serviced by the GF: 1998 Golf Course improvement, 2002A and 2002B Certificate of Participation (COPS)

General Fund Debt Service			
	1998 Golf Course COP	Series 2002 A (Tax Exempt)	Series 2002B (Taxable)
Issued Date	Aug. 1998	Jan. 2002	Jan. 2002
Principal Issued	\$7,750,000	\$3,500,000	\$2,674,048
Annual Debt Service Payment	\$558,211	\$422,135	\$235,000
Final Payment Date	Sep. 2018	Mar. 2012	Mar. 2022
Estimated Debt Outstanding as of 7/1/2005	\$5,680,000	\$2,560,000	\$2,385,000
Total Interest over life of Debt	\$4,183,244	\$726,625	\$2,243,950

The Golf Course COPS improvement bond was issued in August 1998 to retire the 1978 Golf Course Lease Revenue Bonds and to finance infrastructure improvements at the Golf Course. Funding for this debt service comes from a transfer from the GF and is paid for by Golf Course receipts.

The 2002A Civic Center Refinancing COPS was issued in January 2002 to refinance the City's 1992 COPS at a lower interest rate. The refinancing resulted in an overall debt service savings of \$372,000 and an economic gain of \$191,000.

The 2002B Downtown Parking Improvement Project COPS was also issued in January 2002 to fund the construction of a two-story, above-ground structure as an extension to the new parking garage on lots S and L. In January 2005, the City established an escrow account to partially defease the Series 2002B COPS. The original principal issued was \$3,555,000. The table above reflects the new



Debt Service Funds

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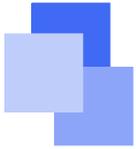
principal outstanding of \$2,674,048. The defeasance resulted in an overall debt service savings of \$1,511,000 and an economic gain of \$462,000.

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

City of Palo Alto Debt Policy

The City of Palo Alto recognizes the need for spending a prudent amount every year for ongoing capital replacement and rehabilitation needs. Because an ongoing capital improvement plan is vital to ensure the future viability of services, the City will always place first priority on funding its regular and ongoing capital needs on a pay-as-you-go basis. There are special or extraordinary capital improvement projects in which it is appropriate to consider debt financing. A set of guidelines is included below in order to support the decision-making process. These guidelines were adopted by the City Council on May 13, 1997 (City Manager's Report 210:97).

1. Debt financing is only appropriately considered for capital improvements and not for operating budget items.
2. Annual debt service payments should not exceed 10 percent of the annual expenditure budget of the General Fund.
3. The term of the debt issuance should not exceed the useful life expectancy of the asset acquired, constructed, or improved.
4. It is appropriate to consider debt financing under the following circumstances:
 - The project financing can be paid for directly by the users of the facility. One example is capital improvements made to the City's golf course, where debt service payments can be made from the green fees paid by golfers. A second example is capital improvements paid for by assessments to property owners, such as a parking assessment for a downtown parking garage.
 - For Enterprise Funded projects, if a significant backlog of capital improvements has developed and if that backlog cannot be addressed through the ongoing capital budget without having a significant impact on utility rates.
 - If funding for a large project (or grouping of similar projects) would have a significant negative impact on the availability of funding for other ongoing capital needs.
 - Capital leases may be considered for purchases of large pieces of equipment.

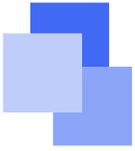


Debt Service Funds

continued

Legal Debt Limit

In accordance with the California Government Code Section 43605, the legal debt margin limit is 15 percent of the assessed value of all real and personal property of the City. Based upon the assessed valuation of \$16.3 billion for the fiscal year ending June 30, 2005, the City is limited to general obligation indebtedness of \$2.4 billion. As of June 30, 2005, the amount of debt applicable to the debt limit totaled \$11.0 million.



Debt Service Funds
continued

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GENERAL DEBT SERVICE FUND SUMMARY

(\$000)	2004-05 Actual	2005-06 Adjusted Budget	2006-07 Adopted-in- Concept Budget	2006-07 Adopted Budget	2006-07 Budget Change
REVENUES					
Other - Interest	42	44	44	43	(1)
Subtotal	\$42	\$44	\$44	\$43	\$(1)
GENERAL FUND OPERATING TRANSFERS					
Golf Course Corporation	537	516	518	525	9
Public Improvement Corporation (Civic Center)	345	340	340	337	(3)
Parking 2002B COPS Taxable	1,318	232	233	230	(2)
University Avenue Permit Fund Transfer	80	80	80	80	0
Subtotal	\$2,280	\$1,168	\$1,172	\$1,172	\$4
TOTAL SOURCE OF FUNDS	\$2,322	\$1,212	\$1,215	\$1,215	\$3
EXPENSES					
Debt Service:					
Golf Course Corporation - Principal	273	295	310	310	15
Golf Course Corporation - Interest	285	261	248	248	(13)
Public Improvement Corporation - Principal	325	330	340	340	10
Public Improvement Corporation - Interest	100	92	82	82	(10)
Public Improvement Corporation - Transfer	3				
Parking 2002 COPS Taxable - Principal	80	85	90	90	5
Parking 2002 COPS Taxable - Interest	182	149	145	145	(4)
Parking 2002 COPS Taxable - Payment to bond escrow agent	1,038				
Parking 2002 COPS Taxable - Transfer	105				
TOTAL USE OF FUNDS	\$2,391	\$1,212	\$1,215	\$1,215	\$3
NET TO (FROM) RESERVES	\$(69)	\$0	\$0	\$0	\$0

SPECIAL ASSESSMENT DEBT SERVICE FUND SUMMARY

(\$000)	2004-05 Actual	2005-06 Adjusted Budget	2006-07 Adopted-in- Concept Budget	2006-07 Adopted Budget	2006-07 Budget Change
REVENUES					
Special Assessments	125	121	123	123	2
Total Source of Funds	\$125	\$121	\$123	\$123	\$2
Debt Service	123	121	123	123	2
Total Use of Funds	\$123	\$121	\$123	\$123	\$2
NET TO (FROM) RESERVES	\$2	\$0	\$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 has been focusing on its core activities which are: vehicle and equipment replacement, preventive maintenance, repairs, and fueling. Improving service to client departments is also a top priority. In 2006-07, this fund will continue focusing on its core activities.

The 2006-07 fund balance is projected to be \$2.5 million.

Technology Fund

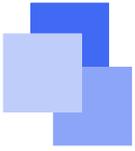
This fund manages the citywide Information Technology (IT) activities. The fund continues to maintain critical desktop, software, and infrastructure replacements and maintenance activities. The Enterprise Funds are now full participants in this fund as their technology systems become further integrated into the citywide plan. Staff continues to integrate the SAP general ledger and project management system and activation of the associated Human Resources module. The focus for 2006-07 will be to develop the necessary reporting and analytical tools to increase efficiencies for City operations.

The 2006-07 fund balance is projected to be \$8.1 million.

Printing and Mailing Services Fund

The Printing and Mailing Services Fund provides central duplicating and printing and mailing services for all City departments. In 2006-07, staff will focus on implementing business management software for the Print Shop, enhancing customer service, and replacing the outdated analog mailing system with state-of-the-art digital technology which will increase production and provide additional processing functionality.

The 2006-07 fund balance is projected to be \$0.6 million.



Internal Service Funds *continued*

General Benefits and Insurance Fund

The General Benefits and Insurance Fund accounts for employee health benefits, retirement pension contributions, the City's self insured workers' compensation and general liability programs. Citywide benefit expense is decreasing 7 percent to \$38 million in 2006-07, primarily due to the shift in employee paid pension costs from the City to the employee for fire and police personnel. This decrease is mostly offset by a proportional increase in salary expense for the fire and police personnel. The pension cost decrease is also attributable to a reduction in pension rates as a result of rate smoothing implemented by the public employee retirement system (PERS).

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, and the reduction or elimination of some minor benefits.

The 2006-07 fund balance is projected to be \$3.6 million.

Retiree Health Benefits Fund

This fund manages the payments associated with, and reserves dedicated to, medical benefits granted to retired employees of the City.

The 2006-07 fund balance is projected to be \$18.3 million.

2006-07 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	5,580	8,743	1,287	34,192	2,890	52,692
Interest Income	242	568	28	1,153	709	2,699
Other Revenue	309	823	2	480	0	1,614
TOTAL SOURCE OF FUNDS	\$6,131	\$10,133	\$1,317	\$35,825	\$3,599	\$57,005
EXPENDITURES						
Operating Expenditures	3,779	8,703	1,304	35,825	3,599	53,210
Depreciation Expense	2,040	56	2	0	0	2,098
Capital Improvement Program	885	1,276	0	0	0	2,161
TOTAL USE OF FUNDS	\$6,704	\$10,035	\$1,306	\$35,825	\$3,599	\$57,469
Net To/From Unrestricted Assets	\$(573)	\$98	\$11	\$0	\$0	\$(464)

2006-07 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, 2006 UNRESTRICTED ASSETS	\$3,064	\$8,032	\$625	\$3,581	\$18,265	\$33,567
2006-07 Projected Changes	(573)	98	11	0	0	(464)
JUNE 30, 2007 UNRESTRICTED ASSETS	\$2,491	\$8,130	\$636	\$3,581	\$18,265	\$33,103



Vehicle Replacement Fund

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.

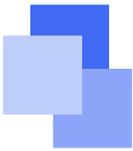
OVERVIEW

In 2005, Public Works focused on core activities, such as vehicle and equipment replacement, preventive maintenance, repairs, and fueling; with an emphasis on improving service to client departments. In late 2004, Public Works implemented a new field services program (which included the addition of a new Mobile Service Technician position) to perform heavy equipment maintenance work that was formerly performed by contractors.

Also in 2005, Public Works implemented a pilot program for the final-stage outfitting of City vehicles and equipment. The work includes the installation of two-way radio and telecommunications equipment and emergency lighting in police and fire vehicles; and the installation of racks, shelves and bedliners in light trucks and vans. During 2006-07, staff will continue to focus on core activities as described above.

The 2006-07 Adopted Budget accounts for vehicle and equipment purchases within the capital improvement project VR-07800 and the project cost is captured in the fund.

FUND SUMMARY	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET	2006-07 BUDGET CHANGE	% CHG
Operating Revenue	5,328,372	5,321,033	5,634,395	5,580,393	259,360	5%
Interest Income	182,194	211,300	211,300	241,900	30,600	14%
Other Income	121,619	309,009	309,009	309,009	0	0%
TOTAL FUND REVENUES	\$5,632,185	\$5,841,342	\$6,154,704	\$6,131,302	\$289,960	5%
Administration	125,767	94,519	90,680	87,581	(6,938)	(7%)
Vehicle Replacement and Additions	2,045,808	2,587,219	2,899,848	3,222,886	635,667	25%
Vehicle Operations and Maintenance	2,990,665	3,367,401	3,207,631	3,393,355	25,954	1%
TOTAL FUND EXPENDITURES	\$5,162,240	\$6,049,139	\$6,198,159	\$6,703,822	\$654,683	11%
TO/FROM RESERVES	\$469,945	\$(207,797)	\$(43,455)	\$(572,520)	\$(364,723)	

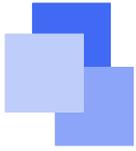


Vehicle Replacement Fund *continued*

INPUTS	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET
Salaries and Benefits	1,498,185	1,619,259	1,638,090	1,607,866
Contract Services	359,846	286,200	286,200	286,200
Supplies and Materials	933,514	1,265,000	1,065,000	1,265,000
Facilities and Equipment Purchases	90,943	26,000	26,000	26,000
General Expense	1,971,156	2,043,311	2,043,311	2,043,311
Rents and Leases	18,234	0	0	0
Allocated Charges	678,079	569,369	589,558	590,445
Capital Improvement Program	(387,717)	240,000	550,000	885,000
Total Expenditures	\$5,162,240	\$6,049,139	\$6,198,159	\$6,703,822
Total Full Time Positions	16.00	16.00	16.00	16.00
Total Temporary Positions	0.00	0.00	0.00	0.00

BENCHMARKING MEASURES

	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
Workload Outputs:			
1. Number of alternatively-fueled vehicles in the city fleet	75	75	75
Efficiency:			
1. Percentage of total fleet fuel consumption that is alternative fuels (CNG,biodiesel)	16	16	16
Effectiveness:			
1. Amount of gasoline and diesel fuel consumption avoided (in gallons)	53,728	53,728	53,728



Vehicle Replacement Fund *continued*

RESOURCE LEVEL CHANGES

	2006-07 ONGOING	2006-07 ONE-TIME	2006-07 TOTAL
REVENUE CHANGES			
Vehicle Maintenance Reimbursement from Other Funds	106,187		106,187
Vehicle Replacement Reimbursement from Other Funds	153,173		153,173
Interest Income	30,600		30,600
TOTAL REVENUE CHANGES	\$289,960	\$0	\$289,960
EXPENDITURE CHANGES			
Salary and Benefits			
Personnel Benefits Costs (Note 1)	(11,393)		(11,393)
Total Salary and Benefits	\$(11,393)	\$0	\$(11,393)
Non-Salary			
Capital Improvement Program	645,000		645,000
Allocated Charges	21,076		21,076
Total Non-Salary	\$666,076	\$0	\$666,076
TOTAL EXPENDITURE CHANGES	\$654,683	\$0	\$654,683

RESOURCE LEVEL NOTES

Note 1: Personnel benefit costs are decreasing due to lower employee pension costs and the allocation of workers' compensation costs to reflect actual department case experience.



Technology Fund

OVERVIEW

In 2006-07, the Technology Fund will continue to deliver information technology services in accordance with the Information Technology (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 technological infrastructure issues. The plan facilitates the development and implementation of Citywide priorities including: the eGovernment Strategic Plan, the Geographic Information System (GIS) Strategic Plan, the Citywide IT Security Plan, and the Telecommunications Master Plan.

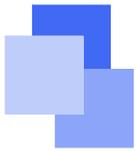
Client Services will continue to maintain the City's desktop computers with an extended-life replacement schedule enacted in 2003.

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 will continue to implement the Enterprise Resources Planning (ERP) system. General Ledger and project management portions (Phase I) of the new SAP financial system were activated in July 2003. The Human Resources system was implemented as Phase II and went live in December 2003. Extensive training and report development will be the focus into 2007.

The Technology Fund reserve was established to fund the replacement of the City's IT Infrastructure. Its existence reflects the City's strong commitment to future technology infrastructure needs.

FUND SUMMARY	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET	2006-07 BUDGET CHANGE	% CHG
Operating Revenue	6,004,294	6,873,551	8,742,923	8,742,923	1,869,372	27%
Interest Income	492,213	634,000	634,000	567,500	(66,500)	(10%)
Other Income	577,124	774,381	298,600	822,554	48,173	6%
TOTAL FUND REVENUES	\$7,073,631	\$8,281,932	\$9,675,523	\$10,132,977	\$1,851,045	22%
Client Services	3,766,986	2,950,137	2,981,213	2,920,278	(29,859)	(1%)
Infrastructure Services	2,426,957	2,416,372	2,417,189	2,381,589	(34,783)	(1%)
Project Management and Application	3,331,915	3,661,932	3,561,711	3,457,264	(204,668)	(6%)
Technology Projects	558,280	214,912	1,210,132	1,275,632	1,060,720	494%
TOTAL FUND EXPENDITURES	\$10,084,138	\$9,243,353	\$10,170,245	\$10,034,763	\$791,410	9%
TO/FROM RESERVES	\$(3,010,507)	\$(961,421)	\$(494,722)	\$98,214	\$1,059,635	

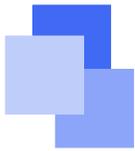


Technology Fund *continued*

INPUTS	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET
Salaries and Benefits	4,655,888	4,262,661	4,296,734	4,096,716
Contract Services	1,950,189	2,495,100	2,415,100	2,395,100
Supplies and Materials	348,122	253,176	238,676	253,176
Facilities and Equipment Purchases	745,890	684,750	674,750	684,750
General Expense	1,597,300	621,108	630,608	621,108
Rents and Leases	6,630	200,000	195,000	200,000
Allocated Charges	448,314	511,646	509,245	508,281
Capital Improvement Program	430	214,912	1,210,132	1,275,632
Operating Transfers Out	331,375	0	0	0
Total Expenditures	\$10,084,138	\$9,243,353	\$10,170,245	\$10,034,763
Total Full Time Positions	33.50	29.56	29.56	29.60
Total Temporary Positions	0.00	1.20	1.20	0.72

BENCHMARKING MEASURES

	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
Workload Outputs:			
1. Number of computer workstations (SEA)	1,050	1,050	1,050
2. Provide public video broadcasting for meetings of the City Council, Council Commissions, and Committees (e.g. Finance, Policy & Services, Planning, Public Arts, Library Advisory, etc..)	180	190	190
Effectiveness:			
1. Percent of requests for computer help desk services resolved within 5 days (SEA)	90%	90%	90%
Efficiency:			
1. Information Technology General Fund operating and maintenance expenditures as a percent of total operating expenditures (SEA)	3.0%	3.0%	3.0%



Technology Fund *continued*

RESOURCE LEVEL CHANGES

	2006-07 ONGOING	2006-07 ONE-TIME	2006-07 TOTAL
REVENUE CHANGES			
Investment income	(66,500)		(66,500)
Reimbursement from City Departments (Note 3)	1,869,372		1,869,372
Reimbursement for CIP projects	414,350		414,350
Other revenue (Stanford)	(36,877)		(36,877)
TOTAL REVENUE CHANGES	\$2,180,345	\$0	\$2,180,345
Adjustments (Note 1)		(329,300)	(329,300)
NET REVENUE CHANGES	\$2,180,345	\$(329,300)	\$1,851,045
EXPENDITURE CHANGES			
Salary and Benefits			
Personnel Benefits Costs (Note 2)	(165,943)		(165,943)
TOTAL SALARY AND BENEFITS	\$(165,943)	\$0	\$(165,943)
EXPENDITURE CHANGES			
Non-Salary			
Software application maintenance	(100,000)		(100,000)
CIP project costs	47,020		47,020
Allocated Charges (Note 4)	(3,367)		(3,367)
Total Non-Salary	\$(56,347)	\$0	\$(56,347)
TOTAL EXPENDITURE CHANGES	\$(222,290)	\$0	\$(222,290)
Adjustments (Note 1)		1,013,700	1,013,700
NET EXPENDITURE CHANGES	\$(222,290)	\$1,013,700	\$791,410

RESOURCE LEVEL NOTES

Note 1: Adjustments include one-time budget changes from the prior year that were removed from this year's budget as planned.

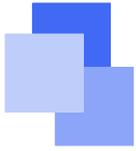
Note 2: Personnel benefit costs are decreasing due to lower employee pension costs and the allocation of workers' compensation costs to reflect actual department case experience.

Note 3: Increase in Technology Fund expense allocation to General Fund.

Note 4: Allocated charges are decreasing primarily due to a decrease in the vehicle replacement allocation.

SERVICE LEVEL CHANGES

Information Technology staff is continuing to adjust to the increased workload created by the staff reductions in 2005-



Technology Fund *continued*

06. The effect on management has been an increase in direct reports and additional project management responsibilities. Due to the staff reductions, it will be necessary to contract for consulting services for any enterprise application upgrades. There will be potential increases in service delivery times until staff are sufficiently trained in their new roles and become accustomed to the increased workload.

Enterprise level applications will be maintained at a minimal level.

GIS data updating will be minimal. New projects will require additional staff resources.

Implementation of the SAP document imaging module will be delayed 2-3 years. During this period a basic interim system will be utilized.

SAP and CIS major enhancements and upgrades will require the contracting of consulting resources.

Any new IT initiative(s) will require additional staffing and/or budget for consulting resources.



Printing and Mailing Fund

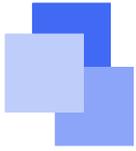
OVERVIEW

The Print Shop's objective is to complement staff projects by offering color copies, scanning, online job requests, and other services. In 2006-07, the Administrative Services Department will implement a new management software package for the Printing and Mailing Fund. This software will improve estimating, job costing, and reporting capabilities, and will increase the level of customer service and enhance the portfolio of service offerings.

In addition, the Mailing Services' existing analog mailing system will be replaced with state-of-the-art digital technology. This will facilitate increased productivity and additional processing functionality. In an additional effort to increase efficiency, all external mail is now transported for mailing by an outside agency at no charge to the City.

FUND SUMMARY	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET	2006-07 BUDGET CHANGE	% CHG
Operating Revenue	1,179,582	1,307,019	1,346,229	1,286,959	(20,060)	(2%)
Interest Income	25,178	29,600	29,600	27,900	(1,700)	(6%)
Other Income	1,614	2,000	2,000	2,000	0	0%
TOTAL FUND REVENUES	\$1,206,374	\$1,338,619	\$1,377,829	\$1,316,859	\$(21,760)	(2%)
Printing and Mailing	1,211,503	1,385,214	1,387,855	1,306,163	(79,051)	(6%)
TOTAL FUND EXPENDITURES	\$1,211,503	\$1,385,214	\$1,387,855	\$1,306,163	\$(79,051)	(6%)
TO/FROM RESERVES	\$(5,129)	\$(46,595)	\$(10,026)	\$10,696	\$57,291	

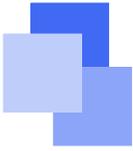
INPUTS	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET
Salaries and Benefits	276,382	403,636	406,003	379,011
Contract Services	59,411	147,481	121,011	129,511
Supplies and Materials	80,210	82,188	104,758	81,758
Facilities and Equipment Purchases	30,686	800	800	0
General Expense	359,382	388,455	393,355	358,655
Rents and Leases	291,518	269,385	269,385	269,385
Allocated Charges	113,914	93,269	92,543	87,843
Total Expenditures	\$1,211,503	\$1,385,214	\$1,387,855	\$1,306,163
Total Full Time Positions	4.15	4.70	4.70	4.60
Total Temporary Positions	0.00	0.00	0.00	0.00



Printing and Mailing Fund *continued*

BENCHMARKING MEASURES

	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED BUDGET
Workload Outputs:			
1. Number of utilities bills mailed per day	1,600	1,600	1,550
Effectiveness:			
1. Percent of utilities bills mailed each day	100%	100%	100%
Efficiency:			
1. Accommodate 85 percent of late printing requests for inclusion in the weekly City Council packet	85%	90%	95%



Printing and Mailing Fund *continued*

RESOURCE LEVEL CHANGES

	2006-07 ONGOING	2006-07 ONE-TIME	2006-07 TOTAL
REVENUE CHANGES			
Interest income	(1,700)		(1,700)
Mailing services	(32,594)		(32,594)
Printing services	12,534		12,534
TOTAL REVENUE CHANGES	\$(21,760)	\$0	\$(21,760)
EXPENDITURE CHANGES			
Salary and Benefits			
Personnel Benefit Costs (Note 2)	(24,624)		(24,624)
Total Salary and Benefits	\$(24,624)	\$0	\$(24,624)
Non-Salary			
Office supplies	(14,500)		(14,500)
Non-capital - tools and equipment	(800)		(800)
Postage	(34,700)		(34,700)
Allocated Charges	(5,427)		(5,427)
Total Non-Salary	\$(55,427)	\$0	\$(55,427)
TOTAL EXPENDITURE CHANGES	\$(80,051)	\$0	\$(80,051)
Adjustments (Note 1)		1,000	1,000
NET EXPENDITURE CHANGES	\$(80,051)	\$1,000	\$(79,051)

RESOURCE LEVEL NOTES

Note 1: Adjustments include one-time budget changes from the prior year that were removed from this year's budget as planned.

Note 2: Personnel benefit costs are decreasing due to lower employee pension costs and the allocation of workers' compensation costs to reflect actual department case experience.



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 workers' compensation, and general liability programs.

The table below reflects a net expense decrease of \$2.3 million from 2005-06 adjusted budget totals. The decrease is due, in part, to a reduction in the City's pension costs for the public employee retirement system (PERS). This has occurred, as anticipated, as PERS took recent steps after many years of rate increases, to smooth pension rate fluctuations resulting in a leveling-off of rates over time. The City's employer pension rates have decreased for all employee groups on average by 2.7 percent. In addition, due to a change where fire and police personnel now pay the employee share of pension costs the City's overall cost is lowered with an offsetting increase in salaries for these two groups.

In 2006-07, workers' compensation expense is increasing by \$0.2 million. The City has, and may continue, taking on greater deductible and risk as a means of containing steep premium increases.

Liability Insurance expense is anticipated to increase slightly by \$0.1 million per year.

FUND SUMMARY	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET	2006-07 BUDGET CHANGE	% CHG
Operating Revenue	1,992,342	937,000	937,000	937,000	0	0%
Interest Income	685,266	971,100	971,100	1,152,900	181,800	19%
Other Income	31,140,768	36,253,900	36,706,900	33,735,100	(2,518,800)	(7%)
TOTAL FUND REVENUES	\$33,818,376	\$38,162,000	\$38,615,000	\$35,825,000	\$(2,337,000)	(6%)
Operating Expense	33,934,546	38,162,000	38,615,000	35,825,000	(2,337,000)	(6%)
TOTAL FUND EXPENDITURES	\$33,934,546	\$38,162,000	\$38,615,000	\$35,825,000	\$(2,337,000)	(6%)
TO/FROM RESERVES	\$(116,170)	\$0	\$0	\$0	\$0	



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. In 2006-07, retiree health benefit expense is estimated to be \$3.6 million in 2006-07. Fund balances are projected to remain unchanged in the 2006-07 Adopted Budget.

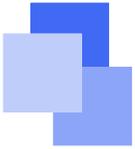
The City recently had an actuarial study conducted that valued the retiree medical liability for the City as required under Government Accounting Standards Board (GASB) standards. The outcome of this study will be presented to the City Council after the 2006-07 Adopted Budget. It is expected that any updated information from this study will be reviewed by the City Council in time to be incorporated into the 2006-07 Adopted Budget.

FUND SUMMARY	2004-05 ACTUALS	2005-06 ADJUSTED BUDGET	2006-07 ADOPTED-IN- CONCEPT BUDGET	2006-07 ADOPTED BUDGET	2006-07 BUDGET CHANGE	% CHG
Interest Income	585,321	697,400	697,400	709,100	11,700	2%
Other Income	2,700,898	2,730,600	2,901,600	2,889,900	159,300	6%
TOTAL FUND REVENUES	\$3,286,219	\$3,428,000	\$3,599,000	\$3,599,000	\$171,000	5%
Operating Expense	3,200,898	3,428,000	3,599,000	3,599,000	171,000	5%
TOTAL FUND EXPENDITURES	\$3,200,898	\$3,428,000	\$3,599,000	\$3,599,000	\$171,000	5%
TO/FROM RESERVES	\$85,321	\$0	\$0	\$0	\$0	

2006-07 Average Salary & Benefit per Employee — by Unit

CATEGORY	MGMT	IAFF	FCA	PAPOA	SEIU
FTE	284	112	5	84	592
% OF CITY	26%	10%	0%	8%	55%
ANNUAL SALARY	\$98,406	\$93,154	\$111,166	\$95,925	\$64,633
OVERTIME*	\$1,750	\$8,966	\$0	\$11,689	\$3,888
VAR MGMT COMP *	\$3,881	\$0	\$4,994	\$0	\$0
IN-LIEU HOLIDAY	\$0	\$4,835	\$0	\$4,979	\$3,361
MGMT LEAVE	\$3,843	\$0	\$4,276	\$0	\$0
PERS EMPLOYER	\$11,258	\$22,553	\$26,913	\$23,223	\$7,394
PERS EMPLOYEE	\$6,888	\$0	\$0	\$0	\$4,524
MEDICAL	\$8,700	\$8,700	\$8,700	\$8,700	\$9,302
DENTAL	\$1,501	\$1,501	\$1,501	\$1,501	\$1,501
WORKER'S COMP	\$1,138	\$8,913	\$0	\$6,122	\$2,276
LIFE/ LTD/ SUI/ EAP	\$681	\$681	\$681	\$681	\$681
NON-SAL. BENEFITS	\$4,207	\$1,207	\$4,207	\$1,207	\$1,207
2006-07 TOTAL SAL./ BENEFITS	\$142,253	\$150,510	\$162,437	\$154,027	\$98,768

* Average employee eligible for benefit



2006-07 Average Salary & Benefit per Employee — by Unit
continued

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STAFFING



2006-07 SUMMARY OF POSITION CHANGES

FTE

GENERAL FUND

2005-06 ADOPTED BUDGET	647.19
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2005-06 BAO Position Adjustments

Legal Secretary (ATT)	(1.00)
Secretary to City Attorney (ATT)	1.00
Senior Assistant City Attorney (ATT)	(0.75)
Producer Arts/Science Programs (CSD) (Hourly to regular conversion)	0.75
Program Assistant (CSD) (Hourly to regular conversion)	2.25
Senior Administrator (HRD)	0.75
Coordinator, Library Circulation (LIB)	(1.00)
Supervisor, Librarian (LIB)	1.00
Transportation Projects Manager (PLA)	(1.00)
Transportation Manager (PLA)	1.00
Engineering Technician II (PLA)	(1.00)
Engineer (PLA)	1.00
Transportation Projects Manager (PLA)	(1.00)
Associate Engineer (PLA)	1.00
Chief Transportation Official (PLA)	(1.00)
Chief Planning and Transportation Official (PLA)	1.00
Manager, Planning (PLA)	(1.00)
Building/Planning Technician (PLA)	1.00

2005-06 ADJUSTED TOTAL	650.19
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2006-07 New Positions

Assistant to City Manager (MGR)	1.00
Parking Examiner (CLK)	0.25
Superintendent, Parks (CSD)	1.00
Fire Inspector (FIR)	1.00
Library Specialist (LIB)	0.25
2006-07 Total New Positions	3.50

Reallocated Positions

ASD reallocation to Technology Fund	(0.04)
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2006-07 SUMMARY OF POSITION CHANGES *CONTINUED*

	FTE
ASD reallocation from Printing and Mailing Services Fund	0.10
2006-07 Total Reallocated Positions	0.06
2006-07 Eliminated Positions	
Claims Investigator/Paralegal (ATT)	(0.40)
Senior Assistant City Attorney (ATT)	(1.00)
Coordinator, Recreation Programs (CSD)	(1.00)
Coordinator, Recreation Programs (CSD) *	1.00
2006-07 Total Eliminated Positions	(1.40)
* Added back by Finance Committee with offsetting revenue	

2006-07 TOTAL ADOPTED GENERAL FUND POSITIONS	652.35
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ENTERPRISE FUNDS

2005-06 ADOPTED BUDGET	352.55
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2005-06 BAO Position Adjustments

Assistant Director Utilities/Engineer/Operations	(1.00)
Assistant Director Utilities/Operations	1.00
Electrical Assistant I (Electric)	(1.00)
Office Specialist (Electric)	1.00

2005-06 ADJUSTED TOTAL	352.55
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2006-07 New Positions

Assistant Director, Utilities/Engineering	1.00
Utilities Installer Repairer	1.00
2006-07 Total New Positions	2.00

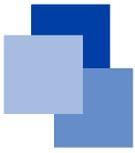
2006-07 TOTAL ADOPTED ENTERPRISE FUND POSITIONS	354.55
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OTHER FUNDS

2005-06 ADOPTED BUDGET	71.66
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2005-06 BAO Position Adjustments

Offset Equipment Operator - Lead (Printing & Mailing)	1.00
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2006-07 SUMMARY OF POSITION CHANGES CONTINUED

	FTE
Offset Equipment Operator (Printing & Mailing)	(1.00)
2005-06 ADJUSTED TOTAL	71.66
2006-07 Reallocated Positions	
Printing & Mailing Fund reallocation to ASD	(0.10)
ASD reallocation to Technology Fund	0.04
2006-07 Total Reallocated Positions	(0.06)
2006-07 TOTAL ADOPTED OTHER FUNDS POSITIONS	71.60

2006-07 TABLE OF ORGANIZATION

	2004-05 Actual Budget	2005-06 Adjusted Budget	2006-07 Adopted-in- Concept Budget	2006-07 Adopted Budget	2006-07 Budget Change
GENERAL FUND					
CITY ATTORNEY					
City Attorney	1.00	1.00	1.00	1.00	0.00
Claims Investigator (1)	0.00	0.00	0.00	0.60	0.60
Claims Investigator/Paralegal (1) (2)	1.00	1.00	1.00	0.00	-1.00
Legal Administrator	1.00	1.00	1.00	1.00	0.00
Legal Secretary - Confidential *	3.00	2.00	3.00	2.00	0.00
Secretary to City Attorney *	0.00	1.00	0.00	1.00	0.00
Senior Assistant City Attorney * (3)	5.75	3.80	4.55	2.80	-1.00
Senior Deputy City Attorney	1.00	2.00	2.00	2.00	0.00
TOTAL CITY ATTORNEY	12.75	11.80	12.55	10.40	-1.40
City Auditor					
Administrative Assistant	1.00	1.00	1.00	1.00	0.00
City Auditor	1.00	1.00	1.00	1.00	0.00
Senior Auditor	2.00	2.00	2.00	2.00	0.00
TOTAL CITY AUDITOR	4.00	4.00	4.00	4.00	0.00
City Clerk					
Assistant City Clerk	1.00	1.00	1.00	1.00	0.00
City Clerk	1.00	1.00	1.00	1.00	0.00
Deputy City Clerk	1.00	1.00	1.00	1.00	0.00
Executive Secretary	3.00	3.00	3.00	3.00	0.00
Parking Examiner (4)	0.00	0.00	0.00	0.75	0.75
TOTAL CITY CLERK	6.00	6.00	6.00	6.75	0.75
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



2006-07 Table of Organization *continued*

	2004-05 Actual Budget	2005-06 Adjusted Budget	2006-07 Adopted-in- Concept Budget	2006-07 Adopted Budget	2006-07 Budget Change
Assistant to City Manager (15)	1.00	1.00	1.00	2.00	1.00
City Manager	1.00	1.00	1.00	1.00	0.00
Deputy Public Communication Officer	1.00	0.00	0.00	0.00	0.00
Executive Assistant	1.00	0.00	0.00	0.00	0.00
Executive Assistant to the City Manager (16)	0.00	0.00	0.00	1.00	1.00
Manager, Economic Resources	1.00	1.00	1.00	1.00	0.00
Office Specialist	1.50	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 (16)	1.00	1.00	1.00	0.00	-1.00
TOTAL CITY MANAGER	10.50	8.50	8.50	9.50	1.00

Administrative Services Department

Accounting Specialist	13.00	12.00	12.00	12.00	0.00
Accounting Specialist - Lead (5)	4.95	4.95	4.95	5.00	0.05
Administrative Assistant	1.00	0.93	0.93	0.93	0.00
Asst. Director, Administrative Services	1.00	0.65	0.65	0.65	0.00
Business Analyst	0.50	0.10	0.10	0.10	0.00
Buyer	1.95	1.95	1.95	1.95	0.00
Contracts Administrator	2.00	2.00	2.00	2.00	0.00
Deputy Director, Administrative Services	1.00	1.00	1.00	1.00	0.00
Director, Administrative Services	0.85	0.55	0.55	0.55	0.00
Graphic Designer	1.00	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, Purchasing/Contract Admin. (6)	0.95	0.95	0.95	1.00	0.05
Manager, Real Property	1.00	1.00	1.00	1.00	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	0.50	0.10	0.10	0.10	0.00
Senior Buyer	1.00	0.00	0.00	0.00	0.00
Senior Financial Analyst	8.75	8.41	8.41	8.41	0.00
Staff Accountant	3.00	3.00	3.00	3.00	0.00
Staff Secretary (7)	1.05	1.00	1.00	0.96	-0.04
Storekeeper	2.00	1.00	1.00	1.00	0.00
Storekeeper - Lead	1.00	1.00	1.00	1.00	0.00



2006-07 Table of Organization *continued*

	2004-05 Actual Budget	2005-06 Adjusted Budget	2006-07 Adopted-in- Concept Budget	2006-07 Adopted Budget	2006-07 Budget Change
Warehouse Supervisor	1.00	1.00	1.00	1.00	0.00
TOTAL ADMINISTRATIVE SERVICES	55.50	50.59	50.59	50.65	0.06
Community Services Department					
Administrative Assistant	1.00	1.00	1.00	1.00	0.00
Administrator Special Events	1.00	1.00	1.00	1.00	0.00
Arts and Culture Division Manager	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, Recreation Programs (8)	3.00	3.00	2.00	3.00	0.00
Cubberly Center and Human Services Division Manager	1.00	1.00	1.00	1.00	0.00
Director, Community Services	1.00	1.00	1.00	1.00	0.00
Golf and Parks Division Manager	1.00	1.00	1.00	1.00	0.00
Golf Course Equipment Mechanic	1.00	1.00	1.00	1.00	0.00
Golf Course Maintenance Person	6.00	5.00	5.00	5.00	0.00
Inspector, Field Services	2.00	2.00	2.00	2.00	0.00
Management Assistant	1.00	1.00	1.00	1.00	0.00
Manager, Arts	2.00	2.00	2.00	2.00	0.00
Office Specialist	6.50	5.50	5.50	5.50	0.00
Open Space Division Manager	1.00	1.00	1.00	1.00	0.00
Park Maintenance Lead	1.00	1.00	1.00	1.00	0.00
Park Maintenance Person	11.00	11.00	11.00	11.00	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	3.00	3.00	3.00	3.00	0.00
Producer Arts/Science Programs *	10.50	12.25	11.50	12.25	0.00
Program Assistant *	6.75	9.00	6.75	9.00	0.00
Recreation and Youth Sciences Div Mgr	1.00	1.00	1.00	1.00	0.00
Senior Administrator	1.00	1.00	1.00	1.00	0.00
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	4.00	3.00	3.00	3.00	0.00
Superintendent, Golf Course	1.00	1.00	1.00	1.00	0.00
Superintendent, Parks (9)	1.00	0.00	0.00	1.00	1.00
Supervisor, Junior Museum	1.00	1.00	1.00	1.00	0.00



2006-07 Table of Organization *continued*

	2004-05 Actual Budget	2005-06 Adjusted Budget	2006-07 Adopted-in- Concept Budget	2006-07 Adopted Budget	2006-07 Budget Change
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	5.00	5.00	5.00	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	99.25	98.25	94.25	99.25	1.00

Due to funding constraints, the Community Services Department budget includes the temporary removal of funding for the following vacant positions:

1.0 FTE Arts and Culture Division Manager, 1.0 FTE Program Assistant, and 1.0 FTE Supervisor, Parks.

Fire

Administrative Assistant	1.00	1.00	1.00	1.00	0.00
Battalion Chief	4.00	3.00	3.00	3.00	0.00
Chief Officer - Emergency Operations	1.00	1.00	1.00	1.00	0.00
Coordinator, Environmental Protection	1.00	0.00	0.00	0.00	0.00
Deputy Fire Chief (17)	1.00	1.00	1.00	0.00	-1.00
Deputy Fire Chief EMT	2.00	2.00	2.00	2.00	0.00
EMS Coordinator	1.00	1.00	1.00	1.00	0.00
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	30.00	30.00	30.00	30.00	0.00
Fire Captain	27.00	27.00	27.00	27.00	0.00
Fire Chief	1.00	1.00	1.00	1.00	0.00
Fire Fighter	45.00	45.00	45.00	45.00	0.00
Fire Inspector (10)	2.00	2.00	2.00	3.00	1.00
Fire Marshal (17)	0.00	0.00	0.00	1.00	1.00
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	4.00	4.00	4.00	4.00	0.00
Training Captain	1.00	1.00	1.00	1.00	0.00
TOTAL FIRE	128.00	126.00	126.00	127.00	1.00

Due to funding constraints, the Fire Department budget includes the temporary removal of funding for the following vacant position: 1.0 FTE Chief Officer - Emergency Operations.

Human Resources Department

Administrative Assistant	1.00	1.00	1.00	1.00	0.00
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2006-07 Table of Organization *continued*

	2004-05 Actual Budget	2005-06 Adjusted Budget	2006-07 Adopted-in- Concept Budget	2006-07 Adopted Budget	2006-07 Budget Change
Administrator, Human Resources	5.00	5.00	5.00	5.00	0.00
Director, Human Resources	1.00	1.00	1.00	1.00	0.00
Human Resources Assistant - Conf	3.10	3.60	3.60	3.60	0.00
Manager, Employee Relations	1.00	1.00	1.00	1.00	0.00
Manager, Human Resources & 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
Office Specialist	0.00	1.00	1.00	1.00	0.00
Senior Administrator *	0.00	0.75	0.00	0.75	0.00
Senior Business Analyst	1.00	0.00	0.00	0.00	0.00
TOTAL HUMAN RESOURCES	14.10	15.35	14.60	15.35	0.00

Library Department

Administrative Assistant	1.00	1.00	1.00	1.00	0.00
Coordinator, Library Circulation *	1.00	0.00	1.00	0.00	0.00
Coordinator, Library Programs	2.00	3.00	3.00	3.00	0.00
Director, Libraries	1.00	1.00	1.00	1.00	0.00
Librarian	6.00	6.00	6.00	6.00	0.00
Library Assistant	5.50	5.50	5.50	5.50	0.00
Library Associate	4.00	4.00	4.00	4.00	0.00
Library Specialist (11)	7.75	7.75	7.75	8.00	0.25
Manager, Main Library Services	1.00	1.00	1.00	1.00	0.00
Office Specialist	0.50	0.50	0.50	0.50	0.00
Senior Librarian	10.25	9.25	9.25	9.25	0.00
Supervisor, Librarian *	4.00	5.00	4.00	5.00	0.00
TOTAL LIBRARY DEPARTMENT	44.00	44.00	44.00	44.25	0.25

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
Assistant Building Official	1.00	1.00	1.00	1.00	0.00
Assistant Director, PCE (18)	0.00	0.00	0.00	1.00	1.00
Associate Engineer *	0.00	1.00	0.00	1.00	0.00
Building Inspector	4.00	4.00	4.00	4.00	0.00



2006-07 Table of Organization *continued*

	2004-05 Actual Budget	2005-06 Adjusted Budget	2006-07 Adopted-in- Concept Budget	2006-07 Adopted Budget	2006-07 Budget Change
Building Inspector Specialist	3.00	3.00	3.00	3.00	0.00
Building/Planning Technician *	3.00	4.00	3.00	4.00	0.00
Chief Building Official	1.00	1.00	1.00	1.00	0.00
Chief Planning Official	1.00	0.00	0.00	0.00	0.00
Chief Planning and Transportation Official *	0.00	1.00	0.00	1.00	0.00
Chief Transportation Official *	1.00	0.00	1.00	0.00	0.00
City Traffic Engineer	1.00	0.00	0.00	0.00	0.00
Code Enforcement Officer	2.00	2.00	2.00	2.00	0.00
Coordinator, Transp. System Mgmt.	1.00	0.50	0.50	0.50	0.00
Deputy Director, PCE/Chief Planning Official (18)	0.00	1.00	1.00	0.00	-1.00
Director, Planning and Comm. Env.	1.00	1.00	1.00	1.00	0.00
Engineer *	2.00	2.00	1.00	2.00	0.00
Engineering Technician II *	1.00	1.00	2.00	1.00	0.00
Executive Secretary	1.00	1.00	1.00	1.00	0.00
Manager, Planning *	3.00	2.00	3.00	2.00	0.00
Managing Arborist	1.00	1.00	1.00	1.00	0.00
Office Specialist	2.00	2.00	2.00	2.00	0.00
Planner	7.00	7.00	7.00	7.00	0.00
Plan Checking Engineer	4.00	3.00	3.00	3.00	0.00
Senior Planner	6.00	6.00	6.00	6.00	0.00
Staff Secretary	4.80	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	0.00	2.00	0.00	0.00
Transportation Manager *	0.00	1.00	0.00	1.00	0.00

TOTAL PLANNING AND COMMUNITY ENVIRONMENT

54.80

53.30

53.30

53.30

0.00

Police Department

Administrative Assistant	1.00	1.00	1.00	1.00	0.00
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
Business Analyst	1.00	1.00	1.00	1.00	0.00
Code Enforcement Officer	1.75	0.50	0.50	0.50	0.00
Communication Technician	1.00	1.00	1.00	1.00	0.00
Community Service Officer	5.00	4.00	4.00	4.00	0.00



2006-07 Table of Organization *continued*

	2004-05 Actual Budget	2005-06 Adjusted Budget	2006-07 Adopted-in- Concept Budget	2006-07 Adopted Budget	2006-07 Budget Change
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	1.00	0.00	0.00	0.00	0.00
Parking Enforcement Officer	7.00	7.00	7.00	7.00	0.00
Parking Enforcement Officer - Lead	1.00	1.00	1.00	1.00	0.00
Parking Examiner (12)	0.50	0.50	0.50	0.00	-0.50
Police Agent	19.00	19.00	19.00	19.00	0.00
Police Captain	2.00	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	51.00	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	16.00	16.00	16.00	16.00	0.00
Public Safety Dispatcher - Chief	4.00	4.00	4.00	4.00	0.00
Senior Administrator	1.00	1.00	1.00	1.00	0.00
Staff Secretary	4.00	3.00	3.00	3.00	0.00
Superintendent, Animal Services	1.00	1.00	1.00	1.00	0.00
Supervisor, Animal Services	1.00	1.00	1.00	1.00	0.00
Supervisor, Police Services	3.00	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	168.75	164.50	164.50	164.00	-0.50

Public Works Department

Accounting Specialist	1.00	0.00	0.00	0.00	0.00
Administrative Assistant	1.00	1.00	1.00	1.00	0.00
Administrator, Public Works (13)	0.00	0.00	0.00	1.00	1.00
Assistant Director Public Works	0.85	0.85	0.85	0.85	0.00
Assistant Engineer (14)	0.40	0.10	0.10	0.00	-0.10
Associate Engineer (14)	0.00	0.00	0.00	0.10	0.10
Building Serviceperson	5.00	4.00	4.00	4.00	0.00



2006-07 Table of Organization *continued*

	2004-05 Actual Budget	2005-06 Adjusted Budget	2006-07 Adopted-in- Concept Budget	2006-07 Adopted Budget	2006-07 Budget Change
Building Serviceperson - Lead	2.00	2.00	2.00	2.00	0.00
Cement Finisher	1.50	0.00	0.00	0.00	0.00
Cement Finisher- Lead	0.50	0.00	0.00	0.00	0.00
Coordinator, Public Works Projects (13)	1.00	1.00	1.00	0.00	-1.00
Deputy Director, PW Operations	0.40	0.25	0.25	0.25	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	1.20	1.20	1.20	1.20	0.00
Engineering Technician III	4.20	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	5.00	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	0.85	0.85	0.85	0.00
Inspector, Field Services	1.00	1.00	1.00	1.00	0.00
Manager, Facilities Maintenance	0.80	0.80	0.80	0.80	0.00
Manager, Maintenance Operations	0.50	0.12	0.12	0.12	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	0.50	0.00	0.00	0.00	0.00
Project Engineer	1.20	1.20	1.20	1.20	0.00
Project Manager	1.75	1.75	1.75	1.75	0.00
Senior Administrator	0.90	0.90	0.90	0.90	0.00
Senior Engineer	0.30	0.30	0.30	0.30	0.00
Senior Project Manager	1.00	1.00	1.00	1.00	0.00
Staff Secretary	2.00	2.67	2.67	2.67	0.00
Superintendent, PW Operations	0.80	0.60	0.60	0.60	0.00
Supervisor, Building Services	1.00	1.00	1.00	1.00	0.00
Supervisor, Facilities Management	0.95	0.95	0.95	0.95	0.00
Supervisor, Inspection/Surveying, PW	0.90	0.80	0.80	0.80	0.00
Supervisor, Public Works	1.00	0.00	0.00	0.00	0.00
Surveying Assistant	0.78	0.78	0.78	0.78	0.00
Surveyor, Public Works	0.78	0.78	0.78	0.78	0.00
Traffic Control Maintainer- Lead	1.00	1.00	1.00	1.00	0.00
Traffic Control Maintenance I	1.94	1.94	1.94	1.94	0.00



2006-07 Table of Organization *continued*

	2004-05 Actual Budget	2005-06 Adjusted Budget	2006-07 Adopted-in- Concept Budget	2006-07 Adopted Budget	2006-07 Budget Change
Traffic Control Maintenance II	3.00	3.00	3.00	3.00	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	0.91	0.91	0.91	0.91	0.00
TOTAL PUBLIC WORKS	74.06	67.90	67.90	67.90	0.00
GENERAL FUND AUTHORIZED POSITIONS	671.71	650.19	646.19	652.35	2.16

Footnotes:

* These positions were adjusted in 2005-06 through a Budget Amendment Ordinance.

- 1 Reclassification of 0.60 Claims Investigator/Paralegal to 0.60 Claims Investigator.
- 2 Elimination of 0.40 Claims Investigator/Paralegal, due to budget constraints.
- 3 Elimination of 1.0 Senior Assistant City Attorney, due to budget constraints.
- 4 Addition of 0.75 Parking Examiner; 0.50 transfer from Police Department.
- 5 Transfer in of 0.05 Accounting Specialist - Lead from Printing and Mailing Services Fund.
- 6 Transfer in of 0.05 Manager, Purchasing and Contract Admin from Printing and Mailing Services Fund.
- 7 Transfer of 0.04 Staff Secretary to Technology Fund.
- 8 Elimination of 1.0 Coordinator, Recreation Programs; Added back by Finance Committee with offsetting revenue.
- 9 Addition of 1.0 Superintendent Parks.
- 10 Addition of 1.0 Fire Inspector to reduce plan review turnaround time.
- 11 Addition of 0.25 Library Specialist due to restructuring.
- 12 Elimination of 0.50 Parking Examiner; transfer to City Clerk's Office.
- 13 Reclassification of 1.0 Coordinator, Public Works Projects to 1.0 Administrator, Public Works.
- 14 Reclassification of 0.10 Assistant Engineer to 0.10 Associate Engineer.
- 15 Addition of 1.0 Assistant to City Manager.
- 16 Title change of 1.0 Staff Assistant to City Manager to 1.0 Executive Assistant to the City Manager.
- 17 Title change of 1.0 Deputy Fire Chief to 1.0 Fire Marshal.
- 18 Reclassification of 1.0 Deputy Director, PCE/Chief Planning Official to 1.0 Assistant Director, PCE.

ENTERPRISE FUNDS

Public Works Department

Refuse, Storm Drainage and Wastewater Treatment

Assistant Director, Public Works	0.15	0.15	0.15	0.15	0.00
Assistant Engineer (1) (2)	0.40	0.40	0.40	0.00	-0.40



2006-07 Table of Organization *continued*

	2004-05 Actual Budget	2005-06 Adjusted Budget	2006-07 Adopted-in- Concept Budget	2006-07 Adopted Budget	2006-07 Budget Change
Assistant Manager, WQCP	1.00	1.00	1.00	1.00	0.00
Associate Engineer (1)	3.00	3.00	3.00	3.30	0.30
Associate Planner	1.00	1.00	1.00	1.00	0.00
Buyer	1.00	1.00	1.00	1.00	0.00
Cement Finisher	1.50	0.00	0.00	0.00	0.00
Cement Finisher - Lead	0.50	0.00	0.00	0.00	0.00
Chemist	3.00	3.00	3.00	3.00	0.00
Code Enforcement Officer	0.25	0.00	0.00	0.00	0.00
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
Electrician	3.00	3.00	3.00	3.00	0.00
Electrician - Lead	2.00	2.00	2.00	2.00	0.00
Engineer	0.10	1.10	1.10	1.10	0.00
Engineering Technician I	0.00	0.50	0.50	0.50	0.00
Engineering Technician III (2)	1.40	1.40	1.40	1.50	0.10
Environmental Specialist	2.00	2.00	2.00	2.00	0.00
Equipment Operator	0.45	0.45	0.45	0.45	0.00
Executive Assistant	2.00	2.00	2.00	2.00	0.00
Heavy Equipment Operator	6.10	6.10	6.10	6.10	0.00
Heavy Equipment Operator - Lead	2.95	2.95	2.95	2.95	0.00
Industrial Waste Inspector	1.00	1.00	1.00	1.00	0.00
Industrial Waste Investigator	2.00	2.00	2.00	2.00	0.00
Laboratory Technician, WQCP	2.00	2.50	2.50	2.50	0.00
Landfill Technician	1.00	1.00	1.00	1.00	0.00
Maintenance Mechanic	7.00	7.00	7.00	7.00	0.00
Manager, Environmental Compliance	1.00	1.00	1.00	1.00	0.00
Manager, Environmental Control Program	3.00	3.00	3.00	3.00	0.00
Manager, Laboratory Services	1.00	1.00	1.00	1.00	0.00
Manager, Maintenance Operations	0.50	1.38	1.38	1.38	0.00
Manager, Solid Waste	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	2.00	2.00	2.00	2.00	0.00
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	2.00	2.00	2.00	2.00	0.00
Refuse Disposal Attendant	4.00	4.00	4.00	4.00	0.00
Senior Administrator	0.10	0.10	0.10	0.10	0.00



2006-07 Table of Organization *continued*

	2004-05 Actual Budget	2005-06 Adjusted Budget	2006-07 Adopted-in- Concept Budget	2006-07 Adopted Budget	2006-07 Budget Change
Senior Chemist	1.00	1.00	1.00	1.00	0.00
Senior Engineer	2.45	2.45	2.45	2.45	0.00
Senior Mechanic, Water Quality Control	1.00	1.00	1.00	1.00	0.00
Senior Operator, Water Quality Control	6.00	6.00	6.00	6.00	0.00
Staff Secretary	3.00	3.00	3.00	3.00	0.00
Storekeeper	2.00	2.00	2.00	2.00	0.00
Street Maintenance Assistant	2.00	2.00	2.00	2.00	0.00
Street Sweeper Operator (3)	6.00	6.00	6.00	7.00	1.00
Superintendent, Public Works Operations	0.20	0.20	0.20	0.20	0.00
Supervisor, Public Works	2.00	1.00	1.00	1.00	0.00
Supervisor, Water Quality Control Operations	5.00	5.00	5.00	5.00	0.00
Surveying Assistant	0.11	0.11	0.11	0.11	0.00
Surveyor, Public Works	0.11	0.11	0.11	0.11	0.00
Traffic Control Maintenance I	0.06	0.06	0.06	0.06	0.00
Truck Driver (3)	1.09	1.09	1.09	0.09	-1.00
Water Quality Control Plant Operator II	16.00	16.00	16.00	16.00	0.00
TOTAL PUBLIC WORKS - ENTERPRISE	113.02	112.65	112.65	112.65	0.00

Utilities Department

Administration, Electric, Gas, Wastewater Collection and Water

Account Representatives	3.00	3.00	3.00	3.00	0.00
Accounting Specialist	1.00	1.00	1.00	1.00	0.00
Administrative Assistant	1.00	1.00	1.00	1.00	0.00
Asst. Director Utilities/Administrative Services (4)	1.00	1.00	1.00	0.00	-1.00
Asst. Director Customer Support Services (4)	0.00	0.00	0.00	1.00	1.00
Asst. Director Utilities/Engineering (5)	0.00	0.00	0.00	1.00	1.00
Asst. Director Utilities/Engineer/Operations *	1.00	0.00	1.00	0.00	0.00
Asst. Director Utilities/Operations *	0.00	1.00	0.00	1.00	0.00
Asst. Director Utilities/Resource Management	1.00	1.00	1.00	1.00	0.00
Associate Power Engineer (6)	1.00	1.00	1.00	0.00	-1.00
Business Analyst (7)	1.00	1.00	1.00	0.00	-1.00
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	1.00	1.00	1.00	1.00	0.00
Contracts Administrator	1.00	1.00	1.00	1.00	0.00



2006-07 Table of Organization *continued*

	2004-05 Actual Budget	2005-06 Adjusted Budget	2006-07 Adopted-in- Concept Budget	2006-07 Adopted Budget	2006-07 Budget Change
Coordinator, Utils. Safety & Security	1.00	1.00	1.00	1.00	0.00
Coordinator, Utility Projects (8)	2.00	2.00	2.00	3.00	1.00
Customer Service Representative	5.00	5.00	5.00	5.00	0.00
Customer Service Specialist	2.00	2.00	2.00	2.00	0.00
Customer Service Specialist-Lead	1.00	1.00	1.00	1.00	0.00
Director, Administrative Services	0.15	0.15	0.15	0.15	0.00
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
Electrical Assistant I *	5.00	4.00	5.00	4.00	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
Gas System Technician	2.00	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	1.00	1.00	1.00	1.00	0.00
Manager, Electric Operations	1.00	1.00	1.00	1.00	0.00
Manager, Energy Risk	1.00	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
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	5.00	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	3.00	2.00	3.00	0.00
Power Engineer (6)	0.00	0.00	0.00	1.00	1.00



2006-07 Table of Organization *continued*

	2004-05 Actual Budget	2005-06 Adjusted Budget	2006-07 Adopted-in- Concept Budget	2006-07 Adopted Budget	2006-07 Budget Change
Program Assistant	4.00	4.00	4.00	4.00	0.00
Project Engineer	6.00	6.00	6.00	6.00	0.00
Project Manager	0.75	0.75	0.75	0.75	0.00
Resource Planner	4.00	4.00	4.00	4.00	0.00
Senior Administrator	1.00	1.00	1.00	1.00	0.00
Senior Business Analyst	1.00	1.00	1.00	1.00	0.00
Senior Electric Project Engineer	5.00	5.00	5.00	5.00	0.00
Senior Utilities Field Services Representative	1.00	1.00	1.00	1.00	0.00
Senior Market Analyst (7)	2.00	2.00	2.00	3.00	1.00
Senior Mechanic (9)	0.00	0.00	0.00	1.00	1.00
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 Water System Operator	1.00	1.00	1.00	1.00	0.00
Staff Secretary	7.00	7.00	7.00	7.00	0.00
Storekeeper	1.00	1.00	1.00	1.00	0.00
Supervisor Electric Systems (10)	6.00	6.00	6.00	5.00	-1.00
Supervisor, Meter Readers & Field Services (11)	1.00	1.00	1.00	0.00	-1.00
Supervisor, Utility Construction	2.00	1.00	1.00	1.00	0.00
Supervisor, Water, Gas, Wastewater (8) (10) (11)	4.00	4.00	4.00	5.00	1.00
Supervisor, Water Transmission	1.00	1.00	1.00	1.00	0.00
Tree Maintenance Person	1.00	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 Engineer Estimator (12)	6.00	6.00	6.00	5.00	-1.00
Utilities Engineer Estimator - Lead (12)	0.00	0.00	0.00	1.00	1.00
Utilities Field Service Representative	8.00	8.00	8.00	8.00	0.00
Utilities Installer/Repairer (13)	14.00	14.00	14.00	15.00	1.00
Utilities Installer/Repairer Assistant	1.00	1.00	1.00	1.00	0.00
Utilities Installer/Repairer-Lead	5.00	5.00	5.00	5.00	0.00
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
Utility Compliance Technician (9)	2.00	3.00	3.00	2.00	-1.00
Utility Compliance Tech.-Lead	1.00	1.00	1.00	1.00	0.00



2006-07 Table of Organization *continued*

	2004-05 Actual Budget	2005-06 Adjusted Budget	2006-07 Adopted-in- Concept Budget	2006-07 Adopted Budget	2006-07 Budget Change
Water Meter/Cross Connection Technician	2.00	2.00	2.00	2.00	0.00
Water System Operator II	5.00	5.00	5.00	5.00	0.00
TOTAL UTILITIES	233.90	233.90	233.90	235.90	2.00
CPA External Services					
Director, Administrative Services	0.00	0.05	0.05	0.05	0.00
Manager, Information Technology	0.70	0.70	0.70	0.70	0.00
Staff Secretary	0.00	0.25	0.25	0.25	0.00
Technologist	5.00	5.00	5.00	5.00	0.00
TOTAL CPA EXTERNAL FUND	5.70	6.00	6.00	6.00	0.00
TOTAL ENTERPRISE FUNDS POSITIONS	352.62	352.55	352.55	354.55	2.00

Footnotes:

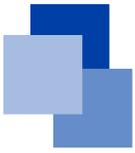
* These positions were adjusted in 2005-06 through a Budget Amendment Ordinance.

- 1 Reclassification of 0.30 Assistant Engineer to 0.30 Associate Engineer.
- 2 Reclassification of 0.10 Assistant Engineer to 0.10 Engineering Technician III.
- 3 Reclassification of 1.0 Truck Driver to 1.0 Street Sweeper Operator.
- 4 Reclassification of 1.0 Asst. Director Utilities/Admin. Services to 1.0 Asst. Director Customer Support Services.
- 5 Addition of 1.0 Assistant Director Utilities/Engineering.
- 6 Reclassification of 1.0 Associate Power Engineer to 1.0 Power Engineer.
- 7 Reclassification of 1.0 Business Analyst to 1.0 Senior Market Analyst.
- 8 Reclassification of 1.0 Supervisor, Wastewater, Gas, Water to 1.0 Coordinator, Utility Projects.
- 9 Reclassification of 1.0 Utility Compliance Technician to 1.0 Senior Mechanic.
- 10 Reclassification of 1.0 Supervisor Electric Systems to 1.0 Supervisor, Wastewater, Gas, Water.
- 11 Reclassification of 1.0 Supervisor, Meter Readers and Field Services to 1.0 Supervisor, Wastewater, Gas, Water.
- 12 Reclassification of 1.0 Utilities Engineer Estimator to 1.0 Utilities Engineer Estimator - Lead.
- 13 Addition of 1.0 Utilities Installer/Repairer.

OTHER FUNDS

Printing and Mailing Services

Accounting Specialist-Lead (1)	0.05	0.05	0.05	0.00	-0.05
Asst. Director, Administrative Services	0.00	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



2006-07 Table of Organization *continued*

	2004-05 Actual Budget	2005-06 Adjusted Budget	2006-07 Adopted-in- Concept Budget	2006-07 Adopted Budget	2006-07 Budget Change
Manager, Purchasing and Contract Administration (2)	0.05	0.05	0.05	0.00	-0.05
Offset Equipment Operator *	2.00	1.00	2.00	1.00	0.00
Offset Equipment Operator - Lead *	0.00	1.00	0.00	1.00	0.00
Senior Financial Analyst	0.00	0.50	0.50	0.50	0.00
Supervisor Reproduction and Mailing	1.00	1.00	1.00	1.00	0.00
TOTAL PRINTING AND MAILING SERVICES	4.15	4.70	4.70	4.60	-0.10

Technology

Administrative Assistant	0.00	0.07	0.07	0.07	0.00
Asst. Director, Administrative Services	0.00	0.30	0.30	0.30	0.00
Business Analyst	0.50	0.90	0.90	0.90	0.00
Chief Information Officer	0.00	1.00	1.00	1.00	0.00
Deputy ASD/Chief Information Officer	1.00	0.00	0.00	0.00	0.00
Desktop Technician	5.00	5.00	5.00	5.00	0.00
Director, Administrative Services	0.00	0.25	0.25	0.25	0.00
Manager, Information Technology	3.30	2.30	2.30	2.30	0.00
Senior Business Analyst	0.50	0.90	0.90	0.90	0.00
Senior Technologist	20.00	16.00	16.00	16.00	0.00
Senior Financial Analyst	0.25	0.09	0.09	0.09	0.00
Staff Secretary (3)	0.95	0.75	0.75	0.79	0.04
Technologist	2.00	2.00	2.00	2.00	0.00
TOTAL TECHNOLOGY	33.50	29.56	29.56	29.60	0.04

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	1.00	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	16.00	16.00	16.00	16.00	0.00



2006-07 Table of Organization *continued*

	2004-05 Actual Budget	2005-06 Adjusted Budget	2006-07 Adopted-in- Concept Budget	2006-07 Adopted Budget	2006-07 Budget Change
Special Revenue					
Planner	1.00	1.00	1.00	1.00	0.00
Staff Secretary	0.20	0.20	0.20	0.20	0.00
TOTAL SPECIAL REVENUE	1.20	1.20	1.20	1.20	0.00
Capital					
Assistant Engineer (4) (5)	1.20	1.50	1.50	0.00	-1.50
Associate Engineer (4)	0.00	0.00	0.00	0.60	0.60
Cement Finisher	0.00	3.00	3.00	3.00	0.00
Cement Finisher- Lead	0.00	1.00	1.00	1.00	0.00
Deputy Director, PW Operations	0.00	0.15	0.15	0.15	0.00
Engineer	3.70	3.70	3.70	3.70	0.00
Engineering Technician III (5)	1.40	1.40	1.40	2.30	0.90
Heavy Equipment Operator - Lead	0.00	0.20	0.20	0.20	0.00
Manager, Facilities Maintenance	0.20	0.20	0.20	0.20	0.00
Manager, Maintenance Operations	0.00	0.50	0.50	0.50	0.00
Landscape Architect Park Planner	1.00	1.00	1.00	1.00	0.00
Program Assistant	1.00	1.00	1.00	1.00	0.00
Project Engineer	1.80	1.80	1.80	1.80	0.00
Project Manager	1.50	1.50	1.50	1.50	0.00
Senior Engineer	2.25	2.25	2.25	2.25	0.00
Staff Secretary	0.00	0.33	0.33	0.33	0.00
Superintendent, PW Operations	0.00	0.20	0.20	0.20	0.00
Supervisor, Facilities Management	0.05	0.05	0.05	0.05	0.00
Supervisor, Inspection/Surv PW	0.10	0.20	0.20	0.20	0.00
Surveying Assistant	0.11	0.11	0.11	0.11	0.00
Surveyor, Public Works	0.11	0.11	0.11	0.11	0.00
TOTAL CAPITAL	14.42	20.20	20.20	20.20	0.00
TOTAL OTHER FUNDS POSITIONS	69.27	71.66	71.66	71.60	-0.06

Footnotes:

* These positions were adjusted in 2005-06 through a Budget Amendment Ordinance.

- 1 Transfer of 0.05 Accounting Specialist-Lead to General Fund.
- 2 Transfer of 0.05 Manager, Purchasing/Contract Admin. to General Fund.



2006-07 Table of Organization *continued*

	2004-05 Actual Budget	2005-06 Adjusted Budget	2006-07 Adopted-in- Concept Budget	2006-07 Adopted Budget	2006-07 Budget Change
3	Transfer in of 0.04 Staff Secretary from General Fund.				
4	Reclassification of 0.60 Assistant Engineer to 0.60 Associate Engineer.				
5	Reclassification of 0.90 Assistant Engineer to 0.90 Engineering Technician III.				
TOTAL CITYWIDE POSITIONS					
	1093.60	1074.40	1070.40	1078.50	4.10

Authorization is given to create, no more than five, temporary overfill positions to facilitate organizational transitions and succession planning in the cases of long-term disability, retirements, and critical vacancies. This action responds to the City Auditor's recommendation number four in the Audit of Workers' Compensation (Issued 04-09-05).



MISCELLANEOUS



Miscellaneous



Reserve Policies

As revised by City
Council on June 28, 2004

General Fund Reserve Policy

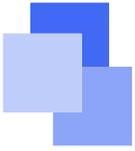
Determination of the appropriate level of General Fund reserves is a policy decision. Some general guidelines have been suggested by the literature in the government finance field. The Government Finance Officers Association (GFOA) recommend that reserve levels be directly related to the degree of uncertainty 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 with, almost half of General Fund revenue coming 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.

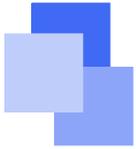
Of all the factors to be considered in setting reserve levels, none appears more critical than political volatility in the current economic environment.

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. 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 percent 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.



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 Palo Alto for purposes of 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 issues of concern to the neighborhood.

The Palo Alto Unified School District (PAUSD) has an international reputation for excellence. While the California education system is experiencing a dropout rate of roughly one in three students, over 80% of PAUSD students enter college and the drop-out rate is approximately 1% (Palo Alto Unified School District, Annual District Profile, 1991-1992). In addition, District students score well above the average on standardized tests.

With the large number of highly qualified health care providers and outstanding health services in the community, 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.

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 of 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
1995-96	25.98	193.12	57,000	1,612,300	9,122
1996-97	25.98	193.12	57,800	1,653,100	9,407
1997-98	25.98	193.12	57,900	1,689,900	9,719
1998-99	25.98	193.12	58,300	1,715,400	9,946
1999-00	25.98	193.12	58,500	1,736,700	9,881
2000-01	25.98	193.12	60,200	1,728,680	10,031
2001-02	25.98	193.12	60,500	1,719,565	9,952
2002-03	25.98	193.12	60,465	1,729,917	10,151
2003-04	25.98	193.12	60,569	1,731,422	10,341
2004-05	25.98	193.12	61,674	1,759,585	10,527
2005-06	25.98	193.12	61,674	not available	not available

SOURCES:

California Department of Finance

Palo Alto Unified School District

Santa Clara County, Planning website: (<http://www.sccplanning.org>)

2006-07 Estimated Appropriations Limitation

COMPLIANCE CALCULATION (\$Millions)	Combined Funds	General Fund	Capital Projects	Debt Service	Special Revenue
TOTAL BUDGETED APPROPRIATIONS					
2006-07 Adopted Budget (\$millions)	124.51	107.90	9.31	1.34	5.97
Less: Debt Service Transactions	1.34			1.34	
Capital Outlay	11.57		11.57		
Non-Proceeds of Taxes	41.15	37.94			3.21
Net Adopted Appropriations Subject to Limit	\$70.45	\$69.96	\$(2.27)	\$0.00	\$2.76
2006-07 Appropriations Limit	100.64				
UNDER LIMIT BY	\$30.19				

COMPUTATION OF APPROPRIATION LIMIT

2005-06 Appropriations Limit	\$95,675,394
2005-06 City of Palo Alto Population Change (Estimated)	1.18%
2005-06 Per Capita Income Change (Estimated)	3.96%
(1.0182) x (1.0526) x \$95,675,394 =	\$100,637,817

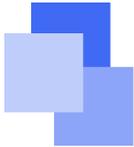
The City of Palo Alto remains well within its appropriations limit in 2006-07. Future year limit trends can be made based on average change in regional population and income growth. The appropriations subject to limitation includes proceeds of taxes from the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Improvement Fund. The following is a summary of estimated limits and estimated appropriations subject to the limit.

Historical Appropriations

	2002-03	2003-04	2004-05	2005-06	2006-07
Appropriations Subject to the Limit	65.96	61.33	64.13	65.87	70.45
Appropriations Limit	83.21	85.82	89.27	95.68	100.64
Under Limit By	\$17.25	\$24.49	\$25.14	\$29.81	\$30.19

Projected Appropriations

	2007-08	2008-09	2009-10	2010-11	2011-12
Estimated Appropriations Subject to the Limit	76.09	82.17	88.75	95.85	103.52
Estimated Appropriations Limit	107.03	113.82	121.05	128.74	136.91
Under Limit By	\$30.94	\$31.65	\$32.30	\$32.89	\$33.40



2006-07 Estimated Appropriations Limitation
continued

RESOLUTION NO. 8624

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 2006-07

WHEREAS, under Article XIII B 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 fiscal year 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 and the total appropriations subject to the limit were set forth in the annual budget of the City for fiscal year 2006-07, which will be adopted by ordinance of the Council on June 12, 2006; 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 3.96% percent change in California per capita income and a 1.18% 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 \$30.19 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 2006-07, 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 \$30.19 million.



2006-07 Estimated Appropriations Limitation
continued

SECTION 2. The Council hereby adopts the final calculation of the Appropriations Limit of the City for fiscal year 2006-07, 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 12, 2006

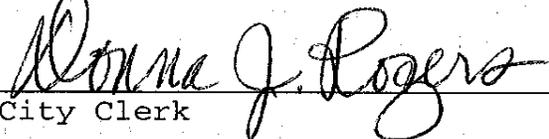
AYES: BARTON, BEECHAM, CORDELL, DREKMEIER, KISHIMOTO, KLEIN, KLEINBERG, MORTON

NOES:

ABSENT: MOSSAR

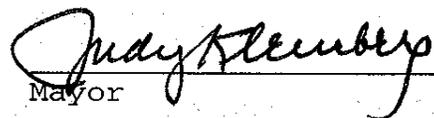
ABSTENTIONS:

ATTEST:



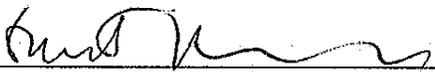
City Clerk

APPROVED:

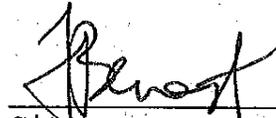


Mayor

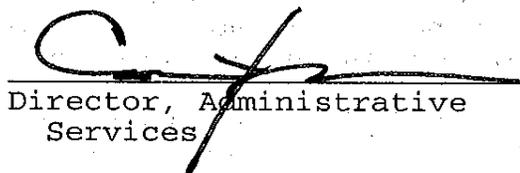
APPROVED AS TO FORM:



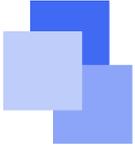
Senior Assistant City Attorney



City Manager



Director, Administrative Services



2006-07 Estimated Appropriations Limitation
continued

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2006-07 Budget Adoption Ordinance

ORDINANCE NO. 4905

ORDINANCE OF THE COUNCIL OF THE CITY OF PALO ALTO
ADOPTING THE BUDGET FOR FISCAL YEAR 2006-07

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

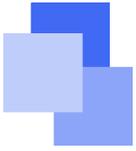
A. Pursuant to the provisions of Section 6(g) of Article IV of the Charter of the City of Palo Alto and Chapter 2.28 of the Palo Alto Municipal Code, the City Manager has prepared and submitted to the City Council, by letter of transmittal, a budget proposal for fiscal year 2006-07; and

B. Pursuant to the provisions of Section 12 of Article III of the Charter, the Council did, on June 12, 2006, hold a public hearing on the budget after publication of notice in accordance with Section 2.28.070 of the Palo Alto Municipal Code; 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 12, 2006, 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 2006-07:

- (a) The budget document (Exhibit "A") containing the proposed operating and capital budgets submitted on or about May 2, 2006, by the City Manager for fiscal year 2006-07, entitled "City of Palo Alto - City Manager's 2006-07 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 2006-07 Proposed Budget, attached hereto as Exhibit "B," and made a part hereof; and



2006-07 Budget Adoption Ordinance

continued

- (c) The document entitled "2006-07 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 "2006-07 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.

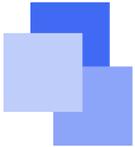
SECTION 5. Appropriations for fiscal year 2006-07 that are encumbered by approved purchase orders and contracts for which goods or services have not been received or contract completed, and/or for which all payments have not been made, by the last day of the fiscal year 2005-06 shall be carried forward and added to the fund or department appropriations for fiscal year 2006-07.

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 2005-06 appropriations carried forward as provided in Section 5.

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 2006-07.

SECTION 9. In accordance with Section 2.28.020 of the Palo Alto Municipal Code, the Council of the City of Palo Alto hereby approves the 2006-07 Proposed Budget.



2006-07 Budget Adoption Ordinance
continued

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 12, 2006

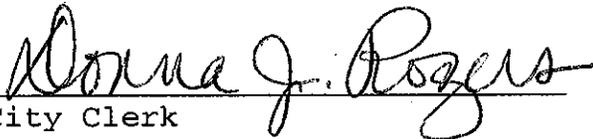
AYES: BARTON, BEECHAM, CORDELL, DREKMEIER, KISHIMOTO,
KLEIN, KLEINBERG, MORTON

NOES:

ABSTENTIONS:

ABSENT: MOSSAR

ATTEST:



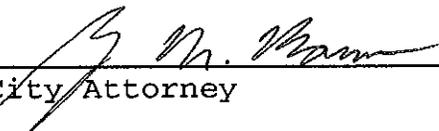
City Clerk

APPROVED:

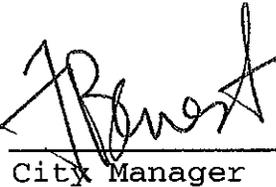


Mayor

APPROVED AS TO FORM:



City Attorney



City Manager



Director of Administrative
Services

Exhibits A-E will be retained in the Budget Division



Glossary

Key Budget Terms

Adjusted Budget: The adjusted budget represents the adopted budget including changes made during the fiscal year.

Adopted Budget: The adopted budget is the annual City budget approved by the City Council on or before June 30.

Appropriation: The allocation of an expense budget for a particular project or program usually for a specific period of time.

Benchmarking Measures: Are included in the budget document and replace the former impact measures. Benchmarks are shown for each department and where available at the division level in each department. The benchmarks show input, output, efficiency, and effectiveness measures. Where possible they are related to the City Auditor's Service Efforts and Accomplishments report.

Capital Budget: A plan of proposed capital outlays and the means of financing them for the current fiscal period. In a two-year budget, the second year of the Capital Improvement Program is adopted-in-concept.

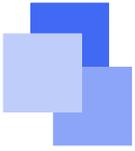
Capital Improvement Program (CIP): The Capital Improvement Fund accounts for projects related to the acquisition, expansion, or rehabilitation of the City's buildings, equipment, parks, streets, and other public infrastructure.

Capital Projects Fund: A fund created to account for all resources to be used for the construction or acquisition of designated fixed assets by a governmental unit except those financed by proprietary or fiduciary funds.

Comprehensive Plan: The Palo Alto Comprehensive Plan contains the City's official policies on land use and community design, transportation, housing, natural environment, business and economics, and community services. Its policies apply to both public and private properties. Its focus is on the physical form of the City. The Adopted Budget integrates the 1998-2010 Comprehensive Plan into the budget process.

Cost Accounting: The branch of accounting that provides for the assembling and recording of all the elements of cost incurred to accomplish a purpose, to carry on an activity or operation, or to complete a unit of work or a specific job.

Enterprise Funds: Enterprise funds account for City operations which are financed and operated in a manner similar to private enterprise. Costs of providing service to the public are covered by user charges, grant funds, and impact fees. The



Glossary *continued*

City of Palo Alto owns and operates its own utilities with the exception of refuse hauling and collection, which is contracted with an outside firm.

Fiscal Agent: A bank or other corporate fiduciary that performs the function of paying, on behalf of the governmental unit, or other debtor, interest on debt or principal of debt when due.

Fiscal Year: A 12-month period of time to which the annual budget applies and at the end of which a governmental unit determines its financial position and the results of operations.

Fixed Assets: Assets of a long-term character that are intended to continue to be held or used, such as land, buildings, machinery, furniture, and other equipment.

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.

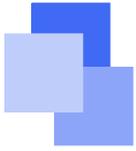
Governmental Funds: A generic classification used to refer to all funds other than proprietary and fiduciary funds. The capital projects fund is one example of the type of funds referred to as “Governmental Funds”.

Infrastructure Assets: Roads, bridges, curbs and gutters, streets, sidewalks, drainage systems, and lighting systems installed for the common good.

Infrastructure Management Plan (IMP): A portion of the General Fund capital improvement program with the focus of rehabilitating the City's infrastructure. In 1998-99, an outside consultant on the City's infrastructure prepared a report known as the Adamson report. Within this report the City's infrastructure was catalogued and ranked based on when the infrastructure needed to be upgraded or replaced and the cost for each item. At that time, the City Council decided to establish a plan using the Adamson report as a guide to both timeline and cost.

Internal Service Funds: These funds provide services to City departments and recover their costs through user charges. The Vehicle Replacement Fund is an Internal Service Fund managing the replacement and maintenance of the City fleet.

Method of Accounting: The City's General Fund budget is developed using a modified accrual basis of accounting, with revenues being recorded when measurable and available, and expenditures recorded when the liability is incurred. Enterprise Funds and Internal Service Funds are budgeted on a generally accepted accounting principles (GAAP) basis, which for Proprietary Funds is on a full accrual accounting basis.



Glossary *continued*

Operating Transfer: Amounts transferred between funds; not considered a revenue or expense. For example, legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended.

Pay-As-You-Go-Basis: A term used to describe the financial policy of a governmental unit that finances all of its capital outlays from current revenues rather than by borrowing.

Proposed Budget: The proposed budget is 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.

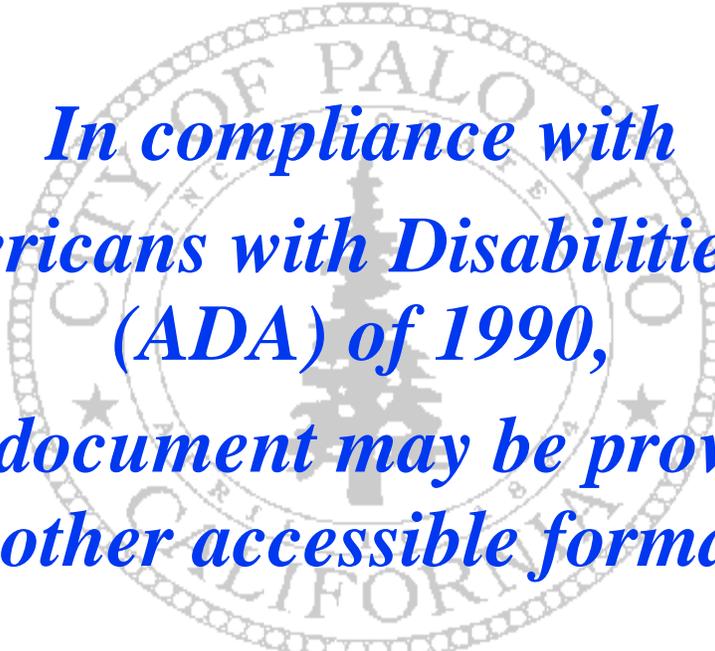
Reimbursements: Interfund transactions that constitute reimbursements to a fund for expenditures or expenses initially made from it but that properly apply to another fund. For example, the Enterprise Funds reimburse the Technology Fund for CIP projects that the Enterprise Funds benefit from.

Reserve: Represents the portion of fund balance set aside for financing future capital improvements or the outlay of capital projects in any given year, and addressing one-time emergency needs.

Revenues: Revenues include compensation received by the project 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 a Technology project for the technological resources that it will provide.

Special Revenue Funds: These funds account for the proceeds derived from specific revenue sources that are legally restricted to expenditures for specified purposes. The Street Improvement Fund (SIF) is a Special Revenue Fund that derives its funding from state gas tax revenues. Capital appropriations from the SIF must be spent on the construction and maintenance of the road network system of the City.

Americans with Disabilities Act



*In compliance with
Americans with Disabilities Act
(ADA) of 1990,
this document may be provided
in other accessible formats.*

For information contact:

ADA Coordinator
City of Palo Alto
285 Hamilton Avenue
(650) 329-2550
(650) 328-1199 (TDD)