LONG RANGE FINANCIAL FORECAST

Fiscal Years 2011 to 2021

CITY of PALO ALTO

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I. INTRODUCTION

This report is the City's updated General Fund Long Range Financial Forecast (LRFF) for the fiscal years 2011 through 2021. The LRFF identifies key issues that will guide the upcoming 2011-2012 budget process and affect the City's future financial condition.

II. EXECUTIVE SUMMARY

Although the Recession was declared officially over as of June 2009, as of December 2010, there remained in the range of 15 million American workers, or 9.4% of the workforce, unemployed. The housing market shows underwhelming evidence of a rebound, and the general recovery is painfully slow. Moreover, unemployment statistics are just a subset of a broader problem of under-employment and long-term unemployment. Adding in those who are working part-time because they cannot find full-time work, the total underemployed number is about 22 million Americans, including 6 million who have been unemployed for over six months.

The impact of these economic developments on our Forecast is reflected in slow growth assumptions in all revenue categories and slower salary growth than in past Forecasts. On the expense side, pension costs show significant increases due to the reduced investment performance of the PERS portfolio and revised demographic assumptions adopted by PERS. A summary of our Base Model – our best estimate of the fiscal picture over the next ten years – appears below.

2011-2021 LRFF - BASE MODEL SUMMARY

	FY 2010 Actual	FY 2011 Adopted	FY 2011 Projected	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenues													
Subtotal: Taxes	67,881	68,518	69,191	70,642	73,166	75,659	78,394	81,066	84,103	87,372	90,440	93,021	95,559
TOTAL REVENUES	144,947	139,433	140,962	144,009	146,626	151,503	156,707	161,932	167,613	173,629	179,517	185,008	190,551
TOTAL EXPENDITURES	146,625	139,399	141,899	146,163	150,906	155,913	160,007	164,304	168,695	173,237	177,850	182,733	187,698
GRAND NET SURPLUS (DEFICIT)	$ (1,767)	$ 33	$ (937)	$ (2,154)	$ (4,280)	$ (4,410)	$ (3,300)	$ (2,372)	$ (1,082)	$ 393	$ 1,667	$ 2,275	$ 2,853

This Forecast is not a prediction. It is a snapshot contingent upon a number of assumptions.

The Base Model shows a projected net deficit for FY 2011 of $0.9 million, and a deficit of $2.2 million for FY 2012. Over the eleven-year period from FY 2011 through FY 2021, cumulative deficits are projected at $11.3 million.

This is a much improved fiscal picture compared to the one presented in February 2010. Looking just at FY 2011-2020, for comparison purposes, last year's Forecast showed a cumulative deficit of $147.5 million, while this year's Base Model projects a cumulative $14.2 million deficit, with much of the improvement due to the significant Budget reset accomplished by the FY 2011 Adopted Budget.

On October 5, 2010, however, staff presented the Finance Committee with an update to the 2010-20 Forecast that predicted an even rosier $1.2 million surplus over the ten-year period from 2011-2020. The current Base Model's downward revision to the October projection is primarily due to an adjustment in revenue projections: UUT projections came down by $22.9 million for the 2011-2020 period, due to cancelled rate increases; property tax projections came down $14.7 million; on the other hand, Documentary Transfer Tax estimates increased $8.6 million for the ten year period; and Sales Tax estimates increased $6.0 million.

In addition to the Base Model, staff has prepared a number of Alternative Scenarios, including:

- one in which salary increases are tied to projected revenue increases – either harming the General Fund (GF) by $3.4 million over ten years or helping it by $7.3 million, the latter achieved by withholding salary increases in 2014 and limiting the increase in 2015 to avoid deficits. (see page 14 and Appendix 1);
- an optimistic one in which Public Safety bargaining units accept reductions comparable to those implemented in the Miscellaneous group, and revenues grow slightly more quickly – putting the GF $40.1 million to the better over ten years (see pages 14-15 and Appendix 1);
- a pessimistic one in which medical costs increase by 10% per year every year over the ten-year period, PERS adopts a 7.5% discount rate, and PERS rates continue to escalate not only for FY 2012, 2013, and 2014, but every year beyond as well – causing an additional $137.7 million in expense over ten years (see page 15 and Appendix 1);
- three scenarios in which the GF increases its annual infrastructure investment by either $10 or $15 million – which eliminates the unfunded backlog and funds a portion of the projected future infrastructure needs, as well as increasing deficits, but by varying degrees depending on whether $10 or $15 million is invested and whether the GF issues a General Obligation bond (see pages 16-18 and Appendix 1).

Alternate Scenarios include:

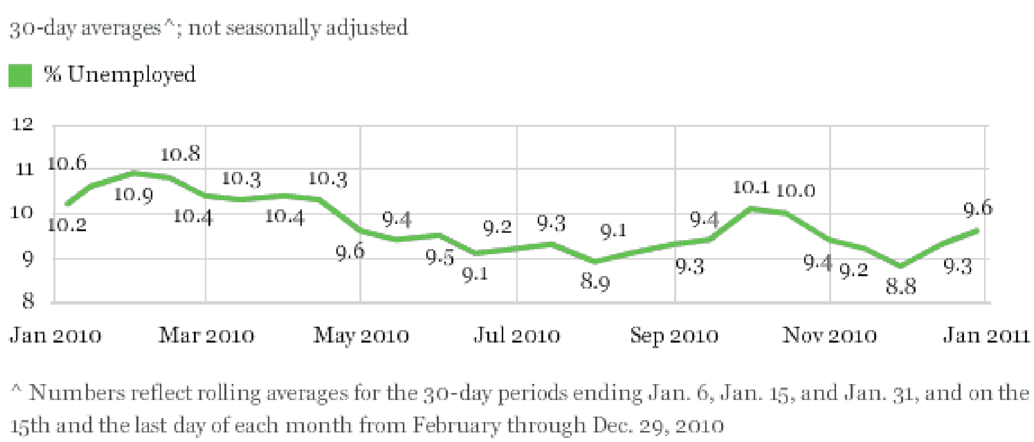
- ***Salary Increases Constrained to Revenue Growth Rate***
- ***Optimistic***
- ***Pessimistic***
- ***Additional Infrastructure Funding***

This Forecast is not a prediction. It is a snapshot contingent upon a number of assumptions, all of which are outlined below in the report. The overall color of the snapshot, however, is one of "business as usual" – or business as it is in FY 2011, assuming that over the next 10 years, the same size workforce will provide the same services, and the revenue base will continue its recent anemic course. It is staff's hope that by examining this snapshot, Council members and staff may identify issues that must be addressed now to improve the long-term picture, and as a result, incorporate into the FY 2012 budget changes that will improve the City's outlook for future years.

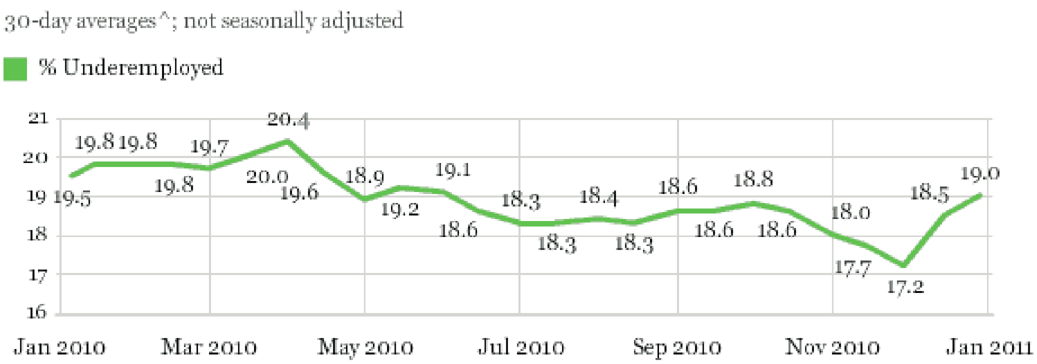
III. ECONOMIC OUTLOOK

The Great Recession was declared officially over as of June 2009 by the National Bureau of Economic Research;[i] yet there remain 15 million unemployed American workers, the housing market shows spotty evidence of rebounding, and the overall recovery is painfully slow. Moreover, there is an unprecedented disconnect between rising corporate profits and the rate of job creation.

U.S. unemployment was in the 9.6% range for the third quarter of 2010, jumping to 9.8% in November,[ii] before dropping to 9.4% in December. Yet unemployment statistics tell only part of a story which also includes the long-term unemployed and the underemployed. The U.S. Department of Labor uses a measure known as U-6 to quantify both the unemployed and others working part-time who want full-time work but cannot find it. The Department's November 2010 Job report showed the U-6 rate hit 17.1% in September, decreased slightly to 17.0% in October and November, and then dropped to 16.7% in December.[iii] That 16.7% underemployment rate translates to 14.8 million Americans unemployed, and another 7 million underemployed, to total about 22 million Americans who want full-time work but cannot find it. Furthermore, 6 million people have been unemployed for longer than 6 months, many of whom will face challenges reintegrating into the industries from which they came.[iv]



Source: Gallup



^ Numbers reflect rolling averages for the 30-day periods ending Jan. 6, Jan. 15, and Jan. 31, and on the 15th and the last day of each month from February through Dec. 29, 2010

The housing market is showing tepid recovery, with large variations by region and area. Pending sales of U.S. existing houses jumped by a record 10 percent in October 2010, following a 1.8 percent drop in September 2010. Many took this as a sign that the housing industry was in recovery, yet the October 2010 figures were 22 percent below pending sales of October 2009.[v]

In California, home prices have largely stabilized in the $250,000 range, after declining some 57% from the peak to the trough of the housing market.[vi]

In Santa Clara County, a 13-month trend of year-over-year home price increases was reversed in November 2010 by a sharp 7.3 percent drop in the median price to $510,000, as reported by DataQuick, a real estate information service. In San Mateo County, the median price dropped 3.7 percent or $617,500 from a year ago, and sales dipped 2.7 percent. However, sales in the high end were strong in San Mateo County. One DataQuick analyst observed, "It all varies at the neighborhood level, and the bigger picture is that home prices are essentially flat across the board."[vii]

According to the State's Legislative Analyst's Office (LAO), "California's recession started even earlier than the nation's and was deeper. While U.S. employment dropped about 5 percent since 2007, employment in CA declined 9 percent (1.4 million jobs). Unemployment in the state – under 5 percent as recently as 2006 – has topped 12 percent for over a year now, with only 53,000 jobs recovered out of the 1.4 million lost. In 2009, personal income in California actually dropped 2.4 percent – the first annual decline since 1933…"[viii] As recently as August 2010, the state's unemployment rate rose by 0.1% to 12.4 percent after declining or holding steady for the last four months.[ix]

The main cause of the state's economic implosion has been the housing market. Though the collapse of the state's residential housing sector appears to have ended, growth is expected to be weak. Furthermore the state's construction sector – having endured a crushing 40 percent employment decline since 2007—is not on track to regain its pre-recession strength in the foreseeable future.[x]

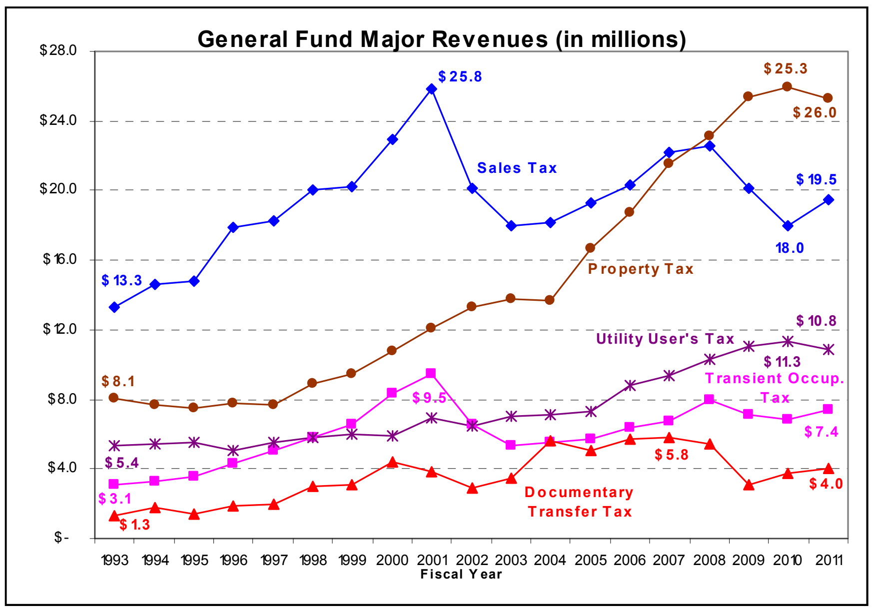
"A year ago this time most people were holding on to jobs, and very few people were quitting. Now…people are leaving and being replaced. That's what gets things going again."

— Sterling Infosystems

Nationally, consumers are spending more, but month-to-month results vary. The Conference Board Consumer Confidence Index, which had improved in November 2010, decreased slightly in December. The Index now stands at 52.5 (1985=100), down from 54.3 in November. This index is based on a survey of 5,000 US households.

Consumers' holiday spending improved compared to last year, but not as much as analysts had hoped. October 2010 retail levels had climbed by the most in seven months, with purchases rising 1.2% over the previous month, and 7.3 percent above October 2009. This rise was led by a 5% gain among auto dealers, compared to September, and sales excluding automobiles advanced just 0.4%.[xi] At the same time, American's personal income grew at a faster pace than it had for much of the year, and consumer spending expanded.[xii]

As the LAO described it, "the slow recovery results from a combination of (1) excess inventories of residential and commercial real estate, (2) severely depressed economic confidence among both individuals and firms, and (3) for many consumers, a considerably weakened financial capacity to spend and invest…. While businesses have been spending more in recent quarters to address equipment, software, and other needs they deferred during the recession, they remain very reluctant to hire."



In the last month or so, some businesses have noticed a pick-up in the job market. In early December 2010, an executive from Sterling Infosystems, a firm that helps companies screen employees, said, "A year ago this time most people were holding on to jobs, and very few people were quitting. Now you've got churn. People are leaving and being replaced. That's what gets things going again."[xiv]

Furthermore, since its trough in June 2009, the Federal Reserve's index of industrial production is up almost 10%. Part of this is due to strong demand from abroad as the rest of the world recovers from the global downturn.[xv]

Projections

The U.S. can expect "very sluggish growth" for the foreseeable future. Beacon Economics, a California-based economic research and analysis firm, projected in early November 2010 that the national unemployment rate would stay above 8 percent until the 3rd quarter of 2012.[xvi] The LAO was even more pessimistic, predicting that unemployment would remain above 9 percent throughout 2012.[xvii] Most pessimistic of all, a January 9, 2011 New York Times article predicted that "at the current rate, the economy will need 72 to 90 months to recapture the jobs lost during the Great Recession. And that does not account for the five million jobs needed to keep pace with a growing population."[xviii]

For California, Beacon forecasted an unemployment rate above 12 percent through 2nd quarter 2011, dipping to 10% in late 2012, and that "it will be well into 2015 before California reaches its pre-recession peak of 15.2 million jobs."[xix] In Silicon Valley, while the overall regional economy is improving, hiring has not picked up significantly.

The Bay Area Council released its fall Business Confidence Survey in December 2010, and the results show that Bay Area CEO's and executives are feeling more positive about the Bay Area economy. However, they expect the current status quo of slow growth and recovery to continue. The Business Confidence Index – the number that distills the survey findings – registered at 58 out of 100, up 2 points from the last survey, but still down 4 points from May 2010. A reading over 50 signals positive economic times, while below 50 is negative. In January 2009, the index reached its all-time low of 31.

The Survey also indicated that 56% of executives expect their workforces to remain the same over the next 6 months, while 27% planned to increase their workforce. 50% of Bay Area companies with over 10,000 employees expect to increase their workforce over the next six months, an increase of 41 points since last quarter's survey.[xx]

With unemployment at a relatively low rate of 5.8% in November 2010, Palo Alto has been spared the higher unemployment rates experienced by the rest of Santa Clara County, which remained at 10.8% in November. Yet Palo Alto's unemployment rate was more than double its 2007 pre-recession rate of 2.5%.

Unemployment Rates	**Nov 2007**	**Nov 2008**	**Nov 2009**	**Nov 2010**
Santa Clara County	4.7%	7.0%	11.5%	10.8%
City of Palo Alto	2.5%	3.7%	6.2%	5.8%

Source: California Employment Development Department

Impact of Economic Outlook on the Forecast

The impact on our Forecast of these economic developments is slow growth assumptions in all revenue categories. On the flip side, the recession's affect on labor markets allowed salary growth assumptions to decrease relative to past Forecasts. Specific assumptions are detailed in the discussion of the Model below.

IV. UPDATED MODEL

ASSUMPTIONS USED IN THE BASE MODEL

The Base Model represents staff's "Best Guess" of where the General Fund Budget is headed if it continues in the general direction set out by the 2011 Budget and given the conditions surrounding revenues and expenditures that staff can discern as of this writing.

Staff assumes the following in the Base Model:

EXPENSES

1. Miscellaneous employees, after experiencing salary freezes in 2010, 2011 and 2012, will receive a 2% salary increase in 2013 and each year thereafter through 2021.

2. All Safety employees will have a salary freeze in 2012 and 2013, after which they will also receive 2% annual increases. Prior to this, Fire received a 4 to 5 percent salary increase in 2010 but not in 2011; Police received a 6 percent salary increase in 2011. The City is in the process of negotiating concessions with the IAFF and will begin similar talks with PAPOA in the near future.

3. PERS rates will rise as estimated in the most recent PERS valuation, dated October 2010, as follows:

Fiscal Year	Miscellaneous Rates	Safety Rates
2011	17.56%	24.7%
2012	21.73%	30.13%
2013	23.10%	32.30%
2014 - 2021	26.20%	37.80%

   The Base Model assumes that after 2014, pension rates will remain constant through 2021.

4. Transfers to the Infrastructure Fund will follow the 5-year CIP Budgeted amounts, which are $9.8 million in FY 2011, $10.44 million in FY 2012, increasing by 4% per year through FY 2021. (Alternate Infrastructure scenarios are discussed below on pages 16-18.)

5. Technology Fund repayments of $1.225 million per year continue in 2012 and 2013, after which the Fund will have been completely repaid.

6. Library Operating Cost increases of $0.25 million are incorporated into FY 2012 Operating Costs, and from FY 2013 onward $1 million in increased costs are included.

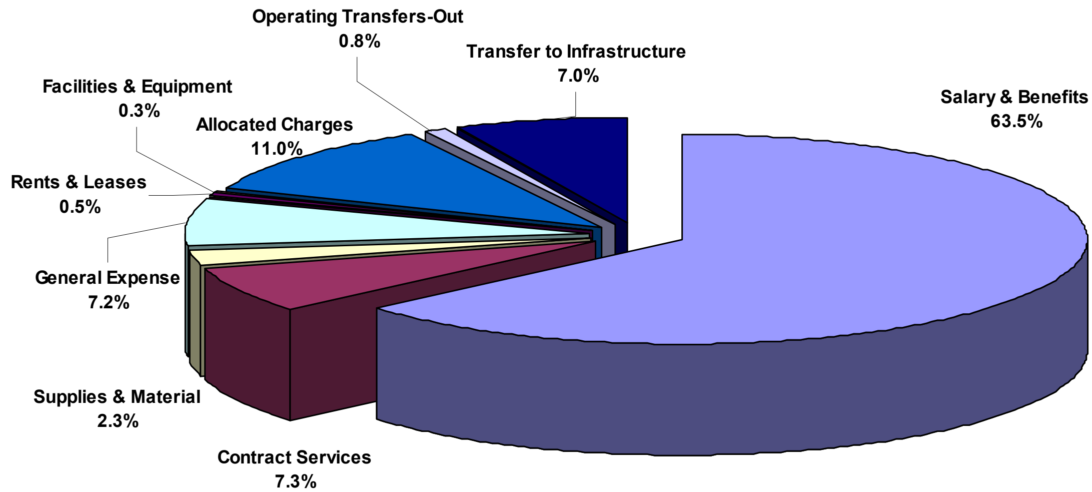
7. Medical insurance costs will increase each year at the rate assumed by Milliman Associates in their January 2009 Actuarial Report for the City. That is, 6.5% per year in FY 2012, 2013, and 2014; 6% for FY 2015-2021.

8. Savings from Miscellaneous Group's Two-Tier Retirement Structure (2% at 60) begin in FY 2013 – 2 years after the date of implementation – as PERS rates generally have a two-year delay.

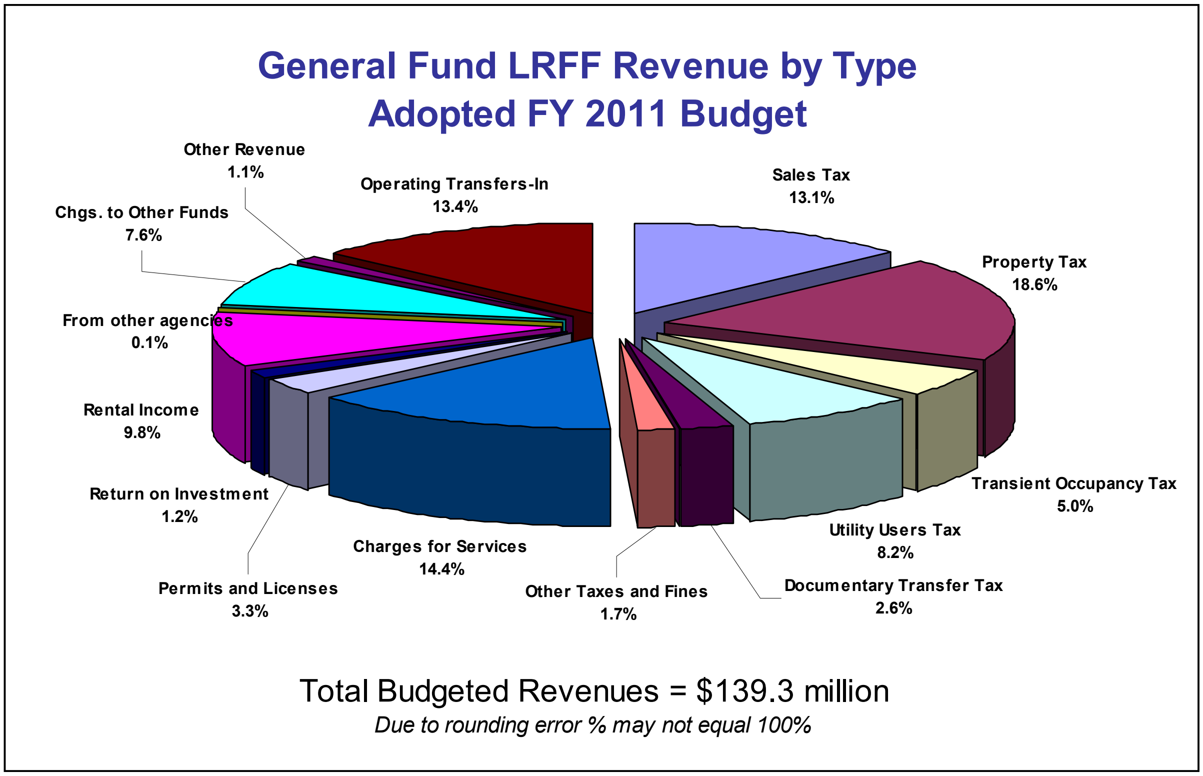
9. Savings from the Miscellaneous Group's 90-10 Medical cost-sharing plan are assumed to begin in April 1, 2011. Employees will ramp up to paying 10% of medical premiums over 3-4 years.

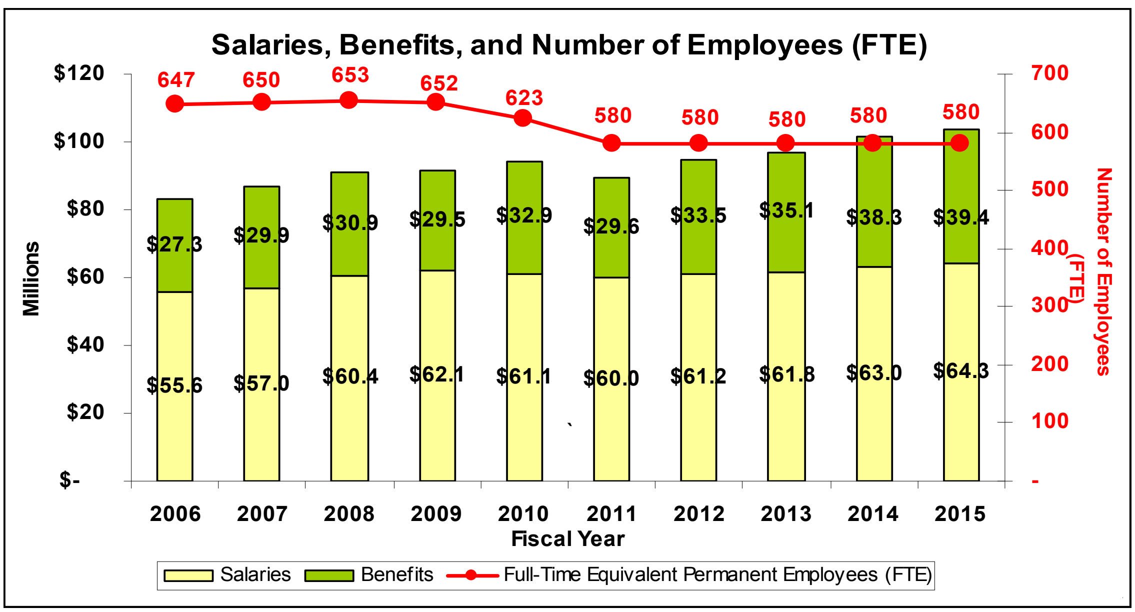
10. The FY 2011 projection for non-salary expense is $0.9 million above the FY 2011 Adopted Budget. In FY 2012, non-salary expense increases by 1.5 percent; in FY 2013, it increases by 2 percent. In FY 2013 and beyond, annual increases are assumed at 3 percent, which approximates the average annual rate of inflation for the Bay Area during the past ten years.

General Fund LRFF Expenditure by Type
Adopted FY 2011 Budget



Total Budgeted Expenditures = $139.4 million
Due to rounding error % may not equal 100%


General Fund LRFF Revenue by Type
Adopted FY 2011 Budget
Other Revenue 1.1%
Operating Transfers-In 13.4%
Sales Tax 13.1%
Chgs. to Other Funds 7.6%
Property Tax 18.6%
From other agencies 0.1%
Rental Income 9.8%
Return on Investment 1.2%
Transient Occupancy Tax 5.0%
Utility Users Tax 8.2%
Charges for Services 14.4%
Permits and Licenses 3.3%
Other Taxes and Fines 1.7%
Documentary Transfer Tax 2.6%
Total Budgeted Revenues = $139.3 million
Due to rounding error % may not equal 100%


Salaries, Benefits, and Number of Employees (FTE)
$120
$100
$80
$60
$40
$20
$-
Millions
647
650
653
652
623
580
580
580
580
580
$27.3
$29.9
$30.9
$29.5
$32.9
$29.6
$33.5
$35.1
$38.3
$39.4
$55.6
$57.0
$60.4
$62.1
$61.1
$60.0
$61.2
$61.8
$63.0
$64.3
700
600
500
400
300
200
100
-
Number of Employees (FTE)
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
Fiscal Year
Salaries
Benefits
Full-Time Equivalent Permanent Employees (FTE)

Revenues

1. FY 2011 sales tax revenue is estimated at $19.5 million, a $1.3 million increase above the FY 2011 Adopted Budget. $0.8 million of the increase is due to stronger sales tax performance in the 3rd calendar year quarter and indications of a stronger 4th quarter in retail sales. The remaining increase is a consequence of the State's "triple flip" underpayment for FY 2010 which will be remitted in FY 2011. Based on the new projections for FY 2011, revenue of $19.6 million and $20.3 million are projected for FY 2012 and 2013, respectively.
2. The property tax projection for FY 2011 is $25.3 million -- $0.6 million below the FY 2011 adopted budget, and $0.7 million or 2.7 percent below FY 2010 receipts. This is due to the sizeable number of commercial property appeals on properties' assessed values which the County has received. These appeals will be processed over the next 2-3 years, with a corresponding drag on City property tax receipts.
3. The FY 2011 estimate for Transient Occupancy Tax (TOT) is now $7.4 million, a $0.4 million increase from the FY 2011 Adopted Budget amount. In FY 2010, TOT revenues ceased their prior downward trend and began to rise. Occupancy and daily rates increased from 66.2% and $145 per day in October 2009 to 80.5% and $150 per day in October 2010. These trends, along with the opening of the new Hotel Keen in May 2010, have led staff to forecast higher revenues in FY 2011 and forthcoming years. An additional uptick in FY 2013 is due to the potential opening of a new Ming's Hotel. Although additional hotels are expected to open over the next 3-5 years, their receipts have not been included in the Forecast.
4. The Documentary Transfer Tax revenue projected for FY 2011 is $4.0 million, nearly $0.4 million above the Adopted Budget. Through the middle of this fiscal year, revenue results have been running nearly equal to those of the prior year. Staff believes, however, that property transaction activity will increase in the second half of this year and lead to slightly higher transfer taxes at year-end.
5. The FY 2011 projection for Charges for Services increased by $1.0 million compared to the FY 2011 Adopted Budget. This includes an increase of $0.6 million for plan check fee revenue due to increased building and development activity within the City, and an increase of $0.4 million as a result of the year-end reconciliation of the Stanford joint service agreements for public safety.

Base Model

The Base Model is included below. The first table shows projections over the 10 years, and the second table shows year-over-year percentage changes in each category. The Base Model shows a projected net deficit for FY 2011 of $0.9 million, and a deficit of $2.2 million for FY 2012. Over the eleven-year period from FY 2011 through FY 2021, cumulative deficits are projected at $11.3 million.

The October 5, 2010 Update to the Long Range Financial Forecast of 2010-2020 had shown a balanced budget in FY 2011 and a deficit of $1.6 million in FY 2012. Since then, the following adjustments were made:

- 2011 revenues increased by about $1.5 million – primarily in Sales Tax, Planning and Building fees, and in the Joint Service Agreement with Stanford
- Contract Services expense increased by $0.4 million- due primarily to the restructuring of the Development Center and the standards of coverage study for the Fire Department
- General expense increased by $0.4 million – primarily due to Measures R (firefighter charter amendment) and S (election date change) election costs
- Operating Transfers out increased by $0.5 million due to loans to the Airport and Refuse funds

Also, since the October update, the following changes were made in FY 2012 projections:

- Revenues decreased by $1.1 million – primarily because of the cancelled electric rate increase, which cut projected UUT revenue by $1.3 million. Property tax estimates were cut by $0.7 million
- Sales Tax estimates were increased by $1.1 million, mostly due to the timing of the State's "triple flip" process
- Salaries and benefits increased by $1.6 million to align budgeted with actual overtime expenses, adding $0.8 million—on top of a $0.8 million overtime increase in FY 2011
- The Infrastructure transfer was originally planned to increase by an additional $1 million per year starting FY2012, but given the budget gap, staff cut the additional $1 million, bringing it back to the recommended budgeted transfer of $10.4 million

2011-2021 LRFF - BASE MODEL

	FY 2010 Actual	FY 2011 Adopted	FY 2011 Projected	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenues													
Sales Taxes	$ 17,991	$ 18,218	$ 19,507	$ 19,646	$ 20,320	$ 21,085	$ 21,888	$ 22,750	$ 23,649	$ 24,594	$ 25,295	$ 25,940	$ 26,638
Property Taxes	25,982	25,907	25,323	25,830	26,699	27,665	28,734	29,914	31,177	32,581	34,114	35,227	36,186
Transient Occupancy Tax	6,858	7,021	7,400	7,704	8,246	8,505	8,790	9,102	9,434	9,788	10,067	10,344	10,622
Utility User Tax	11,296	11,429	10,824	10,859	11,069	11,329	11,654	11,708	11,976	12,252	12,528	12,796	13,054
Documentary Transfer Tax	3,707	3,613	4,000	4,219	4,377	4,546	4,723	4,908	5,103	5,310	5,504	5,694	5,948
Other Taxes and Fines	2,047	2,330	2,137	2,384	2,455	2,529	2,605	2,683	2,764	2,846	2,932	3,020	3,110
Subtotal: Taxes	**67,881**	**68,518**	**69,191**	**70,642**	**73,166**	**75,659**	**78,394**	**81,066**	**84,103**	**87,372**	**90,440**	**93,021**	**95,559**
Charges for Services	19,593	20,068	21,000	21,420	22,063	22,725	23,406	24,109	24,832	25,577	26,344	27,134	27,948
Permits and Licenses	4,720	4,533	4,646	4,739	4,881	5,027	5,178	5,334	5,494	5,658	5,828	6,003	6,183
Return on Investment	2,624	1,646	1,337	1,317	1,314	1,331	1,354	1,380	1,412	1,459	1,489	1,516	1,540
Rental Income	14,397	13,716	13,716	13,991	12,150	12,515	12,890	13,277	13,675	14,086	14,508	14,944	15,392
From other agencies	333	155	155	158	163	168	173	178	183	189	195	200	207
Charges to Other Funds	11,027	10,622	10,698	10,745	11,067	11,399	11,741	12,094	12,456	12,830	13,215	13,611	14,020
Other revenues	2,360	1,490	1,513	1,544	1,590	1,638	1,687	1,738	1,790	1,843	1,899	1,956	2,014
Total Revenues Before Transfers	**122,936**	**120,748**	**122,257**	**124,555**	**126,394**	**130,462**	**134,824**	**139,174**	**143,945**	**149,014**	**153,917**	**158,385**	**162,862**
Operating Transfers-In	22,011	18,684	18,705	19,453	20,232	21,041	21,882	22,758	23,668	24,615	25,599	26,623	27,688
TOTAL REVENUES	**144,947**	**139,433**	**140,962**	**144,009**	**146,626**	**151,503**	**156,707**	**161,932**	**167,613**	**173,629**	**179,517**	**185,008**	**190,551**
Expenditures													
Salaries	61,080	59,020	60,003	60,661	61,798	63,047	64,321	65,621	66,947	68,299	69,678	71,085	72,520
Benefits	32,900	29,525	29,645	33,467	35,061	38,331	39,389	40,566	41,752	42,999	44,228	45,632	47,022
Subtotal: Salaries and Benefits	**93,980**	**88,545**	**89,648**	**94,128**	**96,859**	**101,378**	**103,710**	**106,187**	**108,698**	**111,299**	**113,907**	**116,718**	**119,543**
Contract Services	8,899	10,180	10,591	10,382	10,833	11,116	11,449	11,792	12,146	12,510	12,885	13,272	13,670
Supplies & Materials	2,867	3,242	3,262	3,541	4,112	4,235	4,362	4,493	4,628	4,767	4,910	5,057	5,209
General Expense	9,341	10,022	10,448	10,172	10,375	10,686	11,007	11,337	11,677	12,027	12,388	12,760	13,143
Rents and Leases	627	663	663	774	789	813	837	862	888	915	942	970	999
Facilities and Equipment	1,734	452	452	459	468	482	496	511	526	542	558	575	592
Allocated Charges	14,540	15,371	15,371	15,102	15,404	14,646	15,085	15,538	16,004	16,484	16,979	17,488	18,013
Total Expenditures Before Transfers	**131,988**	**128,475**	**130,435**	**134,558**	**138,840**	**143,356**	**146,946**	**150,720**	**154,567**	**158,544**	**162,569**	**166,840**	**171,169**
Transfers to Other Funds													
Operating Transfers Out	4,737	1,122	1,662	1,167	1,214	1,263	1,314	1,367	1,422	1,479	1,538	1,600	1,664
Transfer to Infrastructure	9,900	9,802	9,802	10,438	10,852	11,294	11,747	12,217	12,706	13,214	13,743	14,293	14,865
TOTAL EXPENDITURES	**146,625**	**139,399**	**141,899**	**146,163**	**150,906**	**155,913**	**160,007**	**164,304**	**168,695**	**173,237**	**177,850**	**182,733**	**187,698**
Net Operating Surplus/(Gap)	**(1,678)**	**33**	**(937)**	**(2,154)**	**(4,280)**	**(4,410)**	**(3,300)**	**(2,372)**	**(1,082)**	**393**	**1,667**	**2,275**	**2,853**
Drawdown on BSR for BOA		-		-	-	-	-	-	-	-	-	-	-
Net Operating Surplus/(Gap)	**(1,678)**	**33**	**(937)**	**(2,154)**	**(4,280)**	**(4,410)**	**(3,300)**	**(2,372)**	**(1,082)**	**393**	**1,667**	**2,275**	**2,853**
Drawdown on Budget Stabilization Reserve													
Comprehensive Annual Fin. Rpt. Recon.	(89)												
Subtotal	**(89)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**-**
GRAND NET SURPLUS (DEFICIT)	**$ (1,767)**	**$ 33**	**$ (937)**	**$ (2,154)**	**$ (4,280)**	**$ (4,410)**	**$ (3,300)**	**$ (2,372)**	**$ (1,082)**	**$ 393**	**$ 1,667**	**$ 2,275**	**$ 2,853**

*In FY 2011, Adopted Budget assumed 90-10 plan implementation for Miscellaneous group effective April 1 2010.

PERCENTAGE CHANGES IN BASE FORECAST FOR REVENUES AND EXPENSES

	FY 2011 Projected	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Cumulative % Change 2010-2021
Revenues												
Sales Taxes	8.43%	0.71%	3.43%	3.76%	3.81%	3.94%	3.95%	4.00%	2.85%	2.55%	2.69%	
Property Taxes	(2.54%)	2.00%	3.36%	3.62%	3.86%	4.11%	4.22%	4.50%	4.71%	3.26%	2.72%	
Transient Occupancy Tax	7.90%	4.11%	7.02%	3.15%	3.35%	3.55%	3.65%	3.75%	2.85%	2.75%	2.69%	
Utility User Tax	(4.18%)	0.32%	1.93%	2.35%	2.87%	0.46%	2.29%	2.30%	2.25%	2.14%	2.02%	
Documentary Transfer Tax	7.90%	5.48%	3.75%	3.85%	3.90%	3.92%	3.97%	4.05%	3.65%	3.45%	4.47%	
Other Taxes and Fines	4.42%	11.55%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Subtotal: Taxes	1.93%	2.10%	3.57%	3.41%	3.62%	3.41%	3.75%	3.89%	3.51%	2.85%	2.73%	**40.77%**
Charges for Services		2.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Permits and Licenses	(1.56%)	2.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Return on Investment	(49.07%)	-1.49%	-0.24%	1.31%	1.76%	1.91%	2.31%	3.38%	2.01%	1.81%	1.61%	
Rental Income	(4.73%)	2.00%	-13.15%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
From other agencies	(53.47%)	2.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Charges to Other Funds	(2.99%)	0.44%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Other revenues	(35.87%)	2.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Total Revenues Before Transfers	(0.55%)	1.88%	1.48%	3.22%	3.34%	3.23%	3.43%	3.52%	3.29%	2.90%	2.83%	**32.48%**
Operating Transfers-In	(15.02%)	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	
TOTAL REVENUES	(2.75%)	2.16%	1.82%	3.33%	3.44%	3.33%	3.51%	3.59%	3.39%	3.06%	3.00%	**31.46%**
Expenditures												
Salaries	(1.76%)	1.10%	1.87%	2.02%	2.02%	2.02%	2.02%	2.02%	2.02%	2.02%	2.02%	
Benefits	(9.89%)	12.89%	4.76%	9.33%	2.76%	2.99%	2.92%	2.99%	2.86%	3.17%	3.05%	
Subtotal: Salaries and Benefits	(4.61%)	5.00%	2.90%	4.67%	2.30%	2.39%	2.37%	2.39%	2.34%	2.47%	2.42%	**27.20%**
Contract Services	19.01%	-1.97%	4.34%	2.61%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Supplies & Materials	13.79%	8.55%	16.13%	2.99%	3.00%	3.00%	3.00%	3.00%	3.00%	2.99%	3.01%	
General Expense	11.85%	-2.64%	2.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Rents and Leases	5.74%	16.74%	1.94%	3.04%	2.95%	2.99%	3.02%	3.04%	2.95%	2.97%	2.99%	
Facilities and Equipment	(73.93%)	1.55%	1.96%	2.99%	2.90%	3.02%	2.94%	3.04%	2.95%	3.05%	2.96%	
Allocated Charges	5.72%	-1.75%	2.00%	-4.92%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Total Expenditures Before Transfers	(1.18%)	3.16%	3.18%	3.25%	2.50%	2.57%	2.55%	2.57%	2.54%	2.63%	2.59%	**29.69%**
Transfers to Other Funds												
Operating Transfers Out	(64.92%)	-29.78%	4.03%	4.04%	4.04%	4.03%	4.02%	4.01%	3.99%	4.03%	4.00%	
Transfer to Infrastructure	(0.99%)	6.49%	3.97%	4.07%	4.01%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	
TOTAL EXPENDITURES	(3.22%)	3.00%	3.24%	3.32%	2.63%	2.69%	2.67%	2.69%	2.66%	2.75%	2.72%	**28.01%**
Net Operating Surplus/(Gap)	(44.16%)	129.90%	98.65%	3.05%	-25.18%	-28.11%	-54.39%	-136.28%	324.67%	36.49%	25.40%	

V. ALTERNATE SCENARIOS

Staff developed several alternate scenarios of the model, to ascertain the impacts of different assumptions on the City's bottom line. The scenarios are described below, and a summary of the results of all scenarios may be found on page 19.

Salary Constraint Scenarios

In the first of two Salary Constraint Scenarios, combined salaries and benefits were constrained to increase at a rate no greater than the expected rate of increase in revenues in each year. This resulted in lower increases in salaries and benefits than the Base Model in fiscal years 2012, 2013, and 2014 – when PERS rate increases dramatically drive up the cost of benefits, leaving little room for salary increases. In each year after 2014, however, salary increases of 2.75% to 3.5% are possible while remaining within the revenue growth constraint. Since the Base Model assumes continued 2% salary increases starting in 2013, this alternate scenario costs the City an additional $3.4 million over the ten years.

In the second Salary Constraint Scenario, combined salaries and benefits were constrained at no greater percentage than the expected revenue increase, and salaries were not permitted to increase in any year in which that would cause a deficit. Therefore, in this modified salary scenario, salaries did not increase in 2014, and increased by just 1.5% in 2015 (compared to rising by 3.4% in the first salary constraint scenario), and in 2016-2021, increases were nearly identical to the above scenario. This second scenario would save the City $7.3 million over the 10 years, compared to the Base Model.

Optimistic Scenarios

The following Optimistic Scenarios were introduced to the model:

- Public Safety employees agree to the 90-10 plan for medical and retiree medical costs, joining the Miscellaneous employees for whom that plan will start April 1, 2011. This saves the General Fund $4.8 million over the ten years.
- Public Safety employees agree to a second tier retirement formula for new employees of 2% at 55, again joining the Miscellaneous group which already has a 2% at 60 second tier. This saves the General Fund $3.5 million over the eight years (there is a lag of two years before PERS rates decrease with a new tier).
- Revenues are projected to grow at an annual rate of 3.38% (Compound Annual Growth Rate, or CAGR), as opposed to the 3.02% CAGR in the Base Model projected revenues, providing an additional $29.4 million over the ten years.

The full Optimistic Scenarios model can be found in Appendix 1.

Pessimistic Scenarios

The following Pessimistic Scenarios were introduced to the model:

- Public Safety Salaries begin to rise in 2013, after just one year of salary freeze for Police, and two years for Fire. Rather than having their salaries frozen for three years as they were for Miscellaneous employees, this scenario assumes a 2% annual increase for all employees beginning 2013. This costs the General Fund an additional $4.8 million in salary alone, plus another $1.4 million in PERS expense over the ten years.
- The PERS Discount Rate is changed to 7.5% from 7.75%. In December 2010, the PERS Board voted to approve an investment mix that likely means the assumed discount rate will decrease by 0.25% to 7.5%. This will translate to an increase in PERS rates starting 2013 of 1.5% to 3% for Miscellaneous employees and 3% to 5% for Safety employees. If we assume the center of that range for each group, the impact will be $18.3 million in additional PERS costs over the nine years through FY 2021.
- PERS rates continue to increase after 2014. Rather than increasing each year – FY 2012, 2013, and 2014, and then remaining constant, PERS rates continue to increase 3% per year from 2015 on. This costs the General Fund an additional $59.1 million in those seven years.
- Medical Costs increase by 10% per year. Rather than increasing at the rate assumed by the City's actuary- in the 6.0 to 6.5% range - this scenario assumes a 10% annual increase in medical costs, costing the General Fund an additional $24.4 million over the ten years – both in premiums for active employees, and additional annual required contribution for retiree medical.
- Revenues increase by an average (CAGR) of 2.72% instead of the 3.02% CAGR in the Base Model. Thus the City brings in $34.6 million less in revenues over the ten years.

The full Pessimistic Scenarios model can be found in Appendix 1.

INFRASTRUCTURE SCENARIOS

In these scenarios, it is assumed that the City will at minimum erase its infrastructure backlog over the ten-year period of the Forecast. In quantifying the backlog as well as future needs, staff was aware that the Public Works Department is in the process of updating these estimates for the Blue Ribbon Infrastructure Commission's efforts. However, since that process is not yet complete, staff used the numbers from an inter-departmental staff analysis completed in 2008 and delineated in pages 297-298 of the FY 2011 CIP Budget. (See Appendix 2, as well as CMR 167:08) These numbers are expressed in 2007 dollars.

Staff quantified the infrastructure needs for fiscal years 2009-2013 at $153.2 million, and the projected backlog for FY 2014 to 2018 at $55.0 million, for a total ten-year backlog of $208.2 million. The FY 2009-2013 CIP funding plan included $64.2 million in funding, and the LRFF assumes an additional $61.2 million in funding for FY 2014-2018, leaving an unfunded backlog of $82.9 million.

In Infrastructure Scenario 1, the General Fund invests an additional $10 million per year in 2012, increasing by 3% per year, of which $8.3 million pays down the backlog each year (with that amount also growing by 3% per year), and the remainder funds a portion of projected future needs as well as additional operating costs associated with the additional infrastructure work. Also in 2008, staff identified an additional $208 million ($148 million identified by staff in 2008 plus an assumed $60 million for the Public Safety Building) in future infrastructure needs – meaning needed renovations and replacements of City facilities such as Fire Stations, the Police Building, the MSC, and the Animal Shelter, that are likely if not inevitable over the next several years. That brings the total infrastructure needs to $416 million.

2011-2021 LRFF - INFRASTRUCTURE SCENARIO 1 - INCREASE INVESTMT BY $10MM PER YR STARTING 2012

	FY 2010 Actual	FY 2011 Adopted	FY 2011 Projected	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
TOTAL REVENUES	144,947	139,433	140,962	144,009	146,626	151,503	156,707	161,932	167,613	173,629	179,517	185,008	190,551
Total Expenditures Before Transfers	131,988	128,475	130,435	134,558	138,840	143,356	146,946	150,720	154,567	158,544	162,569	166,840	171,169
Transfers to Other Funds													
Operating Transfers Out	4,737	1,122	1,662	1,167	1,214	1,263	1,314	1,367	1,422	1,479	1,538	1,600	1,664
Transfer to Infrastructure	9,900	9,802	9,802	10,438	10,852	11,294	11,747	12,217	12,706	13,214	13,743	14,293	14,865
Additional Transfer to Insfrastructure to Erase Backlog				8,287	8,536	8,792	9,056	9,328	9,607	9,896	10,193	10,498	10,813
Additional Transfer to Insfrastructure to fund Future Needs				413	427	441	456	471	486	502	519	536	554
Additional Maintenance staff				260	267	273	280	287	294	302	309	317	325
Additional Operating Expenses for Additional Infrastructure Investments*				1,039	1,070	1,102	1,136	1,170	1,205	1,241	1,278	1,316	1,356
Subtotal Additional Infrastructure Investmt				10,000	10,300	10,609	10,927	11,255	11,593	11,941	12,299	12,668	13,048
TOTAL EXPENDITURES	146,625	139,399	141,899	156,163	161,206	166,522	170,934	175,559	180,288	185,177	190,149	195,401	200,746
GRAND NET SURPLUS (DEFICIT)	$ (1,678)	$ 33	$ (937)	$ (12,154)	$ (14,580)	$ (15,019)	$ (14,227)	$ (13,627)	$ (12,675)	$ (11,548)	$ (10,632)	$ (10,393)	$ (10,195)
Balance of Unfunded Backlog at year-end (2011 dollars)			$ 82,875	$ 74,587	$ 66,300	$ 58,012	$ 49,725	$ 41,437	$ 33,150	$ 24,862	$ 16,575	$ 8,287	$ -
Balance of Future Needs at year-end			$208,280	$ 207,867	$ 207,440	$206,999	$206,543	$ 206,072	$ 205,586	$ 205,083	$ 204,564	$ 204,028	$ 203,474

In this scenario, the General Fund cumulative deficit increases by $114.6 million beyond that in the Base Model. The backlog is eliminated, and the unfunded balance of future needs is reduced to $203 million by 2021.

In Infrastructure Scenario 2, the City issues a $100 million general obligation bond at an assumed interest rate of 5% and a 25-year amortization period. Again by investing an additional $10 million per year (increasing by 3% per year), the General Fund can use the bond proceeds to complete the unfunded portion of the backlog in the first 3 to 4 years, pay its $7.1 million annual debt service, and apply the remaining $3 million towards the future needs and additional construction management costs. This scenario also increases the compound GF deficits by about $114.6 million over the ten years; it brings down the future needs balance to $160 million in 2021. However, at that time, the City would still owe about $106 million in principal and interest on the bond.

Note that in this scenario and in Scenario 3, any cost savings due to completing the backlog in 3 to 4 years rather than in 10 years have not yet been estimated, and are not included in the analysis.

2011-2021 LRFF - INFRASTRUCTURE SCENARIO 2 - INCREASE INVESTMNT BY $10MM PER YR WITH $100MM BOND

	FY 2010 Actual	FY 2011 Adopted	FY 2011 Projected	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
TOTAL REVENUES	144,947	139,433	140,962	144,009	146,626	151,503	156,707	161,932	167,613	173,629	179,517	185,008	190,551
Total Expenditures Before Transfers	131,988	128,475	130,435	134,558	138,840	143,356	146,946	150,720	154,567	158,544	162,569	166,840	171,169
Transfers to Other Funds													
Operating Transfers Out	4,737	1,122	1,662	1,167	1,214	1,263	1,314	1,367	1,422	1,479	1,538	1,600	1,664
Transfer to Infrastructure	9,900	9,802	9,802	10,438	10,852	11,294	11,747	12,217	12,706	13,214	13,743	14,293	14,865
Debt Service on Infrastructure Bond				7,099	7,099	7,099	7,099	7,099	7,099	7,099	7,099	7,099	7,099
Additional Transfer to Insfrastructure to Fund Future Needs				-	-	210	500	3,450	3,750	4,050	4,375	4,685	5,015
Additional Maintenance staff				-	267	273	280	287	294	302	309	317	325
Additional Operating Expenses for Additional Infrastructure Investments*				2,901	2,934	3,026	3,048	419	450	490	516	567	609
Subtotal Additional Infrastructure Investmt				**10,000**	**10,300**	**10,609**	**10,927**	**11,255**	**11,593**	**11,941**	**12,299**	**12,668**	**13,048**
TOTAL EXPENDITURES	146,625	139,399	141,899	156,164	161,205	166,522	170,934	175,559	180,289	185,177	190,149	195,401	200,746
GRAND NET SURPLUS (DEFICIT)	$ (1,678)	$ 33	$ (937)	$ (12,155)	$ (14,580)	$ (15,019)	$ (14,227)	$ (13,627)	$ (12,675)	$ (11,548)	$ (10,632)	$ (10,393)	$ (10,195)
Balance of Unfunded Backlog at year-end			$ 82,875	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Balance of Future Needs at year-end			$208,280	$ 185,910	$ 185,910	$185,700	$185,200	$ 181,750	$ 178,000	$ 173,950	$ 169,575	$ 164,890	$ 159,875
Balance of 25-year Bond "Debt Service Liability"			$ -	$ 170,382	$ 163,283	$156,184	$149,084	$ 141,985	$ 134,886	$ 127,787	$ 120,687	$ 113,588	$ 106,489

2011

ALTERNATE SCENARIOS

In Scenario 3, the General Fund invests an additional $15 million per year, increasing by 3% per year, in infrastructure. It issues the $100 million bond, applying the remainder of the $15 million after debt service to future needs and additional operating costs required by the additional infrastructure projects. This scenario increases the compound GF deficits by about $172 million over the 10 years, brings down the future needs balance to $109 million in 2021, but leaves a balance of $106 million in unpaid principal and interest payments on the bond.

2011-2021 LRFF - INFRASTRUCTURE SCENARIO 3 - INCREASE INVESTMNT BY $15MM PER YR WITH $100MM BOND

	FY 2010 Actual	FY 2011 Adopted	FY 2011 Projected	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
TOTAL REVENUES	144,947	139,433	140,962	144,009	146,626	151,503	156,707	161,932	167,613	173,629	179,517	185,008	190,551
Total Expenditures Before Transfers	131,988	128,475	130,435	134,558	138,840	143,356	146,946	150,720	154,567	158,544	162,569	166,840	171,169
Transfers to Other Funds													
Operating Transfers Out	4,737	1,122	1,122	1,167	1,214	1,263	1,314	1,367	1,422	1,479	1,538	1,600	1,664
Transfer to Infrastructure	9,900	9,802	9,802	10,438	10,852	11,294	11,747	12,217	12,706	13,214	13,743	14,293	14,865
Debt Service on Infrastructure Bond				7,099	7,099	7,099	7,099	7,099	7,099	7,099	7,099	7,099	7,099
Additional Transfer to Insfrastructure to Fund Future Needs				4,150	4,540	4,950	5,370	8,480	8,920	9,375	9,850	10,350	10,840
Additional Maintenance staff				260	267	273	280	287	294	302	309	317	325
Additional Operating Expenses for Additional Infrastructure Investments*				3,491	3,544	3,592	3,641	1,017	1,075	1,135	1,190	1,236	1,308
Subtotal Additional Infrastructure Investmt				**15,000**	**15,450**	**15,914**	**16,391**	**16,883**	**17,389**	**17,911**	**18,448**	**19,002**	**19,572**
TOTAL EXPENDITURES	146,625	139,399	141,899	161,164	166,355	171,827	176,397	181,187	186,084	191,147	196,298	201,735	207,270
GRAND NET SURPLUS (DEFICIT)	$ (1,678)	$ 33	$ (842)	$ (17,155)	$ (19,729)	$ (20,325)	$ (19,690)	$ (19,255)	$ (18,471)	$ (17,518)	$ (16,781)	$ (16,727)	$ (16,719)
Balance of Unfunded Backlog at year-end			$ 82,875	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Balance of Future Needs at year-end			$208,280	$ 181,760	$ 177,220	$172,270	$166,900	$ 158,420	$ 149,500	$ 140,125	$ 130,275	$ 119,925	$ 109,085
Balance of 25-year Bond "Debt Service Liability"			$ -	$ 170,382	$ 163,283	$156,184	$149,084	$ 141,985	$ 134,886	$ 127,787	$ 120,687	$ 113,588	$ 106,489

All of the above Infrastructure scenarios illustrate the order of magnitude of the financial impact on the General Fund of addressing the infrastructure backlog in a timely manner. With an additional $10 million per year the City can erase the backlog over 10 years without a bond, and much more rapidly with a bond. If the City is willing to take on the increased liability of a general obligation bond, it can eliminate the backlog in the next few years and make greater headway with funding needed renovations. Again, precise estimates of the volumes of backlog and future needs, as well as cost trade-offs involved with issuing a general obligation bond for infrastructure, remain to be developed more completely by Public Works staff in concert with the Blue Ribbon Commission.

Given the City's limitations in generating new revenue, finding the funding for the additional infrastructure needs would require a reduction in expenses—including programs and/or services, and salaries and benefits.

The table at right summarizes the results of all Alternate Scenarios, compared to the Base Model.

Long Range Financial Forecast 2011-2021

SUMMARY OF ALL SCENARIOS

(Millions of Dollars)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Total (2012-2021)
Base Model Net Surplus (Deficit)	**(2.2)**	**(4.3)**	**(4.4)**	**(3.3)**	**(2.4)**	**(1.1)**	**0.4**	**1.7**	**2.3**	**2.9**	**(10.4)**
--- Impact of Alternate Scenarios on Bottom Line ---											
Salaries & Bens. Constrained to < Revenues	0.6	1.6	3.0	2.0	1.0	(0.1)	(1.4)	(2.6)	(3.4)	(4.1)	(3.4)
Resulting Net Surplus (Deficit)	(1.5)	(2.6)	(1.4)	(1.3)	(1.3)	(1.2)	(1.0)	(0.9)	(1.1)	(1.3)	(13.8)
Salaries & Bens. Constrained to < Revenues, Increases Only When No Deficit	0.6	1.7	3.2	3.3	2.4	1.3	0.0	(1.1)	(1.8)	(2.5)	7.3
Resulting Net Surplus (Deficit)	(1.5)	(2.6)	(1.2)	0.0	0.1	0.2	0.4	0.6	0.5	0.3	(3.2)
Optimistic:											
Safety joins 90-10 Plan	0.2	0.3	0.4	0.5	0.5	0.5	0.5	0.6	0.6	0.6	4.8
Safety agrees to second tier at 2% at 55			0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	3.5
Higher Revenue Forecast	0.1	0.6	1.0	1.5	2.3	3.2	4.2	4.8	5.5	6.1	29.4
Total Optimistic Scenarios	**0.6**	**1.1**	**1.7**	**2.5**	**3.4**	**4.4**	**5.4**	**6.2**	**7.1**	**7.7**	**40.1**
Resulting Net Surplus (Deficit)	**(1.6)**	**(3.2)**	**(2.7)**	**(0.8)**	**1.0**	**3.3**	**5.8**	**7.9**	**9.3**	**10.6**	**29.7**
Pessimistic:											-
Safety receives 2% Salary Increase in 2013	-	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.6)	(0.6)	(0.6)	(4.8)
PERS Adopts 7.5% Discount Rate		(1.8)	(1.9)	(2.0)	(2.0)	(2.0)	(2.1)	(2.1)	(2.2)	(2.2)	(18.3)
PERS rates increase 3% per year 2015-2021				(1.9)	(4.0)	(6.1)	(8.3)	(10.5)	(12.9)	(15.4)	(59.1)
Health Care Costs increase 10% per year	(0.1)	(0.5)	(0.9)	(1.4)	(1.9)	(2.5)	(3.1)	(3.8)	(4.6)	(5.6)	(24.4)
Lower Revenue Forecast	(0.7)	(2.0)	(2.5)	(3.1)	(3.6)	(3.9)	(4.0)	(4.4)	(4.9)	(5.5)	(34.6)
Total Pessimistic Scenarios	**(1.2)**	**(4.7)**	**(5.7)**	**(6.8)**	**(11.7)**	**(14.8)**	**(17.8)**	**(21.2)**	**(24.9)**	**(28.9)**	**(137.7)**
Resulting Net Surplus (Deficit)	**(3.3)**	**(9.0)**	**(10.1)**	**(10.1)**	**(14.1)**	**(15.8)**	**(17.4)**	**(19.5)**	**(22.6)**	**(26.0)**	**(148.1)**
Infrastructure											
Scenario 1: $10 MM add'l / yr	(10.0)	(10.3)	(10.6)	(10.9)	(11.3)	(11.6)	(11.9)	(12.3)	(12.7)	(13.0)	(114.6)
Scenario 2: $10 MM/yr + $100MM bond	(10.0)	(10.3)	(10.6)	(10.9)	(11.3)	(11.6)	(11.9)	(12.3)	(12.7)	(13.0)	(114.6)
Resulting Net Surplus (Deficit) for Scenarios 1 & 2	(12.2)	(14.6)	(15.0)	(14.2)	(13.6)	(12.7)	(11.5)	(10.6)	(10.4)	(10.2)	(125.1)
Scenario 3: $15 MM/yr + $100MM bond	(15.0)	(15.4)	(15.9)	(16.4)	(16.9)	(17.4)	(17.9)	(18.4)	(19.0)	(19.6)	(172.0)
Resulting Net Surplus (Deficit)	(17.2)	(19.7)	(20.3)	(19.7)	(19.3)	(18.5)	(17.5)	(16.8)	(16.7)	(16.7)	(182.4)

VI. CONCLUSIONS

This Long Range Forecast shows a much improved fiscal picture compared to the one presented in February 2010. Last year, the Forecast showed a cumulative deficit of $147.5 million between 2011 and 2020 (ten years). This year, the Base Model projects a combined $16.5 million deficit over the same period. Much of the improvement is due to the significant Budget reset accomplished by the FY 2011 Adopted Budget. The October 5, 2010 update to last year's Forecast had predicted a much rosier $1.2 million surplus over the ten-year period from 2010-2020, but since then revenue projections have been adjusted: UUT projections came down by $22.9 million over the course of 2011-2020, due to cancelled rate increases; property tax projections came down $14.7 million; yet Documentary Transfer Tax estimates increased $8.6 million for the ten year period, and Sales Tax estimates increased $6.0 million.

There remain in this Forecast $11.3 million in cumulative deficits over the 2011-2021 period that must be addressed. If the City addresses its infrastructure backlog in a robust fashion, those deficits could increase eleven-fold to $125 million. On the flip side, if Public Safety bargaining units agree to changes already accepted by the Miscellaneous groups – specifically a second retirement tier for new hires and the 90-10 medical cost sharing plan – the eleven-year deficits would shrink by approximately 73% (or $8.3 million). Faster-than-expected revenue growth would also help.

However, darker developments are also easily imagined. Specifically, PERS rates could easily jump due to either a small decrease in the assumed discount rate (costing $18 million over nine years) and/or annual additional rate increases of 3% after 2014 (costing an additional $59 million). Those increases alone would put us in the same negative position as erasing our entire unfunded infrastructure backlog, yet would not put a dime towards that critical need.

Palo Alto is not alone in finding its pension and health care liabilities to be increasingly difficult to sustain. While the organization has successfully begun to restructure these benefits with non-safety staff, there still is a strong concern going forward due to continued PERS rate projection increases and revenues failing to close the growing gaps. The City must continue to make difficult choices to ensure that it keeps its AAA credit rating, stays fiscally balanced, and lives within its means.

VII. ENDNOTES

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VIII. APPENDICES—APPENDIX 1: ALTERNATE SCENARIOS

2011-2021 LRFF - SALARIES AND BENEFITS CONSTRAINED TO RATE OF REVENUE GROWTH	FY 2010 Actual	FY 2011 Adopted	FY 2011 Projected	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenues													
Sales Taxes	$ 17,991	$ 18,218	$ 19,507	$ 19,646	$ 20,320	$ 21,085	$ 21,888	$ 22,750	$ 23,649	$ 24,594	$ 25,295	$ 25,940	$ 26,638
Property Taxes	25,982	25,907	25,323	25,830	26,699	27,665	28,734	29,914	31,177	32,581	34,114	35,227	36,186
Transient Occupancy Tax	6,858	7,021	7,400	7,704	8,246	8,505	8,790	9,102	9,434	9,788	10,067	10,344	10,622
Utility User Tax	11,296	11,429	10,824	10,859	11,069	11,329	11,654	11,708	11,976	12,252	12,528	12,796	13,054
Documentary Transfer Tax	3,707	3,613	4,000	4,219	4,377	4,546	4,723	4,908	5,103	5,310	5,504	5,694	5,948
Other Taxes and Fines	2,047	2,330	2,137	2,384	2,455	2,529	2,605	2,683	2,764	2,846	2,932	3,020	3,110
Subtotal: Taxes	**67,881**	**68,518**	**69,191**	**70,642**	**73,166**	**75,659**	**78,394**	**81,066**	**84,103**	**87,372**	**90,440**	**93,021**	**95,559**
Charges for Services	19,593	20,068	21,000	21,420	22,063	22,725	23,406	24,109	24,832	25,577	26,344	27,134	27,948
Permits and Licenses	4,720	4,533	4,646	4,739	4,881	5,027	5,178	5,334	5,494	5,658	5,828	6,003	6,183
Return on Investment	2,624	1,646	1,337	1,317	1,314	1,331	1,354	1,380	1,412	1,459	1,489	1,516	1,540
Rental Income	14,397	13,716	13,716	13,991	12,150	12,515	12,890	13,277	13,675	14,086	14,508	14,944	15,392
From other agencies	333	155	155	158	163	168	173	178	183	189	195	200	207
Charges to Other Funds	11,027	10,622	10,698	10,745	11,067	11,399	11,741	12,094	12,456	12,830	13,215	13,611	14,020
Other revenues	2,360	1,490	1,513	1,544	1,590	1,638	1,687	1,738	1,790	1,843	1,899	1,956	2,014
Total Revenues Before Transfers	**122,936**	**120,748**	**122,257**	**124,555**	**126,394**	**130,462**	**134,824**	**139,174**	**143,945**	**149,014**	**153,917**	**158,385**	**162,862**
Operating Transfers-In	22,011	18,684	18,705	19,453	20,232	21,041	21,882	22,758	23,668	24,615	25,599	26,623	27,688
TOTAL REVENUES	**144,947**	**139,433**	**140,962**	**144,009**	**146,626**	**151,503**	**156,707**	**161,932**	**167,613**	**173,629**	**179,517**	**185,008**	**190,551**
Expenditures													
Salaries	61,080	59,020	60,003	60,129	60,406	60,690	62,745	64,743	66,967	69,300	71,574	73,561	75,565
Benefits	32,900	29,525	29,645	33,382	34,812	37,698	39,002	40,400	41,869	43,427	44,938	46,526	48,096
Subtotal: Salaries and Benefits	**93,980**	**88,545**	**89,648**	**93,511**	**95,217**	**98,388**	**101,747**	**105,143**	**108,836**	**112,727**	**116,512**	**120,087**	**123,661**
Contract Services	8,899	10,180	10,591	10,382	10,833	11,116	11,449	11,792	12,146	12,510	12,885	13,272	13,670
Supplies & Materials	2,867	3,242	3,262	3,541	4,112	4,235	4,362	4,493	4,628	4,767	4,910	5,057	5,209
General Expense	9,341	10,022	10,448	10,172	10,375	10,686	11,007	11,337	11,677	12,027	12,388	12,760	13,143
Rents and Leases	627	663	663	774	789	813	837	862	888	915	942	970	999
Facilities and Equipment	1,734	452	452	459	468	482	496	511	526	542	558	575	592
Allocated Charges	14,540	15,371	15,371	15,102	15,404	14,646	15,085	15,538	16,004	16,484	16,979	17,488	18,013
Total Expenditures Before Transfers	**131,988**	**128,475**	**130,435**	**133,941**	**137,198**	**140,366**	**144,983**	**149,676**	**154,705**	**159,972**	**165,174**	**170,209**	**175,287**
Transfers to Other Funds													
Operating Transfers Out	4,737	1,122	1,662	1,167	1,214	1,263	1,314	1,367	1,422	1,479	1,538	1,600	1,664
Transfer to Infrastructure	9,900	9,802	9,802	10,438	10,852	11,294	11,747	12,217	12,706	13,214	13,743	14,293	14,865
TOTAL EXPENDITURES	**146,625**	**139,399**	**141,899**	**145,546**	**149,264**	**152,923**	**158,044**	**163,260**	**168,833**	**174,665**	**180,455**	**186,102**	**191,816**
Net Operating Surplus/(Gap)	**(1,678)**	**33**	**(937)**	**(1,537)**	**(2,638)**	**(1,420)**	**(1,337)**	**(1,328)**	**(1,220)**	**(1,036)**	**(938)**	**(1,094)**	**(1,265)**
Drawdown on BSR for BOA		-		-	-	-	-	-	-	-	-	-	-
Net Operating Surplus/(Gap)	**(1,678)**	**33**	**(937)**	**(1,537)**	**(2,638)**	**(1,420)**	**(1,337)**	**(1,328)**	**(1,220)**	**(1,036)**	**(938)**	**(1,094)**	**(1,265)**
Drawdown on Budget Stabilization Reserve													
Comprehensive Annual Fin. Rpt. Recon.	(89)												
Subtotal	**(89)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**-**
GRAND NET SURPLUS (DEFICIT)	**$ (1,767)**	**$ 33**	**$ (937)**	**$ (1,537)**	**$ (2,638)**	**$ (1,420)**	**$ (1,337)**	**$ (1,328)**	**$ (1,220)**	**$ (1,036)**	**$ (938)**	**$ (1,094)**	**$ (1,265)**

***In FY 2011, Adopted Budget assumed 90-10 plan implementation for Miscellaneous group effective January 1, 2010. Given the likely April 1 2010 implementation date, an additional expense (foregone savings) is anticipated. For remaining years in the Forecast, savings are**

2011-2021 LRFF - SALARIES AND BENEFITS CONSTRAINED TO RATE OF REVENUE GROWTH, WITH NO INCREASES WHEN DEFICITS WOULD RESULT

	FY 2010 Actual	FY 2011 Adopted	FY 2011 Projected	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenues													
Sales Taxes	$ 17,991	$ 18,218	$ 19,507	$ 19,646	$ 20,320	$ 21,085	$ 21,888	$ 22,750	$ 23,649	$ 24,594	$ 25,295	$ 25,940	$ 26,638
Property Taxes	25,982	25,907	25,323	25,830	26,699	27,665	28,734	29,914	31,177	32,581	34,114	35,227	36,186
Transient Occupancy Tax	6,858	7,021	7,400	7,704	8,246	8,505	8,790	9,102	9,434	9,788	10,067	10,344	10,622
Utility User Tax	11,296	11,429	10,824	10,859	11,069	11,329	11,654	11,708	11,976	12,252	12,528	12,796	13,054
Documentary Transfer Tax	3,707	3,613	4,000	4,219	4,377	4,546	4,723	4,908	5,103	5,310	5,504	5,694	5,948
Other Taxes and Fines	2,047	2,330	2,137	2,384	2,455	2,529	2,605	2,683	2,764	2,846	2,932	3,020	3,110
Subtotal: Taxes	**67,881**	**68,518**	**69,191**	**70,642**	**73,166**	**75,659**	**78,394**	**81,066**	**84,103**	**87,372**	**90,440**	**93,021**	**95,559**
Charges for Services	19,593	20,068	21,000	21,420	22,063	22,725	23,406	24,109	24,832	25,577	26,344	27,134	27,948
Permits and Licenses	4,720	4,533	4,646	4,739	4,881	5,027	5,178	5,334	5,494	5,658	5,828	6,003	6,183
Return on Investment	2,624	1,646	1,337	1,317	1,314	1,331	1,354	1,380	1,412	1,459	1,489	1,516	1,540
Rental Income	14,397	13,716	13,716	13,991	12,150	12,515	12,890	13,277	13,675	14,086	14,508	14,944	15,392
From other agencies	333	155	155	158	163	168	173	178	183	189	195	200	207
Charges to Other Funds	11,027	10,622	10,698	10,745	11,067	11,399	11,741	12,094	12,456	12,830	13,215	13,611	14,020
Other revenues	2,360	1,490	1,513	1,544	1,590	1,638	1,687	1,738	1,790	1,843	1,899	1,956	2,014
Total Revenues Before Transfers	**122,936**	**120,748**	**122,257**	**124,555**	**126,394**	**130,462**	**134,824**	**139,174**	**143,945**	**149,014**	**153,917**	**158,385**	**162,862**
Operating Transfers-In	22,011	18,684	18,705	19,453	20,232	21,041	21,882	22,758	23,668	24,615	25,599	26,623	27,688
TOTAL REVENUES	**144,947**	**139,433**	**140,962**	**144,009**	**146,626**	**151,503**	**156,707**	**161,932**	**167,613**	**173,629**	**179,517**	**185,008**	**190,551**
Expenditures													
Salaries	61,080	59,020	60,003	60,129	60,329	60,460	61,377	63,362	65,539	67,824	70,050	71,994	73,956
Benefits	32,900	29,525	29,645	33,382	34,812	37,698	39,002	40,400	41,869	43,427	44,938	46,526	48,096
Subtotal: Salaries and Benefits	**93,980**	**88,545**	**89,648**	**93,511**	**95,141**	**98,158**	**100,379**	**103,763**	**107,409**	**111,250**	**114,988**	**118,520**	**122,053**
Contract Services	8,899	10,180	10,591	10,382	10,833	11,116	11,449	11,792	12,146	12,510	12,885	13,272	13,670
Supplies & Materials	2,867	3,242	3,262	3,541	4,112	4,235	4,362	4,493	4,628	4,767	4,910	5,057	5,209
General Expense	9,341	10,022	10,448	10,172	10,375	10,686	11,007	11,337	11,677	12,027	12,388	12,760	13,143
Rents and Leases	627	663	663	774	789	813	837	862	888	915	942	970	999
Facilities and Equipment	1,734	452	452	459	468	482	496	511	526	542	558	575	592
Allocated Charges	14,540	15,371	15,371	15,102	15,404	14,646	15,085	15,538	16,004	16,484	16,979	17,488	18,013
Total Expenditures Before Transfers	**131,988**	**128,475**	**130,435**	**133,941**	**137,122**	**140,136**	**143,615**	**148,296**	**153,278**	**158,495**	**163,650**	**168,642**	**173,679**
Transfers to Other Funds													
Operating Transfers Out	4,737	1,122	1,662	1,167	1,214	1,263	1,314	1,367	1,422	1,479	1,538	1,600	1,664
Transfer to Infrastructure	9,900	9,802	9,802	10,438	10,852	11,294	11,747	12,217	12,706	13,214	13,743	14,293	14,865
TOTAL EXPENDITURES	**146,625**	**139,399**	**141,899**	**145,546**	**149,188**	**152,693**	**156,676**	**161,880**	**167,406**	**173,188**	**178,931**	**184,535**	**190,208**
Net Operating Surplus/(Gap)	**(1,678)**	**33**	**(937)**	**(1,537)**	**(2,562)**	**(1,191)**	**31**	**52**	**208**	**441**	**586**	**473**	**343**
Drawdown on BSR for BOA		-		-	-	-	-	-	-	-	-	-	-
Net Operating Surplus/(Gap)	**(1,678)**	**33**	**(937)**	**(1,537)**	**(2,562)**	**(1,191)**	**31**	**52**	**208**	**441**	**586**	**473**	**343**
Drawdown on Budget Stabilization Reserve													
Comprehensive Annual Fin. Rpt. Recon.	(89)												
Subtotal	**(89)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**-**
GRAND NET SURPLUS (DEFICIT)	**$ (1,767)**	**$ 33**	**$ (937)**	**$ (1,537)**	**$ (2,562)**	**$ (1,191)**	**$ 31**	**$ 52**	**$ 208**	**$ 441**	**$ 586**	**$ 473**	**$ 343**

*In FY 2011, Adopted Budget assumed 90-10 plan implementation for Miscellaneous group effective January 1, 2010. Given the likely April 1 2010 implementation date, an additional expense (foregone savings) is anticipated. For remaining years in the Forecast, savings are

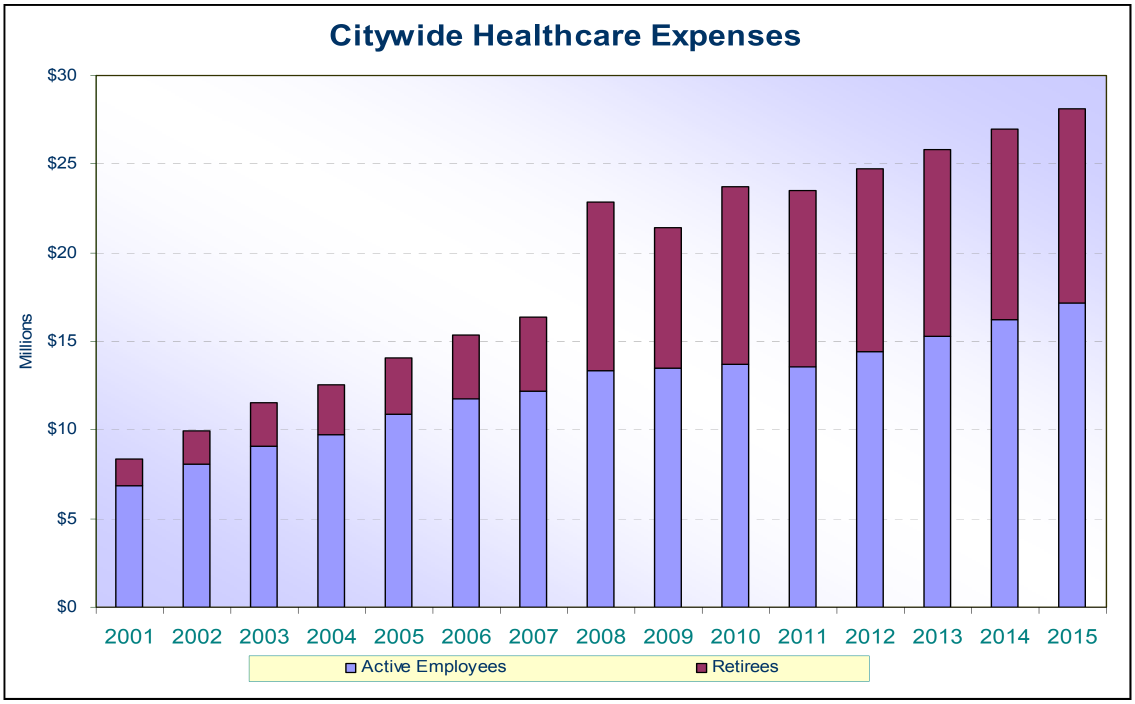
APPENDIX 1: ALTERNATE SCENARIOS, CONTINUED

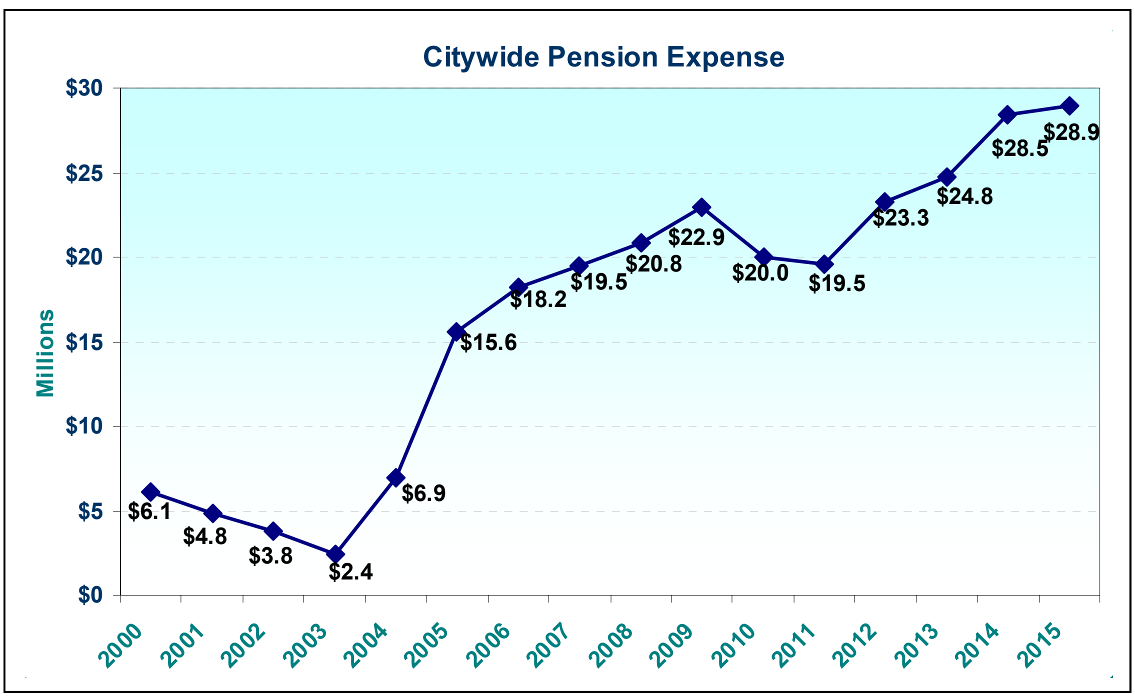
2011-2021 LRFF - COMBINED OPTIMISTIC SCENARIOS													
	FY 2010 Actual	FY 2011 Adopted	FY 2011 Projected	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenues													
Sales Taxes	$ 17,991	$ 18,218	$ 19,507	19,714	20,387	21,162	21,951	22,820	23,733	24,670	25,388	26,034	26,664
Property Taxes	25,982	25,907	25,323	25,523	26,477	27,520	28,688	30,016	31,458	33,060	34,811	35,996	37,016
Transient Occupancy Tax	6,858	7,021	7,400	7,731	8,476	8,633	8,931	9,239	9,614	9,974	10,102	10,375	10,644
Utility User Tax	11,296	11,429	10,824	10,909	11,119	11,379	11,707	11,761	12,029	12,306	12,581	12,848	13,105
Documentary Transfer Tax	3,707	3,613	4,000	4,231	4,391	4,562	4,741	4,929	5,127	5,337	5,513	5,695	5,829
Other Taxes and Fines	2,047	2,330	2,137	2,396	2,473	2,566	2,664	2,770	2,881	2,996	3,110	3,227	3,348
Subtotal: Taxes	**$ 67,881**	**$ 68,518**	**$ 69,191**	**70,504**	**73,323**	**75,822**	**78,682**	**81,535**	**84,842**	**88,342**	**91,506**	**94,175**	**96,606**
Charges for Services	19,593	20,068	21,000	21,525	22,225	23,058	23,934	24,892	25,887	26,923	27,946	28,994	30,081
Permits and Licenses	4,720	4,533	4,646	4,762	4,917	5,101	5,295	5,507	5,727	5,956	6,165	6,396	6,636
Return on Investment	2,624	1,646	1,337	1,322	1,324	1,339	1,361	1,386	1,421	1,466	1,493	1,519	1,542
Rental Income	14,397	13,716	13,716	14,059	12,251	12,710	13,193	13,721	14,270	14,841	15,404	15,982	16,581
From other agencies	333	155	155	159	164	170	177	184	191	199	206	214	222
Charges to Other Funds	11,027	10,622	10,698	10,798	11,149	11,567	12,006	12,486	12,986	13,505	14,018	14,544	15,090
Other revenues	2,360	1,490	1,513	1,551	1,602	1,662	1,725	1,794	1,866	1,940	2,014	2,090	2,168
Total Revenues Before Transfers	**$ 122,936**	**$ 120,748**	**$ 122,257**	**124,680**	**126,953**	**131,429**	**136,373**	**141,504**	**147,190**	**153,173**	**158,752**	**163,913**	**168,926**
Operating Transfers-In	22,011	18,684	18,705	19,453	20,232	21,041	21,882	22,758	23,668	24,615	25,599	26,623	27,688
TOTAL REVENUES	**$ 144,947**	**$ 139,433**	**$ 140,962**	**144,134**	**147,185**	**152,470**	**158,256**	**164,262**	**170,858**	**177,788**	**184,352**	**190,537**	**196,615**
Expenditures													
Salaries	61,080	59,020	60,003	60,661	61,798	63,047	64,321	65,621	66,947	68,299	69,678	71,085	72,520
Benefits	32,900	29,525	29,645	33,006	34,505	37,564	38,467	39,518	40,589	41,745	42,838	44,098	45,339
Subtotal: Salaries and Benefits	**$ 93,980**	**$ 88,545**	**$ 89,648**	**93,667**	**96,303**	**100,611**	**102,788**	**105,139**	**107,536**	**110,044**	**112,516**	**115,183**	**117,859**
Contract Services	8,899	10,180	10,591	10,382	10,833	11,116	11,449	11,792	12,146	12,510	12,885	13,272	13,670
Supplies & Materials	2,867	3,242	3,262	3,541	4,112	4,235	4,362	4,493	4,628	4,767	4,910	5,057	5,209
General Expense	9,341	10,022	10,448	10,172	10,375	10,686	11,007	11,337	11,677	12,027	12,388	12,760	13,143
Rents and Leases	627	663	663	774	789	813	837	862	888	915	942	970	999
Facilities and Equipment	1,734	452	452	459	468	482	496	511	526	542	558	575	592
Allocated Charges	14,540	15,371	15,371	15,102	15,404	14,646	15,085	15,538	16,004	16,484	16,979	17,488	18,013
Total Expenditures Before Transfers	**$ 131,988**	**$ 128,475**	**$ 130,435**	**134,097**	**138,284**	**142,589**	**146,024**	**149,672**	**153,405**	**157,289**	**161,178**	**165,305**	**169,485**
Transfers to Other Funds													
Operating Transfers Out	4,737	1,122	1,662	1,167	1,214	1,263	1,314	1,367	1,422	1,479	1,538	1,600	1,664
Transfer to Infrastructure	9,900	9,802	9,802	10,438	10,852	11,294	11,747	12,217	12,706	13,214	13,743	14,293	14,865
TOTAL EXPENDITURES	**$ 146,625**	**$ 139,399**	**$ 141,899**	**145,702**	**150,350**	**155,146**	**159,085**	**163,256**	**167,533**	**171,982**	**176,459**	**181,198**	**186,014**
Net Operating Surplus/(Gap)	**$ (1,678)**	**$ 33**	**$ (937)**	**(1,568)**	**(3,165)**	**(2,676)**	**(830)**	**1,006**	**3,325**	**5,806**	**7,893**	**9,339**	**10,600**
Drawdown on BSR for BOA				-	-	-	-	-	-	-	-	-	-
Net Operating Surplus/(Gap)	**$ (1,678)**	**$ 33**	**$ (937)**	**(1,568)**	**(3,165)**	**(2,676)**	**(830)**	**1,006**	**3,325**	**5,806**	**7,893**	**9,339**	**10,600**
Drawdown on Budget Stabilization Reserve													
Comprehensive Annual Fin. Rpt. Recon.	$ (89)	$ -	$ -										
Subtotal	(89)	-	-	-	-	-	-	-	-	-	-		-
GRAND NET SURPLUS (DEFICIT)	**$ (1,767)**	**$ 33**	**$ (937)**	**$ (1,568)**	**$ (3,165)**	**$ (2,676)**	**$ (830)**	**$ 1,006**	**$ 3,325**	**$ 5,806**	**$ 7,893**	**$ 9,339**	**$ 10,600**

2011-2021 LRFF - COMBINED PESSIMISTIC SCENARIOS

	FY 2010 Actual	FY 2011 Adopted	FY 2011 Projected	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenues													
Sales Taxes	$ 17,991	$ 18,218	$ 19,507	$ 19,578	$ 20,257	$ 21,016	$ 21,825	$ 22,680	$ 23,592	$ 24,542	$ 25,270	$ 25,811	$ 26,405
Property Taxes	25,982	25,907	25,323	25,630	26,442	27,349	28,371	29,491	30,672	31,973	33,428	34,368	35,129
Transient Occupancy Tax	6,858	7,021	7,400	7,674	7,914	8,476	8,762	9,074	9,401	9,750	10,027	10,303	10,575
Utility User Tax	11,296	11,429	10,824	10,809	11,018	11,278	11,602	11,655	11,923	12,198	12,475	12,743	13,002
Documentary Transfer Tax	3,707	3,613	4,000	4,209	4,362	4,530	4,706	4,890	5,084	5,289	5,479	5,665	5,914
Other Taxes and Fines	2,047	2,330	2,137	2,360	2,390	2,432	2,480	2,542	2,612	2,691	2,766	2,842	2,920
Subtotal: Taxes	**67,881**	**68,518**	**69,191**	**70,260**	**72,384**	**75,080**	**77,746**	**80,332**	**83,283**	**86,443**	**89,445**	**91,732**	**93,944**
Charges for Services	19,593	20,068	21,000	21,210	21,475	21,851	22,288	22,845	23,474	24,178	24,855	25,538	26,241
Permits and Licenses	4,720	4,533	4,646	4,692	4,751	4,834	4,931	5,054	5,206	5,362	5,512	5,664	5,819
Return on Investment	2,624	1,646	1,337	1,312	1,306	1,324	1,348	1,375	1,406	1,454	1,454	1,471	1,520
Rental Income	14,397	13,716	13,716	13,853	11,805	12,012	12,252	12,558	12,904	13,291	13,663	14,039	14,425
From other agencies	333	155	155	157	159	161	165	169	173	179	184	189	194
Charges to Other Funds	11,027	10,622	10,698	10,805	10,940	11,132	11,354	11,638	11,958	12,317	12,662	13,010	13,368
Other revenues	2,360	1,490	1,513	1,529	1,548	1,575	1,606	1,646	1,692	1,742	1,791	1,841	1,891
Total Revenues Before Transfers	**122,936**	**120,748**	**122,257**	**123,818**	**124,368**	**127,969**	**131,691**	**135,618**	**140,095**	**144,966**	**149,565**	**153,482**	**157,402**
Operating Transfers-In	22,011	18,684	18,705	19,453	20,232	21,041	21,882	22,758	23,668	24,615	25,599	26,623	27,688
TOTAL REVENUES	**144,947**	**139,433**	**140,962**	**143,271**	**144,599**	**149,009**	**153,573**	**158,376**	**163,763**	**169,581**	**175,164**	**180,105**	**185,090**
Expenditures													
Salaries	61,080	59,020	60,003	61,172	62,395	63,643	64,916	66,215	67,539	68,890	70,267	71,673	73,106
Benefits	32,900	29,525	29,645	33,392	37,180	40,923	42,487	48,142	52,071	56,159	60,461	65,063	69,844
Subtotal: Salaries and Benefits	**93,980**	**88,545**	**89,648**	**94,564**	**99,576**	**104,567**	**107,403**	**114,357**	**119,610**	**125,048**	**130,729**	**136,736**	**142,950**
Contract Services	8,899	10,180	10,591	10,382	10,833	11,116	11,449	11,792	12,146	12,510	12,885	13,272	13,670
Supplies & Materials	2,867	3,242	3,262	3,541	4,112	4,235	4,362	4,493	4,628	4,767	4,910	5,057	5,209
General Expense	9,341	10,022	10,448	10,172	10,375	10,686	11,007	11,337	11,677	12,027	12,388	12,760	13,143
Rents and Leases	627	663	663	774	789	813	837	862	888	915	942	970	999
Facilities and Equipment	1,734	452	452	459	468	482	496	511	526	542	558	575	592
Allocated Charges	14,540	15,371	15,371	15,102	15,404	14,646	15,085	15,538	16,004	16,484	16,979	17,488	18,013
Total Expenditures Before Transfers	**131,988**	**128,475**	**130,435**	**134,994**	**141,557**	**146,545**	**150,639**	**158,890**	**165,479**	**172,293**	**179,391**	**186,858**	**194,576**
Transfers to Other Funds													
Operating Transfers Out	4,737	1,122	1,662	1,167	1,214	1,263	1,314	1,367	1,422	1,479	1,538	1,600	1,664
Transfer to Infrastructure	9,900	9,802	9,802	10,438	10,852	11,294	11,747	12,217	12,706	13,214	13,743	14,293	14,865
TOTAL EXPENDITURES	**146,625**	**139,399**	**141,899**	**146,599**	**153,623**	**159,102**	**163,700**	**172,474**	**179,607**	**186,986**	**194,672**	**202,751**	**211,105**
Net Operating Surplus/(Gap)	**(1,678)**	**33**	**(937)**	**(3,328)**	**(9,024)**	**(10,092)**	**(10,127)**	**(14,098)**	**(15,844)**	**(17,405)**	**(19,508)**	**(22,645)**	**(26,015)**
Draw down on BSR for BOA		-		-	-	-	-	-	-	-	-	-	-
Net Operating Surplus/(Gap)	**(1,678)**	**33**	**(937)**	**(3,328)**	**(9,024)**	**(10,092)**	**(10,127)**	**(14,098)**	**(15,844)**	**(17,405)**	**(19,508)**	**(22,645)**	**(26,015)**
Draw down on Budget Stabilization Reserve	-												
Comprehensive Annual Fin. Rpt. Recon.	(89)												
Subtotal	**(89)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**-**
GRAND NET SURPLUS (DEFICIT)	**$ (1,767)**	**$ 33**	**$ (937)**	**$ (3,328)**	**$ (9,024)**	**$ (10,092)**	**$ (10,127)**	**$ (14,098)**	**$ (15,844)**	**$ (17,405)**	**$ (19,508)**	**$ (22,645)**	**$ (26,015)**

APPENDIX 2: CITY EXPENSE CHARTS





APPENDIX 3: EXCERPT FROM CIP BUDGET – BASIS FOR INFRASTRUCTURE SCENARIO ASSUMPTIONS

General Fund Infrastructure Backlog Summary

General Fund Infrastructure Backlog Summary

	Current Backlog	Adopted General Fund CIP Budget	Unfunded Backlog	Projected Future Backlog FY 2014 through FY 2028		
	FY 2008 - FY 2013	FY 2008 - FY 2013	FY 2008 - FY 2013	FY 2014 - FY 2018	FY 2019- FY 2023	FY 2024 - FY 2028
Streets						
Annual Program	$24,682,259	$10,975,000	$13,707,259	$16,201,988	$12,123,019	$10,832,987
Transportation	$850,000	$850,000	$0	$2,867,934	$1,190,000	$1,763,720
Traffic Signals	$1,115,000	$1,115,000	$0	$1,225,000	$1,400,000	$1,557,500
Medians	$468,000	$468,000	$0	$25,200	$0 [1]	$0
Street lights	$650,000	$650,000	$0	$910,000	$910,000	$910,000
Street Furniture	$0	$0	$0	$175,000	$0 [1]	$175,000
Sidewalks						
Annual Maintenance	$5,100,000	$3,189,666	$1,910,334	$5,432,925	$5,844,891	$5,848,777
District Repairs	$9,240,106	$4,910,334	$4,329,772	$2,667,075	$2,255,109	$2,251,223
Bridges/Culverts	$2,625,490	$0	$2,625,490	$912,100 [1]	$2,220,575	$1,273,650
Parks	$6,890,591	$5,838,000	$1,052,591	$3,697,005	$7,743,820	$4,354,700
Open Space	$5,086,412	$1,773,000	$3,313,412	$4,624,026	$3,786,527	$2,050,156
City Buildings						
Structures	$93,100,667	$32,074,584 [2]	$61,026,083	$10,911,139	$7,163,687	$8,851,169
Parking Lots	$2,014,299	$910,000	$1,104,299	$4,704,935	$3,401,469	$1,788,206
Site Improvements	$550,000	$550,000	$0	$294,700 [1]	$1,188,460	$1,460,609
PAUSD Facilities	$860,000	$860,000	$0	$334,712	$150,500	$956,900
Subtotals	$153,232,824	$64,163,584	$89,069,240	$54,983,739	$49,378,057	$44,074,597
Total Backlog	$153,232,824			$54,983,739	$49,378,057	$44,074,597
			Total			$301,669,218

Costs = construction cost x 1.4 for project development (excluding annual street program and sidewalks)

Costs are in 2009 dollars, inflation not included

[1] No major work is needed due to life cycle analysis

[2] This number includes Budget Amendment Ordinance in the amount of $10,754,584 for the Public Safety Building, Mitchell Park Library and Community Center, and Civic Center Infrastructure Improvement Projects

SOURCE: CMR:167:08 updated on May 13, 2009

APPENDIX 3: EXCERPT FROM CIP BUDGET – BASIS FOR INFRASTRUCTURE SCENARIO ASSUMPTIONS, CONTINUED

Infrastructure Future Needs - Backlog

Infrastructure Future Needs - Backlog

Other Major Infrastructure Projects	Project Cost[1]
MSC Building Replacement	$93,000,000
Fire Station 3	$6,700,000
Fire Station 4	$7,500,000
Animal Shelter	$6,930,000
Junior Museum	$735,000
Charleston Road Corridor	$5,700,000
Arastradero Road Corridor	$4,300,000
Civic Center Plaza Deck	$16,000,000
Bxybee Park Phase II	$3,625,000
Los Altos Treatment Plant Clean-up & Preparation[2]	$2,040,000
San Antonio Road Median & Roadway Improvements Phase II	$1,500,000
Roth Building Restrooms	$250,000
	$148,280,000

[1] 2009 Dollars
[2] This is the general fund portion only

Notes:
This infrastrucutre backlog summary was last updated in May 2009. Since its last update, certain projects identified above have been funded and are either already completed or are currently in progress. These projects include the Lytton Plaza and the San Antonio Road Median & Roadway Improvement Phase II. The Charleston Arastradero Corridor is planned in FY 2013 through FY 2015 with planned funding of $4 million, while the Public Safety Building is added to the list due to the lack of funding source. This list does not include future infrastrucutre such as an intermodal transit center and Caltrain grade separations for pedestians.

Source: CMR:167:08 updated on May 13, 2009

298 City of Palo Alto Operating Budget FY 2011

CITY of PALO ALTO

Americans with Disabilities Act Statement

In compliance with
Americans with Disabilities Act (ADA) of 1990,
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The City of Palo Alto is located in northern Santa Clara County, approximately 35 miles south of the City of San Francisco and 12 miles north of the City of San Jose. Spanish explorers named the area for the tall, twin-trunked redwood tree they camped beneath in 1769. Palo Alto incorporated in 1894 and the State of California granted its first charter in 1909.

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