City of Palo Alto (ID # 8676)

Finance Committee Staff Report

Report Type: Action Items **Meeting Date: 12/5/2017**

Summary Title: FY2019 - FY2028 Long Range Financial Forecast & City Pension Liabilities

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From: City Manager

Lead Department: Administrative Services

RECOMMENDATION

Staff recommends that the Finance Committee

1) review, comment, and forward the Fiscal Year 2019 to 2028 General Fund Long Range Financial Forecast (Base Case) for City Council approval; and
2) review, comment and provide further direction on the City's pension obligations and assumptions informing the City's calculation of pension liabilities and annual contribution goals.

EXECUTIVE SUMMARY

The Fiscal Year (FY) 2019 2028 General Fund Long Range Financial Forecast (LRFF), marks the beginning of the FY 2019 annual budget process. It includes projected General Fund financials over the next ten years based on current City Council approved service levels as well as alternative financial models. The current Base Case financial forecast projects a gap in the General Fund of $2.6 million in FY 2019 and a range between annual gaps of up to $2.4 million and surpluses of $8.8 million in the out years. The Base Case provides a launching point, a forecast that can assist in gauging effects of major policy interventions against a likely "status quo" version of the future. It assumes that the world continues to change and unfold in line with current expectations.

It is from these projections that City staff will continue to review and refine to establish the FY 2019 Base Budget and direction will be provided to Departments on the FY 2019 budget process. Based on this Forecast, it is anticipated that again guidance to prioritize spending will be critical to ensure financial stability.

Looking forward, the City is facing a number of pressures from the 2014 Council approved Infrastructure Plan including a new public safety building, to the growing costs of pension benefits, and the upcoming labor negotiations for many of the City's largest employee units. A containment strategy is necessary to maintain a manageable financial position and to address these future financial challenges and any unforeseen program needs or the inevitable economic downturn. This review and planning will be critical since the City is facing many requests and has identified several key programs that the community would like to fund and complete.
Included in this report and subsequent documents are the following:

- Overview of the current financial status of the General Fund as of the FY 2018 Adopted Budget
- Discussion of the current financial climate of the United States to the City of Palo Alto
- Review of the Base Case for the Long Range Financial Report including Revenue and Expense modeling assumptions
- Alternative Scenarios as directed by the Finance Committee on October 17, 2017 (to be issued in a subsequent report for the December 5, 2017 Finance Committee meeting)
- Continued discussion of the City's Pension Liabilities

BACKGROUND

Annually the Office of Management and Budget produces a ten year Long Range Financial Forecast that reflects staff's best estimates on the projected revenues and expenditures over the next ten years based on the information currently available. A comprehensive review of the cost to provide current City Council approved service levels, including looking at current contracts, updates to salaries and benefits based on the current population of employees and the current labor contracts in effect, and review of the status of the current economy and various economically sensitive revenues such as Sales Tax, Documentary Tax, Property Tax, and Transient Occupancy Tax is completed to compile this report. This Forecast allows staff and Council to look at both the short term and long term financial status of current service levels in the General Fund and inform daily policy decisions and ongoing long term goals and challenges.
Since the great recession, the City has approved a number of strategies to mitigate rising costs, especially to mitigate the rising increase in salaries and benefits. Strategies include: a second pension tier, sharing in health plan cost increases between employees and the employer, and cost of living freezes for four years. Most recently, the current labor agreements approved in April 2016 not only assume employees paying their own CalPERS contribution, but also begin cost sharing with the employees contributing between 1 percent and 3 percent of the City contribution.

The City Council continues to invest in the community and approved significant improvements in June 2014 with the Infrastructure Plan in the original amount of $125.8 million. However, the projects identified in the plan are estimated to cost substantially more due to updated designs, rising construction costs, and minimum and prevailing wage requirements. This is one example of a number of known items that are not included in this Forecast.

Palo Alto serves a diverse community with a broad range of unique services that adds to the significant complexity of managing a balanced budget and healthy long range financial outlook. The demands and conflicts emerging from our vibrant economy have heightened the intensity of the "Palo Alto Process," with new analyses and data generation demands, and deep dives into complex problem solving within an engaged public process across a wide range of issues. These forecast figures present staff with the challenge of prioritizing the growing needs of the City with the long-term sustainability of these needs.

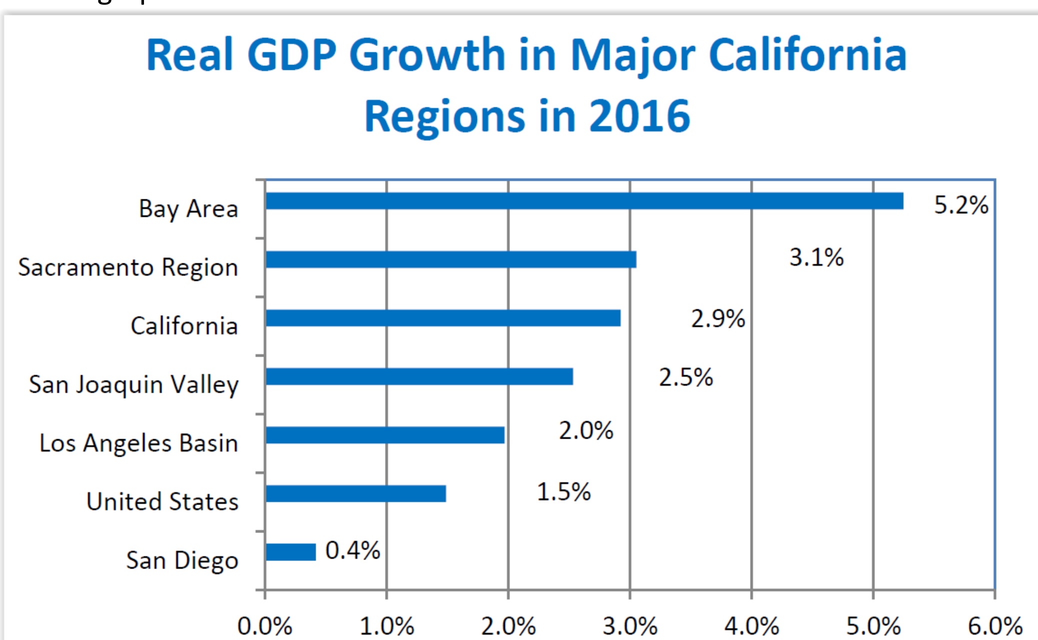
The Economy

The national economic outlook is healthy per key economic indicators. The 2018 forecasts for:

- gross domestic product (GDP) between mid-2 percent to low 3 percent;
- unemployment remaining around 4 percent which is currently at the lowest level in a decade at 4.1 percent; and
- the CPI (consumer price index; aka inflation) is expected to be in the low 2 percent though wage growth is tepid.

There's great uncertainty on federal legislative actions (e.g. tax cut, health care change, infrastructure spending, etc.) and their future economic impacts.

The local, regional and State economies are faring well. According to recent reports from the Center for Continuing Study of the California Economy's (CCSCE), the Bay Area led the State and nationally with real (inflation adjusted) GDP growth of 5.2 percent in 2016. During the same period San Jose led the state with a GDP increase of 5.9 percent with San Francisco-Oakland metro area coming in second with a 5.4 percent; additional comparatives are shown in the below CCSCE's graph.



Source of above chart: CCSCE article "The Bay Area Led the State and Nation in GDP Growth in 2016", September 2017

Jobs grew between September 2016 to September 2017 by 1.4 percent in the Bay Area, 1.7 percent for California, and 1.2 percent for the U.S. The State's unemployment in this period declined to 5.1 percent, in the Bay Area to 3.3 percent while in San Jose to 3.3 percent and San Francisco to 2.9 percent. The State's job growth for the past 12 months (as of June 2017) was slightly below the State's average in several years due to significant lower growth in the Bay Area. Though this recent trend is of concern, the expectation is this isn't a sign of the California and local economy heading into a protracted downturn or outright contraction in the coming year. The State and local economies continue to have a diverse and favorable mix of businesses; combined with a favorable location (Pacific Rim),the State and the local economies are well positioned to benefit from future national growth though the Bay Area continues to face the challenge of housing and transportation as an impediment to the growth.

With unemployment running low and the Silicon Valley geographically well positioned, Palo Alto has been at the epicenter of growth that presents opportunities and challenges.

DISCUSSION

Included in this section are both the base case and alternative scenarios. As with all forecasts, there is uncertainty regarding the revenue and expenditure estimates contained in this document. For example, General Fund revenues may exceed or fall below expectations based on changes in economic or non-economic conditions. Various cost elements can also vary from year to year.

As is customary in the Forecast, and consistent with the direction provided by the Finance Committee at the October 17, 2017 meeting, alternative forecasts have been developed to model scenarios specific to alternative pension assumptions. However, the necessary information was not available at the time of the printing of this report. Therefore, these alternatives will be provided in a supplemental memorandum presented at places for the December 5, 2017 Finance Committee.

Base Case

The following table displays the projected General Fund revenues and expenditures over the next five years and the total cumulative surplus. In addition to the cumulative surplus, the incremental surplus or shortfall (assuming each preceding surplus or shortfall is addressed completely with ongoing solutions in the year it appears) for each year of the forecast is included. Because it is the City's goal to remain in balance on an ongoing basis, the incremental figure is useful in that it shows the additional surplus and/or shortfall attributed to a particular fiscal year. To the extent that a shortfall is not resolved or a surplus is not expended on an ongoing basis, it is important to understand that the remaining budget gap or surplus will carry over to the following year.

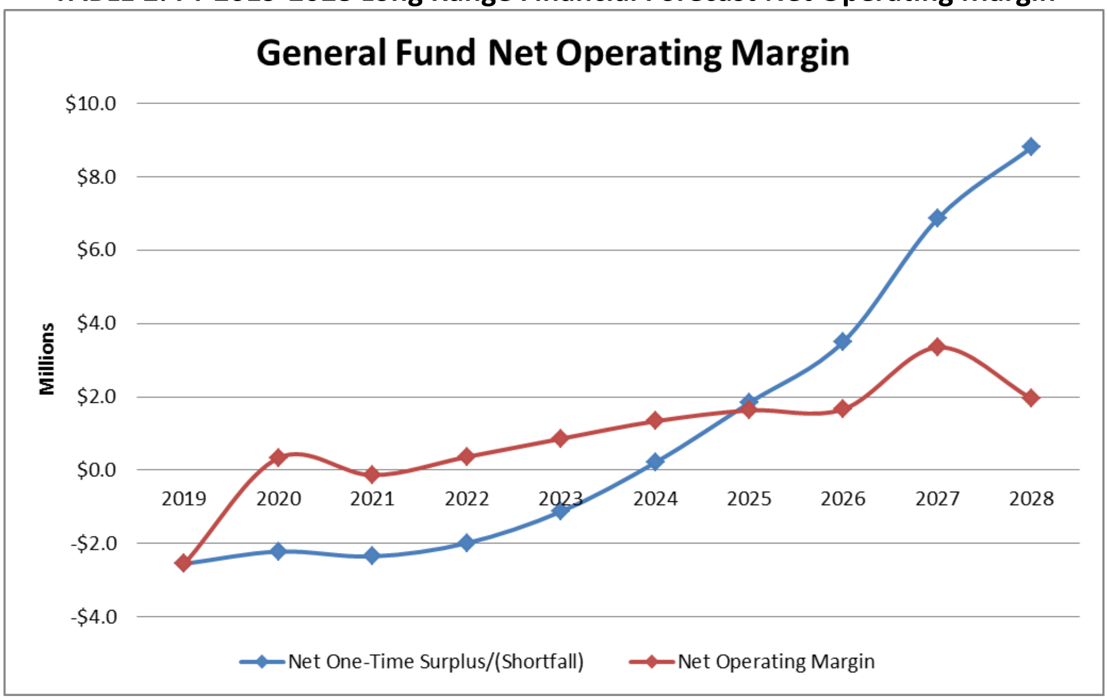
In this FY 2019-2028 Long Range Financial Forecast, gaps ranging from $2.6 million in FY 2019 to a gap of $3.3 million in FY 2024 are forecast, with slight surpluses in the remaining four years. As outlined above, if the City resolves the gap in FY 2019 of $2.6 million on an ongoing basis, revenues are expected to meet expenses from FY 2020 through FY 2023.

TABLE 1: FY 2019-2028 Long Range Financial Forecast

	Adopted 2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Total Revenue	**$207,042**	**$213,229**	**$221,638**	**$229,695**	**$237,623**	**$245,792**	**$253,881**	**$262,065**	**$269,898**	**$277,349**	**$285,652**
		3.0%	*3.9%*	*3.6%*	*3.5%*	*3.4%*	*3.3%*	*3.2%*	*3.0%*	*2.8%*	*3.0%*
Total Expenditures	**$210,426**	**$215,780**	**$223,855**	**$232,045**	**$239,609**	**$246,919**	**$253,672**	**$260,223**	**$266,387**	**$270,488**	**$276,842**
		2.5%	*3.7%*	*3.7%*	*3.3%*	*3.1%*	*2.7%*	*2.6%*	*2.4%*	*1.5%*	*2.3%*
Net One-Time Surplus/(Shortfall)	**($3,384)**	**($2,551)**	**($2,217)**	**($2,350)**	**($1,986)**	**($1,127)**	**$209**	**$1,842**	**$3,511**	**$6,861**	**$8,810**
Cumulative Net Operating Margin (One-Time)											**$11,002**
Net Operating Margin		**($2,551)**	**$334**	**($133)**	**$363**	**$859**	**$1,336**	**$1,634**	**$1,668**	**$3,350**	**$1,949**
Cumulative Net Operating Margin											**$8,810**

Assumes that the annual shortfalls are solved with ongoing solutions and annual surpluses are spent for ongoing expenditures.

TABLE 2: FY 2019-2028 Long Range Financial Forecast Net Operating Margin



Revenue Assumptions

The City of Palo Alto tax revenues continue to parallel the local economy. The economic information above is the foundation for the solid performance turned in by Palo Alto tax revenues over the past two years. Steady receipts are expected to continue in FY 2018 and FY 2019. For all tax revenues, staff projects a $5.0 million or 4.2 percent revenue increase in FY 2019 over those now projected for FY 2018. Tax revenues constitute nearly 60 percent of General Fund resources.

TABLE 3: FY 2019 - 2028 General Fund Revenue Forecast

Revenue & Other Sources	Adopted 2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	CAGR 10 Years
Sales Taxes	$31,458	$31,097	$32,217	$33,128	$34,026	$34,931	$35,842	$36,742	$37,598	$38,418	$39,379	2.3%
Property Taxes	41,927	45,120	47,996	50,890	53,816	56,792	59,846	63,000	66,245	69,624	73,133	5.7%
Transient Occupancy Tax- General Purpos	16,629	16,487	16,928	17,396	17,892	18,411	18,963	19,553	20,150	20,746	21,327	2.5%
Transient Occupancy Tax- Infrastructure	8,514	8,190	8,408	8,642	8,888	9,146	9,420	9,713	10,009	10,306	10,594	2.2%
Documentary Transfer Tax	6,930	7,207	7,396	7,596	7,805	8,025	8,255	8,499	8,736	8,976	9,210	2.9%
Utility Users Tax	13,867	15,970	16,220	16,562	16,929	17,279	17,620	17,965	18,313	18,652	19,000	3.2%
Other Taxes and Fines	2,060	1,859	1,859	1,859	1,859	1,859	1,859	1,859	1,859	1,859	1,863	-1.0%
Subtotal: Taxes	121,385	125,930	131,024	136,073	141,215	146,443	151,805	157,331	162,910	168,581	174,506	3.7%
Charges for Services	19,427	20,135	21,897	22,965	23,887	24,807	25,667	26,500	27,054	27,348	28,094	3.8%
Stanford Fire & Dispatch Services	7,070	7,265	7,601	7,914	8,197	8,467	8,701	8,918	9,132	9,296	9,358	2.8%
Permits and Licenses	8,837	8,876	8,987	9,092	9,182	9,274	9,358	9,440	9,493	9,520	9,593	0.8%
Return on Investments	1,024	1,166	1,197	1,230	1,266	1,304	1,346	1,390	1,432	1,475	1,519	4.0%
Rental Income	15,575	16,059	16,552	17,048	17,559	18,085	18,627	19,185	19,760	20,352	20,962	3.0%
From Other Agencies	688	539	539	539	539	539	539	539	539	539	539	-2.4%
Charges to Other Funds	11,076	11,432	11,376	11,895	12,364	12,890	13,308	13,701	13,931	14,009	14,250	2.6%
Other Revenue	1,169	2,070	2,089	2,069	2,089	2,109	2,130	2,151	2,173	2,195	2,217	6.6%
Total Non-Tax Revenue	64,866	67,542	70,238	72,752	75,082	77,475	79,675	81,825	83,514	84,732	86,532	2.9%
Operating Transfers-In	20,791	19,757	20,376	20,871	21,326	21,875	22,401	22,909	23,475	24,036	24,614	1.7%
BSR Contribution (One-Time)	3,384											
Golf Operating Loss Reserve Liquidation												
Total Source of Funds	$210,426	$213,229	$221,638	$229,695	$237,623	$245,792	$253,881	$262,065	$269,898	$277,349	$285,652	

<u>Sales Tax</u>

Reflected in this Forecast is the continued erosion of brick and mortar receipts that is resulting from steady growth in on-line retail sales and the completion of Stanford Hospital construction projects which will reduce future sales (use) tax revenue. Updated activity and revenue figures for FY 2018 show probable receipts of $29.8 million or flat compared to the prior year due to on-line sales tax reporting adjustments, a significant decline in an irregular sales tax business (art gallery), an upcoming business moving to another city (needing a larger location) and a significant prior period negative (one-time) sales tax adjustment. Sales taxes are expected to rise to $30.8 million in FY 2019, a 3.1 percent growth rate that is consistent with the compound annual growth rate over the past ten years of 3.1 percent and City's sales tax consultant's (MuniServices) forecast of 3.2 percent. Segments contributing to this growth include electronic equipment, restaurants, and auto leases. Department store sales continue to experience declines; should this trend accelerate this holiday season and not offset by online sales, the above forecasted growth may need to be revised downward.

<u>Property Tax</u>

Palo Alto property tax revenues have continued to climb. They have risen from $36.6 million in FY 2016 to $39.4 million in FY 2017 and are now projected to grow to $42.4 million in FY 2018 and to $45.1 million in FY 2019. The increase from FY 2018 to 2019 equals 6.5 percent or $2.8 million. The 6.5 percent growth rate is in sync with the growth rate over the past 10 years. Staff estimates include excess ERAF funds. The first four months of FY 2018 property tax

growth data, both in sales volume and price, are consistent with the prior year. According to a September 30, 2017 posting concerning residential sales values, Zillow states they have gone up 8.3 percent over the past year and predicts they will rise 2.9 percent within the next year.
City staff meets with the County quarterly to obtain the latest data and estimates of "in-the-fiscal-year" tax revenue. Over the past half-dozen years, County data and projections have proven reliable. Staff uses the County information and local assessment data to produce its forecast of property tax revenues.

Transient Occupancy Tax (TOT)
TOT receipts have moderated. Prior to last fiscal year, TOT realized double digit growth due the recovering economy, Palo Alto voters approved the TOT tax increase from 12 percent to 14 percent to fund infrastructure needs, and the Council approved the new tax revenues from the addition of the Hilton hotels, the Clement on El Camino Real, and the upgrade of the Quality Inn into the Nest to be dedicated to Infrastructure as well. Revenues moved upward from $22.4 million in FY 2016 to $23.5 million in FY 2017. TOT for FY 2018 is expected to reach $24.1 million, $0.6 million or 2.6 percent above the FY 2017 actual. Projections for FY 2019 stand at $24.8 million, $0.7 million or 2.6 percent above the estimate for FY 2018. Average occupancy rates through the first three months of this FY are running at 82 percent compared to 84 percent in the same prior year period. During these periods, room rates have increased from $258 to $266 per day or a 3.1 percent increase.

Utility User's Tax (UUT)
The UUT is levied on electric, gas, and water consumption, as well as on telephone usage. In total, FY 2018 revenues are estimated at $15.2 million and in FY 2019 at $15.7 million.
UUT telephone revenues rose from $4.6 million in FY 2016 to $5.5 million in FY 2017. This revenue has realized double digit growth the prior two years despite the voter approved 0.25 percent decrease to a 4.75 percent rate in FY 2015. Without data from providers to understand this steep increase, staff is projecting, somewhat conservatively though almost double the historical average, $5.8 million in FY 2018 and $6.0 million in FY 2019.
UUT revenue from Utility sales came in at $8.7 million in FY 2017 and is anticipated to reach nearly $9.4 million in FY 2018. Rate increases of 12 percent for electric and 4 percent for water are the chief drivers of the revenue growth. This source is expected to rise to $9.7 million in FY 2019.

Documentary Transfer Tax
In FY 2015, documentary transfer taxes peaked at $10.1 million. This milestone was a consequence of several large commercial transactions on Page Mill Road and in the Stanford Research Park. Since that time, transfer taxes have returned to more "normal" levels such as the $7.5 million earned in FY 2017. Given that revenue from July through November this FY is running nearly 2.5 percent above the same period in FY 2017, staff will likely modify the Adopted Budget at midyear from $6.9 million up to $7.1 million. For FY 2019, a slight uptick to $7.3 million is estimated.

As in past years, this revenue source is challenging to forecast since it is highly dependent on sales volume and the mix of commercial and residential sales. The transactions through September (176) are running higher than those through October of last year (166), the total value of these transactions has increased by 2.5 percent. This confirms that the Palo Alto housing market remains stable. In addition, data from this FY and the latter half of last FY indicates that there have been few to no large commercial sales.

The strong performance in property, transient occupancy, and the utility user taxes bode well for FY 2019 and there are no indications of an economic slowdown at this time. However, sales and documentary taxes have weakened. This, along with a federal legislative economic recovery uncertainties, merits close monitoring and a prudent spending plan.

Sources:

1. CCSCE September 2017 "The Bay Area Led the State and Nation in GDP Growth in 2016" Report
2. Bay Area Council Economic Institute October 2017 "Bay Area Job Watch" Report

Rental Income

Rental Income of $16.1 million primarily reflects rent from the City's Enterprise Funds and the Cubberley Community Center and reflects growth of approximately 3 percent from the FY 2018 Adopted Budget of $15.6 million. Growth of 3 percent reflects the current growth in the San Francisco Bay Area CPI growth, which is the typical growth assumed in rental agreements.

Charges for Services & Permits and Licenses

Revenue for Charges for Services and Permits and Licenses of $27.4 million and $8.9 million respectively are primarily driven by the cost to provide services to the community from recreational activities to development activities. Therefore, revenues are significantly impacted by personal service costs. Therefore revenues are modeled to grow in line with the average increase in general salaries and benefits increases included in the Forecast.

Stanford Fire and Dispatch Services: The City has two separate agreements with Stanford University to provide its response and emergency dispatch services. On October 8, 2013, the City received a Notice of Termination letter from Stanford stating its intention to terminate the contract with the City no sooner than one year and no later than two years from the date of notice. Since this time, the City has continued to negotiate with Stanford to settle on a service level and cost. This Forecast currently assumes the revised staffing deployment model as approved by the City Council in October 2017 with growth rates in line with the average growth of the Fire Department expenses over the ten-year forecast.

Charges to Other Funds

The preponderance of revenues in this category is General Fund administrative cost allocation plan charges to the Enterprise and Internal Service Funds. Internal support departments such as Administrative Services, Human Resources, and Council Appointees provide services to enterprise and internal service funds. The costs for these services are recouped through the administrative cost plan charges. The FY 2019 estimate for Charges to Other Funds of $11.4

million reflects growth of 3.2 percent from the FY 2018 Adopted Budget of $11.1 million. This is attributed to the assumed increases in salary and benefits costs. This Forecast includes increases ranging between no growth to 4.3 percent each year based primarily on the modeled increases in expenses such as salaries and benefits and contractual services.

<u>*Operating's Transfers*</u>

Operating Transfers primarily include the equity transfer from the Electric and Gas funds. In accordance with a methodology approved by the City Council in June 2009, the equity transfer is calculated by applying a rate of return on the capital asset base of the Electric and Gas funds. This rate of return is based on PG&E's rate of return on equity as approved by the California Public Utilities Commission (CPUC). Using the Utility Department's projections from the Electric and Gas Five Year Financial Forecasts, as approved by the City Council in spring 2017, the equity transfer from the Electric and Gas funds are projected to increase from $19.3 million in FY 2019 to $24.1 million in FY 2028. Overall Operating Transfers are estimated to decline slightly to $20.6 million in FY 2019, a 0.9 percent reduction from the FY 2018 Adopted Budget level of $20.8 million due to one-time adjustments.

Expense Assumptions

As part of developing the FY 2019 Forecast expenditure budget, the General Fund expense categories have been adjusted by removing FY 2018 Adopted Budget one-time expenses and updating major cost elements such as salary and benefits costs. The tables below display the expense forecast and when compared to the FY 2018 Adopted Budget, growth of 2.6 percent is expected in FY 2019, with growth ranging from 1.5 percent to 3.7 percent throughout the ten year forecast.

TABLE 4: FY 2019-2028 General Fund Expense Forecast

Expenditures & Other Uses	Adopted 2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	CAGR 10 Years
Salary	$ 74,191	$ 76,171	$ 78,361	$ 80,475	$ 82,445	$ 84,343	$ 86,262	$ 88,190	$ 90,141	$ 92,117	$ 94,113	2.4%
Benefits	51,432	54,116	58,512	62,655	66,184	69,592	72,411	74,962	76,546	76,666	78,661	4.3%
Subtotal: Salary & Benefits	125,623	130,287	136,873	143,130	148,629	153,935	158,673	163,153	166,687	168,783	172,774	3.2%
Contract Services	18,984	19,202	19,581	19,899	20,307	20,711	21,129	21,548	21,981	22,427	22,876	1.9%
Supplies & Material	3,544	3,616	3,689	3,763	3,839	3,917	3,996	4,077	4,159	4,243	4,389	2.2%
General Expense	11,933	11,521	11,782	12,087	12,400	12,714	13,036	13,367	14,290	14,665	15,344	2.5%
Debt Service	432	801	569	573	572	573	574	575	570	570	572	2.9%
Rents & Leases	1,567	1,653	1,668	1,684	1,700	1,716	1,733	1,750	1,768	1,786	1,805	1.4%
Facilities & Equipment	517	481	491	501	511	521	531	542	552	563	575	1.1%
Allocated Charges	17,937	18,804	19,306	19,812	20,327	20,858	21,257	21,669	22,021	22,297	22,555	2.3%
Total Non Sal/Ben Before Transfers	54,914	56,078	57,087	58,319	59,655	61,010	62,257	63,528	65,342	66,553	68,116	2.2%
Operating Transfers-Out	4,908	4,404	4,301	4,394	4,493	4,492	4,584	4,678	4,774	4,838	4,904	0.0%
Transfer to Infrastructure - Base	16,467	16,822	17,187	17,561	17,945	18,337	18,739	19,152	19,575	20,009	20,455	2.2%
Transfer to Infrastructure - TOT	8,514	8,190	8,408	8,642	8,888	9,146	9,420	9,713	10,009	10,306	10,594	2.2%
Total Use of Funds	$210,426	$215,780	$223,855	$232,045	$239,609	$246,919	$253,672	$260,223	$266,387	$270,488	$276,842	2.8%

<u>*Salary and Benefits*</u>

The table above (also available as an attachment) depicts the salaries and benefits costs for the next ten years. Over the forecast period, the salaries and benefits costs gradually increase in comparison to the total expenditure budget. In FY 2019, salaries and benefits costs represent approximately 60 percent of the General Fund budget expenditures, increasing to 62 percent of the General Fund budget expenditures by FY 2028.

Salary

Consistent with the City's salary budget methodology for recent budgets, positions are budgeted at the actual rate of pay including benefits as of Fall 2017. Then, by position, salary costs are updated in accordance with applicable Memorandum of Agreements (MOA) between the City and its labor groups and the Management and Professional Personnel and Council Appointees Compensation Plan. It is important to note that as of this Forecast, many Memorandums of Agreement are near the end of their agreement term. The Forecast assumes step increases for employees in applicable positions, including SEIU, IAFF, and PAPOA, as well as merit increases for Management and Professional employees. General wage adjustments of 2% are included in each year of the Forecast for all employees. This is consistent with prior Council direction to use the 2 percent as a forecasting model not as a commitment to future negotiations.

Benefits

Pension: The Forecast includes pension rates from CalPERs as of the June 30, 2016 valuation for the City's Miscellaneous and Safety plans for the first seven years of the Forecast, and modeled by the City's Actuary (Bartel Associates) for the final years of the Forecast noted by an asterisk. This methodology is necessary as CalPERs only provides projected pension rates for the next seven years. CalPERs has implemented some changes with significant impacts to the City's pension liability lowering the discount rate from 7.5 percent to 7.0 percent over three years. The impact of this phase-in is discussed below. Concurrent to the preparation of this report, Bartel Associates is preparing alternative scenarios that assume alternative discount rate scenarios and the estimated impact to the City. It is anticipated that these alternative scenarios will be detailed in a subsequent memorandum provided at places for the December 5, 2017 Finance Committee meeting. As shown in the table below, the FY 2019 pension contribution rates for the Miscellaneous and Safety plans will increase from FY 2018. It should be noted that the FY 2019 forecast does presume that employees will pick up 1% of the employer pension cost for miscellaneous plan members, and that safety plan members will pick up 3% of the employer pension cost.

For the miscellaneous plan, the projected pension contribution rate will increase 2.4 percent from 30.2 percent in FY 2018 to 32.6 percent in FY 2019. This marks the beginning of the phase-in of the lower discount rate, which continues in the next year, as the percentage increases another 3.3 percent, from 32.6 percent to 35.9 percent, for the Miscellaneous plan. Subsequent increases continue through FY 2025, to a high of 44.0 percent, as various factors are amortized according to the CalPERs schedule. Based on the amortization schedule and other factors, Bartel Associates does forecast a slight dip in pension costs for the Miscellaneous plan beginning in FY 2026 at the discount rate of 7.0%.

The Safety plan follows a similar trend line, with the increases plateauing in the out years of the Forecast. Initial increases of almost six percent year over year, from 49.7 percent in FY 2018 to 55.6 percent in FY 2019 to 61.5 percent in FY 2020, reflect the phase-in of the 7.0 percent discount rate instead of the previous 7.5 percent discount rate. This growth stabilizes in the out years of the Forecast, but does continue to increase.

FY 2018-2028 Retirement Rates

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Miscellaneous	30.2	32.6	35.9	38.7	40.9	42.6	43.5	44.0	42.0*	38.4*	38.3*
Miscellaneous EE Cost Share	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*
Safety	49.7	55.6	61.5	66.3	70.3	73.5	75.1	76.2	77.5*	78.0*	78.2*
Safety EE Cost Share	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*

As additional information is brought forward by Bartel Associates regarding alternative discount rate modeling, the City will be able to have substantive conversations about its long term pension strategy. The CalPERs board is also currently scheduled to discuss items that will continue to affect the City of Palo Alto, including the Quadrennial Asset Liability Management review. As direction from these conversations is issued from the CalPERs board it will be incorporated into subsequent analysis as appropriate. For a brief summary of these initiatives the Board is taking, the California Association of Counties issued this bulletin: http://www.counties.org/csac-bulletin-article/calpers-considers-changes-impacting-employer-contributions. Although it references Counties, it is equally pertinent and the same for Cities.

Retiree Medical: Retiree Medical is based on the most recent actuarial study prepared by Bartel Associates, which is done every two years. The last actuarial study was done in FY 2016 and the City is currently undergoing an update to this study for FY 2018. The table below details the cost to the General Fund for every year based on that actuarial study, excluding the implied subsidy. Consistent with City Council direction, as recommended by staff, the City continues to budget for the full payment of the Actuarial Determined Contribution (ADC) for retiree healthcare. Since CalPERs blends active employees with pre-Medicare retirees and charges the same medical premium, even though younger employees on average consume less healthcare and thereby subsidize older employees and retirees, there is an implied subsidy that effectively lowers the funding necessary to meet the ADC.

FY 2018- 2026 Retiree Medical General Fund Contributions

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
General Fund	9.8M	10.1M	10.4M	10.7M	10.9M	11.3M	11.7M	12.0M	12.5M

Bartel Associates is currently working on the next actuarial study for retiree healthcare which is anticipated to be brought before the Finance Committee in the March/April 2018 timeframe. That actuarial study will inform the development of the FY 2019 Proposed Operating Budget that will be reviewed by the Finance Committee in May 2018. The Committee will have opportunities to review the various assumptions used to determine the benefits and its costs.

Unlike the pension trust, the Retiree Medical Trust has options that the City can choose from to determine how quickly it funds its obligations.

<u>Healthcare:</u> Consistent with the most recent labor agreements between the City and its bargaining units in the General Fund, the City's contribution amounts towards medical costs for employees are based on a flat rate contribution from the City, with the employee contributing towards the remaining medical plan premium. This Forecast assumes an inflator of four percent on healthcare costs to the City over the term of the Forecast, as well as four percent for dental and vision costs through the Forecast.

<u>Contract Services</u>

This FY 2019 forecast assumes $19.2 million in contract services, a 1.1 percent increase from the FY 2018 Adopted Budget of $19.0 million. This increase includes important contract increases for contractual obligations already approved by the City Council, including the third year of street trees and the latest janitorial services contract. Throughout the Forecast, a 2.0 percent annual escalator was modeled to capture anticipated growth in this expense category. Expenses associated with anticipated contracts, such as to operate the newly renovated golf course, that are still pending have not been incorporated into the Forecast.

<u>Supplies and Materials</u>

The FY 2018 Adopted Budget for the General Fund included $3.5 million for Supplies and Materials, which is modeled to grow modestly to $3.6 million in FY 2019. An escalator of 2.0 percent was applied to this expense category to capture anticipated growth.

<u>General Expense</u>

This category includes costs for travel and meetings, telephone and non-city utilities, contingency accounts, bank card service charges, and subsidies and grants provided through the Human Services Resource Allocation Program (HSRAP). The FY 2018 Adopted Budget of $6.0 million included one-time costs for a parking study ($150,000), Fire Department Hiring and Recruitment Costs ($50,000), Labor Negotiation Funding ($100,000), matching funds for a San Mateo County Transit District Grant ($22,600) and a reserve for anticipated operating needs in FY 2018 ($500,000). The FY 2019 forecast for this category excludes those items, partially offset by an increase of 2.0 percent for modeling purposes; a decrease to $5.4 million is anticipated in FY 2019. Increases of 2.0 percent were modeled in years beyond 2019 in the Forecast. These figures do not include General Expenses for the Cubberley Lease, which is explained in further detail below.

<u>General Expense - Cubberley Lease:</u> In FY 2015, the City and Palo Alto Unified School District (PAUSD) agreed to an extension of the Cubberley Lease by five years starting January 1, 2015. As part of the lease agreement, the City Council approved creation of a fund for Cubberley infrastructure improvements. Based on the new lease, $1.9 million is transferred to the Cubberley Property Infrastructure Fund annually for future infrastructure improvements. Therefore, the $1.9 million is classified as an Operating Transfer Out which is discussed in

further detail below. With the Cubberley infrastructure funds set aside, the FY 2019 Budget includes $6.1 million for Cubberley Lease payments. In accordance with the lease agreement, the Forecast assumes a 3.0 percent annual CPI increase for the lease payments to the PAUSD for the Cubberley facility. The lease agreement period is five years and ends on December 30, 2020; however, for planning purposes in this Forecast, it is assumed that the agreement will continue during the entire Forecast period.

Rents & Leases
The Rents & Leases expense category for FY 2019 is estimated to increase by 5.5 percent. from $1.57 million in FY 2018 to $1.65 million in FY 2019. This growth slows significantly in FY 2020 and beyond to approximately 1.0 percent. The uptick from FY 2018 to FY 2019 is primarily attributable to the increase for the lease for the Development Services Department at its new location at 526 Bryant St ($74,000). In both FY 2019 and throughout the Forecast, an increase of 3.0 percent is modeled where appropriate to capture anticipated increases in leases held by the City.

Facilities and Equipment
The Facilities and Equipment expense category is expected to experience a slight decrease of $36,000, from $517,000 to $481,000, from FY 2018 to FY 2019. This is the result of a one-time expense of $45,000 in FY 2018 to buy two new gurneys for the fire department, partially offset by a 2.0 percent increase to this expense category. Growth of 2.0 percent is modeled in later years to capture anticipated increases.

Allocated Charges
Allocated Charges represent expense allocations by the City's enterprise and internal service funds for services and products they provide to General Fund departments. The FY 2018 Adopted Budget for the General Fund included $17.9 million for these expenses, including utilities usage, general liability insurance, technology costs, vehicle equipment and replacement costs and other charges. The allocated charges for technology costs in FY 2018 were subsidized on a one-time basis by the use of excess fund balance in the technology fund, which is not anticipated to continue in FY 2019. The FY 2019 charges of the Forecast updates the revenues and expenses for these various allocations based on the information available at the time of the Forecast development. FY 2019 is anticipated to experience an increase of 4.8 percent to a total of $18.8 million. This increase is driven primarily by the restoration of the full allocation of costs associated with the technology fund.

Operating Transfers Out
Operating Transfers Out include transfers from the General Fund to the Debt Service Fund, to the Technology Fund, and to the Airport Fund. The transfer level for the FY 2018 Adopted Budget is $4.9 million, which included a one-time transfer of $480,000 to the Technology Fund for the Radio Infrastructure replacement capital project. In FY 2019, the Operating Transfers Out are anticipated to be $4.4 million, decreasing further to $4.3 million in FY 2020 before

starting to increase slightly in FY 2021 for the duration of the Forecast. The reason for the decrease in FY 2020 is the elimination of a $200,000 transfer to the Airport Fund.

Transfer to Infrastructure

In FY 2018, the adopted General Fund transfer to the Capital Improvement Fund is $24.9 million, which includes the base transfer of $16.5 million and $8.5 million from additional Transient Occupancy Tax (TOT) proceeds generated through a two percentage point TOT increase as well as through the addition of new hotels. Incremental TOT increases from the rate increase and new hotels are dedicated to the Capital Improvement Fund to support the Infrastructure Plan, consistent with City Council direction. This category also includes the $1.9 million transfer to the Cubberley Property Infrastructure Fund, described earlier in this document. This transfer remains flat in all out-years of this Forecast.

The transfers to the Capital Improvement Fund are anticipated to remain consistent with the FY 2018 Adopted Budget for the next few years, with slight increases annually over the forecast period. Both the TOT and base transfers to the Capital Improvement Fund are anticipated to increase by approximately 2.6 percent each year of the forecast period; however, due to lower TOT revenue collected in FY 2017, the estimated TOT collection and transfer in FY 2019 is approximately $0.7 million lower than the amount initially forecast for FY 2019 in the adopted FY 2018-2023 Capital Improvement Program.

Budget Stabilization Reserve

The City's Budget Stabilization Reserve (BSR) serves as the primary General Fund reserve. By policy, the BSR is maintained in the range of 15 to 20 percent of General Fund operating expenditures, with a target of 18.5 percent. Any reduction to the reserve below 15 percent requires City Council approval. At the discretion of the City Manager, any BSR balance above 18.5 percent may be transferred to the Infrastructure Reserve (IR), which was established to provide funding for maintenance and rehabilitation of the City’s capital assets. The BSR is used to fund unanticipated one-time costs as opposed to ongoing or recurring operating expenditures. The City's intent is to fund ongoing programs and services with ongoing dollars. This forecast assumes that the BSR meets or exceeds the Council approved minimum of 15 percent of anticipated expenses in any given year.

The City has held a long-standing practice of maintaining a BSR balance of no less than 15 percent of General Fund operating expenses. At the close of Fiscal Year 2017, the BSR is anticipated to remain slightly above the 18.5 percent target at 18.7 percent or $39.3 million. Establishing sound fiscal reserve policies have been a strong factor in the City being rated AAA by rating agencies.

Assumptions NOT Included in Forecast

It should be noted that this Forecast does not include a number of potential impacts to the FY 2018 projected budget and the out years of the Forecast. Below is a list of a number of items not included (not intended to be a comprehensive list or in any priority order).

Labor negotiations: Four significant labor contracts expire June 30, 2018, Palo Alto Police Officers Association (PAPOA), the International Association of Fire Fighters (IAFF), Fire Chiefs Association (FCA), and Police Management Association (PAPMA); with the Service Employees International Union (SEIU) expiring by the conclusion of calendar year 2018. Any agreements reached between the City's bargaining units will need to be incorporated into future budgets and forecasts, as applicable.

Capital Infrastructure Plan: As referenced earlier, the June 2014 Council approved Infrastructure Plan of $125.8 million in projects was based on construction and design costs with data from 2012. As construction costs have increased and the City is required to pay prevailing wages, the Plan is not sufficiently funded. Current estimates cited in the FY 2018 Adopted Capital Budget anticipate this Plan to cost $196 million (excluding salaries and benefits and public art costs). In addition, this Forecast does not assume ongoing operating impacts as a result of the Infrastructure Plan, but future forecasts will include operating cost impacts as the specific projects are designed.

Parks Master Plan: the Parks Master Plan was finalized in 2017, however, when approved it identified a need to develop a funding strategy. As such, this Forecast does not yet contemplate the necessary investments to execute this plan.

Junior Museum and Zoo: In November 2014, the City Council directed staff to negotiate a capital lease with the Friends of the Junior Museum and Zoo for the reconstruction of the Junior Museum and Zoo. This Forecast does not assume any additional capital or ongoing operating costs related to the renovated building and changes in programming as a result of the new building.

Other Capital Improvement Projects: A number of both assets and planned projects remain on the horizon, however, none have resulted in formalized capital improvement projects. Major improvements such as update to the animal care shelter, rail grade separation, the former ITT site, Foothills Park 7.7 acres, and the Boulware park potential acquisition are not factored into the Forecast.

City owned assets operated by non-profit organizations: This Forecast does not include any additional capital investments for the Avenidas Senior Center, the Palo Alto History Museum, the Ventura Child Care Center, the Junior Museum and Zoo, or the Scout Building.

Cubberley Community Center Master Plan: The City Council has approved the start of the Cubberley Community Center Master Plan process, however, costs in excess of the dedicated

Cubberley infrastructure funding as agreed to between the PAUSD and the City are not assumed in this Forecast. In addition, the lease agreement with the PAUSD is set to expire in December 2019.

Loans for special projects: From time to time the City's General Fund will assist other City operations with modest cash flow loans to bridge fiscal years. For example, the City has provided over $3 million in loans to the Airport Fund as it works to secure significant grant funding from the Federal Aviation Administration (FAA) for capital improvement costs. It is anticipated that other projects such as parking initiatives may need a similar type of short term loan in order to fund the capital costs necessary to implement certain initiatives.

Cadillac Healthcare Federal Excise Tax: A 40 percent excise tax will be imposed on the value of health insurance benefits that exceed a certain threshold. CalPERs may be able to design healthcare premiums to stay below the threshold and discussions are in the preliminary stage. Congress is also discussing possibly delaying or modifying this tax. If the tax is applicable, the City may have to pay the tax.

CalPERs City contribution increases: Currently, CalPERS assumes an annual investment return of 7.0 percent. Further, the CalPERS Board approved a gradual de-risking strategy, which is intended to reduce the assumed investment return to 6.5% over the next 20 years in the years when CalPERS earns an investment on its portfolio in excess of 11.5%. This Forecast assumes that CalPERS will meet the annual investment return. However, staff and the Finance Committee are actively engaged in a conversation about investment return estimates for the next ten years and strategies to supplement the current annual bill CalPERs provides the City through mechanisms like providing additional funding to the City's irrevocable Section 115 Pension Trust. This Forecast does not assume any additional level of funding above and beyond the annual CalPERS contribution pending further Council direction.

Transient Occupancy Tax increases: The City is in the process of reviewing plans for an additional hotels and increase in number of rooms. This Forecast does not assume any potential Transient Occupancy Tax increases from any new hotels.

Tax revenue alignment with updated Comprehensive Plan: The City Council recently completed updating its Comprehensive Plan, including the potential fiscal impact of various land use scenarios. The fiscal impact of this plan and various land use scenarios are not factored into this Forecast.

Changes in the local, regional, and national economy: This Forecast assumes a steadily growing local economy. Any changes may have positive or negative impacts on economically sensitive revenues such as Sales Tax and the Transient Occupancy Tax.

City's Pension Discussions Continued

Concurrent with the development of the FY 2019 Long Range Financial Report, and the start of the FY 2019 annual budget process, the Finance Committee has been actively engaged in a discussion with staff about the growing liabilities associated with pension benefits as directed by the City Council in the adoption of the FY 2018 budget. To date, the City has made strides to address these liabilities in a proactive manner both financially and through detailed discussion on the variables that impact the calculation of liability levels.

The City Council took proactive steps in the last two years by 1) establishing a cost share with employees for additional pick-up of the employer portion of pension contributions and 2) establishing an irrevocable Section 115 pension trust fund of over $3 million. The Finance Committee and staff have held two public discussions on September 19, 2017 and October 17, 2017 discussing the growing pension liability, the variables that impact it, and how we got here. Most recently at the October 2017 meeting, the Finance Committee provided clear direction for alternative assumptions to be included in the City's Long Range Financial Report in addition to the ongoing referrals from the September 2017 meeting. All parties agreed that a series of meetings will be necessary to address these assumptions. Once the assumptions are determined, the Committee will take up potential solutions and implications. Below is a summary of the requested referrals and the status of them through conversation to date:

<u>*September 17, 2017:*</u>

1. Develop an easily understood explanation for a general audience articulating the City's pension discussion and variables that may impact it
   - *Staff anticipate developing and refining this communication framework upon further clarification of the desired variable assumptions in determining the City's pension liability.*
2. Provide total cost per employee assuming an alternative discount rate
   - *Staff provided this chart as part of the October 17, 2017 meeting with the current phased in reduction to a 6.2 percent discount rate and plans to continue to provide similar views as the Committee and Council continue discussions surrounding alternative assumptions.*
3. How best can the City utilize expert resources to further inform this pension discussion
   - *Staff are currently in discussions with Stanford University on data sharing and calculation modeling*
4. Reexamine the FY 2018 Adopted Budget and adjust the General Fund expenses to reflect a six (6) percent discount rate for the retirement system and compare this adjusted total expense to the Adopted revenues
   - *Staff provided this at the October 17, 2017 meeting*
5. Provide the potential payment schedule should the City choose to accelerate the amortization period (also known as "fresh start" or "refinancing the mortgage")
   - *Staff provided this as displayed in the June 30, 2016 CalPERs report and discussed at the October 2017 Finance Committee meeting. It is anticipated that alternative revisions to these schedules based on potentially different assumed discount rates*

may be necessary in the future as the Committee refines alternative liability assumptions.

6. Provide employee compensation in tabular form including salary, benefits, unfunded pension liability, unfunded retiree medical liability for each scenario
    - Pending, staff anticipates brining this back as part of further discussions surrounding

October 17, 2017

Provide three alternative scenarios in the Long Range Financial Report: (1) Alternative with a 7.0 percent discount rate but without the current phase-in schedule as proposed by CalPERs, (2) Alternative with a 6.2 percent discount rate without any phase in, and (3) in consultation with the City Attorney's Office, review and report back on the feasibility of data sharing as requested by Stanford University to bring forward an alternative with a further reduced discount rate as modeled by Stanford.

In addition, the Committee outlined clear next steps in the continued pension discussions. To finalize the recommended assumptions for the calculation of the City's Pension liability and provide guidance to the City Manager on potential additional pension contribution funding levels desired to be included in the FY 2019 budget process. Subsequent to identifying the Council's recommended assumptions, then being to discuss potential long standing financial policies to address the pension liability to ensure the City is well positioned to fulfill the benefits afforded to past, present, and future employees.

Conclusion

The FY 2019 Long Range Financial Forecast puts in perspective the growing desires and the limited resources available to complete all in an expeditious fashion. It is a report of caution as the City and its staff grapple with needing to prioritize resources and projects in order to maintain the financial stability the City has historically maintained. A much more focused approach to services and investments will be necessary. As the Committee and Council continue to discuss major projects such as pension, infrastructure, grade separation, a constant eye on thinking outside of the box and managing expectations will be key. The pension obligation have not had a crowd out impact to City services to date, but prioritization of needs and staying within the resources available will be key to having a sound financial future.

RESOURCE IMPACT

Financial implications from this report and input from the Finance Committee will be considered in the City Manager's development of the Proposed Fiscal Year 2019 budget.

ENVIRONMENTAL IMPACT

This report is not a project for the purposes of the California Environmental Quality Act. Environmental review is not required.

Attachments:

- Attachment A: Long Range Financial Report Revenue Tables
- Attachment B: Long Range Financial Report Expense Tables

FY 2019-2028 Long Range Financial Forecast Revenue Table

Revenue & Other Sources	Adopted 2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	CAGR 10 Years
Sales Taxes	$31,458	$31,097	$32,217	$33,128	$34,026	$34,931	$35,842	$36,742	$37,598	$38,418	$39,379	2.3%
Property Taxes	41,927	45,120	47,996	50,890	53,816	56,792	59,846	63,000	66,245	69,624	73,133	5.7%
Transient Occupancy Tax- General Purpose	16,629	16,487	16,928	17,396	17,892	18,411	18,963	19,553	20,150	20,746	21,327	2.5%
Transient Occupancy Tax- Infrastructure	8,514	8,190	8,408	8,642	8,888	9,146	9,420	9,713	10,009	10,306	10,594	2.2%
Documentary Transfer Tax	6,930	7,207	7,396	7,596	7,805	8,025	8,255	8,499	8,736	8,976	9,210	2.9%
Utility Users Tax	13,867	15,970	16,220	16,562	16,929	17,279	17,620	17,965	18,313	18,652	19,000	3.2%
Other Taxes and Fines	2,060	1,859	1,859	1,859	1,859	1,859	1,859	1,859	1,859	1,859	1,863	-1.0%
Subtotal: Taxes	121,385	125,930	131,024	136,073	141,215	146,443	151,805	157,331	162,910	168,581	174,506	3.7%
Charges for Services	19,427	20,135	21,897	22,965	23,887	24,807	25,667	26,500	27,054	27,348	28,094	3.8%
Stanford Fire & Dispatch Services	7,070	7,265	7,601	7,914	8,197	8,467	8,701	8,918	9,132	9,296	9,358	2.8%
Permits and Licenses	8,837	8,876	8,987	9,092	9,182	9,274	9,358	9,440	9,493	9,520	9,593	0.8%
Return on Investments	1,024	1,166	1,197	1,230	1,266	1,304	1,346	1,390	1,432	1,475	1,519	4.0%
Rental Income	15,575	16,059	16,552	17,048	17,559	18,085	18,627	19,185	19,760	20,352	20,962	3.0%
From Other Agencies	688	539	539	539	539	539	539	539	539	539	539	-2.4%
Charges to Other Funds	11,076	11,432	11,376	11,895	12,364	12,890	13,308	13,701	13,931	14,009	14,250	2.6%
Other Revenue	1,169	2,070	2,089	2,069	2,089	2,109	2,130	2,151	2,173	2,195	2,217	6.6%
Total Non-Tax Revenue	64,866	67,542	70,238	72,752	75,082	77,475	79,675	81,825	83,514	84,732	86,532	2.9%
Operating Transfers-In	20,791	19,757	20,376	20,871	21,326	21,875	22,401	22,909	23,475	24,036	24,614	1.7%
BSR Contribution (One-Time)	3,384											
Golf Operating Loss Reserve Liquidation												
Total Source of Funds	$210,426	$213,229	$221,638	$229,695	$237,623	$245,792	$253,881	$262,065	$269,898	$277,349	$285,652	

Revenue & Other Sources	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Sales Taxes	-1.1%	3.6%	2.8%	2.7%	2.7%	2.6%	2.5%	2.3%	2.2%	2.5%
Property Taxes	7.6%	6.4%	6.0%	5.7%	5.5%	5.4%	5.3%	5.2%	5.1%	5.0%
Transient Occupancy Tax - General Purpose	-0.9%	2.7%	2.8%	2.9%	2.9%	3.0%	3.1%	3.1%	3.0%	2.8%
Transient Occupancy Tax - Infrastructure	-3.8%	2.7%	2.8%	2.8%	2.9%	3.0%	3.1%	3.0%	3.0%	2.8%
Documentary Transfer Tax	4.0%	2.6%	2.7%	2.8%	2.8%	2.9%	3.0%	2.8%	2.7%	2.6%
Utility Users Tax	15.2%	1.6%	2.1%	2.2%	2.1%	2.0%	2.0%	1.9%	1.9%	1.9%
Other Taxes and Fines	-9.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%
Subtotal: Taxes	3.7%	4.0%	3.9%	3.8%	3.7%	3.7%	3.6%	3.5%	3.5%	3.5%
Charges for Services	3.6%	8.8%	4.9%	4.0%	3.9%	3.5%	3.2%	2.1%	1.1%	2.7%
Stanford Fire & Dispatch Services	3.2%	4.6%	4.1%	3.6%	3.3%	2.8%	2.5%	2.4%	1.8%	0.7%
Permits and Licenses	0.4%	1.3%	1.2%	1.0%	1.0%	0.9%	0.9%	0.6%	0.3%	0.8%
Return on Investments	13.9%	2.7%	2.8%	2.9%	3.0%	3.2%	3.3%	3.0%	3.0%	3.0%
Rental Income	3.1%	3.1%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
From Other Agencies	-21.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Charges to Other Funds	3.2%	-0.5%	4.6%	3.9%	4.3%	3.2%	3.0%	1.7%	0.6%	1.7%
Other Revenue	77.1%	0.9%	-1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Total Non-Tax Revenue	4.2%	4.0%	3.6%	3.2%	3.2%	2.8%	2.7%	2.1%	1.5%	2.1%
Operating Transfers-In	-5.0%	3.1%	2.4%	2.2%	2.6%	2.4%	2.3%	2.5%	2.4%	2.4%
BSR Contribution (One-Time)										
Golf Operating Loss Reserve Liquidation										
Total Source of Funds	1.4%	3.9%	3.6%	3.5%	3.4%	3.3%	3.2%	3.0%	2.8%	3.0%

FY 2019-2028 General Fund Long Range Financial Forecast Expense Table

ATTACHMENT B

Expenditures & Other Uses	Adopted 2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	CAGR 10 Years
Salary	$ 74,191	$ 76,171	$ 78,361	$ 80,475	$ 82,445	$ 84,343	$ 86,262	$ 88,190	$ 90,141	$ 92,117	$ 94,113	2.4%
Benefits	51,432	54,116	58,512	62,655	66,184	69,592	72,411	74,962	76,546	76,666	78,661	4.3%
Subtotal: Salary & Benefits	125,623	130,287	136,873	143,130	148,629	153,935	158,673	163,153	166,687	168,783	172,774	3.2%
Contract Services	18,984	19,202	19,581	19,899	20,307	20,711	21,129	21,548	21,981	22,427	22,876	1.9%
Supplies & Material	3,544	3,616	3,689	3,763	3,839	3,917	3,996	4,077	4,159	4,243	4,389	2.2%
General Expense	11,933	11,521	11,782	12,087	12,400	12,714	13,036	13,367	14,290	14,665	15,344	2.5%
Debt Service	432	801	569	573	572	573	574	575	570	570	572	2.9%
Rents & Leases	1,567	1,653	1,668	1,684	1,700	1,716	1,733	1,750	1,768	1,786	1,805	1.4%
Facilities & Equipment	517	481	491	501	511	521	531	542	552	563	575	1.1%
Allocated Charges	17,937	18,804	19,306	19,812	20,327	20,858	21,257	21,669	22,021	22,297	22,555	2.3%
Total Non Sal/Ben Before Transfers	54,914	56,078	57,087	58,319	59,655	61,010	62,257	63,528	65,342	66,553	68,116	2.2%
Operating Transfers-Out	4,908	4,404	4,301	4,394	4,493	4,492	4,584	4,678	4,774	4,838	4,904	0.0%
Transfer to Infrastructure - Base	16,467	16,822	17,187	17,561	17,945	18,337	18,739	19,152	19,575	20,009	20,455	2.2%
Transfer to Infrastructure - TOT	8,514	8,190	8,408	8,642	8,888	9,146	9,420	9,713	10,009	10,306	10,594	2.2%
Total Use of Funds	$210,426	$215,780	$223,855	$232,045	$239,609	$246,919	$253,672	$260,223	$266,387	$270,488	$276,842	2.8%

Expenditures & Other Uses	Adopted 2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Salary	N/A	2.7%	2.9%	2.7%	2.4%	2.3%	2.3%	2.2%	2.2%	2.2%	2.2%
Benefits	N/A	5.2%	8.1%	7.1%	5.6%	5.1%	4.1%	3.5%	2.1%	0.2%	2.6%
Subtotal: Salary & Benefits	N/A	3.7%	5.1%	4.6%	3.8%	3.6%	3.1%	2.8%	2.2%	1.3%	2.4%
Contract Services	N/A	1.1%	2.0%	1.6%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Supplies & Material	N/A	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	3.4%
General Expense	N/A	-3.5%	2.3%	2.6%	2.6%	2.5%	2.5%	2.5%	6.9%	2.6%	4.6%
Debt Service	N/A	85.3%	-28.9%	0.7%	-0.2%	0.2%	0.2%	0.1%	-0.8%	0.0%	0.4%
Rents & Leases	N/A	5.5%	0.9%	0.9%	0.9%	1.0%	1.0%	1.0%	1.0%	1.0%	1.1%
Facilities & Equipment	N/A	-6.9%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Allocated Charges	N/A	4.8%	2.7%	2.6%	2.6%	2.6%	1.9%	1.9%	1.6%	1.3%	1.2%
Total Non Sal/Ben Before Transfers	N/A	2.1%	1.8%	2.2%	2.3%	2.3%	2.0%	2.0%	2.9%	1.9%	2.3%
Operating Transfers-Out	N/A	-10.3%	-2.3%	2.2%	2.3%	0.0%	2.1%	2.1%	2.1%	1.3%	1.4%
Transfer to Infrastructure - Base	N/A	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%
Transfer to Infrastructure - TOT	N/A	-3.8%	2.7%	2.8%	2.8%	2.9%	3.0%	3.1%	3.0%	3.0%	2.8%
Total Use of Funds	N/A	2.5%	3.7%	3.7%	3.3%	3.1%	2.7%	2.6%	2.4%	1.5%	2.3%