



City of Palo Alto

Finance Committee Staff Report

(ID # 10727)

Report Type: Action Items

Meeting Date: 12/3/2019

Council Priority: Fiscal Sustainability

Summary Title: FY 2021 - FY 2030 Long Range Financial Forecast

Title: Review and recommend that Council Accept FY 2021 - FY 2030 Long Range Financial Forecast and FY 2021 Budget Development Guidelines

From: City Manager

Lead Department: Administrative Services

RECOMMENDATION

Staff recommends that the Finance Committee review and recommend that the City Council accept the Fiscal Year 2021 to 2030 General Fund Long Range Financial Forecast (Base Case), and the annual Budget Development Guiding Principles (Attachment C).

EXECUTIVE SUMMARY

The Fiscal Year (FY) 2021 to 2030 General Fund Long Range Financial Forecast (LRFF), marks the beginning of the FY 2021 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 three alternative financial models. The current Base Case financial forecast projects a surplus in the General Fund of \$1.1 million in FY 2021, followed by annual gaps where expenses outpace forecasted revenue growth ranging from a deficit of \$2.4 million in FY 2023, that tapers to \$1.1 million in FY 2025, before reaching significant surpluses in the final years of the forecast. The Base Case provides a preliminary 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.

City staff will continue to review and refine these projections to establish the FY 2021 Base Budget and provide direction to Departments on the FY 2021 budget process. Based on this Forecast, it is anticipated that guidance to prioritize spending will again be necessary to ensure continued financial stability. More detailed guidelines to inform the development of the FY 2021 Budget are discussed at the end of this document (Attachment C).

Looking forward, the City continues to face several pressures from the 2014 Council approved Infrastructure Plan (including a new public safety building) to the growing costs of pension

benefits and labor costs due to the current labor market and cost of living around Palo Alto. The policy direction from the City Council in November 2018 regarding proactively addressing the pension obligations, including the direction to assume a lower discount rate in calculating pension costs, is contained in the Base Case forecast model. If this direction were excluded from the model, the General Fund would maintain surpluses throughout the forecast, as seen in alternative scenario A. This scenario reflects the tough choices and the hard work of the City over the past few years to structurally balance the budget. The City will continue to face critical choices in order to balance future financial challenges and any unforeseen program needs or an economic downturn, plus any addition proactive funding contributions to pension liabilities. The review of this Long Range Financial Forecast and the planning that follows it 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:

- Discussion of the current financial climate of the United States to the local economy of the City of Palo Alto
- Base Case for the Long Range Financial Forecast including Revenue and Expense modeling assumptions beginning in FY 2021
 - o Current financial status of the General Fund as of the FY 2020 Adopted Budget, and a brief discussion of revised FY 2020 revenue estimates by category
- Three Alternative Scenarios including a) CalPERS' Pension Rates, b) an economic downturn (modeled beginning partway through FY 2021 of the forecast), and c) the impact of an additional 1% in salary increases for salary (only beginning once bargaining units past the term of current agreements)
- FY 2021 Budget Development Guidelines to inform the Budget process (Attachment C)

BACKGROUND

Annually the Office of Management and Budget produces a ten-year General Fund Long Range Financial Forecast (LRFF). The LRFF reflects staff's best estimates on the projected revenues and expenditures over the next ten years based on the information that is currently available. It is important to note that the LRFF is a planning document and is separate and distinct from the development of the City's annual Operating and Capital Budgets. There are assumptions and parameters modeled in the LRFF, but these assumptions are revised and refined as more information becomes available through the budget development process.

The LRFF contains a comprehensive review of the costs to provide current City Council approved service levels, including current contracts, updates to salaries and benefits based on the current population of employees, and the current labor contracts in effect. Important to note in this LRFF is the ongoing budget adjustments that were approved in the FY 2020 Adopted Budget. Many approved budget adjustments assumed either a phase in period or the identification of the ongoing reduction later; this LRFF assumes that those adjustments materialized as planned in the FY 2020 Adopted Budget. The LRFF also reviews the status of the current economy and various economically sensitive revenues such as Sales Tax, Documentary

Transfer Tax, Property Tax, and Transient Occupancy Tax to explain key trends in those areas. This Forecast allows staff and City Council to look at both the short-term and long-term financial status of current service levels in the General Fund to inform daily policy decisions and evaluate long-term goals and ongoing challenges.

Since the great recession, the City has approved many strategies to mitigate rising costs, especially the rising increase in salaries and benefits. Strategies that have been used include: a second pension tier, employees sharing in health plan cost increases, and shifting from employer-paid member contributions to employee pick-up of a portion of the employer share for pensions. Since 2016, rounds of negotiations with bargaining units have included employees not only paying their full portion of CalPERS contributions but also beginning a cost-sharing program wherein employees contribute a certain percentage of the City's required employer pension contribution. These strategies have helped to create the financial capacity to invest proactively in the City's Pension Trust, supporting the City's commitments to employees while ensuring fiscal sustainability.

The City Council continues to invest in the community and approved significant improvements in June 2014 with the Infrastructure Plan (IP) in the original amount of \$125.8 million. However, the nine projects identified in the plan are estimated to cost substantially more due to updated designs, rising construction costs, and minimum and prevailing wage requirements. In addition, a tenth project was approved by the Council to be added to the IP in the FY 2020 Adopted Budget. These changes have led to an updated cost of approximately \$280.6 million for the IP projects. Capital projects are one example of known items that are not fully included in this Forecast. Both the capital cost to build and the operating and maintenance costs once projects are completed and the new facilities are actively used, are estimated with the most current information available. These estimates will be refined during the budget process as more information becomes available and the projects are closer to award and completion.

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". New analyses and data generation demands require 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 fiscal sustainability of these needs.

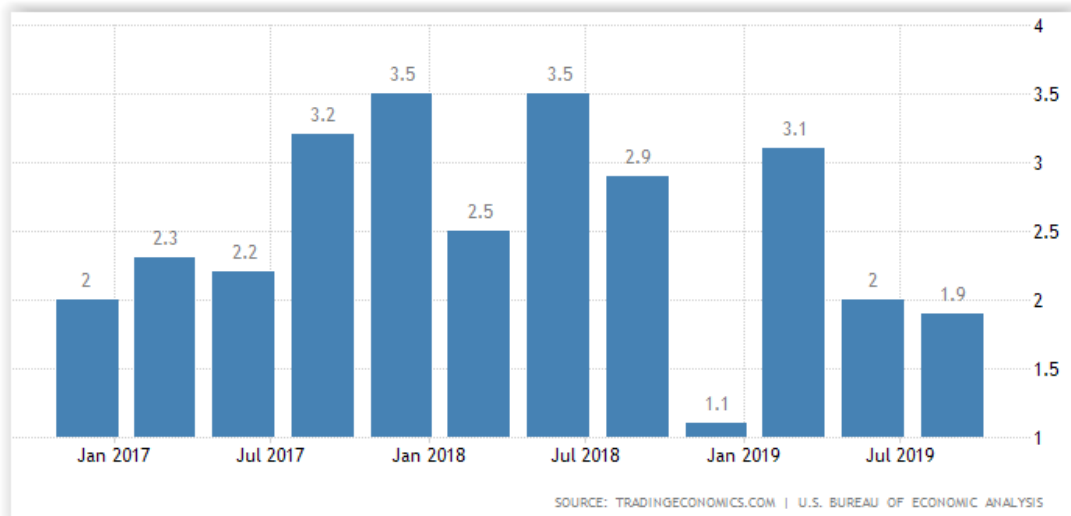
The Economy

National, state, regional and local economic indicators are mixed. Unemployment remains low, job growth is slowing down, and the trade war is negatively showing up in the economic data.

U.S. economy's national gross domestic product (GDP) grew by an annualized 1.9 percent in the third (calendar) quarter of 2019, with the next 12-month GDP growth outlook projected to be less than 2 percent. The national consumer price index (CPI), as of September 2019, has grown

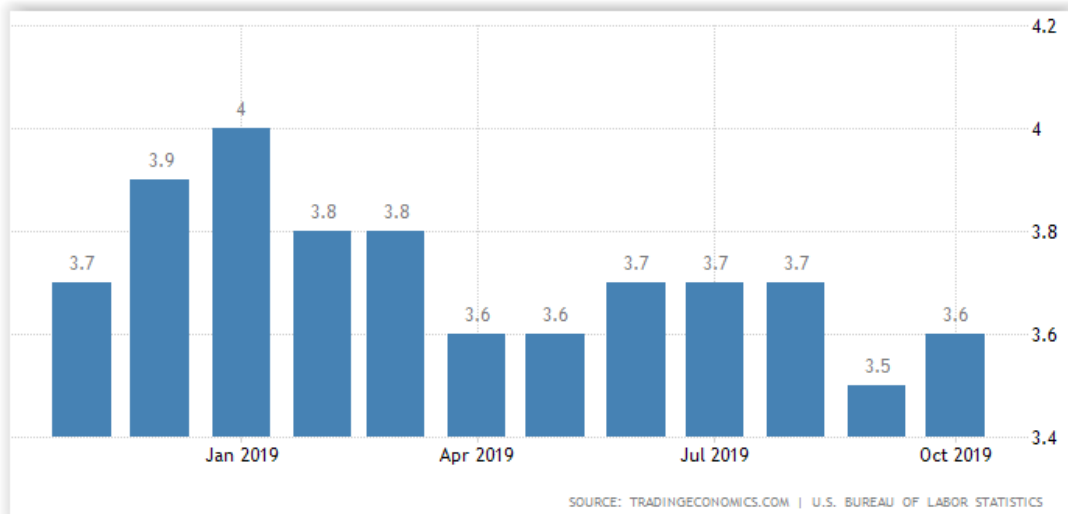
1.7 percent. Consumer consumption, government spending and exports contributed to the GDP increase, offset by declines in business investments and imports. Consumer spending is expected to slow as real income and job growth further slowdown in 2020. The following graphs depict the GDP and unemployment trends over the past few years.

Table 1: U.S. Gross Domestic Product (GDP) Growth Rate



The nation continues to operate at what is considered “full employment” levels of 3.6 percent unemployment as of October 2019, compared to 3.5 percent the previous month. As of the end of September, California maintained 4.0 percent unemployment but the unemployment rate for the Bay Area region was lower at 2.2 percent. These levels have not occurred in almost 20 years, last appearing at the height of the dot.com boom. Bay Area job growth has been led by the Peninsula and for the past several years, the local economy continues to outpace the unemployment rate at the state and national level. Compared to other regions in California, the Bay Area experienced the second strongest job growth at 2.1 percent in 2018 and is forecasted to have the strongest growth of 2.2 percent in 2019.

Table 2: U.S. Unemployment Rate



It is anticipated that the national job market may slow and the make-up of the market may change as immigration decelerates and labor participation from the Baby-Boomer generation declines. According to the Center for Continuing Study of the California Economy (CCSCE), trends indicate stable job growth in the Bay Area. However, cities are faced with serious challenges that can impact job growth and population, specifically housing supply and affordability and transportation. Immigration and housing policies are important factors to supporting future job growth at the national, state, and local level.

Economically sensitive revenue sources such as transient occupancy tax and documentary transfer tax are showing a decline. In spite of this decline, the strong foundations of the local economy – stable housing market, diverse and favorable mix of business segments lead by professional and technology industries, and academic and medical properties – somewhat dampen the financial impact of a severe economic downturn.

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.

Base Case

The following table displays the projected General Fund revenues and expenditures over the next decade 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. The hard work of the City in FY 2019 and FY 2020 to proactively balance the budget is seen in the surplus reflected in FY 2021, and in the decreased deficit seen in the middle of the forecast when compared to prior years' forecasts.

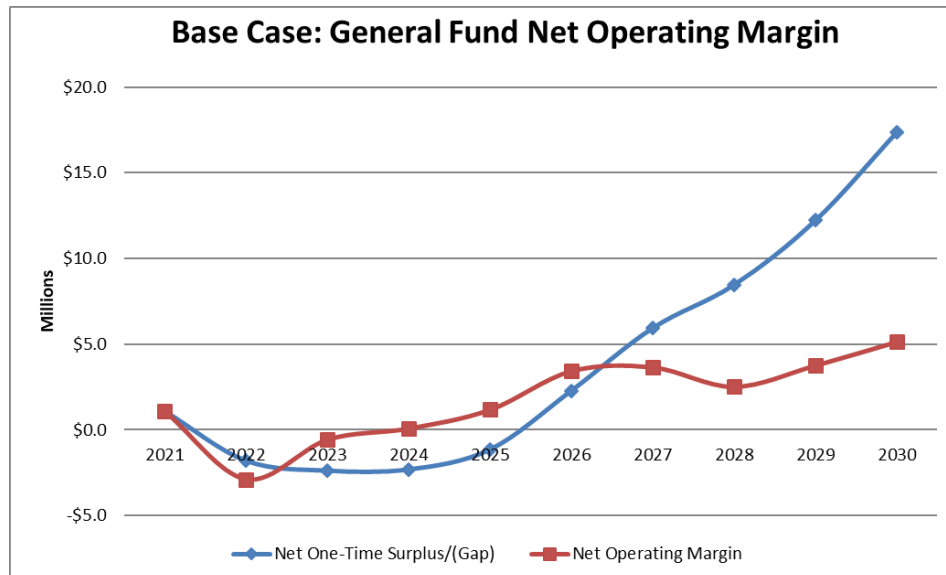
Although a small surplus is contemplated in FY 2021, this is not sustained throughout the forecast. The Forecast anticipates gaps ranging from \$2.4 million to \$1.1 million in the middle of the forecast with surpluses beginning in FY 2026 at \$2.3 million and increasing through the final years of the forecast. The need to proactively plan for a structurally balanced budget on an ongoing basis will inform the development of the FY 2021 Budget.

**TABLE 3: FY 2021 – 2030 Long Range Financial Forecast
Base Case**

	Adopted 2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total Revenue	\$232,101	\$241,527	\$248,358	\$255,808	\$263,083	\$271,318	\$280,028	\$289,307	\$299,625	\$310,488	\$321,728
		4.1%	2.8%	3.0%	2.8%	3.1%	3.2%	3.3%	3.6%	3.6%	3.6%
Total Expenditures	\$230,809	\$240,447	\$250,168	\$258,194	\$265,396	\$272,465	\$277,743	\$283,366	\$291,169	\$298,276	\$304,382
		4.2%	4.0%	3.2%	2.8%	2.7%	1.9%	2.0%	2.8%	2.4%	2.0%
Net One-Time Surplus/(Gap)	\$1,292	\$1,080	(\$1,810)	(\$2,386)	(\$2,313)	(\$1,147)	\$2,284	\$5,941	\$8,457	\$12,212	\$17,347
Cumulative Net Operating Margin (One-Time)											\$39,664
Net Operating Margin		\$1,080	(\$2,890)	(\$576)	\$73	\$1,166	\$3,431	\$3,657	\$2,516	\$3,755	\$5,135
Cumulative Net Operating Margin											\$17,347

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

**TABLE 4: FY 2021 – 2030 Long Range Financial Forecast Net Operating Margin
Base Case**



Revenue Assumptions

Overall, economic indicators are providing mixed signals. While the overall U.S. economy continues to be strong, the growth rate has been weaker. The Bay Area economy continues to outperform the state and the nation with strong foreign trade, but this is being negatively impacted by the continuing trade disputes. These disputes and the global economic malaise pose significant challenges to conducting a long-term revenue forecast. Other challenges include an expected slowdown in Bay Area job growth and potential impacts to the local housing market. Despite these challenges, healthy and robust tax revenues for the City are anticipated throughout the term of the forecast in a cautiously optimistic modeling. Tax revenues constitute slightly more than 60 percent of General Fund resources. In FY 2021, the forecast projects a \$9.8 million, or 7.0 percent, tax revenue increase compared to the levels in the Adopted FY 2020 Budget. These tax increases are partially offset by reductions in other revenue categories. In total, revenues are anticipated to increase by \$9.4 million, from \$232.1 included in the FY 2020 Adopted Budget to \$241.5 million in FY 2021. The changes by revenue category, as well as the current expected FY 2020 status of many of the categories, are discussed in greater detail below.

**TABLE 5: FY 2021 – 2030 General Fund Revenue Forecast
Base Case**

Revenue & Other Sources	Adopted 2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	CAGR 10 Years
Sales Taxes	\$34,346	\$37,595	\$39,149	\$40,670	\$42,169	\$43,682	\$45,162	\$46,701	\$48,326	\$50,075	\$51,842	4.2%
Property Taxes	48,634	52,863	55,034	57,061	59,303	62,393	66,193	70,344	74,952	80,102	85,668	5.8%
Transient Occupancy Tax- General Purpos	17,534	16,896	17,344	17,838	18,356	18,906	19,494	20,089	20,716	21,422	22,251	2.4%
Transient Occupancy Tax- Infrastructure	11,774	14,576	14,963	15,389	15,835	16,310	16,818	17,331	17,871	18,481	19,196	5.0%
Documentary Transfer Tax	8,369	7,952	8,189	8,428	8,666	8,957	9,264	9,590	9,936	10,297	10,694	2.5%
Utility Users Tax	17,581	18,199	18,962	19,804	20,354	20,859	21,465	22,156	22,815	23,222	23,626	3.0%
Other Taxes and Fines	2,032	1,989	1,989	1,989	1,989	1,989	1,989	1,989	1,989	1,989	1,989	-0.2%
Subtotal: Taxes	140,270	150,071	155,630	161,180	166,673	173,097	180,386	188,200	196,605	205,589	215,266	4.4%
Charges for Services	21,834	21,180	21,637	21,988	22,290	22,578	22,723	22,861	23,151	23,423	23,633	0.8%
Stanford Fire & Dispatch Services	7,885	8,127	8,466	8,758	9,005	9,233	9,396	9,587	9,819	10,038	10,176	2.6%
Permits and Licenses	9,076	8,990	8,997	9,003	9,008	9,012	9,015	9,017	9,021	9,026	9,029	-0.1%
Return on Investments	1,388	1,850	1,822	1,844	1,869	1,896	1,950	2,006	2,065	2,127	2,196	4.7%
Rental Income	16,399	15,590	15,088	15,480	15,884	16,300	16,728	17,169	17,623	18,091	18,573	1.3%
From Other Agencies	980	520	520	520	520	520	520	520	520	520	520	-6.1%
Charges to Other Funds	10,908	11,577	11,948	12,290	12,586	12,865	12,962	13,031	13,320	13,586	13,628	2.3%
Other Revenue	2,362	2,259	2,260	2,260	2,261	2,262	2,263	2,264	2,264	2,265	2,266	-0.4%
Total Non-Tax Revenue	70,832	70,093	70,737	72,143	73,423	74,666	75,555	76,454	77,784	79,076	80,022	1.2%
Operating Transfers-In	20,999	21,363	21,990	22,485	22,988	23,555	24,087	24,652	25,236	25,823	26,440	2.3%
BSR Contribution (One-Time)												
Golf Operating Loss Reserve Liquidation												
Total Source of Funds	\$232,101	\$241,527	\$248,358	\$255,808	\$263,083	\$271,318	\$280,028	\$289,307	\$299,625	\$310,488	\$321,728	3.3%

This table is available in a larger format in Attachment A.

Sales Tax

The sales tax revenue forecast is driven by strong personal income and spending growth and a larger share of consumer spending online. New and innovative retail formats have helped revive physical retail presence. Stores that were once strictly online are now finding physical presence within communities. As the nation transitions from a shopping center country to online sales, a surge in online retail sales will partially displace tax revenue from traditional industry segments to state and county pools. Based on activity and receipts for the recent quarter close, it is estimated that sales tax revenue will exceed the FY 2020 Adopted Budget by \$1.6 million, or 4.6 percent, and will generate a total of \$35.9 million by year-end of FY 2020. In FY 2021, sales tax is expected increase to \$37.4 million, or 4.2 percent, above the revised FY

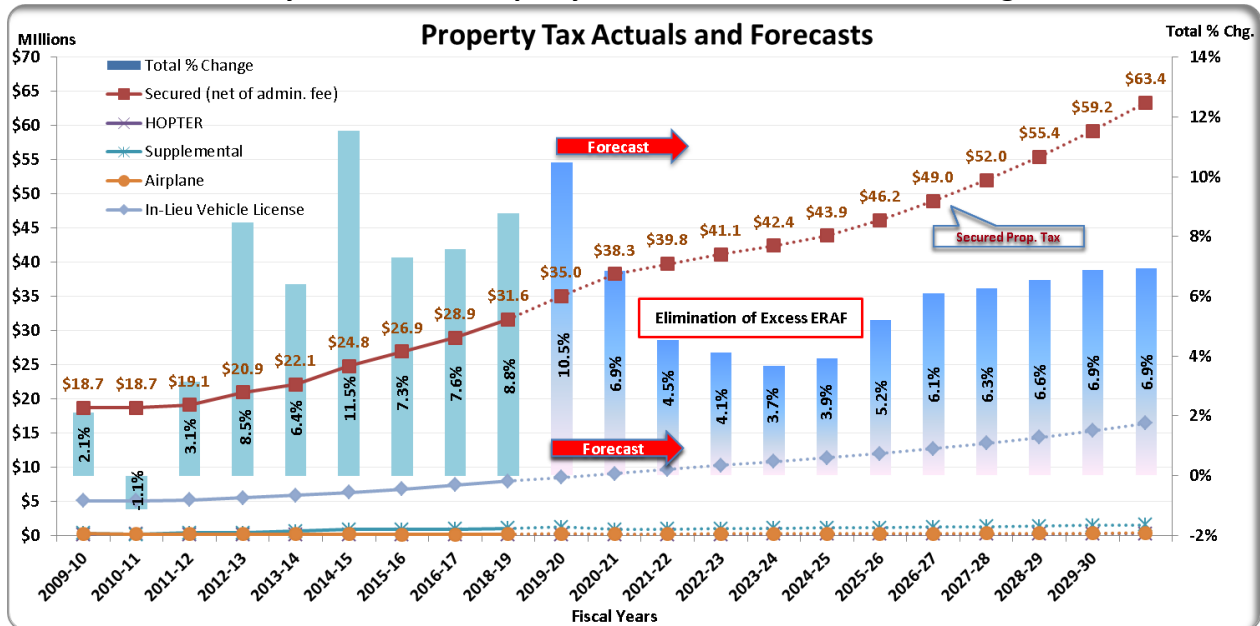
2020 forecast. This revenue category is currently tracking above budgeted levels in FY 2020 and it is anticipated that appropriate adjustments will be brought forward for the FY 2020 Budget through the mid-year budget process. Segments contributing to this growth include restaurants, office equipment, and auto sales and leases. Department and furniture/appliance sales experienced declines. The FY 2021 – FY 2030 LRFF anticipates a compounded annual growth rate (CAGR) of 4.2 percent through the term of the forecast, with FY 2021's significant growth over FY 2020's Adopted Budget level tapering down through the out-years.

Property Tax

Property tax revenue is the General Fund's largest revenue source and represents 21.9 percent of total revenues. Over the last three-year period, property tax revenue has grown 20.2 percent, from \$39.4 million in FY 2017 to \$47.3 million in FY 2019 due to higher assessed values. These higher assessed values reflect continued robust commercial and residential real estate markets. In addition, fiscal years 2017, 2018, and 2019 included receipts of \$0.7 million, \$1.4 million, and \$2.7 million, respectively, for excess Educational Revenue Augmentation Fund (ERAF) distributions from the County of Santa Clara. ERAF is the fund used to collect and disburse property taxes that are shifted to/from cities, the County, and special districts prior to their reallocation to K-14 school agencies. When the state shifts more local property tax than required to support schools these funds are returned and known as excess ERAF. As a result of the volatility of ERAF, it is not considered a permanent local revenue source.

The FY 2020 Adopted Budget assumes \$48.6 million in total property tax and is expected to grow to \$50.5 million, a \$1.9 million increase, by year-end which includes \$3.8 million in Excess ERAF. This trend, with the exception of Excess ERAF, continues in FY 2021, where property tax revenue is expected to increase by an additional \$2.3 million, or 4.5 percent, to total \$52.8 million. Due to the uncertainties around the continued receipt of Excess ERAF at the current levels, this revenue sources is being eliminated from the forecast over the next four years and is completed eliminated in FY 2024. This results in lower forecasted growth rates between FY 2022 and FY 2025.

TABLE 6: City of Palo Alto Property Tax Actuals and Forecast through FY 2030



City staff meets with the County quarterly to obtain the latest assessed valuation and assessment roll data used to forecast of property tax revenues. The above graph displays ten years of actual revenue and 11 years of forecast, including the year-end projection for FY 2020. The forecast assumes the anticipated cooling of the housing market and an economic downturn that is spread over the length of the 10-year forecast. Over the 21-year period displayed, there has been some unpredictability in the revenue growth rate, from a negative 1.1 percent in FY 2011 to a high of 11.5 percent in FY 2015.

Meeting the property tax revenue forecast is contingent on maintaining property turn over and the median sales price. Data for the first four months of FY 2020 show property sales volume is 14.3 percent lower than the same period for FY 2019 while the price is 7.4 percent higher. According to Zillow, as of September 2019, residential median sales price in Palo Alto is \$2.8 million, a decrease of 11.9 percent over the prior year, and lower than the peak seen in June 2018 when the median price was \$3.3 million.

Transient Occupancy Tax (TOT)

In FY 2020, TOT revenue is expected to reach \$27.2 million. This is \$1.5 million, or 6.0 percent, above the FY 2019 audited revenue amount which includes the April 1, 2019 rate increase of 1.5 percent to TOT. That rate increase resulted in a new total TOT rate of 15.5 percent. Compared to the FY 2020 Adopted Budget, the FY 2020 estimate represents a decrease of 7.2 percent, or \$2.1 million. Starting with FY 2019, 4th quarter, the base TOT decreased by 5.4 percent with average occupancy declining by 1.8 percent but average room rates increasing by 2.6 percent. This trend continued in the first quarter of FY 2020 with the base TOT decline of 4.8 percent. If these trends continue, a downward mid-year budget adjustment is expected.

For the first quarter of FY 2020, daily average room rates increase by 1.9 percent from \$275.83 per day to \$282.79 per day while occupancy rate declined by 4.8 percent from 83.8 percent to 79.8 percent. In the Northern California regions, for September 2019, a similar trend occurred for occupancy and, for daily room rates, half the region had increases and half had declines. The below table compares average room rates and occupancy percentage in September 2019 for northern California regions and the City of Palo Alto.

TABLE 7: Northern California Hotel – Motel Business Trends as of September 2019

Month of September 2019						
	Avg. Daily Room Rate (\$)			Occupancy Percentage (%)		
	2019 (\$)	2018 (\$)	Chg.	2019	2018	Chg.
San Francisco	\$326.79	\$332.33	-1.7%	88.8%	88.9%	-0.2%
San Francisco Airport	219.28	229.72	-4.5%	87.9%	88.9%	-1.1%
San Jose/Peninsula	237.81	231.84	2.6%	79.8%	83.7%	-4.6%
Oakland/East Bay	182.23	184.22	-1.1%	82.0%	83.7%	-2.0%
Monterey/Carmel	363.44	332.69	9.2%	82.8%	83.4%	-0.8%
Central Valley	106.26	104.62	1.6%	77.2%	77.0%	0.3%
Sacramento	142.72	141.08	1.2%	80.3%	80.7%	-0.6%
Marin County	207.73	215.13	-3.4%	79.3%	87.9%	-9.8%
Napa County	326.59	320.93	1.8%	82.6%	80.2%	3.0%
Sonoma County	230.80	233.73	-1.3%	85.3%	85.9%	-0.6%
Other Northern California	123.68	120.54	2.6%	79.0%	78.4%	0.8%
Overall Average	227.21	226.67	0.2%	82.7%	83.9%	-1.4%
City of Palo Alto (September only)	298.77	287.54	3.9%	80.23%	84.2%	-4.7%

Table source: TRENDS® in the Hotel Industry Northern California, compiled and produced by CBRE Hotels, Consulting

TOT realized double digit growth in FYs 2015 and 2016 due the 2 percent rate increase (from 12 percent to 14 percent tax rate), the recovering economy, and the addition of the three large hotels. Since then, TOT revenue has moderated, however, with 1.5 percent rate increase (from 14 percent to 15.5 percent tax rate) partially offset by declining occupancy percentage there is a healthy growth that is anticipated for FY 2020 and beyond. In addition, in FY 2021, two new Marriot hotels with approximately 300 rooms are expected to open. Primarily as a result of these two new hotels, FY 2021 is forecasted to be \$4.3 million, or 15.8 percent, above the current FY 2020 estimate, totaling \$31.5 million.

Utility User’s Tax (UUT)

The UUT is levied on electric, gas, and water consumption, as well as on telephone usage. In total, FY 2020 revenues were budgeted at \$17.6 million and are currently on target to be realized before rising to \$18.2 million in FY 2021.

UUT telephone revenues rose from \$6.0 million in FY 2018 to \$6.6 million in FY 2019. This revenue has realized high single digit growth and is forecasted to reach \$7.1 million in FY 2020.

UUT revenue from Utility sales came in at \$9.8 million in FY 2019 and is anticipated to reach nearly \$10.4 million in FY 2020. Rate increases of 8.0 percent for electric, 5.0 percent for gas, and 1.0 percent for water, consistent with the financial plans discussed in Spring 2019 with Finance Committee and City Council, are the primary drivers of this revenue growth. This revenue is expected to rise to \$10.9 million in FY 2021.

Documentary Transfer Tax (DTT)

In FY 2015, DTT 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, DTT has significantly moderated, with \$6.9 million earned in FY 2019. Though this revenue from July through October in FY 2019 is running nearly 7.4 percent above the same period in FY 2018, staff anticipates modifying the FY 2020 Adopted Budget at midyear from \$8.4 million down to \$7.7 million. For FY 2021, revenues are expected be slightly above the FY 2020 projected levels at \$7.9 million.

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 number of transactions through October 2019 (186) are running lower than those through October 2018 (217); however, the total value of these transactions has increased by 7.4 percent. Though the Palo Alto housing market remains strong, as discussed in the Property Taxes section, residential median sales price in Palo Alto has declined. Although pressure on the housing market and local economy has driven down property turnover, there is enough of a baseline trend in the Palo Alto housing market to signal a stable 3.0 to 3.9 percent growth in revenue over the length of this forecast.

Rental Income

Rental Income of \$15.6 million primarily reflects rent paid to the General Fund from the City's Enterprise Funds and the Cubberley Community Center. There is a slight decrease in rental income from FY 2020 to FY 2021 that continues in FY 2022; this decrease represents the phase-out of payments from the Refuse Fund to the General Fund associated with the Landfill. Steady growth after that reflects a 2.6 percent increase for this area partially offset by minor adjustments throughout the forecast. The annual increase for rental revenue is based on a review of the changes in the California Consumer Price Index (CCPI) in the San Francisco Bay Area from the August to August period. It is expected that revenues will be reviewed and revised subsequent to this forecast based on updated information, typically the December to December change in the CCPI. The City is also examining the rent it is currently charging to the various enterprise and special revenue funds and will incorporate adjustments through the budget process as appropriate.

Charges for Services and Permits and Licenses

Revenues in the 'Charges for Services' and the 'Permits and Licenses' categories are anticipated to be \$21.2 million and \$8.9 million, respectively, in Fiscal Year 2021. These amounts are slightly lower than the Fiscal Year 2020 Adopted Budget levels for each category primarily due to the reduction of revenue related to Animal Shelter services that were previously provided by the Police Department but are now provided by the City's non-profit partner Pets-in-Need. These budget categories also include revenues associated with the Golf Course and after analyzing prior year actuals, some of the Golf Course revenue estimates have been reduced. Associated expenses for the Golf Course have also been reduced and are accounted for in the Contracts Services section of this document. The revenue estimates in these categories are primarily driven by the cost of staff to provide services to the community; therefore, revenues are impacted by personal service costs. Staff analyzed prior year revenue collections in these categories and determined that actual collections were somewhat below budgeted revenue. Revenue estimates in these categories have therefore been kept generally consistent over the forecast period. One exception to this was for Development Services activities and related revenue. Development Services has been modeled as cost neutral through the forecast, which accounts for the fluctuations in the growth rate over the forecast period, because the average increase in general salaries and benefits for Development Services staff is changing over the ten-year forecast. Staff will analyze municipal fee revenue activity as part of the FY 2021 Budget development process and bring forward adjustments as appropriate.

Stanford Fire and Dispatch Services

The City has two separate agreements with Stanford University to provide its response and emergency dispatch services. The City and Stanford entered into a new agreement effective July 1, 2018 outlining both terms for service levels and a new cost allocation methodology as the baseline for the contract costs. This contract extends through June 30, 2023 with a renewal through 2028 unless otherwise terminated.

The contract included a new staffing deployment model for suppression and medical services, which was approved by the City Council in October 2017 and deployed in January 2018. This forecast assumes this new staffing model and, in accordance with the contract, increases to this revenue from Stanford have been aligned with the year-over-year growth of the operating expenses in the Fire Department over the forecast period. Similarly, increases to the revenue received for dispatching services have been aligned with the year-over-year growth of the operating expenses in the Technical Services Division of the Police Department through which these services are provided.

Charges to Other Funds

The main source 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 Appointed Offices provide services to Enterprise and Internal Service Funds. The costs for these services are recovered through the administrative cost allocation plan charges. The FY 2021 estimate for Charges to Other Funds of

\$11.6 million reflects growth of 6.1 percent from the FY 2020 Adopted Budget of \$10.9 million; this is primarily attributable to year over year increases in costs for salary and benefits and allocated charges in the Internal Support Departments. After the first year of FY 2021, growth is more moderate ranging from 0.5 percent up to 3.2 percent annual increases throughout the forecast period.

Return on Investment

The return on investment category reflects the interest earnings on the City's investment portfolio. This category is a combination of past investments, new investments at current market rates, and available investable cash which fluctuates seasonally and annually. Staff had anticipated the decline in interest rate would occur sooner and at a faster rate than it has occurred, so the City experienced a higher than anticipated return on investments. In addition, prudent investments further resulted in higher investment yields and earnings.

The average portfolio rate of return for FY 2019 was 2.30 percent, in FY 2020 first quarter it was 2.35 percent and as of mid-November it's 2.32 percent. The revised FY 2020 interest earning forecast of \$1.90 million is \$0.52 million higher than the adopted budgeted of \$1.39 million. In FY 2021, the forecast is \$1.85 million which reflects the declining interest rate environment. Since the City's portfolio is laddered over a ten-year period, in a given year, around 10 percent to 16 percent of investments mature that is typically reinvested at the current market rates. As a result, the City's portfolio yield and earnings decline more gradually than the market rate declines.

Operating Transfers-in

Operating Transfers-in materialize as expenses in other funds throughout the City and as a revenue in the General Fund. This budget category includes 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 2019, the equity transfer from the Electric and Gas funds are projected to increase over the course of this forecast from \$21.4 million in FY 2021 to \$26.4 million in FY 2030. Overall, the Operating Transfers-in are estimated to increase slightly to \$21.4 million in FY 2021, a 1.7 percent increase from the FY 2020 Adopted Budget level of \$21.0 million.

Expense Assumptions

As part of developing the FY 2021 Forecast expenditure budget, the General Fund expense categories have been adjusted by removing FY 2020 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 2020 Adopted Budget, growth of 4.1 percent is expected in FY 2021, with growth ranging from 1.9 percent to 4.0 percent throughout the ten-year forecast.

**TABLE 8: FY 2021 – 2030 General Fund Expense Forecast
Base Case**

Expenditures & Other Uses	Adopted											CAGR 10 Years
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
Salary	\$ 75,506	\$ 78,289	\$ 81,100	\$ 83,509	\$ 85,774	\$ 88,007	\$ 90,051	\$ 91,973	\$ 93,882	\$ 95,790	\$ 97,702	2.6%
Benefits	59,042	62,695	65,921	69,089	71,631	73,917	74,743	75,642	78,340	80,726	82,123	3.4%
Subtotal: Salary & Benefits	134,548	140,985	147,022	152,598	157,405	161,924	164,794	167,615	172,222	176,515	179,825	2.9%
Contract Services	23,429	23,832	24,355	24,998	25,607	26,224	26,862	27,520	28,188	28,878	29,589	2.4%
Supplies & Material	3,365	3,343	3,432	3,524	3,619	3,715	3,815	3,917	4,022	4,130	4,240	2.3%
General Expense	12,089	11,267	12,509	12,676	12,818	13,071	13,090	13,413	14,079	14,356	14,535	1.9%
Rents & Leases	1,734	1,762	1,777	1,793	1,809	1,825	1,843	1,860	1,878	1,897	1,916	1.0%
Facilities & Equipment	771	516	530	544	559	574	589	605	621	638	655	-1.6%
Allocated Charges	20,889	22,065	22,551	23,120	23,670	24,197	24,755	25,348	25,947	26,425	26,861	2.5%
Committed Additions	223	674	708	728	764	787	825	849	890	916		
Total Non Sal/Ben Before Transfers	62,277	63,009	65,828	67,363	68,811	70,372	71,740	73,489	75,584	77,215	78,712	2.4%
Operating Transfers-Out	5,023	4,317	4,411	4,508	4,607	4,708	4,817	4,923	5,037	5,154	5,268	0.5%
Transfer to Infrastructure - Base/Cubb	17,187	17,561	17,945	18,337	18,739	19,152	19,575	20,009	20,455	20,912	21,381	2.2%
Transfer to Infrastructure - TOR	11,774	14,576	14,963	15,389	15,835	16,310	16,818	17,331	17,871	18,481	19,196	5.0%
Total Use of Funds	\$230,809	\$240,447	\$250,168	\$258,194	\$265,396	\$272,465	\$277,743	\$283,366	\$291,169	\$298,276	\$304,382	2.8%

This table is available in a larger format in Attachment B.

Salary and Benefits

Table 8 above (also included in Attachment B) depicts the estimated General Fund salaries and benefits costs for the next decade. Over the forecast period, the salaries and benefits costs remain relatively consistent in comparison to the total expenditure budget. In FY 2021, salaries and benefits costs represent approximately 60 percent of the General Fund budget expenditures and remain near that level of General Fund budget expenditures through FY 2030.

Salary

Consistent with the City's salary budget methodology for recent budgets, positions are budgeted at the actual rate of pay of employees including benefits as of Fall 2019. 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(s). In 2018, the City completed the bargaining process and reached agreements with all seven represented units¹; MOA's for Police and Fire

¹ Represented units include the International Association of Fire Fighters (IAFF), Palo Alto Fire Chiefs' Association (PAFCA), Palo Alto Peace Officers' Association (PAPOA), Palo Alto Police Management Association (PAPMA), Service Employees International Union (SEIU), Utilities Management Professional Association of Palo Alto (UMPAPA), and Management and Professional Personnel (MGMT). The most recent agreements can be found here: www.cityofpaloalto.org/depts/human_resources/labor_relations/default.asp

personnel continue through June 30, 2021, SEIU through December 31, 2021, and UMPAPA and MGMT for a one-year period through June 30, 2020.

The Forecast assumes step increases for employees in applicable positions, including SEIU, IAFF, and PAPOA and assumes merit increases for Management and Professional employees. Additional general wage adjustments of 2.0 percent are included in each year of the Forecast for all employees in years when there is not a MOA in effect. This is consistent with prior Council direction to use the 2.0 percent increase as a forecasting model, not as a commitment to future negotiations. If agreements are negotiated with salary increases greater than presumed in the forecast, then expenses will increase accordingly.

Benefits

Pension: The Forecast includes pension rates from CalPERS as of the June 30, 2018 valuation ([CMR 10641](#)) for the City's Miscellaneous and Safety plans for the first six years of the Forecast and projections from the City's actuarial consultant (Bartel Associates) consistent with the CalPERS methodology for the final years of the Forecast. CalPERS has lowered the discount rate from 7.5 percent to 7.0 percent over three years which has resulted in significant impacts to the City's pension liability. For Fiscal Year 2021, the final year of this three-year phase in, CalPERS used a 7.0 percent discount rate.

CalPERS determines the City's total contributions for a given Fiscal Year as the sum of two factors: Normal Cost (NC) and Unfunded Accrued Liability (UAL). Together the NC and the UAL expressed as a percentage of payroll is the 'blended rate' and is used to represent total costs in the discussion below

The *Normal Cost (NC)* is expressed as a percentage of payroll and is paid as part of the payroll reporting process of active employees. Commonly referred to as the 'pay-go' cost, the NC is variable and increases or decreases directly with the salary levels of the City. It represents the necessary funding for the City to pay for employees presuming that CalPERS makes its stated investment returns.

In a year that CalPERS does not make its stated investment return, a loss in assets is realized. The accumulation of these losses represents the City's *Unfunded Accrued Liability (UAL)*, which is calculated by CalPERS and is commonly referred to as the 'catch-up' cost. The UAL is expressed as a dollar amount and is calculated over an amortized period with defined annual payments, similar to a mortgage. The contributions for UAL are billed as a flat dollar amount as opposed to a percentage of payroll due to potential funding issues that could arise from a declining payroll or number of active members in the plan. However, CalPERS provides an estimated percentage of payroll for UAL to allow a consistent comparison of total costs.

For the miscellaneous plan, the projected blended pension contribution rate will increase from the current 35.6 percent in FY 2020 to 38.4 percent in FY 2021. This includes the continued phase-in of the lower discount rate, which will be completed in FY 2021. The rate steadily

increases to a peak of 42.8 percent in FY 2025 before tapering down over a two-year period to 37.0 percent in FY 2027. This projection is consistent with actuarial assessments done by Bartel Associates which anticipated a slight temporary decline in pension costs associated with various amortization factors including the pay-down of previously sustained losses and benefit improvements offered to employees. This decline in pension costs in FY 2026 is a significant factor of the surplus projected in the Base Case beginning in FY 2026. It also accounts for dampened impacts in other areas that are impacted by salary and benefits, such as charges to other funds.

The Safety plan follows a more consistent trend line with steady increases throughout the years of the forecast. In the first year, the safety plan is projected to grow to 65.33 percent of payroll from the current 59.4 percent of payroll and increases steadily to reach a level of 79.5 percent in FY 2030. As with the miscellaneous plan, this initial growth is primarily driven by the phase-in of the 7.0 percent discount rate instead of the previous 7.5 percent discount rate.

The table below shows CalPERS’ projected FY 2020 – FY 2030 blended retirement rates. As discussed above, it should be noted that the numbers in FY 2027 are not provided by CalPERS (they only provide a forecast through FY 2026) but have been calculated using a methodology consistent with CalPERS actuarial analysis. These rates are before the employee pick-ups of the employer share are factored in; that pick-up materializes as savings in the City’s pension costs. The forecast does presume that, consistent with applicable MOAs, employees in the miscellaneous plan will pick up 1% of the employer pension cost and that safety plan members will pick up percentages between 3% to 4% depending on the year and the unit.

TABLE 9: CalPERS’ Projected FY 2020-2030 Blended Retirement Rates

	(percentage of payroll)										
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Miscellaneous	35.6	38.4	40.3	41.7	42.3	42.8	40.2	37.0	37.7	38.0	38.5
Safety	59.4	65.3	69.4	72.7	74.4	75.6	75.6	76.6	77.6	78.5	79.5

In addition to the required contribution to CalPERS, the forecast includes supplemental contributions to the City’s irrevocable Section 115 Pension Trust (“Pension Trust Fund”). In January 2017 the City council authorized the establishment of a Pension Trust Fund with the Public Agency Retirement Service (PARS) ([CMR 7553](#)). To date, more than \$22.0 million in principal contributions has been made into the PARS Trust. Contributions were initially made on an ad-hoc basis, using one-time savings or excess revenues. In October 2018, the City Council directed staff to include in budget assumptions the NC for pension benefits at an equivalent of 6.2 percent discount rate and a transfer of the additional funding beyond CalPERS actuarial determined contribution levels to the Pension Trust Fund ([CMR 9740](#)). This change in methodology has been factored into this forecast and is anticipated to generate an approximately \$5.0 million in ongoing additional contributions across the organization in all funds.

The marginal costs of the lower discount rates, approximately \$3.4 million in the General Fund, have been factored into the entirety of the forecast. In the General Fund, it is anticipated the City will spend a total of \$34.3 million on total pension costs in FY 2021, including both CalPERS contributions and additional contributions. This increases to a peak of \$45.8 million in FY 2030. These expenses represent approximately 14% of the General Fund’s total expenses.

This Base Case does not contemplate the implications of further contributions beyond what was directed by the City Council in October 2018. Alternative Forecast A contemplates how the Long Range Financial Forecast would change if the marginal costs associated with the lower discount rate were excluded from the forecast.

Retiree Medical: Retiree Medical is based on the most recent actuarial study prepared by Bartel Associates, which is completed every two years. The most recent study was completed in FY 2018 and presented to the City Council as part of the Fiscal Year 2019 Adopted Budget ([CMR 9213](#)). The table below details the cost to the General Fund for every year through FY 2028 based on that actuarial study. The final two years represent an extrapolation of the actuarial study but are consistent with the year over year growth seen throughout the time period. 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. The table below excludes the implied subsidy.

TABLE 10: FY 2021 – FY 2030 Retiree Medical General Fund Contributions (Millions)

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
General Fund	\$9.1	\$9.3	\$9.5	\$9.7	\$9.9	\$10.2	\$10.5	\$10.9	\$11.2	\$11.5

The City’s CERBT Trust, which contains prefunding for the City’s Other Post Employment Benefit (OPEB) liabilities, maintains a very healthy fund balance. The CERBT Trust currently has over \$120 million in assets. As the City continues through the next few years, there will be important impacts to examine associated with Retiree Medical as there may be opportunities over the course of this forecast to subsidize the City’s ADC payments with withdrawals from the OPEB CERBT Trust. That savings could possibly be used for other competing priorities, such as prepaying an additional portion of the City’s pension UAL. Staff anticipates returning with an updated actuarial study presented by Bartel Associates as part of the development of the FY 2021 Budget.

Healthcare: 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. Like salaries, healthcare 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(s). Consistent with the prior year's forecast, this forecast assumes an inflation factor of four percent on healthcare and two percent on dental and vision costs to the City in each year of the Forecast for all employees in years when there is not a MOA in effect.

Contract Services

This forecast assumes contract services of \$23.8 million in FY 2021, reflecting a 1.7% increase from the FY 2020 Adopted budget of \$23.4 million. This increase is driven primarily by aligning the costs of outside legal counsel in the City Attorney's office and other important contract increases for contractual obligations already approved by the City Council for items such as tree maintenance, landscape maintenance, and janitorial services, among other items. These Increases are partially offset by the reduction of one-time dollars for items such as the second year of the FTA Grant in FY 2020 as well as a reduction for Golf Course expenses to align with revenue reductions related to actual activity in the prior year. Through the Forecast, a 2.7 percent annual escalator was modeled to capture anticipated growth in this expense category beginning in FY 2021.

Supplies and Materials

The FY 2020 Adopted Budget for the General Fund included \$3.4 million for Supplies and Materials, which is anticipated to decrease slightly to \$3.3 million in FY 2021. This decrease is due to the removal of one-time expenses budgeted in FY 2020 for Computer Aided Dispatch (CAD) software and Protective Personnel Equipment (PPE) and uniforms for Fire Department recruits. An escalator of 2.7 percent was applied to this expense category to capture anticipated growth over the course of the forecast.

General Expense

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 2020 Adopted Budget of \$12.1 million included \$1.6 million in a Budget Uncertainty Reserve that has been removed in FY 2021 and partially accounts for the reduction to \$11.3 million in FY 2021. That reduction is partially offset by a contribution to the Budget Stabilization Reserve (BSR), which is captured in this category for the purposes of this forecast, to maintain the BSR at the City Council target of 18.5 percent. In FY 2021, \$0.6 million is needed to fund the BSR at the 18.5 percent; this amount changes somewhat over the course of the forecast based on the adjustments to the annual expenses. Further discussion of the BSR is detailed later in this document. An annual escalator of 2.7 percent was applied to this category, excluding BSR contributions, to capture anticipated growth over the course of the forecast. These figures do not include General Expenses for the Cubberley Lease, which is explained in further detail below.

General Expense - Cubberley Lease: 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 and expiring December 31, 2019. On October 7, 2019, Council directed Staff to negotiate with PAUSD to extend the lease agreement an additional five years, through December 31, 2024 ([CMR 10730](#)), these negotiations are ongoing. As part of the original lease agreement, the City Council approved creation of a fund for Cubberley infrastructure improvements. It is expected that the lease continues an annual \$1.9 million transfer to the Cubberley Property Infrastructure Fund. 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 2020 Budget includes \$6.3 million for Cubberley Lease payments; this includes extended child daycare sites which may be included in a separate agreement. For planning purposes it is assumed that the current agreement will continue during the entire Forecast period.

Rents and Leases

The Rents and Leases expense category for FY 2021 is estimated to increase by 1.6 percent from \$1.7 million in FY 2020 to \$1.8 million in FY 2021. This category includes the lease agreement for some of the Development Services staff at locations outside City Hall. However, funding for those leases have not been increased as part of this forecast due to the uncertainty of the extended need for these leases. Space is anticipated to become available at City Hall after the completion of the Public Safety Building, estimated in FY 2022, however tenant improvements will be necessary. Development Services activities have been modeled as cost neutral through the forecast. If increased expenses for rent for Development Services are needed, corresponding revenue offsets will be incorporated through the budget process to ensure Development Services maintains its cost recovery levels. As a result of excluding these Development Services lease costs from the increases, the growth throughout the forecast is projected at approximately 1.0 percent for this category.

Facilities and Equipment

The Facilities and Equipment expense category is expected to decrease from the FY 2020 Adopted level of \$771,000 to \$516,000 in FY 2021. This reflects the annualization of one-time costs that were included in the FY 2020 Operating Budget, including the procurement of solar battery by the Office of Emergency Services and equipment, such as a gurney and air monitors, by the Fire Department. This budget category includes subscription payments for equipment like public safety radios as well as other non-capital equipment. Growth of approximately 2.7 percent is modeled through the forecast 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 2020 Adopted Budget for the General Fund included \$20.9 million for these expenses, including utilities usage, general liability insurance, technology costs, vehicle equipment maintenance and replacement costs and other charges. The FY 2021 allocated charges in the Forecast update the revenues and expenses for these various allocations based on the information available at the time of the Forecast development. FY 2021 is anticipated to experience an increase of 5.6 percent to a total of \$22.1 million. This change is primarily due to general CPI and rate increases applied to various charges as well as an increase in Excess General Liability Insurance costs. Based on initial conversations with the City's broker, a significant increase in the City's Umbrella Excess Liability insurance costs is anticipated beginning in FY 2021 and continuing through the forecast.

Operating Transfers Out

Operating Transfers Out include transfers from the General Fund to Debt Service Funds, the Technology Fund, and various other funds but excludes transfers to the Capital Improvement Fund, which are detailed in the following Transfer to Infrastructure section. Transfers to debt service funds include the debt issued to fund the renovation of the golf course. This reflects a change first seen in last year's Long Range Financial Forecast, where no expenses in the Debt Service category appear in the General Fund, but are instead captured as transfers to the appropriate Debt Service Fund. These payments continue throughout the term of the forecast. The FY 2020 Adopted Budget included Operating Transfers Out of \$5.0 million, including a one-time operating subsidy transfer of \$0.7 million from the General Fund to the Residential Parking Permit (RPP) Programs Fund to cover an operating deficit. In FY 2021, Operating Transfers Out are anticipated to decrease to \$4.3 million as a result of annualizing, or removing, that one-time transfer.

Transfer to Infrastructure

In FY 2020, the adopted General Fund transfer to the Capital Improvement Fund is \$28.3 million, which includes the base transfer of \$16.5 million, including \$1.2 million in interest earnings, and \$11.8 million from additional TOT proceeds generated through a 3.5 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 2014 Council Infrastructure Plan, consistent with City Council direction. This transfer is anticipated to increase to \$17.6 million for the base transfer in FY 2021 and \$14.6 million for the dedicated TOT funds per Council priorities. The increase to the dedicated TOT funds is due to the anticipation of new Marriot hotels coming online in FY 2021 and generating additional TOT revenue. This budget category also includes the separate \$1.9 million transfer to the Cubberley Property Infrastructure Fund, described earlier in this document. This transfer remains consistent throughout this Forecast despite the sunset date of the current lease in FY 2024 for Cubberley to capture the anticipated costs.

Committed Additions - NEW

As highlighted in the FY 2020 Adopted Capital Budget, staff focused on updating and including operating and maintenance (O&M) costs that would begin once the capital projects were complete in the 2020-2025 Capital Improvement Plan (CIP). Continuing this effort, a new category, Committed Additions, has been included in the 2021-2030 Long Range Financial Forecast to account for the estimated O&M costs in the years they are anticipated to materialize in the General Fund. These costs can vary from project to project depending on what was previously budgeted for a facility and generally include, but are not limited to, costs for fixtures and equipment to outfit a new or expanded facility; custodial, landscaping, and maintenance services; utilities; and additional staff to support operations at the facility.

Most of the costs in this category are related to the 2014 Council Infrastructure Plan projects that will be coming online over the next five years. A majority of the O&M costs will come online in FY 2021 and 2022 for projects like the fire station replacement, the New Public Safety Building, and the Highway 101 Pedestrian/Bicycle Bridge. O&M costs for projects related to parking have not been included in the General Fund forecast, because it is assumed that parking fees in separate parking funds will be collected to support the O&M costs for these projects. However, depending on funding needs, loans between funds to support investments and operating costs may be needed.

There are also a number of capital projects that are included in the five-year CIP that do not have an O&M estimate, either because the full scope of the projects has not yet been defined, or the projects require an initial study in order to establish the full scope of the project. These projects and their subsequent O&M costs would generally fall under the category of Assumptions Not Included in the Forecast which are detailed further below in this document; examples include the new Junior Museum and Zoo.

TABLE 11: FY 2021 – FY 2030 Committed Additions (Millions)

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
General Fund	\$0.2	\$0.7	\$0.7	\$0.7	\$0.8	\$0.8	\$0.8	\$0.8	\$0.9	\$0.9

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. As recently discussed with the Finance Committee, on November 18, 2019 the BSR is anticipated to remain above the 18.5 percent target for FY 2020 at \$43.7 million after anticipated qualifications for excess BSR.

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 City Council approved target of 18.5 percent of anticipated expenses in any given year. Maintaining the BSR at 18.5 percent of anticipated expenses does impact the forecast, worsening the deficits beginning in FY 2022 and dampening the surpluses through the end of the forecast. However, maintaining the BSR at 18.5 percent also provides flexibility to the City do deal with unforeseen issues that may arise. Furthermore, establishing, and following, sound fiscal reserve policies has 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 several potential impacts to the FY 2021 projected budget and the out years of the Forecast. Below is a list of a few items not included. This is not intended to be a comprehensive list nor in any priority order.

Labor negotiations: Although the City has recently concluded negotiations with four safety units, these contracts only extend through the first few years of the forecast. These safety units are the Palo Alto Peace Officers Association (PAPOA), the International Association of Fire Fighters (IAFF), Fire Chiefs Association (FCA), and Palo Alto Police Management Association (PAPMA). Each of those contracts expires June 30, 2021. Additionally, the Service Employees International Union (SEIU) MOA expires in December 2021. The Base Case Forecast models only modest increases to salaries in years where there is not a contract. This region's competition for a qualified workforce remains a significant pressure on the City's anticipated salary costs.

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 Infrastructure Plan's funding status has shifted. The FY 2020 Adopted Capital Budget anticipated that these projects would cost \$280.6 million. In addition, this Forecast does not assume ongoing operating and maintenance impacts as a result of the Infrastructure Plan, such as the operating costs associated with the new Public Safety building, but future forecasts will incorporate operating cost impacts as the specific projects are designed and implemented.

Grade Separation: The City is currently in the process of exploring locations for grade separations. As the City continues the process of determining the number and type of grade separations to pursue the financial impacts are difficult to define. Additionally, it may make sense to undertake a coordinated area plan for transit in the downtown area to synchronize with the grade separation process. Costs for these items are not included in this forecast.

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

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

City owned assets operated by non-profit organizations: This Forecast does not include any additional capital or operating investments for the Avenidas Senior Center (beyond the current \$5 million pledge), the Palo Alto History Museum, the Ventura Child Care Center, the Junior Museum and Zoo, nor the Sea Scout Building. As costs around potential capital or operating investments for these assets solidify, staff will return to City Council to address them as appropriate.

Cubberley Community Center Concept Plan: The City is in the process of designing a Cubberley Community Center Concept Plan; however, costs to implement that concept plan in excess of the dedicated Cubberley infrastructure funding included in the existing agreement between the PAUSD and the City are not assumed in this Forecast.

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 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. As of the FY 2020 Adopted Budget, the Airport Fund has begun to pay back the loan to the General Fund. As mentioned in the Committed Additions section, the Base Case presumes that the parking funds will be able to sustain the ongoing operating and maintenance costs of new parking related capital infrastructure. However, these additions and other initiatives may need financial support from the General Fund to ensure they are fully implemented. Additional loans from the General Fund are not assumed in this Forecast.

Legislative Updates: Various actions at the state and federal level that could impact the City of Palo Alto have not been incorporated into this forecast due to the changing context and uncertainty of the quantitative impacts of potential legislative changes. This includes the Cadillac Healthcare Tax at the federal level, property tax changes at a state level, and state-level efforts focused on the provision of affordable housing. Property Tax changes may be impacted by a potential state level ballot measure in November 2020. As uncertainty regarding the potential impact of various legislative initiatives is clarified, appropriate adjustments will be identified and brought forward as part of the development of the FY 2021 Operating Budget.

Greater CalPERS City contributions: The City has had ongoing conversations with the Finance Committee about options for addressing the City's long-term pension liability including an initial

discussion regarding development of a pension funding policy. 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 accordance with the City Council’s direction for the FY 2020 Adopted budget, this forecast assumes a discount rate of 6.2% to more aggressively fund the City’s long-term pension liability. It is anticipated that a formal pension funding policy will be discussed with the City Council in early 2020.

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 moderately growing local economy. Any changes may have positive or negative impacts on economically sensitive revenues such as Sales Tax and the Transient Occupancy Tax.

Alternative Forecast A: CalPERS’ Pension Rates

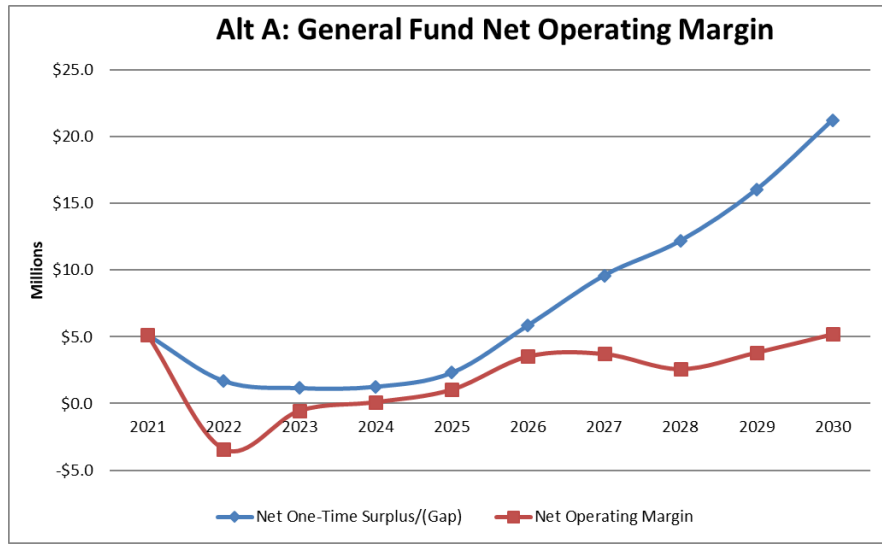
As discussed in the Salary and Benefits section above, the base forecast includes approximately \$3.4 million in additional pension expenses in this Long-Range Financial Forecast. These costs capture the direction from City Council to budget the Normal Cost using a 6.2 percent discount rate to proactively prefund the City’s pension liability. This assumption deviates from the current CalPERS actuarial assumptions for investment earnings; CalPERS currently assumes a 7.0 percent discount rate in FY 2021. This alternative forecast models the impact of using the CalPERS’ discount rate to determine the City’s annual pension contributions. The summary table for this alternative forecast and the Net Operating Margin graph for this alternative forecast are below. Additional discussion for this alternative follows these figures.

**TABLE 12: FY 2021 – FY 2030 Long Range Financial Forecast
Alternative Forecast A**

	Adopted 2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total Revenue	\$232,101	\$241,527	\$248,358	\$255,808	\$263,083	\$271,318	\$280,028	\$289,307	\$299,625	\$310,488	\$321,728
		4.1%	2.8%	3.0%	2.8%	3.1%	3.2%	3.3%	3.6%	3.6%	3.6%
Total Expenditures	\$230,809	\$236,393	\$246,665	\$254,647	\$261,814	\$269,000	\$274,160	\$279,706	\$287,435	\$294,468	\$300,499
		2.4%	4.3%	3.2%	2.8%	2.7%	1.9%	2.0%	2.8%	2.4%	2.0%
Net One-Time Surplus/(Gap)	\$1,292	\$5,134	\$1,692	\$1,161	\$1,269	\$2,319	\$5,867	\$9,600	\$12,191	\$16,020	\$21,229
Cumulative Net Operating Margin (One-Time)											\$76,482
Net Operating Margin		\$5,134	(\$3,442)	(\$532)	\$108	\$1,049	\$3,549	\$3,733	\$2,590	\$3,829	\$5,209
Cumulative Net Operating Margin											\$21,229

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

**TABLE 13: FY 2021 –2030 Long Range Financial Forecast Net Operating Margin
Alternative Forecast A**



Compared to the Base Case, the General Fund would run a greater surplus in the first year and then maintain net one-time surpluses through the forecast. However, unlike the base case, no additional contribution to the City’s Section 115 Pension Trust Fund is presumed in this model. This scenario represents the significant efforts the City has taken over the past few years to structurally balance the budget through reprioritization of work and reductions to the City’s full-time staffing in order to help contain rising pension costs. It is anticipated that the City will continue to discuss its options for prefunding its long-term pension obligations through ongoing discussion and development of a pension funding policy.

Alternative Forecast B: Major Tax Revenue Sensitivity Analysis

For modeling purposes, the base case assumes a smoothed recession throughout the length of the forecast. The base case takes this approach to accommodate any one-time, unusual, or unexpected drops in revenue that may occur throughout the forecast.

This alternative scenario models the potential impact if the economy contracted and the growth that would be anticipated for the remainder of the forecast. For modeling purposes, this economic contraction is assumed to occur in January 2021, midway through FY 2021. The lower revenue estimates would continue through the forecast but would recover toward the final years of the forecast. These lower revenue estimates through the initial years of the forecast would significantly constrain the City’s resources.

As discussed in the Revenue Assumptions section of this report, tax revenue accounts for approximately 60 percent of the General Fund’s total revenues. This alternative scenario assumes that average tax receipts contract by 1.7 percent, from \$140.3 million at FY 2020 Adopted to \$137.9 million in FY 2021. The scenario models a further decline in FY 2022 to \$131.3 million in tax revenues in FY 2022 and stays consistent in FY 2023. Consistent with growth seen after other recessions, tax revenues begin to grow significantly in FY 2024 through

the end of the forecast. If all other assumptions in the base case remain constant and a major recession were to occur of a magnitude similar to the dot-com bust or the Great Recession, the loss in revenue would be approximately \$12.6 million in FY 2021 (half a year) and \$24.6 million in FY 2022.

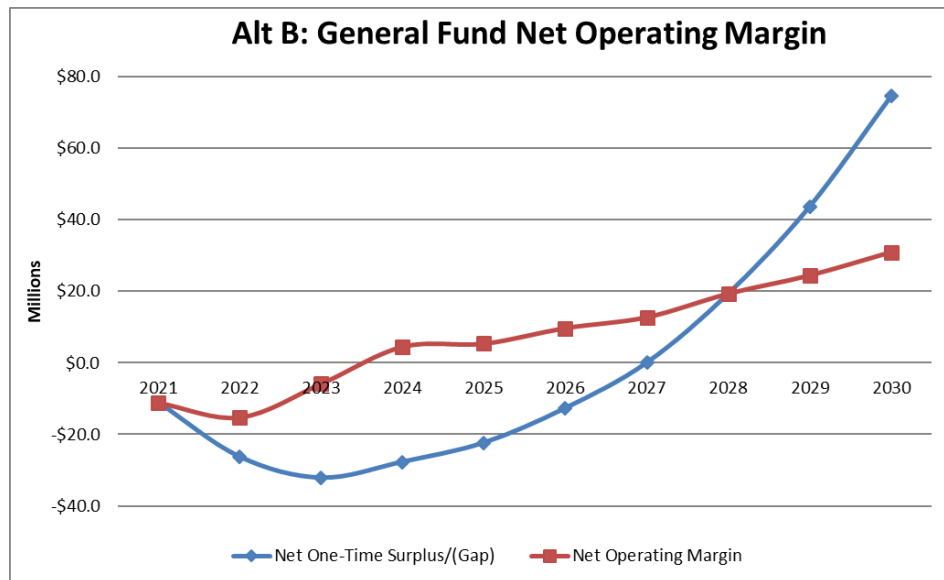
In this alternative scenario, the City’s expenses would exceed revenues in the first six years of the forecast before turning positive at the end of the time period. The single greatest one-time gap occurs in FY 2023, with a \$32.2 million deficit, before narrowing to \$12.7 million in FY 2026 and turning slightly positive in FY 2027. The summary table for this Alternative Scenario and the corresponding graph showing the Net Operating Margin are included below.

**TABLE 14: FY 2021 – FY 2030 Long Range Financial Forecast
Alternative Forecast B**

	Adopted 2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total Revenue	\$232,101	\$229,313	\$223,830	\$226,020	\$237,704	\$250,122	\$265,085	\$283,416	\$310,495	\$341,969	\$378,923
		-1.2%	-2.4%	1.0%	5.2%	5.2%	6.0%	6.9%	9.6%	10.1%	10.8%
Total Expenditures	\$230,809	\$240,447	\$250,168	\$258,194	\$265,396	\$272,465	\$277,743	\$283,366	\$291,169	\$298,276	\$304,382
		4.2%	4.0%	3.2%	2.8%	2.7%	1.9%	2.0%	2.8%	2.4%	2.0%
Net One-Time Surplus/(Gap)	\$1,292	(\$11,134)	(\$26,338)	(\$32,174)	(\$27,693)	(\$22,343)	(\$12,658)	\$50	\$19,326	\$43,694	\$74,542
Cumulative Net Operating Margin (One-Time)											\$5,271
Net Operating Margin		(\$11,134)	(\$15,204)	(\$5,836)	\$4,482	\$5,350	\$9,684	\$12,708	\$19,276	\$24,368	\$30,848
Cumulative Net Operating Margin											\$74,542

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

**TABLE 15: FY 2021 – 2030 Long Range Financial Forecast Net Operating Margin
Alternative Forecast B**



Alternative Forecast C: Change in Long Range Financial Forecast Assumptions Related to Salary for Bargaining Units Outside of MOA Terms

During Finance Committee discussions regarding the Long Range Financial Forecast in the past few years there have been conversations regarding the appropriate methodology for modeling salary and benefit increases year-over-year. Per previous City Council direction and past practice, the Base Case assumes a two percent general wage adjustment in the years beyond the terms of existing MOAs. This is consistent with past direction to use two percent as a forecasting assumption, not as a commitment for future negotiations. As part of the expense sensitivity analysis on the City’s finances, a third alternative forecast is presented here that analyzes a general wage adjustment of three percent for all employees in years when MOAs have not yet been negotiated. As with other alternative models in the LRFF, this model is for forecasting purposes and is not a commitment to future labor negotiations.

In this scenario, the initial surplus in FY 2021 is lessened somewhat compared to the Base Case and wider gaps between revenues and expenses would occur in next few years of the forecast. Through the ten years of the forecast, this change in the modeling would increase expenses significantly. In FY 2021, only the management group would be impacted by this change, so a relatively modest increase in expenses of \$285,000 is seen. The City’s agreements with the safety units expire at the end of FY 2021 and the agreement with SEIU ends midway through FY 2022. Due to the expiration dates, FY 2023 is the first year that shows the full cost of an additional one percent raise for the General fund. As a result of the increased expenses modeled for the safety units and SEIU the costs increase by \$1.1 million in FY 2022 before escalating by \$1.9 million in FY 2023.

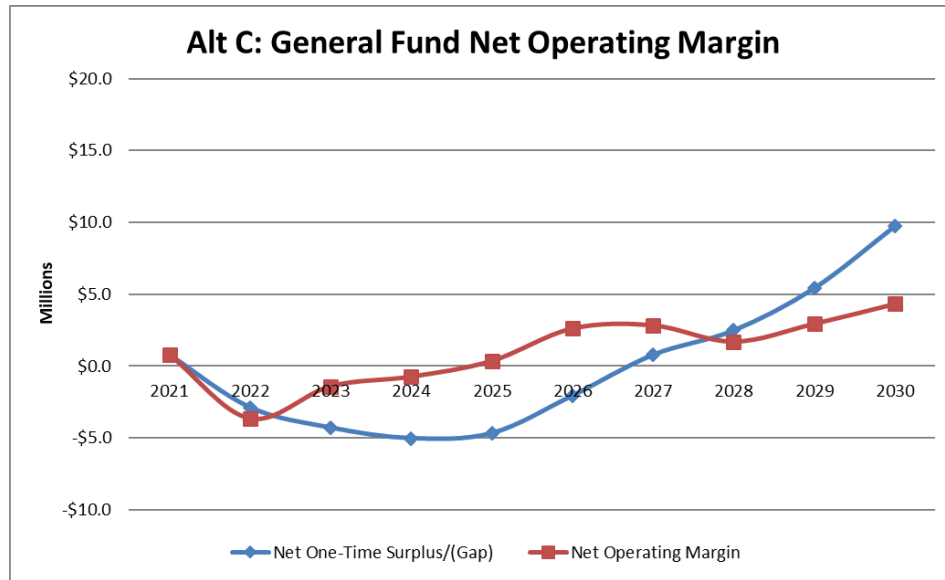
Overall, the general trends of the Base Case persist through this third alternative scenario, despite the changes to the salary and benefit parameters. The Base Case projected that by FY 2026, the City would have a positive net one-time surplus; this alternative forecast extends the deficit to FY 2026 but still projects a positive net one-time surplus in FY 2027.

**TABLE 16: FY 2021 – FY 2030 Long Range Financial Forecast
Alternative Forecast C**

	Adopted 2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Total Revenue	\$232,101	\$241,527	\$248,358	\$255,808	\$263,083	\$271,318	\$280,028	\$289,307	\$299,625	\$310,488	\$321,728
		4.1%	2.8%	3.0%	2.8%	3.1%	3.2%	3.3%	3.6%	3.6%	3.6%
Total Expenditures	\$230,809	\$240,732	\$251,229	\$260,093	\$268,112	\$275,996	\$282,090	\$288,528	\$297,146	\$305,069	\$311,991
		4.3%	4.4%	3.5%	3.1%	2.9%	2.2%	2.3%	3.0%	2.7%	2.3%
Net One-Time Surplus/(Gap)	\$1,292	\$795	(\$2,871)	(\$4,286)	(\$5,028)	(\$4,678)	(\$2,062)	\$779	\$2,479	\$5,418	\$9,738
Cumulative Net Operating Margin (One-Time)											\$284
Net Operating Margin		\$795	(\$3,666)	(\$1,415)	(\$742)	\$350	\$2,616	\$2,841	\$1,700	\$2,939	\$4,319
Cumulative Net Operating Margin											\$9,738

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

**TABLE 17: FY 2021 – 2030 Long Range Financial Forecast Net Operating Margin
Alternative Forecast C**



FY 2021 Budget Development Guidelines

As discussed earlier in this document, the Long Range Financial Forecast represents the initial steps of the FY 2021 budget development process. In the FY 2019 – FY 2028 Long Range Financial Forecast presented in December 2018, staff included budget development guidelines based on the trends that were identified and the anticipated fiscal condition of the City. Due to the clear overlap of projecting the City’s fiscal condition over the next ten years and the need to shape service level expectations over the same time period, staff recommends that the inclusion of Budget Development Guidelines be incorporated into the Long Range Financial Forecast on an ongoing basis.

This year, the FY 2021 Budget Development Guidelines are detailed in Attachment C. They are meant to reflect the anticipated fiscal condition of the City and to provide high-level budgetary direction to the organization. These guidelines will shape and inform the annual financial planning and the allocation of resources across the organization, especially in the General Fund.

When the [Fiscal Sustainability Workplan \(CMR 10267\)](#) was approved by the City Council on April 22nd, 2019 drafting a budget development policy was listed as part of the “Newly proposed or potential activities proposed to be completed”. The inclusion of Budget Development Guidelines in this, and future years’, Long Range Financial Forecast represents staff’s recommended method of addressing this referral. Pairing Budget Development Guidelines with the Long Range Financial Forecast links the anticipated fiscal condition of the organization with the necessary context regarding service delivery prioritization and resource allocation that will be further explored through the process. Including the Budget Development Guidelines with

the Long Range Financial Forecast ensures that the City is able to proactively address anticipated changes in its fiscal condition through the budget process.

Conclusion

The FY 2021 – 2030 Long Range Financial Forecast provides context for balancing high city service expectations against the limited resources available to meet them in a timely manner. The City’s work over the past few years to structurally balance the budget has better positioned the City through the forecast with relatively minor deficits projected, even as the City makes proactive pension contributions, and as costs for salaries and benefits continue to escalate. However, the City must continue to exercise diligence to remain fiscally sustainable and balance the ecosystem of resources, the cost of doing business, and service delivery levels. A continued scrutiny of the expansion and enhancement of existing services, the addition of new services, and the priorities of the community will be necessary, especially as a slowing of the economy is anticipated in the coming years. As the Finance Committee and Council continue to discuss major projects such as pension, infrastructure, and grade separation, the ability to manage expectations and implement innovative solutions will be critical. A prioritization of needs and one-time investments to modernize and advance service delivery models will be necessary to ultimately ensure that we operate within available resources. These strategies are essential to sustaining the City’s sound financial future.

STAKEHOLDER ENGAGEMENT

The Long Range Financial Forecast represents the beginning of the fiscal year 2021 budget development process. As in previous years, the LRFF will be discussed with the City Council after Finance Committee and those conversations will provide direction to staff in the budget development process. It is anticipated that conversations with City Council and the community will occur through public budget hearings in Spring 2020, according to the standard budget adoption process.

RESOURCE IMPACT

Financial implications from this report and input from the Finance Committee will be considered in the City Manager’s development of the Fiscal Year 2021 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 Forecast Base Case Revenues Table
- Attachment B: Long Range Financial Forecast Base Case Expenses Table
- Attachment C: FY 2021 Budget Development Guidelines

Revenue & Other Sources	Adopted 2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	CAGR 10 Years
Sales Taxes	\$34,346	\$37,595	\$39,149	\$40,670	\$42,169	\$43,682	\$45,162	\$46,701	\$48,326	\$50,075	\$51,842	4.2%
Property Taxes	48,634	52,863	55,034	57,061	59,303	62,393	66,193	70,344	74,952	80,102	85,668	5.8%
Transient Occupancy Tax- General Purpose	17,534	16,896	17,344	17,838	18,356	18,906	19,494	20,089	20,716	21,422	22,251	2.4%
Transient Occupancy Tax- Infrastructure	11,774	14,576	14,963	15,389	15,835	16,310	16,818	17,331	17,871	18,481	19,196	5.0%
Documentary Transfer Tax	8,369	7,952	8,189	8,428	8,666	8,957	9,264	9,590	9,936	10,297	10,694	2.5%
Utility Users Tax	17,581	18,199	18,962	19,804	20,354	20,859	21,465	22,156	22,815	23,222	23,626	3.0%
Other Taxes and Fines	2,032	1,989	1,989	1,989	1,989	1,989	1,989	1,989	1,989	1,989	1,989	-0.2%
Subtotal: Taxes	140,270	150,071	155,630	161,180	166,673	173,097	180,386	188,200	196,605	205,589	215,266	4.4%
Charges for Services	21,834	21,180	21,637	21,988	22,290	22,578	22,723	22,861	23,151	23,423	23,633	0.8%
Stanford Fire & Dispatch Services	7,885	8,127	8,466	8,758	9,005	9,233	9,396	9,587	9,819	10,038	10,176	2.6%
Permits and Licenses	9,076	8,990	8,997	9,003	9,008	9,012	9,015	9,017	9,021	9,026	9,029	-0.1%
Return on Investments	1,388	1,850	1,822	1,844	1,869	1,896	1,950	2,006	2,065	2,127	2,196	4.7%
Rental Income	16,399	15,590	15,088	15,480	15,884	16,300	16,728	17,169	17,623	18,091	18,573	1.3%
From Other Agencies	980	520	520	520	520	520	520	520	520	520	520	-6.1%
Charges to Other Funds	10,908	11,577	11,948	12,290	12,586	12,865	12,962	13,031	13,320	13,586	13,628	2.3%
Other Revenue	2,362	2,259	2,260	2,260	2,261	2,262	2,263	2,264	2,264	2,265	2,266	-0.4%
Total Non-Tax Revenue	70,832	70,093	70,737	72,143	73,423	74,666	75,555	76,454	77,784	79,076	80,022	1.2%
Operating Transfers-In	20,999	21,363	21,990	22,485	22,988	23,555	24,087	24,652	25,236	25,823	26,440	2.3%
BSR Contribution (One-Time)												
Golf Operating Loss Reserve Liquidation												
Total Source of Funds	\$232,101	\$241,527	\$248,358	\$255,808	\$263,083	\$271,318	\$280,028	\$289,307	\$299,625	\$310,488	\$321,728	3.3%

Revenue & Other Sources	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Sales Taxes	9.0%	4.1%	3.9%	3.7%	3.6%	3.4%	3.4%	3.5%	3.6%	3.5%
Property Taxes	8.4%	4.1%	3.7%	3.9%	5.2%	6.1%	6.3%	6.6%	6.9%	6.9%
Transient Occupancy Tax - General Purpose	-3.9%	2.7%	2.9%	2.9%	3.0%	3.1%	3.0%	3.1%	3.4%	3.9%
Transient Occupancy Tax - Infrastructure	26.1%	2.6%	2.8%	2.9%	3.0%	3.1%	3.1%	3.1%	3.4%	3.9%
Documentary Transfer Tax	-5.4%	3.0%	2.9%	2.8%	3.4%	3.4%	3.5%	3.6%	3.6%	3.9%
Utility Users Tax	3.5%	4.2%	4.4%	2.8%	2.5%	2.9%	3.2%	3.0%	1.8%	1.7%
Other Taxes and Fines	-2.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Subtotal: Taxes	6.9%	3.7%	3.6%	3.4%	3.9%	4.2%	4.3%	4.5%	4.6%	4.7%
Charges for Services	-3.0%	2.2%	1.6%	1.4%	1.3%	0.6%	0.6%	1.3%	1.2%	0.9%
Stanford Fire & Dispatch Services	3.1%	4.2%	3.4%	2.8%	2.5%	1.8%	2.0%	2.4%	2.2%	1.4%
Permits and Licenses	-0.9%	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%	0.1%	0.0%	0.0%
Return on Investments	24.3%	-1.5%	1.2%	1.4%	1.4%	2.8%	2.9%	2.9%	3.0%	3.2%
Rental Income	-4.9%	-3.2%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.7%	2.7%
From Other Agencies	-46.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Charges to Other Funds	6.1%	3.2%	2.9%	2.4%	2.2%	0.8%	0.5%	2.2%	2.0%	0.3%
Other Revenue	-4.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Non-Tax Revenue	-1.0%	0.9%	2.0%	1.8%	1.7%	1.2%	1.2%	1.7%	1.7%	1.2%
Operating Transfers-In	1.7%	2.9%	2.2%	2.2%	2.5%	2.3%	2.3%	2.4%	2.3%	2.4%
BSR Contribution (One-Time)										
Golf Operating Loss Reserve Liquidation										
Total Source of Funds	4.0%	2.8%	3.0%	2.8%	3.1%	3.2%	3.3%	3.6%	3.6%	3.6%

FY 2021-2030 General Fund Long Range Financial Forecast Base Case Expense Table

Expenditures & Other Uses	Adopted											CAGR 10 Years
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
Salary	\$ 75,506	\$ 78,289	\$ 81,100	\$ 83,509	\$ 85,774	\$ 88,007	\$ 90,051	\$ 91,973	\$ 93,882	\$ 95,790	\$ 97,702	2.6%
Benefits	59,042	62,695	65,921	69,089	71,631	73,917	74,743	75,642	78,340	80,726	82,123	3.4%
Subtotal: Salary & Benefits	134,548	140,985	147,022	152,598	157,405	161,924	164,794	167,615	172,222	176,515	179,825	2.9%
Contract Services	23,429	23,832	24,355	24,998	25,607	26,224	26,862	27,520	28,188	28,878	29,589	2.4%
Supplies & Material	3,365	3,343	3,432	3,524	3,619	3,715	3,815	3,917	4,022	4,130	4,240	2.3%
General Expense	12,089	11,267	12,509	12,676	12,818	13,071	13,090	13,413	14,079	14,356	14,535	1.9%
Rents & Leases	1,734	1,762	1,777	1,793	1,809	1,825	1,843	1,860	1,878	1,897	1,916	1.0%
Facilities & Equipment	771	516	530	544	559	574	589	605	621	638	655	-1.6%
Allocated Charges	20,889	22,065	22,551	23,120	23,670	24,197	24,755	25,348	25,947	26,425	26,861	2.5%
Committed Additions		223	674	708	728	764	787	825	849	890	916	
Total Non Sal/Ben Before Transfers	62,277	63,009	65,828	67,363	68,811	70,372	71,740	73,489	75,584	77,215	78,712	2.4%
Operating Transfers-Out	5,023	4,317	4,411	4,508	4,607	4,708	4,817	4,923	5,037	5,154	5,268	0.5%
Transfer to Infrastructure - Base/Cubb	17,187	17,561	17,945	18,337	18,739	19,152	19,575	20,009	20,455	20,912	21,381	2.2%
Transfer to Infrastructure - TOT	11,774	14,576	14,963	15,389	15,835	16,310	16,818	17,331	17,871	18,481	19,196	5.0%
Total Use of Funds	\$230,809	\$240,447	\$250,168	\$258,194	\$265,396	\$272,465	\$277,743	\$283,366	\$291,169	\$298,276	\$304,382	2.8%

Expenditures & Other Uses	Adopted										
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Salary		3.7%	3.6%	3.0%	2.7%	2.6%	2.3%	2.1%	2.1%	2.0%	2.0%
Benefits		6.2%	5.1%	4.8%	3.7%	3.2%	1.1%	1.2%	3.6%	3.0%	1.7%
Subtotal: Salary & Benefits		4.8%	4.3%	3.8%	3.2%	2.9%	1.8%	1.7%	2.7%	2.5%	1.9%
Contract Services		1.7%	2.2%	2.6%	2.4%	2.4%	2.4%	2.5%	2.4%	2.4%	2.5%
Supplies & Material		-0.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%
General Expense		-6.8%	11.0%	1.3%	1.1%	2.0%	0.1%	2.5%	5.0%	2.0%	1.2%
Rents & Leases		1.6%	0.9%	0.9%	0.9%	0.9%	0.9%	1.0%	1.0%	1.0%	1.0%
Facilities & Equipment		-33.0%	2.6%	2.7%	2.7%	2.7%	2.7%	2.7%	2.6%	2.7%	2.7%
Allocated Charges		5.6%	2.2%	2.5%	2.4%	2.2%	2.3%	2.4%	2.4%	1.8%	1.6%
Committed Additions		N/A	202.6%	5.0%	2.9%	4.9%	2.9%	4.9%	2.9%	4.8%	2.9%
Total Non Sal/Ben Before Transfers		1.2%	4.5%	2.3%	2.1%	2.3%	1.9%	2.4%	2.9%	2.2%	1.9%
Operating Transfers-Out		-14.1%	2.2%	2.2%	2.2%	2.2%	2.3%	2.2%	2.3%	2.3%	2.2%
Transfer to Infrastructure - Base/Cubb		2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%
Transfer to Infrastructure - TOT		23.8%	2.6%	2.8%	2.9%	3.0%	3.1%	3.1%	3.1%	3.4%	3.9%
Total Use of Funds		4.2%	4.0%	3.2%	2.8%	2.7%	1.9%	2.0%	2.8%	2.4%	2.0%

FY 2021 Budget Development Guidelines

- 1) Develop a structurally balanced budget that brings ongoing revenues and expenses into alignment. Develop a plan for any structural imbalance to ensure that the City maintains its fiscal sustainability over the short, medium, and long-term.
- 2) Allocate one-time resources for one-time needs rather than committing one-time resources to ongoing services. Examine appropriate uses of revenue surpluses that exceed forecasted levels including planning for recession needs.
- 3) Ensure appropriate resource allocation for City Council's existing priorities.
- 4) Focus on business process redesign to enhance quality, flexibility, and cost-effectiveness of service delivery (include examining opportunities to streamline, simplify, reorganize, and reallocate resources to avoid duplication of effort).
- 5) Explore alternative service delivery models (such as partnerships with non-profits or other public/private sector groups) to minimize overlap, maximize cost share, and effectively use resources.
- 6) Continue to thoroughly analyze non-personnel/equipment/other costs, such as contract services, for cost savings opportunities.
- 7) Explore the expansion of existing revenue sources or the addition of new revenue sources, including the alignment of existing charges for services and the opportunity to establish new fees, when appropriate.
- 8) Continue to analyze and prioritize resource augmentations, seeking to offset augmentations with reductions elsewhere for net-zero impacts to the budget whenever possible.