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EXECUTIVE SUMMARY

INTRODUCTION

This report presents an analysis of the fiscal impacts of land uses in Palo Alto as part of the City's Comprehensive Plan Amendment process. It provides an analysis of existing fiscal conditions and recent trends in the City's General Fund budget and departmental service delivery.

The City's Midyear General Fund budget reflects a revenue deficit of approximately \$5.2 million. Some revenue¹ highlights contained in the City's Midyear Budget include:

- General Fund revenue decrease of \$5.2 million, or 4.0 percent.
- Property tax revenue increase of \$1.6 million, or 6.8 percent.
- Sales tax revenue decrease of \$2.1 million, or 9.5 percent.
- Transient occupancy tax (TOT) revenue decrease of \$0.7 million, or 7.4 percent. Despite an increase in the tax rate from 10 percent to 12 percent effective January 2008, occupancy rates declined from about 75 percent to 69 percent.
- Utility users tax revenue increase of \$241,000, or 2.2 percent.

As a result of the revenue changes, the City's expenditures² were also reduced \$5.2 million. About half of the decrease is due to non-personnel cost reductions and the remainder is accomplished by leaving vacant positions unfilled.

The City is able to maintain a balanced budget through the use of reserves, which are adequate to meet city reserve policies despite the reduction in revenues. Significant fiscal challenges await, however, as the City needs to identify funding for the existing infrastructure backlog, increasing medical insurance costs, completion of the new Public Safety Building, and improvements in library services and facilities. The current economic and fiscal crisis will continue to impact the City's revenues and further deficits are forecast for next year's budget.

FISCAL IMPACTS OF EXISTING LAND USES

Based on the 2008 inventory of housing, employment, and population for Palo Alto, ADE has estimated the fiscal impact of major land use types on the City budget

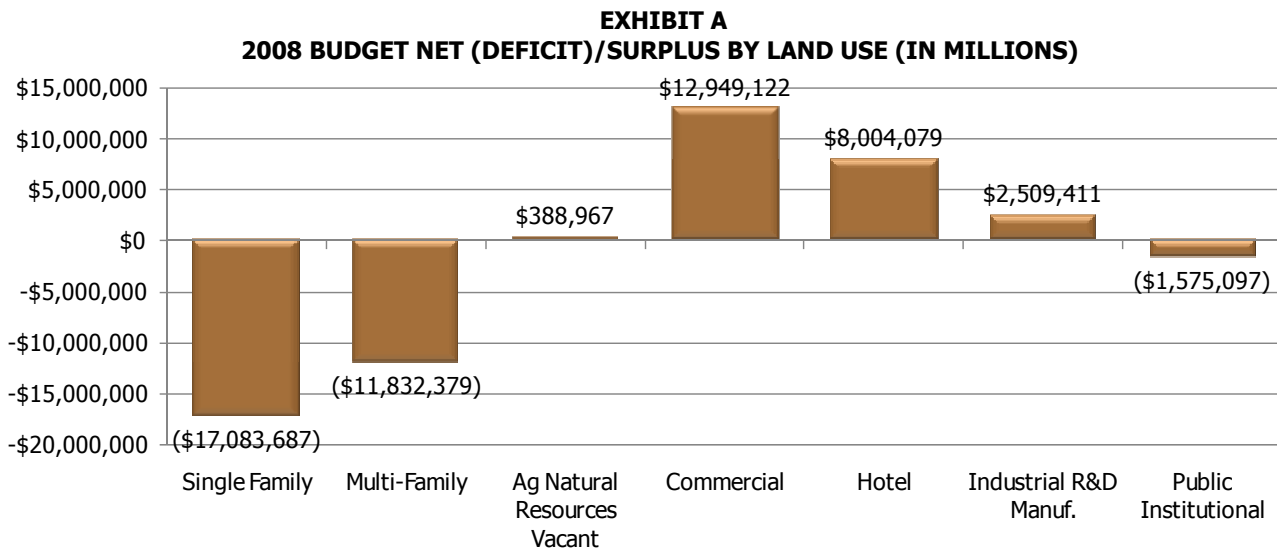
¹ City of Palo Alto Midyear Budget 2008-2009.

² City of Palo Alto Midyear Budget 2008-2009.

(Exhibit A). As is typical for most California cities, the commercial land uses help to support the municipal services provided to residential neighborhoods in the City.

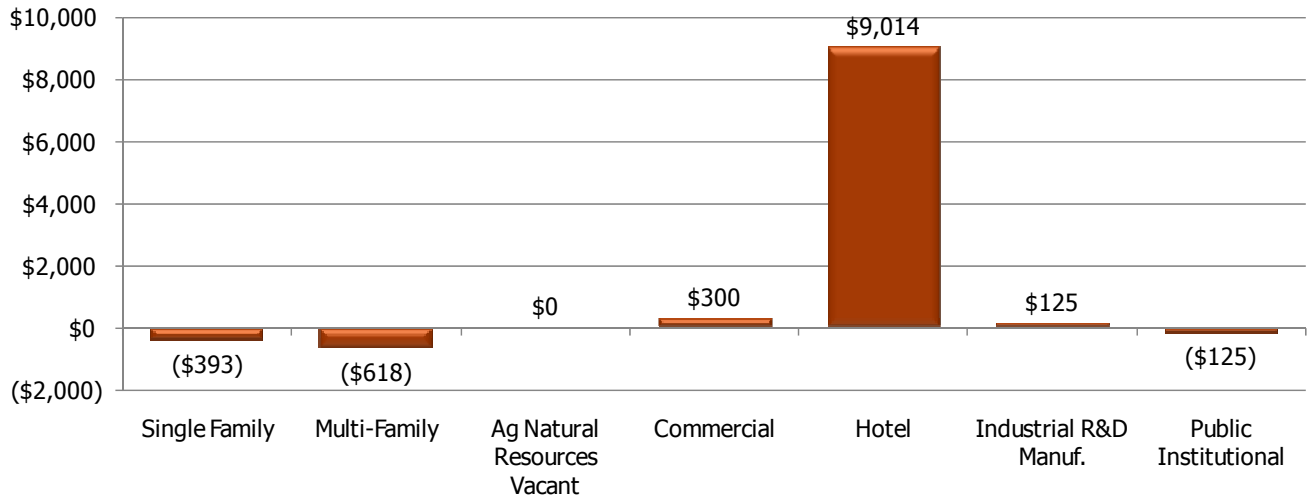
Property taxes alone do not pay the full cost of municipal services, mainly because the City receives only a portion of the taxes paid by property owners. The rest goes to the County, the school district and other local taxing agencies that also provide services to Palo Alto residents. Therefore, most cities, including Palo Alto, rely on sales taxes and other revenues to help balance the budget and to fund the services and amenities desired by the community. This situation reflects the importance of the City's economic base, which provides the revenues needed to operate the City.

While Exhibit A shows the total fiscal net revenue or cost for the major land use categories, Exhibit B breaks this down per resident or employee within each land use. While single family residential uses have a larger total fiscal impact, at minus \$17.1 million per year, this is primarily due the much greater number of single family homes in the City compared to multi family units. On a per resident basis, the single family net cost is lower at \$393 per person compared to \$618 per person for the multi-family units. This is a result of the fact that the average property tax per unit for single family houses is about \$946 compared to about \$115 for multi-family units. Again, these figures reflect revenues received by the City, not the total tax bill of the property owners.



Source: ADE, Inc.

**EXHIBIT B
2008 BUDGET NET (DEFICIT)/SURPLUS PER PERSON OR EMPLOYEE BY LAND USE**



Source: ADE, Inc.

Commercial land uses provide the best fiscal result, primarily on the strength of the sales taxes generated by retail businesses. The lodging industry is a strong second based on the Transient Occupancy Tax (TOT) revenues it generates. These two revenues alone total more than \$28.0 million in annual revenue for the General Fund. In terms of employment, retail business accounts for less than 30 percent of the commercial land use category, with the balance being office uses and service commercial businesses. Yet it is the retail businesses that generate most of the sales tax from this category.

CONCLUSION

This analysis provides a broad framework for considering the relative fiscal impacts of major land use types in Palo Alto. The fact that the average residential unit does not generate sufficient revenue to pay for all the services the City provides is due in large part to the inadequacy of the property tax as a funding source for municipal services. New, higher value, housing usually does pay for itself, but the assessed values do not keep pace with cost escalations in City services. For this reason, it is critical for the City to continue to maintain and expand the revenue capacity of its commercial districts. The sales tax is a much greater hedge against inflation than the property tax over the long term.

At the same time, it is important to provide affordable housing. In addition to the social benefits of mixed income communities, affordable housing allows service workers to reside near the businesses that wish to employ them. The City's revenue base would benefit from development strategies that provide a mix of higher value and

affordable units. For example, this may be done in projects that provide higher densities and which feature mixed use designs.

Business Park, office, and industrial uses are important for the property and sales taxes they generate but also for the incomes they create. Higher incomes, in stable jobs, help to support higher retail spending and higher residential values in the community. Although the fiscal benefits of good jobs are more indirect than the sales tax from retail jobs, the jobs base is an essential foundation for the City's economic vitality.

In conclusion, it is important to consider that the goal of the City should be to achieve a sustainable balance of land uses, recognizing that the inherent constraints for some land uses to generate public revenues do not necessarily outweigh other benefits of those uses.

INTRODUCTION

ADE has been retained by the City of Palo Alto to complete an analysis of the fiscal impacts of proposed land use alternatives developed for the Comprehensive Plan Amendment. Land use policy decisions have a significant impact on the City's General Fund fiscal condition, the City's ability to provide essential services to residents, and, ultimately, the cost for providing those services.

This report represents the initial phase in our analysis, including a review of 1) the City's fiscal condition, 2) the trends in service delivery by City Departments and 3) the results of fiscal modeling of how existing land uses affect the City's operating budget.

ADE has developed a fiscal impact model that addresses City operating revenues and expenditures. The model is used to analyze how general land use categories affect demand for City services and how they contribute to the City tax and revenue base. The model includes the City General Fund, Enterprise Funds³ and Special Revenue Funds. However, it does not attempt to project demand for, or the cost of, capital improvements, as this requires engineering studies. Another reason for this is that the model is designed to estimate average annual cost/revenue impacts of the land uses, and capital expenditures related to specific projects or facilities generally occur as one-time costs that are not repeated annually. The analysis does include General Fund contributions to the Capital Fund, which typically are used for long-term maintenance items rather than capacity-expanding capital projects.

For similar reasons, the model also does not address the costs and revenues associated with the entitlement and building process for new development. The City charges fees to cover planning and building services, which each development pays once as it completes the entitlement and building process. The fiscal analysis is more concerned with the issue of whether the service demands of occupied developments in the City are supported adequately by the ongoing tax and fee revenues generated by the developments. Consequently, although the model includes the Enterprise and Special Revenue Funds, it focuses on the General Fund, which is dependent on tax revenues over which the City has limited, if any, control.

Throughout the State, the reduced growth in property tax revenues due to Proposition 13 and the increasing reliance among cities and counties on sales tax has shifted the fiscal balance in favor of commercial land uses. In Palo Alto, sales tax revenues are nearly equal to property tax revenues, although the property tax has been

³ Enterprise Funds include services like utilities and solid waste collection, for which the City charges fees to all users of the service. The user fees pay for nearly all costs to provide the service. This is different than the General Fund, which relies on general tax revenues for much of its revenue.

growing faster than the sales tax in recent years. As will be described later in the report, existing non-residential land uses are generating enough revenue to offset the fiscal deficit created as a result of the City's providing the existing levels of service to Palo Alto residents. This illustrates the fact that a strong commercial sector is needed to provide the revenue base to support neighborhood services and the public amenities desired by the community.

The recent economic turmoil affecting real estate and commercial markets has had a negative affect on Palo Alto's revenue generation, requiring the City to make difficult decisions about the allocation of resources, the prioritization of those resources, and potentially achievable service levels. This issue is the subject of the next section of the report.

CITY BUDGET AND SERVICE TRENDS

CURRENT PALO ALTO BUDGET

The City of Palo Alto's budget reflects the current fiscal condition of the city, based on an estimation of future revenues and expenditures, a prioritization of service objectives, and policy decisions of management and elected officials as to where fiscal resources are allocated. Like most California cities, Palo Alto is financed through a complex variety of revenue sources such as taxes (property and sales and use tax), intergovernmental subventions (County, State, and federal governments), and fees, charges, and assessments (assessment district fees, utility fees, service and user fees, and others). The imposition of statewide and local taxing policies and local policies regarding land use impact the revenue sources for the city. A higher concentration of housing results in a greater level of property tax revenue, but also a higher level of public service demands. Inversely, a higher concentration of commercial/industrial development where sales of tangible property occur generally results in a greater amount of sales and use tax revenue. Therefore, a community's historic physical development, along with its existing land use policies, greatly impact the community's fiscal condition and ability to provide services to local residents. Palo Alto's current fiscal condition is a reflection of past and current impacts of land use policies.

The majority of the City of Palo Alto's General Fund revenues come from property tax, sales tax, and use tax. Property tax is an ad-valorem⁴ tax on real property, subject to limitations placed on the tax by voters through Proposition 13. Property tax is collected locally at the County level, then after a complex accounting by the County Auditor, a portion of it is allocated to the City in which the property resides. Local communities can approve additional property taxes above the statewide rate upon two-thirds voter approval.

Sales tax is paid by individuals at the time of purchase of tangible property (several exceptions exist for re-sales, interstate sales, food for home consumption sales, etc.) on a statewide rate and a countywide rate. Use tax is similar but is paid by businesses on equipment purchases. Cities and counties can also approve additional sales taxes in 0.25 percent increments above the established rates. Again, statewide policies such as Proposition 57 (California Economic Recovery Bond Act of 2004) and Proposition 172 (Local Public Safety Protection and Improvement Act of 1993) impact the actual

⁴ A tax based on the assessed value of real estate or personal property. Ad valorem taxes can be property tax or even duty on imported items. Ad valorem property taxes are the major source of revenue for state and municipal governments (Investopedia 2008).

sales and use tax rate as well as the apportionment of the sales and use tax revenue to cities and counties.⁵

GENERAL FUND REVENUES AND EXPENDITURES

ADE’s analysis of the City’s existing fiscal condition reflects the City’s FY 2008-2009 Midyear General Fund budget, which projects a General Fund deficit of approximately \$5.2 million (Table 1). The adopted FY 2008-2009 budget anticipated a revenue surplus of \$1.26 million, but as economic conditions worsened, the City has experienced lower levels of sales tax and other revenues. This will affect the level of service expenditures the City can sustain as all City Departments are experiencing reductions in their budgets.

**TABLE 1
PALO ALTO FY 08-09 GENERAL FUND**

GENERAL FUND REVENUES	
Property Tax	\$25,075,000
Sales Tax	\$20,265,000
Transient Occupancy Tax	\$7,700,000
Utility Users Tax	\$11,024,000
Other taxes and Fines	\$6,139,000
Charges for Services	\$19,762,000
Permits and Licenses	\$5,347,000
Return on Investment	\$1,900,000
Rental Income	\$13,082,000
Revenue from Other Agencies	\$821,000
Charges to Other Funds	\$10,999,000
Other Revenue	\$1,559,000
Operating Transfers In	\$22,136,000
Total General Fund Revenues	\$145,809,000
ENTERPRISE AND SPECIAL REVENUE FUNDS	
Enterprise	\$395,071,000
Special Revenue	\$8,645,000
Enterprise and Special Revenue Fund	
Subtotal	\$403,716,000
SUBTOTAL	\$549,525,000
GENERAL FUND EXPENDITURES	
General Government	\$20,910,000
Community Services	\$21,509,000
Fire	\$24,672,000
Library	\$6,598,000
Planning and Community Environ.	\$10,710,000
Police	\$30,044,000
Public Works	\$13,847,000
Non-Departmental	\$5,890,000
Operating Transfers Out/Infrastructure	\$16,817,000
Total General Fund Expenditures	\$150,997,000
TOTAL GENERAL FUND-DEFICIT	(\$5,188,000)

Source: ADE, Inc., based on City of Palo Alto Fiscal Year 2009

Adjusted Budget. Discussion Paper Attachment 1, Exhibit A. March 10, 2009

⁵ The League of California Cities. “A Primer on California City Finance”.

CITY DEPARTMENTAL SERVICES ANALYSIS

An analysis of the City's current fiscal condition needs to include an examination of each department's service level standards and performance. The Comprehensive Plan provides general goals related to service delivery, but the specific service standards and performance measures for each Department are provided in the City Budget. In addition, the City Auditor prepares an annual report indicating the service levels and expenditures for each Department. The most recent Auditor's report available provides data from FY 2003-04 through FY 2007-08.

The more recent budget adjustments mentioned above are not reflected in the auditor's report. About half of the expenditure reductions included in the midyear budget are non-personnel costs, while the other half are the result of leaving currently vacant positions unfilled. Therefore, while the City is not reducing existing staff in many cases, it is also not able to improve staffing levels as had been anticipated last year.

During this period, the City population increased 5.0 percent while the general rate of inflation was 13 percent over the five years. Therefore, an overall increase of 18.0 percent would have been necessary to maintain pace with service demand increases and cost inflation. In fact, the total increase in General Fund spending was about 23 percent, although there is significant variation among individual departments. Per capita spending was up about 18 percent, well above the rate of inflation.

Although without the recent budget reductions, the number of authorized staff positions would have been replenished this past year to nearly match the levels of five years ago, on a per capita basis, there are five percent fewer City employees per resident than five years ago. General Fund salaries and wages outpaced inflation by two percent while overtime expenditures and employee benefits increased at two to three times the rate of inflation. Overall employee costs as a percent of General Fund expenditures increased by one percent over the five years. One of the Community Services goals in the Comprehensive Plan is to improve the efficiency of providing municipal services. Staff reductions can be an outcome of efficiency improvements but may also indicate reduced funding availability. In Palo Alto, it appears that limiting expansion of staff has not resulted in cost reductions, since more overtime was needed to meet service demands. In addition, benefit cost increases were likely the result of external cost pressures or negotiated labor agreements.

The 2007-08 budget showed a 10 percent increase in expenditures over the 2006-07 levels, which included increases across nearly every Department. About one-quarter of the increase was due to transfers to the Capital Fund. The current budget, however, shows a 0.3 percent decrease from the 2007-08 levels. This is in part due to the prior completion of pre-payments to the Storm Water Fund, but there are also reductions in the operating budgets of several of the departments.

The City conducts citizen satisfaction surveys each year in connection with the National Research Center, Inc. In 2008, 85 percent of Palo Alto respondents rated City services as good or excellent. This was down five percent from five years ago. In addition, there was a significant drop in the percentage of respondents who feel they receive good value for the taxes they pay. It appears that the increased difficulty the City had in maintaining service expenditures and staffing levels had become apparent to at least some Palo Alto residents.

The following sections for each Department outline the services provided, the standards used to measure service effectiveness, and the recent cost trends for each Department. More information about the facilities operated by City Departments, as well as the Palo Alto Unified School District and other educational agencies, may be found in the Community Services Background Report by Design, Community & Environment (DC&E).

COMMUNITY SERVICES

Departmental Services and Budget Trends

This Department has five major divisions: 1) Arts and Culture; 2) Cubberly Community Center and Human Services; 3) Parks and Golf; 4) Open Space; and 5) Recreation and Youth Services. Between FY 2003-04 and FY 2007-08, the total Department budget increased 11 percent, but the budgets for maintenance of open space only increased two percent while human services functions increased five percent. Staffing levels decreased about four percent (Table 2).

**TABLE 2
COMMUNITY SERVICES DEPARTMENT BUDGET TRENDS**

Budget Indicator	2003-04	2007-08	Percent Change
Operating Expenditures			
Arts and Sciences [a]	\$3.0 mil	\$4.4 mil	48%
Open Space and Parks	\$6.7 mil	\$6.8 mil	2%
Recreation and Golf	\$6.0 mil	\$6.4 mil	6%
Cubberly Com. Ctr./Human Svcs	\$3.5 mil	\$3.7 mil	5%
Total Op. Expense	\$19.1 mil	\$21.2 mil	11%
Op. Expense Per Capita	\$316 mil	\$335 mil	5%
Dept. Revenue	\$8.8 mil	\$9.8 mil	12%
Total Staffing	152	147	-4%

[a] Budget increase reflects in part recent reorganization, not necessarily increase in service levels.

Source: Palo Alto City Auditor, Service Efforts and Accomplishments Report, 2007-08. January 2009. p. 29.

In the 2008-09 City Budget, the Community Services Department indicates that it intends to focus more on revenue generating classes rather than free services. It also anticipates undertaking a comprehensive service mapping process in order to identify gaps in services and to better allocate limited resources.

Service Standards

The City has a number of park standards that relate the size and proximity of parks to the resident population and neighborhoods. According to the 2008-09 City Budget, the City currently operates and maintains 3,744 acres of open space. As noted in the Community Services Background Report, while this is a high acreage figure, the City still does not meet all of its standards in terms of the size of neighborhood parks and proximity of parks to residential neighborhoods.

The Department also tracks usage of its facilities and programs and benchmarks its budget to the level of customer satisfaction with its services, as shown in Table 3. During the five year period in the Auditor's Report, there was an 18 percent decline in recreation classes and camps offered by the City, and a 16 percent decline in participation, although enrollments in open space interpretive classes more than doubled. Through collaboration with a number of non-profits groups, the City has seen an acceleration in the native plant restoration projects. The number of golf rounds dropped by 11 percent, although the golf course continues to generate enough revenue to maintain operations. In the Arts and Culture arena, participation in

Children’s Theater programs and enrollments in Arts Center classes had been increasing, but then declined this past year to levels below those of 2003-04. Other theater and exhibition attendance also declined. Finally, the hours that Cubberly Community center is rented declined three percent and the level of Human Services grants to local non-profits declined nine percent.

**TABLE 3
COMMUNITY SERVICES DEPARTMENT SERVICE INDICATORS**

Service Indicator	2003-04	2007-08	Percent Change
Program Accomplishments			
Number of classes/camps offered*	1,065	874	-18%
Total enrollment*	22,665	19,018	-16%
Foothills Park Visitors	139,787	135,001	-3%
Native Plant Restoration	8,484	13,893	64%
Park Maintenance Cost per Acre*	13,017	15,931	22%
Rounds of Golf	83,728	74,630	-11%
Cubberly Center Hours Rented*	33,392	32,288	-3%
Cubberly Rental Revenue*	\$0.7 mil	\$0.9 mil	21%
Human Services Grants	\$1.3 mil	\$1.2 mil	-9%
Customer Satisfaction			
Good/Excellent Rating for Youth Services*	68%	73%	5%
Good/Excellent Rating for Parks*	91%	89%	-2%
Good/Excellent Rating for Neigh. Park*	90%	86%	-4%
Good/Excellent Rating for Rec. Ctrs/Fac.*	84%	77%	-7%
Good/Excellent Rating for Rec. Programs*	86%	87%	1%
Good/Excellent Rating for Child Care	26%	28%	2%
Good/Excellent Rating for Senior Programs*	82%	81%	-1%

* Budget Benchmarking Measure.

Source: Palo Alto City Auditor, Service Efforts and Accomplishments Report, 2007-08. January 2009.

Unfortunately, in terms of customer satisfaction, many indicators also declined with the exception of youth services and access to child care. The overall assessment of recreation programs also increased one percent.

FIRE DEPARTMENT

Departmental Services and Budget Trends

The Fire Department has four major functions (with corresponding budget allocations):

- Emergency response – emergency readiness and response to medical, fire suppression, and hazardous materials incidents (75% of budget)
- Environmental and safety management - fire and hazardous materials code research, development and enforcement; fire cause investigations; public education; and disaster preparedness (10% of budget)

- Training and personnel management (10% of budget)
- Records and information management (5% of budget)

In addition to residents and business in Palo Alto, the Fire Department serves Stanford and the Stanford Linear Accelerator, for which Stanford pays a contract fee of about \$7 million. The Department collects another \$3.5 million in fees for paramedic services, fire inspections and other services. The remaining \$13.7 million in the Fire Department budget is funded by the City General Fund.

Operating expenditures for the Department increased 19 percent between 2002-03 and 2006-07 (Table 4). However, spending on emergency response and safety functions increased 30 percent and 35 percent, respectively, while funding for training and record management declined eight percent and 40 percent, respectively. Per capita expenditures overall increased 16 percent while Fire Department Non-General Fund revenue (such as Stanford service fees) increased 24 percent. During this five year period, citizen ratings of fire protection service improved about one to two percent. The 2008-09 budget is about 12 percent above actual expenditures in 2006-07.

Palo Alto has eight fire stations and handles more than 20 calls of all types per day. Only about three percent of these calls are actual fire situations, and nearly 18 percent are false alarm responses. Medical/rescue emergencies account for more than 50 percent of the calls. During the 2002-03 to 2006-07 period fire calls actually declined by 15 percent, while medical/rescue calls increased six percent.

**TABLE 4
FIRE DEPARTMENT BUDGET TRENDS**

Budget Indicator	2003-04	2007-08	Percent Change
Operating Expenditures			
Emergency response	\$13.7 mil	\$17.8 mil	30%
Environmental and Fire Safety	\$1.8 mil	\$2.6 mil	43%
Training and Personnel Mgmt	\$2.1 mil	\$2.5 mil	19%
Records and Information	\$1.2 mil	\$1.1 mil	-10%
Total Op. Expense	\$18.8 mil	\$24.0 mil	28%
Op. Expense Per Capita	\$255	\$313	23%
Dept. Revenue	\$7.9 mil	\$9.7 mil	23%
Total Staffing	129	128	-1%

Source: Palo Alto City Auditor, Service Efforts and Accomplishments Report, 2007-08. January 2009. p. 39.

Service Standards

The Department has two goals for fire suppression: 1) respond to 90 percent of fire emergencies within eight minutes and, 2) confine 90 percent of fires to their room of origin. In 2006-07, the Department did not quite meet these goals, responding to 87 percent of fire within eight minutes and confining 70 percent of fires to the room of origin (Table 5).

**TABLE 5
FIRE DEPARTMENT SERVICE INDICATORS**

Service Indicator	2003-04	2007-08	Percent Change
Program Accomplishments			
Total Calls for Service*	6,675	7,723	16%
Average Response Time for Fire Calls* [a]	5:15 minutes	6:48 minutes	30%
Emergency Responses Within 8 Minutes	90%	79%	-11%
Fires Confined to Room of Origin	62%	79%	17%
Average Response Time for Medical Calls [b]	5:47 minutes	5:24 minutes	-7%
Medical Responses Within 8 Minutes	94%	93%	-1%
Ambulance Response within 12 minutes [c]	99%	99%	0%
Number of Hazardous Materials Inspections*	259	406	57%
Fire/Bike/Disaster Safety Presentations*	199	242	22%
Customer Satisfaction			
Good/Excellent Rating for Fire Services*	97%	96%	-1%
Good/Excellent Rating for Fire Prevention	85%	87%	2%
Good/Excellent Rating for Emer. Med. Serv. [d]	95%	95%	0%
Good/Excellent Rating for Fire Prev./Educ.*	85%	87%	2%

* Budget Benchmarking Measure.

[a] Indicates reduction in service level.

[b] Indicates an increase in service level.

[c] Department has maintained a 99% response rate, which exceeds the service standard of 90%.

[d] Rating has remained constant at 95%.

Source: Palo Alto City Auditor, Service Efforts and Accomplishments Report, 2007-08. January 2009.

The Department has similar goals for medical responses, including responding to 90 percent of medical requests within eight minutes and 90 percent of paramedic calls for service within 12 minutes. It was able to achieve 92 percent response for medical requests and 97 percent for paramedic calls.

The number of facilities permitted for hazardous materials increased three percent between 2002-03 and 2006-07, but the percent of facilities inspected decreased 16 percent, along with general fire inspections, which decreased 24 percent. However, plan checks increased 31 percent and safety presentations to residents increased 15 percent.

LIBRARY

Departmental Services and Budget Trends

Palo Alto has five libraries, which permits a higher level of service than most nearby communities. About 81 percent of residents rate library services good or excellent, which places Palo Alto in the 54th percentile against the national sample of communities.

Library spending increased 28 percent between 2003-04 and 2007-08 (Table 6). The Department budget is projected to remain steady for 2008-09. Although the Library receives some fee revenue and outside grants, 95 percent of the Department budget is supported by the General Fund.

**TABLE 6
LIBRARY BUDGET TRENDS**

Budget Indicator	2003-04	2007-08	Percent Change
Operating Expenditures			
Public Services	\$3.0 mil	\$4.9 mil	63%
Collections /Tech. Services	\$2.3 mil	\$1.9 mil	-17%
Total Op. Expense	\$5.3 mil	\$6.8 mil	28%
Op. Expense Per Capita	\$89	\$108	22%
Total Staffing	54	57	4%

Source: Palo Alto City Auditor, Service Efforts and Accomplishments Report, 2007-08. January 2009. p. 45.

There has been a marked shift to more remote access of library materials and internet searches over recent years. Items delivered to homebound patrons and questions received by reference librarians have both declined while online database searches and internet sessions have increased dramatically. The library indicates that a little over 20 percent of circulation is to non-residents, which may be residents of adjacent communities or workers who are employed in Palo Alto but do not live there. This percentage has remained fairly constant over the past five years and is generally consistent with the level of non-resident circulation in other communities.

Service Standards

Service standards for the Library relate to the level of activity in the libraries and customer satisfaction with Library services (Table 7). Although the hours of operation of the libraries declined slightly and the number of library visits remained flat, circulation has increased considerably faster than the growth in population. In addition, the Library has added a number of family oriented programs, which has increased library usage.

**TABLE 7
LIBRARY SERVICE INDICATORS**

Service Indicator	2003-04	2007-08	Percent Change
Program Accomplishments			
Total Hours Open*	11,540	11,281	-2%
Total Circulation*	1,314,790	1,542,116	17%
Circulation Per Capita*	21.72	24.34	12%
Percent Palo Alto Residents Who Hold Cards*	57%	59%	5%
Number of Family Programs*	451	669	48%
Total Family Program Attendance*	33,994	37,955	12%
Customer Satisfaction			
Good/Excellent Rating for Library Services*	81%	76%	-5%
Good/Excellent Rating for Neigh. Branches	76%	71%	-5%
Good/Excellent Rating for Library Materials*	74%	67%	-7%

* Budget Benchmarking Measure.

Source: Palo Alto City Auditor, Service Efforts, and Accomplishments Report, 2007-08. January 2009.

PLANNING AND COMMUNITY ENVIRONMENT

Departmental Services and Budget Trends

This Department includes three main functions: 1) Planning and Transportation, which includes both advance planning and current planning as well as environmental and design review; 2) Building, which include review of all construction projects as well as ongoing code enforcement; and 3) Economic Development, which was relocated from the City Manager's Office in 2006.

As shown in Table 8, operating expenditures for this Department increased 13 percent from 2003-2008, driven mainly by increased Building Division costs due to high levels of development activity. Staffing levels decreased 11 percent, however, and per capita expenditures were lower than the inflation rate, while Departmental revenue increased 68 percent.

TABLE 8
PLANNING AND COMMUNITY ENVIRONMENT BUDGET TRENDS

Budget Indicator	2003-04	2007-08	Percent Change
Operating Expenditures			
Planning and Transportation	\$5.5 mil	\$5.5 mil	0%
Building	\$3.0 mil	\$3.9 mil	29%
Economic Development	-	-	[a]
Total Operating Expenditures	\$8.5 mil	\$9.6 mil	13%
Operating Expenditures Per Capita	\$141	\$152	8%
Departmental Revenue	\$3.5 mil	\$5.8 mil	68%
Total Staffing	61	54	-11%

[a] Moved from City Managers Office in 2006-07.

Source: Palo Alto City Auditor, Service Efforts and Accomplishments Report, 2007-08.
January 2009.

Service Standards

A number of measures are used in the City budget to track progress for the Planning and Community Environment Department (Table 9). In general, Planning activities were down during the 2003-2008 period while Building inspections and code enforcement cases increased. During the current recession, it may be expected that both types of activity will decline for a time.

**TABLE 9
PLANNING AND COMMUNITY ENVIRONMENT SERVICE INDICATORS**

Service Indicator	2003-04	2007-08	Percent Change
Program Accomplishments			
Planning Applications Completed*	409	257	-37%
Average Times to Complete Staff-Level Applications*	13.5 weeks	12.7 weeks	-6%
Percent Code Enf. Cases Resolved Within 120 Days*	94%	93%	-1%
Building Permits Issued*	3,236	3,046	-6%
No. of Building Inspections Completed*	13,310	22,820	71%
Percent Permit. Inspection Requests Within One Day*	93%	98%	5%
City Shuttle Boardings*	170,719	178,505	5%
Average Employees in City Commute Program*	127	114	-10%
Customer Satisfaction			
Good/Excellent Rating for Land Use/Zoning	48%	47%	-1%
Good/Excellent Rating for Economic Development	58%	63%	5%
Good/Excellent Rating for Code Enforcement [a]	59%	59%	0%
Good/Excellent Rating for Public Parking	56%	52%	-4%

* Budget Benchmarking Measure.

[a] 59% satisfaction rating same as 2003-04.

Source: Palo Alto City Auditor, Service Efforts and Accomplishments Report, 2007-08.
January 2009.

POLICE

Departmental Services and Budget Trends

The Police Department performs seven related functions:

- Field services – police response, critical incident resolution, regional assistance response, and police services for special events.
- Technical services - 911 dispatch and information management.
- Investigations and crime prevention services – police investigations, property and evidence, youth services, and community policing.
- Traffic services – traffic enforcement, complaint resolution, and school safety.
- Parking services – parking enforcement, parking citations and adjudication, and abandoned vehicle abatement.
- Police personnel services – police hiring, retention, personnel records, training, and volunteer programs.
- Animal services – animal control, pet recovery/adoption services, animal care, animal health and welfare, and regional animal services.

The Department provides dispatch services for the Fire, Utilities and Public Works Departments as well as fire-related dispatch for Stanford. Animal services are provided for Los Altos, Los Altos Hills and Mountain View, in addition to Palo Alto.

Police expenditures increased 30 percent between 2003-04 and 2007-08, with the largest increase in Field Services at 55 percent (Table 10). The current budget shows a 3.0 percent increase over last year.

**TABLE 10
POLICE DEPARTMENT BUDGET TRENDS**

Budget Indicator	2003-04	2007-08	Percent Change
Operating Expenditures			
Field Services	\$9.0 mil	\$13.9 mil	55%
Technical Services	\$5.3 mil	\$5.8 mil	8%
Investigations/Crime Prev.	\$2.7 mil	\$3.4 mil	27%
Traffic Services	\$1.4 mil	\$1.7 mil	18%
Parking Services	\$0.8 mil	\$0.9 mil	3%
Police Personnel	\$1.3 mil	\$1.1 mil	-18%
Animal Services	\$1.4 mil	\$1.7 mil	25%
Total Op. Expense	\$22.0 mil	\$28.5 mil	30%
Op. Expense Per Capita	\$363	\$449	24%
Dept. Revenue	\$5.1 mil	\$5.7 mil	12%
Total Staffing	177	169	-5%

Source: Palo Alto City Auditor, Service Efforts and Accomplishments Report, 2007-08. January 2009. p. 39.

While the total staffing for the Department declined five percent, the number of sworn officers has remained unchanged since 2003-04. However, with population growth, this has resulted in a ratio of 1.47 officers per 1,000 population, slightly below the City standard of 1.5.

Service Standards

Police Department service standards and recent performance are as follows (Table 11):

- Dispatch 95 percent of emergency calls within 60 seconds of receipt – met standard in 2007-08.
- Respond to 90 percent of emergency calls within 6 minutes – responded to only 81 percent of emergency calls within 6 minutes in 2007-08.
- Respond to 90 percent of urgent calls within 10 minutes – responded to 88 percent of urgent calls within 10 minutes in 2007-08.
- Respond to 90 percent of non-emergency calls within 60 minutes – met standard in 2007-08.

The number of police calls for service increased 12 percent during the past five years, more than double the rate of population growth. In terms of demands on traffic and parking services, traffic collisions decreased by 21 percent, and traffic citations decreased 13 percent although the number of traffic stops increased by 97 percent. During this time, parking citations increased six percent.

**TABLE 11
POLICE DEPARTMENT SERVICE INDICATORS**

Service Indicator	2003-04	2007-08	Percent Change
Program Accomplishments			
Total Calls for Service*	52,489	58,742	12%
Average Emergency Response Time* [a]	4:59 minutes	4:32 minutes	-9%
Average Urgent Response Time* [a]	7:55 minutes	7:02 minutes	-11%
Average Non-Emergency Response Time* [a]	-	24:06 minutes	-
Percent Emergency Within 6 Minutes [a]	72%	81%	9%
Percent Urgent Within 10 Minutes [b]	96%	88%	-8%
Percent Non-Emergency Within 60 Minutes [a]	96%	99%	3%
Traffic Collisions	1,429	1,122	-21%
Traffic Citations	7,301	6,326	-13%
Parking Citations	47,860	50,706	6%
Number of Palo Alto Animal Services Calls	3,575	3,059	-14%
Percent Animal Calls Response Within 45 Minutes [d]	98%	91%	-7%
Percent Dogs returned to Owner	80%	75%	-5%
Percent Cats Returned to Owner	11%	17%	6%
Customer Satisfaction			
Good/Excellent Rating for Police Services*	90%	84%	-6%
Good/Excellent Rating for Traffic Enforcement* [c]	64%	64%	0%
Good/Excellent Rating for Animal Services*	79%	78%	-1%

* Budget Benchmarking Measure.

[a] Indicates increase in or maintenance of service level.

[b] Indicates a decrease in service level.

[c] Department has maintained a 64% Good+ Response

[d] Although declining, Department still exceeds standard.

Source: Palo Alto City Auditor, Service Efforts and Accomplishments Report, 2007-08. January 2009.

Animal service expenditures increased 25 percent between 2003-04 and 2007-08, but Departmental revenue for this service, from fees and outside contracts, increased 29 percent. These revenues cover 70 percent of the Department's cost. Although the number of service calls has declined, the Department has increased the percentage of animals returned to their owners and received an approval rating of 78 percent from residents, placing Palo Alto in the 97th percentile among comparison jurisdictions. Animal service standards and recent performance are as follows:

- Respond to 90 percent of Palo Alto live animal calls within 45 minutes – responded to 91 percent in 2007-08.
- Return 80 percent of dogs to their owners – returned 75 percent in 2007-08.
- Return 12 percent of cats to their owners – returned 17 percent in 2007-08.

PUBLIC WORKS

Departmental Services and Budget Trends

The Department of Public Works provides some services through the General Fund and other services through various enterprise⁶ and internal services (e.g. vehicle and building maintenance) funds. The General Fund services include:

- Street construction and maintenance, including striping.
- Tree maintenance.
- Construction and maintenance of City structures and grounds.
- Engineering services.

Operating budgets for these services increased 31 percent from 2003-04 to 2007-08 and are projected for another three percent increase in the current budget.

Enterprise and internal services include refuse collection and disposal, storm drainage, wastewater treatment including the Regional Water Quality Control plant and vehicle replacement and maintenance. These funds have increased between 12 percent (storm drains) and 36 percent (City fleet maintenance) (Table 12). Overall staffing for the Public Works Department declined slightly during the five year period.

Service Standards

There are a wide range of service standards for this Department, as shown in Table 13.

Streets. Capital expenditures and the number of lane miles resurfaced have increased while the rate of repair of potholes has decreased in recent years. The percent of citizens rating street repair as good or excellent has remained fairly steady at 46 to 48 percent, placing Palo Alto in the 50th percentile among comparison agencies. Approval ratings for sidewalk maintenance have improved, however, as capital expenditures for sidewalks increased 30 percent between 2003-04 and 2007-08.

Trees. City expenditures on tree planting and maintenance were about \$2.3 million per year in 2002-03, but then declined to \$1.9 million and have now increased back to \$2.5 million in 2007-08. The number of City-maintained trees has decreased by about 100 trees, as annual plantings by the City and by Canopy (a non-profit organization) have dropped slightly from a high of more than 300 trees in 2002-03.

⁶ Enterprise Funds are those in which the service users are charged fees to pay for the service, rather than using general tax revenues.

TABLE 12
PUBLIC WORKS DEPARTMENT BUDGET TRENDS

Budget Indicator	2003-04	2007-08	Percent Change
Operating Expenditures			
Streets	\$1.9 mil	\$2.5 mil	27% [a]
Trees	\$1.9 mil	\$2.5 mil	33% [a]
Average Cost Per Tree Maintained	\$53.52	\$71.52	34%
City Facilities	\$4.2 mil	\$5.5 mil	31%
Maintenance Cost Per Sq.Ft. of City Facilities	\$1.32	\$1.52	15%
Engineering	\$1.8 mil	\$2.5 mil	39%
Storm Drains	\$2.3 mil	\$2.5 mil	12%
Wastewater Treatment	\$14.3 mil	\$18.1 mil	27%
Cost Per Million Gallons Wastewater Treated	\$1,647	\$2,123	29%
Refuse	\$24.1 mil	\$28.6 mil	19%
City Fleet	\$2.7 mil	\$3.7 mil	36%
Total Staffing			-1%

[a] Percent differences due to rounding of dollar figures.

Source: Palo Alto City Auditor, Service Efforts and Accomplishments Report, 2007-08. January 2009.

City Facilities. Maintaining and improving infrastructure continues to be one of the City Council’s top priorities. Operating expenditures for City facilities increased 31 percent between FY 2003-04 and FY 2007-08, although staffing levels decreased seven percent during this period. Other costs such as electricity and water increased substantially more than staff costs, in addition to the fact that the building square footage of City facilities increased about 11 percent through 2007-08.

Storm Drains. The cost of maintaining storm drains in Palo Alto is paid for through user charges to residents and businesses and is operated through an enterprise fund in the City budget. However, this fund was augmented by revenues from the General Fund for several years between 2002-03 and 2005-06, ranging in amounts from \$300,000 to \$900,000.

Wastewater Treatment. Similar to storm drains, this function is funded through an enterprise fund, into which residents and businesses pay monthly user charges. Operating revenues increased 55 percent between 2003-04 and 2007-08 while operating expenses increased 27 percent. In addition to treating Palo Alto’s wastewater, the Regional Water Quality Control Plant also treats wastewater from five other areas: Mountain View, Los Altos, Los Altos Hills, Stanford, and East Palo Alto.

Refuse. Solid waste collection, disposal and street sweeping are funded through the Refuse Enterprise Fund. Until this past year, fewer tons of material were land-filled and more were recycled. The Department reports that the 19 percent increase in costs for this service are the result of adjustments to garbage hauler contracts, wage increases, equipment upgrades, and other costs, some of which may be due to the transition to increased recycling. In addition, the volume of household hazardous materials collected increased 12 percent between 2003-04 and 2007-08.

City Fleet and Equipment. The Public Works Department maintains all City vehicles and equipment, including police and fire vehicles as well as construction and maintenance equipment. Operating and maintenance expenditures increased 36 percent between 2003-04 and 2007-08.

**TABLE 13
PUBLIC WORKS DEPARTMENT SERVICE INDICATORS**

Service Indicator	2003-04	2007-08	Percent Change
Program Accomplishments			
Number of Potholes Repaired*	2,907	1,977	-32%
Percent Potholes Repaired Within 15 Days*	80%	78%	-2%
Number of Signs Repaired/Replaced*	1,602	1,289	-20%
Square Feet of Sidewalks Permanently Repaired	115,352	83,827	-27%
Number of ADA Ramps Completed	67	27	-60%
Number of Trees Trimmed/Removed*	5,222	6,579	26%
Square Feet of City Facilities Maintained*	1,461,468	1,616,171	11%
Number of Private Development Permits Issued*	285	338	19%
Number of Permits Per FTE*	95	112	18%
Feet of Storm Drain Pipes Cleaned*	219,106	157,337	-28%
Calls for Assistance with Storm Drains*	126	80	-37%
Percent of Storm Drain Compliant Industrial Sites*	87%	65%	-22%
Wastewater Treated	8,238 gallons	8,510 gallons	3%
Customer Satisfaction			
Good/Excellent Rating for Street Repair*	46%	47%	1%
Good/Excellent Rating for Sidewalk Repair	50%	53%	3%
Good/Excellent Rating for Storm Drains*	57%	71%	14%
Good/Excellent Rating for Garbage Collection* [a]	92%	92%	0%

* Budget Benchmarking Measure.

[a] 92% constant satisfaction rating.

Source: Palo Alto City Auditor, Service Efforts and Accomplishments Report, 2007-08. January 2009.

LEGISLATIVE AND SUPPORT SERVICES

Departmental Services and Budget Trends

This function includes many of the General Government services that support direct services to the community, including the Administrative Services Department, Human Resources, the City Manager's Office, the City Attorney, City Clerk, City Auditor and the City Council. About 54 percent of these services is supported by General Fund tax revenues while 46 percent is supported by reimbursements, charges for services and other revenue generated directly by the departments.

During the 2003-04 to 2007-08 period, operating expenditures for most of these functions increased, ranging from 10 percent for the Administrative Services Department to 50 percent for the City Clerk (Table 14). In contrast, the City Council budget decreased 13 percent and the 2008-09 budget cuts about \$1 million from these general government departments over the prior year.

**TABLE 14
CITY ADMINISTRATION BUDGET TRENDS**

Budget Indicator	2003-04	2007-08	Percent Change
Operating Expenditures			
Administrative Services	\$6.7 mil	\$7.3 mil	10%
Human Resources	\$2.3 mil	\$2.7 mil	18%
City Manager	\$1.7 mil	\$2.25 mil	30%
City Attorney	\$2.4 mil	\$2.7 mil	12%
City Clerk	\$0.9 mil	\$1.3 mil	50%
City Auditor	\$0.7 mil	\$0.9 mil	24%
City Council	\$0.3 mil	\$0.2 mil	-13%
Authorized Staffing			
Administrative Services	102	101	-1%
Human Resources	15	16	1%
City Manager	11	12	6%
City Attorney	15	12	-23%
City Clerk	6	7	16%
City Auditor	4	4	10%

Source: Palo Alto City Auditor, Service Efforts and Accomplishments Report, 2007-08. January 2009.

Service Standards

In terms of service standards, a number of indicators are tracked in the City Budget for these Departments (Table 15).

**TABLE 15
CITY ADMINISTRATION SERVICE INDICATORS**

Service Indicator	2003-04	2007-08	Percent Change
Program Accomplishments			
Administrative Services			
Cash and Investments*	\$402.7 mil	\$375.7 mil	-7%
Rate of Return*	4.48%	4.45%	-0.03%
No. of Accts. Payable Checks Issued*	17,763	14,480	-18%
Percent Invoices Paid Within 30 Days*	80% est.	83% est.	3%
Number of Purchasing Documents Processed*	5,265	2,549	-52%
Human Resources			
No. of New Hires Processed*	51	157	208%
Percent of First Year Turnover*	7%	9%	2%
Citywide Training Hours Provided*	19,080	9,054	-56%
City Manager			
No. of City Manager Reports*	381	372	-2%
Percent Res. Reading PA Newsletter in Last 12 Mos.	62%	83%	21%
City Attorney			
No. of Claims Handled	130	160	23%
No. of Work Requests Processed	1,284	2,957	130%
City Clerk			
Avg. Time to Finalize City Council Minutes	4 weeks	6 weeks	50%
City Auditor			
No. of Audit Recommendations	85	56	-34%
Revenue Audit Recoveries	\$140,461	\$149,810	7%
Customer Satisfaction			
Good/Excellent Rating for Public Info. Services*[a]	76%	76%	0%

* Budget Benchmarking Measure.

[a] 76% satisfaction rating same as 2003-04.

Source: Palo Alto City Auditor, Service Efforts and Accomplishments Report, 2007-08. January 2009.

THE UTILITIES DEPARTMENT

The City of Palo Alto provides a number of utility services that in many other communities are provided by private companies, such as gas and electric services and fiber optic services. The Utilities Department is also responsible for potable water service and the wastewater collection system. Since all of these services are funded through user charges, rather than with General Fund tax revenues, this Department is not analyzed in detail in this report. The environmental analysis of future development for the Comprehensive Plan Update will address potential impacts to the capacities of these services.

CONCLUSION

The Departmental analysis suggests that meeting residents' public service needs is difficult given the revenue constraints Palo Alto faces, along with most California cities. While customer ratings are quite high for many services, the City has had to meet increasing service demands with stable or reduced staffing, and approval ratings have declined in recent years. Most Departments had seen funding decreases in the wake of the previous economic downturn, and had just begun to see some restored budget levels a year ago. Now with the current recession, it is likely the City will need to reduce service levels again until revenues can rebound.

FISCAL IMPACTS OF EXISTING LAND USES

DEVELOPMENT OF THE FISCAL MODEL

ADE has developed a model that correlates the existing land use pattern to the revenues and expenditures included in the existing City budget. The model was developed through analysis of the City budget and the City's existing resident population and local employment population. The model is used to calculate per-resident and per-employee revenue and cost factors based on the City's existing land use categories. ADE will subsequently use the model of the existing fiscal impacts of land use to develop cost-revenue factors for the analysis of future land uses as they are developed later in the Comprehensive Plan Update process. The fiscal impact model will incorporate details of land use type, density, and location to estimate fiscal impacts of the future land use alternatives for the Comprehensive Plan Update. Existing service areas and capacities will be addressed and issues related to the size, location, and density of development will be evaluated.

EXISTING LAND USE INVENTORY

Table 16 shows the estimated 2008 distribution of residential and non-residential land uses, along with the corresponding population and employment estimates. The derivation of these figures is the subject of a separate memorandum, but the figures generally reflect a 2008 estimate based on ABAG projections and State Department of Finance estimates.⁷

TABLE 16
SUMMARY OF 2008 LAND USE INFORMATION USED IN FISCAL MODEL

Land Use Category	Housing Units	Population
Residential		
<i>Single Family</i>	16,616	43,473
<i>Multi-Family</i>	11,322	19,145
<i>Group Quarters (Institutional)</i>		749
Residential Total	27,938	63,367
Non-Residential		Employment
<i>Agriculture/Natural Resources</i>		39
<i>Commercial</i>		47,176
<i>Industrial/R&D</i>		20,578
<i>Public/Institutional</i>		15,218
Non-Residential Total		83,011

Source: ADE, Inc. based on ABAG Projections 2007, State DOF, and US Census County Business Patterns.

⁷ Memorandum Regarding Baseline Land Use Projections, from Doug Svensson (ADE) to Dahlia Chazan (DCE). January 13, 2009.

The land use inventory in Table 16 is presented at a relatively general level of detail corresponding to major land use categories in the Comprehensive Plan. For the upcoming Concept Plan analysis for the Comprehensive Plan Update, the future land uses will be defined at a greater level of detail, including potentially different density levels or product types for residential uses.

BUDGET ADJUSTMENTS

The model incorporates the City budget information shown above in Table 1. However, the focus of this part of the analysis is on the ongoing costs and revenues generated by land uses on an annual basis. The fiscal model, therefore, does not include one-time revenues and associated costs related to new development and the land use entitlement process. Fees for building permits and plan checks are paid at the time new development occurs and those fees are intended to cover the staff time associated with providing those services. Once a new house is built, for example, it does not pay a building permit fee again unless a major renovation is undertaken. For this reason, these kinds of revenues and associated service are removed from this particular analysis.

Similarly, we have removed one-time grant revenue as well as revenue from service contracts to entities outside the City of Palo Alto, such as Stanford University, and the cities for which Palo Alto provides Animal Services. Finally, the capital budget is not included in this analysis, since these expenditures are typically more of a one-time nature. A complete listing of all these kinds of budget adjustments is shown in Appendix A.

PER CAPITA COST/REVENUE FACTORS

A central feature of the fiscal model is a set of expenditure and revenue factors per resident and per business employee in the City. As shown in Table 17, such factors have been calculated for most City revenue sources and Departmental expenditure categories.

The columns labeled “Proportion” indicate the amount of each revenue or cost item that is allocated to residential or non-residential land uses. A key assumption in this analysis is the relative service demand between residential and non-residential land uses. In general, the analysis assumes that the impact of employment generating uses, as represented by the number of jobs supported by the activity, is 50 percent of the impact of residential uses, represented by the population. This is a standard service population assumption for fiscal impact studies. It corresponds to the general notion that employed people working at jobs in Palo Alto occupy eight-hour shifts, mostly during the regular work day, while the resident population, when they are not working, represent a service demand during the 16 hours of non-working time during a 24 hour day. An eight hour period is 50 percent of a 16 hour period. Of course, there are many exceptions to this, but as a general rule it reflects the overall relative service

demands of residential and non-residential land uses for a number of City services. As shown above in Table 16, we estimate there are 63,367 residents and 76,684 jobs in Palo Alto as of 2008. With jobs given half the weight of the residential population, the corresponding default proportions for weighting service expenditures are 62 percent residential and 38 percent non-residential.

**TABLE 17
PER CAPITA REVENUE AND COST FACTORS**

REVENUES General Fund	RESIDENTIAL		BUSINESS	
	Proportion	Per Capita	Proportion	Per Capita
Utility Users Tax	62%	\$108.39	38%	\$54.19
Other taxes and Fines	62%	\$60.36	38%	\$30.18
Charges for Services	62%	\$91.73	38%	\$45.86
Permits and Licenses	62%	\$15.33	38%	\$7.66
Return on Investment [a]		2%		2%
Rental Income	62%	\$128.62	38%	\$64.31
Revenue from Other Agencies	62%	\$3.07	38%	\$1.53
Charges to Other Funds	62%	\$108.14	38%	\$54.07
Other Revenue	62%	\$0.65	38%	\$0.33
Operating Transfers In	62%	\$217.64	38%	\$108.82
Enterprise And Special Revenue Funds				
Enterprise	62%	\$3,234.37	38%	\$1,617.18
Special Revenue	62%	\$51.71	38%	\$25.86
COSTS				
General Fund				
General Government [b]		18%		18%
Community Services	90%	\$298.36	10%	\$27.39
Fire	62%	\$164.13	38%	\$82.06
Library	90%	\$92.30	10%	\$8.47
Planning and Community Environ.	62%	\$51.69	38%	\$25.84
Police	61%	\$274.90	39%	\$143.40
Public Works	62%	\$130.99	38%	\$65.50
Non-Departmental	62%	\$57.91	38%	\$28.96
Operating Transfers Out	62%	\$165.34	38%	\$82.67
Enterprise And Special Revenue Funds				
Enterprise	62%	\$3,226.38	38%	\$1,613.19
Special Revenue	62%	\$73.97	38%	\$36.99

Source: ADE Inc.

Notes: [a] Percent of other revenues, [b] Percent of other costs

As indicated in Table 17, a few of the revenues and services require different assumptions. In terms of the Return on Investment line item, the City projects its portfolio return to be about 4.6 percent for the 2008-09 fiscal year. However, for purposes of this analysis, these revenues are taken as a percent of total annual revenues for the City. On this basis, this revenue represents about two percent of the total and is calculated here as a similar percent of the revenues generated by each individual land use.

Three major revenues are not included in Table 17 because they are not estimated on a per capita basis. The property tax is a function of assessed value for each land use. ADE obtained a distribution of assessed value by land use in Palo Alto from the Santa Clara County Assessor and allocated property tax revenues based on the proportion of total City assessed value represented by each land use category. These assessed values

reflect the property roll for the 2007-08 fiscal year. In his 2008-09 Annual Report, the County Assessor notes that the growth rates in assessed values in Santa Clara County have been declining for the past three years, although the dollar value of assessments continues to increase. This is due in part to the fact that commercial property value growth has outweighed reductions in residential market values. The Assessor reassessed downward 41,866 properties last year, although the dollar value of these reductions was not substantial. However, with the continuing economic crisis, it is likely property taxes will further stagnate or decline in the near future.

It is important to note that the City only receives a small portion of the total property tax paid by property owners. The base property tax rate of one percent of assessed value, but the City of Palo Alto gets only about nine percent of this revenue (9.4 percent of the one percent), while the rest of the property tax is allocated to local school districts, the County, and other taxing agencies. Property owners may pay additional property tax amounts to fund debt service on public bonds, but again the City does not receive this revenue.

The second major revenue not allocated on a per capita basis is sales tax. Although local household spending generates much of the taxable sales in the City, the sales tax allocation to the City budget is based on the point-of-sale at retail businesses and other types of businesses generating taxable transactions. As indicated in the Retail Background Report, this is generally to Palo Alto's benefit, as the City captures spending from households and visitors well beyond the City's boundaries. However, from a land use perspective, it is the presence of the commercial businesses primarily that generates sales tax and so this revenue is allocated to the non-residential land uses.

Finally, Transient Occupancy Taxes (TOT) are generated by lodging facilities, which are included in the commercial land use category. All of this revenue is allocated to the commercial land use and is not estimated on a per capita basis.

In terms of cost allocations, a number of the services are based on the default 38 percent residential/62 percent non-residential split discussed above; however, other cost categories have a different basis. The General Government category is treated as an "overhead" charge on the cost of direct services to residents and business in Palo Alto. This category includes the following City departments:

- City Council
- City Manager
- City Clerk
- City Attorney
- Human Resources

- City Auditor
- Administrative Services

The General Fund expenses for these Departments is about 18 percent of the total General Fund budget and this factor is used in the fiscal model to project these costs by land use.

For the Police Department, the Commercial Land Use Category is assigned a higher cost per capita than other non-residential land uses, to reflect the higher incidence of calls for service for shoplifting, burglary, and vandalism experiences at many commercial shopping centers.

The Planning and Building Department costs are allocated on the basis of assessed value rather than population or employment. This is similar to the fee calculation for building permits and reflects the fact that larger projects tend to require greater effort to process.

For Community Services and the libraries, alternate assumptions have been used about the demand for services from residential and non-residential land uses. We assume that most of the service demand comes from the resident population, but it is also likely that a number of people who work in Palo Alto participate in recreation leagues for various sports and use City parks and library facilities. For these departments, we have used a 90 percent/10 percent split between residential and non-residential users.

RESULTS OF THE FISCAL IMPACT ANALYSIS

For most cities in California, property taxes do not pay the full cost of municipal services needed by residents and neighborhoods. As noted above, the City of Palo Alto only receives an average of 9.4 percent of property taxes paid by property owners. Therefore, Palo Alto, like most cities, relies on sales taxes and other revenues to help balance the budget and to fund the services and amenities desired by the community. Consequently the residential land uses appear to show a negative fiscal effect for the City while most non-residential land uses generate a positive fiscal balance (Table 18 and Figure 1). This outcome is not so much an indictment of residential development but rather reflects the importance of the City economic base to provide the revenues needed to operate the City.

While Figure 1 shows the total fiscal net revenue or cost for the major land use categories, Figure 2 breaks this down per resident or employee within each land use. While single family residential uses have a larger total fiscal impact, at minus \$17.1 million per year, this is primarily due to the much greater number of single family homes in the City compared to multi-family units. On a per resident basis, the single family net cost is lower at \$393 per person compared to \$618 per person for the multi-family units. This is a result of the fact that the City's average property tax revenue

per unit for single family houses is about \$946 dollars compared to about \$115 dollars for multi family units. Again, these figures reflect revenues received by the City, not the total tax bill of the property owners. It is also important to recognize that on a per acre basis, higher density development will generate more property taxes than lower density development. Additionally, there may be the potential for greater efficiency in public service provision to higher density units, although this depends on a number of factors and cannot be stated as a general rule. However, newer mixed use projects may well show a different net fiscal impact than that shown in this analysis for multi-family units.

Commercial and hotel land uses provide the best fiscal result, primarily on the strength of the sales taxes generated by retail businesses and the TOT revenues generated by hotels. These two revenues alone total \$28.0 million. In terms of employment, retail business account for less than 30 percent of the commercial land use category, with the balance being office uses and service commercial businesses. Yet it is the retail businesses that generate most of the sales tax from this category.

Interestingly, the sales tax generated by businesses located in the R&D business parks generate most of the surplus revenue for the commercial land use category as well. These businesses generate about \$3.2 million in sales taxes and show a \$2.5 million revenue surplus. Public/Institutional uses produce a minor negative fiscal impact, mainly because many of these kinds of uses are exempt from property tax and typically generate very little sales taxes.

CONCLUSION

This analysis provides a broad framework for considering the relative fiscal impacts of major land use types in Palo Alto. On average, residential uses do not generate sufficient revenue to fund all the services the City provides. In part this is a reflection of the fact that assessed values overall do not equal market values, since many existing units have been in single ownership for many years and have not had their assessed values reset to market value recently. New, higher value residential units often do generate enough property tax to pay for the services they needs. The problem is that the assessed value base does not keep pace with the escalation in cost for services over the long term. For this reason, it is important that the City maintain and expand its commercial districts, so that they can provide sales tax that provides a better hedge against cost inflation.

It is also important for many reasons that the City provide for the development of affordable housing. The City's revenue base would benefit from development strategies that provide a mix of higher value and affordable units. This can be done in projects that provide higher densities and which feature mixed use designs. Higher densities provide opportunities to include units at various levels of affordability and the ground floor commercial component helps to increase the City's sales tax base.

Business park, office and industrial uses are important for the property and sales taxes they generate but also for the incomes they create. Higher incomes, in stable jobs, help to support higher retail spending and higher residential values in the community. Although the fiscal benefits of good jobs are more indirect than the sales tax from retail jobs, the jobs base is an essential foundation for the City's economic vitality.

In conclusion, it is important to consider that the goal of the City should be to achieve a sustainable balance of land uses, recognizing that the inherent constraints for some land uses to generate public revenues may not outweigh other benefits of those uses.

NEXT STEPS

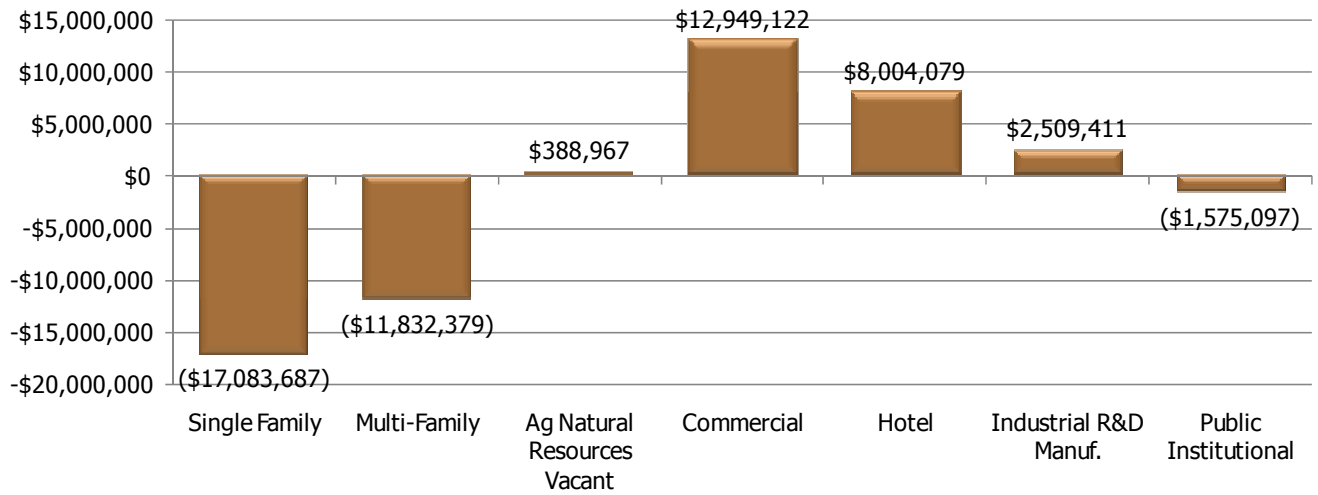
In the next phase of the Comprehensive Plan Update process, more detailed analysis will be conducted to indicate how variations in development density, location or product types may affect the demand for City services and General Fund revenues. This will be done to evaluate the fiscal impacts of land use alternatives in the East Meadow Circle and California Avenue Concept Plan areas. In addition, the Concept Plan analysis and the subsequent CEQA review of the Comprehensive Plan Amendment will address impacts to the school district, which is not included in this report. Descriptions of school district services and facilities, as well as other educational agencies serving Palo Alto, are provided in a separate Community Services Background Report prepared by Design, Community & Environment (DC&E).

**TABLE 18
FISCAL IMPACTS OF EXISTING LAND USES IN PALO ALTO**

GENERAL FUND REVENUES	Ag/Natural Resources				Hotel	Commercial	R&D Manuf.	Public Institutional	Total
	Single Family	Multi-Family	Vacant	Ag/Natural					
Property Tax	\$15,723,935	\$1,305,688	\$460,383	\$4,191,484	\$190,991	\$2,541,496	\$661,024	\$25,075,000	
Sales Tax	\$0	\$0	\$36,477	\$16,726,117	\$160,708	\$3,222,135	\$119,564	\$20,265,000	
Transient Occupancy Tax	\$0	\$0	\$0	\$0	\$7,700,000	\$0	\$0	\$7,700,000	
Utility Users Tax	\$4,711,900	\$2,075,115	\$379	\$2,339,170	\$48,124	\$1,086,153	\$763,158	\$11,024,000	
Other taxes and Fines	\$2,623,944	\$1,155,582	\$211	\$1,302,627	\$26,799	\$604,853	\$424,984	\$6,139,000	
Charges for Services	\$3,987,669	\$1,756,165	\$321	\$1,979,633	\$40,727	\$919,209	\$645,859	\$9,329,583	
Permits and Licenses	\$666,417	\$293,489	\$54	\$330,835	\$6,806	\$153,618	\$107,935	\$1,559,154	
Return on Investment	\$708,737	\$228,514	\$7,432	\$546,947	\$124,659	\$195,202	\$88,510	\$1,900,000	
Rental Income	\$5,591,534	\$2,462,505	\$450	\$2,775,855	\$57,108	\$1,288,921	\$905,627	\$13,082,000	
Revenue from Other Agencies	\$133,395	\$58,747	\$11	\$66,223	\$1,362	\$30,749	\$21,605	\$312,093	
Charges to Other Funds	\$4,701,214	\$2,070,409	\$378	\$2,333,865	\$48,015	\$1,083,690	\$761,427	\$10,999,000	
Other Revenue	\$28,328	\$12,476	\$2	\$14,063	\$289	\$6,530	\$4,588	\$66,276	
Operating Transfers In	\$9,461,413	\$4,166,795	\$762	\$4,697,012	\$96,632	\$2,180,977	\$1,532,408	\$22,136,000	
General Fund Revenue Subtotal	\$48,338,485	\$15,585,484	\$506,860	\$37,303,831	\$8,502,222	\$13,313,533	\$6,036,689	\$129,587,106	
ENTERPRISE AND SPECIAL REVENUE FUNDS									
Enterprise	\$140,606,499	\$61,922,935	\$11,320	\$69,802,520	\$1,436,060	\$32,411,605	\$22,773,187	\$328,964,126	
Special Revenue	\$2,248,107	\$990,064	\$181	\$1,116,048	\$22,961	\$518,218	\$364,112	\$5,259,690	
Enterprise and Special Revenue Fund Subtotal	\$142,854,606	\$62,912,998	\$11,501	\$70,918,568	\$1,459,020	\$32,929,823	\$23,137,300	\$334,223,816	
TOTAL REVENUES	\$191,193,092	\$78,498,483	\$518,362	\$108,222,399	\$9,961,242	\$46,243,356	\$29,173,989	\$463,810,922	
GENERAL FUND EXPENDITURES									
General Government	\$10,035,999	\$4,203,952	\$18,251	\$3,724,166	\$76,167	\$1,651,109	\$1,163,291	\$20,872,936	
Community Services	\$12,970,568	\$5,712,223	\$192	\$1,182,415	\$24,326	\$549,034	\$568,201	\$21,006,960	
Fire	\$7,135,147	\$3,142,310	\$574	\$3,542,164	\$72,874	\$1,644,743	\$1,155,637	\$16,693,449	
Library	\$4,012,592	\$1,767,141	\$59	\$365,794	\$7,526	\$169,850	\$175,780	\$6,498,740	
Planning and Community Environ.	\$3,296,652	\$273,748	\$96,523	\$878,779	\$40,043	\$532,845	\$138,589	\$5,257,179	
Police	\$11,950,541	\$5,263,004	\$1,004	\$6,708,107	\$113,584	\$2,563,570	\$1,815,517	\$28,415,326	
Public Works	\$5,694,586	\$2,507,889	\$458	\$2,827,013	\$58,161	\$1,312,675	\$922,318	\$13,323,100	
Non-Departmental	\$2,517,515	\$1,108,711	\$203	\$1,249,792	\$25,712	\$580,320	\$407,747	\$5,890,000	
Operating Transfers Out/Infrastructure	\$7,187,955	\$3,165,567	\$579	\$3,568,380	\$73,413	\$1,656,916	\$1,164,190	\$16,817,000	
General Fund Expenditure Subtotal	\$64,801,555	\$27,144,544	\$117,843	\$24,046,611	\$491,805	\$10,661,062	\$7,511,269	\$134,774,690	
ENTERPRISE AND SPECIAL REVENUE FUNDS									
Enterprise	\$140,259,432	\$61,770,087	\$11,292	\$69,630,223	\$1,432,515	\$32,331,602	\$22,716,975	\$328,152,126	
Special Revenue	\$3,215,791	\$1,416,230	\$259	\$1,596,443	\$32,844	\$741,281	\$520,842	\$7,523,690	
Enterprise and Special Revenue Fund Subtotal	\$143,475,223	\$63,186,317	\$11,551	\$71,226,666	\$1,465,359	\$33,072,883	\$23,237,817	\$335,675,816	
TOTAL EXPENDITURES	\$208,276,778	\$90,330,862	\$129,394	\$95,273,277	\$1,957,164	\$43,733,945	\$30,749,086	\$470,450,506	
BUDGET NET (DEFICIT)/SURPLUS	(\$17,083,687)	(\$11,832,379)	\$388,967	\$12,949,122	\$8,004,079	\$2,509,411	(\$1,575,097)	(\$6,639,584)	
BUDGET NET (DEFICIT)/SURPLUS PER PERSON OR EMPLOYEE	(\$393)	(\$618)	NA	\$300	\$9,014	\$125	(\$125)		

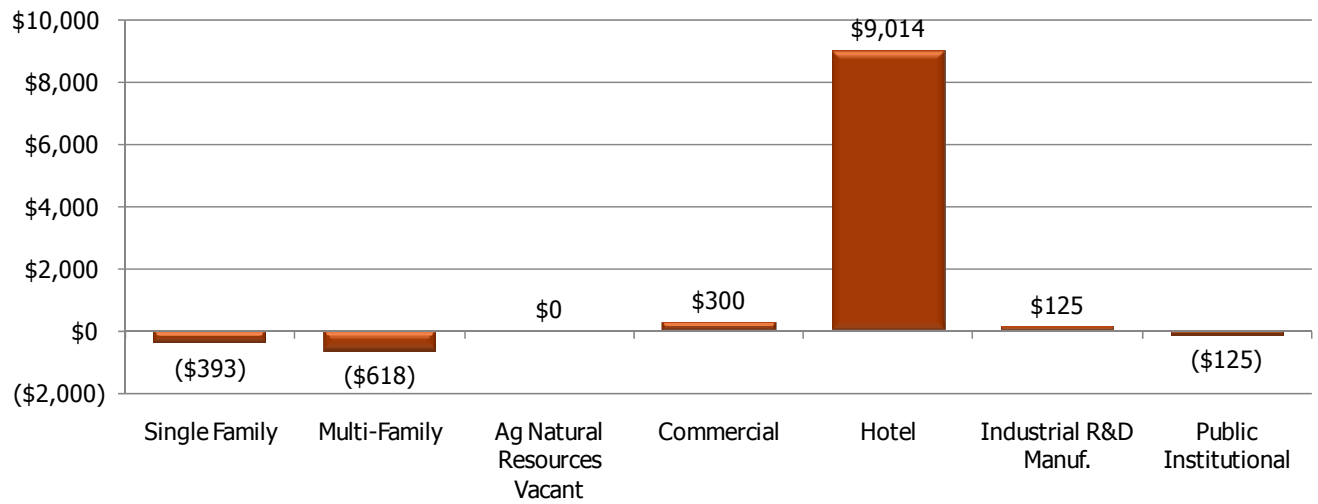
Source: ADE, Inc.

FIGURE 1
2008 BUDGET NET (DEFICIT)/SURPLUS BY LAND USE (IN MILLIONS)



Source: ADE, Inc.

FIGURE 2
2008 BUDGET NET (DEFICIT)/SURPLUS PER PERSON OR EMPLOYEE BY LAND USE



Source: ADE, Inc.

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APPENDIX A: BUDGET ADJUSTMENTS

Certain adjustments have been made to both revenues and expenditures in the City budget in order to focus the analysis on the net cost of providing services with local revenues. On the revenue side, the adjustments are mainly outside grant funds that are not dependent on development growth in the City or they are certain incidental one-time fees that are only paid at the time a building project is approved and do not fund ongoing operation of City services.

On the expenditure side, these revenue adjustments are subtracted from budgeted service costs to calculate the net cost of providing services from annual local revenues. Expenditure adjustments also include capital expenditures, since the focus of this part of the analysis is on annual operating costs for City services funded by the General Fund.

Below is a summary of the revenue and expenditure adjustments that went into the fiscal model in order to derive the net General Fund service cost. The adjustments are shown by revenue category and expenditure unit. For broader revenue category adjustments, the department in which the revenue was accounted for is included.

**TABLE A-1
FISCAL MODEL REVENUE AND EXPENDITURE ADJUSTMENTS**

GL Account #	Amount	Department	Revenue Category	Fund Type	Description
13300	\$26,000	General Government-City Attorney	Charges for Service	General Fund	Development Agreement Fee
15990	\$10,000	General Government-City Attorney	Local Revenues	General Fund	Other Rev from Other Agency
<i>General Govt Subtotal</i>	<i>\$36,000</i>				
14590	\$1,000	Administrative Services	Permits and Licenses	General Fund	Encroachment Permits
<i>Admin. Services Subtotal</i>	<i>\$1,000</i>				
13190	\$15,900	Public Works	Charges for Service	General Fund	Special Service Fee
13370	\$150,000	Public Works	Charges for Service	General Fund	Plan Checking Fee
13750	\$50,000	Public Works	Charges for Service	General Fund	Street Cut Fee
14570	\$20,000	Public Works	Permits and Licenses	General Fund	New Construction Permit
14590	\$66,500	Public Works	Permits and Licenses	General Fund	Encroachment Permit
14660	\$221,500	Public Works	Permits and Licenses	General Fund	Street Open Permit
<i>Public Works Subtotal</i>	<i>\$523,900</i>				
13230	\$492,393	Planning and Community Environment	Charges for Service	General Fund	Zoning Plan Check Fee
13290	\$384,598	Planning and Community Environment	Charges for Service	General Fund	Architect. Review Board
13370	\$1,101,984	Planning and Community Environment	Charges for Service	General Fund	Plan Checking Fee
14530	\$54,075	Planning and Community Environment	Permits and Licenses	General Fund	Parking Permit-Construct/Mnt
14570	\$2,931,771	Planning and Community Environment	Permits and Licenses	General Fund	Building-New Construction Permit
14590	\$24,000	Planning and Community Environment	Permits and Licenses	General Fund	Encroachment Permits
14890	\$464,000	Planning and Community Environment	Permits and Licenses	General Fund	Other Permit
<i>Planning/Commun. Services Subtotal</i>	<i>\$5,452,821</i>				
12520	\$620,375	Police	Service Contracts	General Fund	Stanford Community/Fire Serv
14680	\$5,000	Police	Permits and Licenses	General Fund	Variance Permit
15370	\$50,000	Police	State Revenues	General Fund	State of California
15390	\$50,000	Police	State Revenues	General Fund	Abandoned Vehicle Abatement
15990	\$902,947	Police	Local Revenues	General Fund	Other Rev from Other Agency
<i>Police Subtotal</i>	<i>\$1,628,322</i>				
12520	\$6,756,167	Fire	Service Contracts	General Fund	Stanford Community/Fire Serv
12670	\$200,000	Fire	Service Contracts	General Fund	Stanford Year End Ad.
13370	\$635,000	Fire	Charges for Service	General Fund	Plan Checking Fee
15990	\$387,384	Fire	Local Revenues	General Fund	Other Rev from Other Agency
<i>Fire Subtotal</i>	<i>\$7,978,551</i>				
15540	\$61,000	Community Services Department	Local Revenues	General Fund	Community Theater
15550	\$20,000	Community Services Department	Local Revenues	General Fund	Outreach Grant
15570	\$17,733	Community Services Department	Local Revenues	General Fund	Wingspread
15990	\$403,307	Community Services Department	Local Revenues	General Fund	Other Rev from Other Agency
<i>Community Services Subtotal</i>	<i>\$502,040</i>				
15310	\$5,600	Library	State Revenues	General Fund	Ca Library Service
15990	\$93,660	Library	Local Revenues	General Fund	Other Rev from Other Agency
<i>Library Subtotal</i>	<i>\$99,260</i>				
General Fund Total	\$16,697,356				
Special Revenues					
13560	\$81,900	Planning and Community Environment	Permits and Licenses	Special Revenue	Traffic Impact Fee
15020	\$676,148	Planning and Community Environment	Federal Revenues	Special Revenue	CDBG
15990	\$674,252	Planning and Community Environment	Local Revenues	Special Revenue	Other Rev from Other Agency

**TABLE A-1
FISCAL MODEL REVENUE AND EXPENDITURE ADJUSTMENTS**

GL Account #	Amount	Department	Revenue Category	Fund Type	Description
13730	\$253,010	Community Services Department	Permits and Licenses	Special Revenue	Development Impact Fee
13560	\$200,000	Non-Departmental	Permits and Licenses	Special Revenue	Traffic Impact Fee
15520	\$1,220,000	Non-Departmental	State Revenues	Special Revenue	In-Lieu Housing Fees
18120	\$280,000	Non-Departmental	Sales	Special Revenue	In-Lieu Parking Revenue
Special Revenue Total	\$3,385,310				
Enterprise Funds					
14020	\$750,000	Enterprise-Electric	Connection Charges	Enterprise Revenue	Electrical Connections
14020	\$660,000	Enterprise-Gas	Connection Charges	Enterprise Revenue	Gas Connections
14490	\$4,000	Enterprise-Gas	Other Enterprise Fund Fee	Enterprise Revenue	Other Gas Fee
13990	\$12,000	Enterprise-Water	Other Fee	Enterprise Revenue	Other Water Fee
14020	\$843,000	Enterprise-Water	Connection Charges	Enterprise Revenue	Water Connections
13370	\$160,874	Enterprise-Refuse	Plan Checking Fee	Enterprise Revenue	Plan Checking Fee
14020	\$889,000	Enterprise-Wastewater	Connection Charges	Enterprise Revenue	Wastewater Connec Fee
13370	\$65,000	Enterprise-Storm Drainage	Plan Checking Fee	Enterprise Revenue	Storm Drainage Plan Check
13990	\$14,000	Enterprise-Storm Drainage	Other Fee	Enterprise Revenue	Other Storm Drainage Fee
	\$9,703,000	Enterprise-Electric	Expenditure	Enterprise Expenditure	Capital Improvement Program
	\$400,000	Enterprise-Fiber Optic	Expenditure	Enterprise Expenditure	Capital Improvement Program
	\$7,407,000	Enterprise-Gas	Expenditure	Enterprise Expenditure	Capital Improvement Program
	\$3,949,000	Enterprise-Wastewater Collection	Expenditure	Enterprise Expenditure	Capital Improvement Program
	\$14,205,000	Enterprise-Water	Expenditure	Enterprise Expenditure	Capital Improvement Program
	\$2,050,000	Enterprise-Refuse	Expenditure	Enterprise Expenditure	Capital Improvement Program
	\$2,495,000	Enterprise-Storm Drainage	Expenditure	Enterprise Expenditure	Capital Improvement Program
	\$22,500,000	Enterprise-Wastewater Treatment	Expenditure	Enterprise Expenditure	Capital Improvement Program
Enterprise Revenue Total	\$66,106,874				
Total-All Revenue Funds	\$85,714,078				

Source: ADE, Inc.