VII. FIVE-YEAR FORECAST

Preparation of the five-year revenue forecast is complicated by unprecedented financial challenges resulting from the downward spiral of the economy and the magnitude of the State's budget problems. In more stable times, the forecast can assist decision-making by providing a longer-term perspective on budget decisions. However, in the current economic climate, a five-year projection is much less reliable as there are no definitive signs the economy is improving enough to impact local revenue sources. The continuing uncertainty of the level of impact the State's problems will have on City finances renders the result of an economic forecast potentially useless.

Historical Information, Major Assumptions and Forecast Methodology

The forecast is for Fiscal Years 2003-04 through 2007-08. The City is currently facing significant, and quite possibly unprecedented, financial challenges. The General Operating Fund, the primary provider of City services, is experiencing severely constrained finances and is not able to maintain the current level of City services. With the significant decline in General Operating Fund revenues over the past two years, there is no longer sufficient revenue to cover even inflationary increases in General Operating Fund expenditures.

Even though economic growth was dramatic in the Bay Area in recent years, past experience has demonstrated the cyclical nature of the economy, especially in Silicon Valley. While the current financial challenges facing the City are substantial, it is fortunate the potential for a serious economic adjustment was identified in previous years. Techniques such as creation of the Economic Stabilization Contingency and a Budget Transition Reserve have allowed the City's adjustment to financial challenges to be less traumatic than would otherwise be the case and will continue to provide flexibility into the future.

As discussed during the budget process, Sales Tax, Hotel Tax, Utility Users Tax, Investment Earnings and Franchise Fees were below budget for Fiscal Year 2002-03. The General Operating Fund ended the fiscal year with a $4.4 million operating balance, higher than estimated as a result of the cumulative effect of the ongoing hiring freeze and significant departmental cost-cutting efforts. While this $4.4 million balance is better than anticipated at any point during the past fiscal year, it is $954,000 less than the carryover from Fiscal Year 2001-02 and drastically reduced from the $20.7 million balance at the end of Fiscal Year 2000-01. Although the stock market has made small gains, and there are possible indications of an economic recovery nationwide, the local economy, which is driven by the high-tech industry, remains in a slowdown and will probably continue to be, through the end of the 2003-04 fiscal year. The State-wide unemployment rate has risen to 6.8 percent but is 8.6 percent in Santa Clara County. Companies continue to reduce staffing in an effort to control costs; low mortgage

interest rates, which have been fueling consumer spending, have recently begun to rise; the commercial vacancy rate continues to be at or above 25 percent; and business-to-business sales are still very slow. A secondary effect of these conditions is significantly reduced business and leisure travel, which negatively impacts transient occupancy tax.

Projections of the major revenue sources are based upon and affected by the variables discussed below:

- Property tax revenue is impacted by real property prices, assessed valuation, ownership changes triggering reassessments, the level of development activity and the proportionate share of that activity to the rate of growth in the remainder of Santa Clara County. The County proactively reviewed commercial and residential properties again for Fiscal Year 2003-04 and has processed numerous reductions. Although some of the assessed value reductions implemented by the County Assessor for Fiscal Year 2002-03 are projected to be restored for Fiscal Year 2003-04, the remainder will continue to have a dampening effect on the rate of revenue growth into the future until the value is restored to the current market value.

- Sales tax revenue is subject to economic, technological and political challenges, and local business decisions. Currently, the most significant challenges are corporate relocations, the severe decline in the local economy and the decline in business-to-business sales. During the 2002-03 fiscal year, two major corporations relocated to other cities, severely decreasing sales tax revenue generated in the City.

- Other Taxes:

  — Transient Occupancy Tax is impacted by the number of hotel rooms, the room and occupancy rates and the tax level.

  — Utility Users Tax is dependent on the cost of energy, customer base and consumption levels.

- Investment earnings are based on the portfolio balance and yield.

- Licenses, Permits and Service Charges are primarily impacted by the level of development within the City.

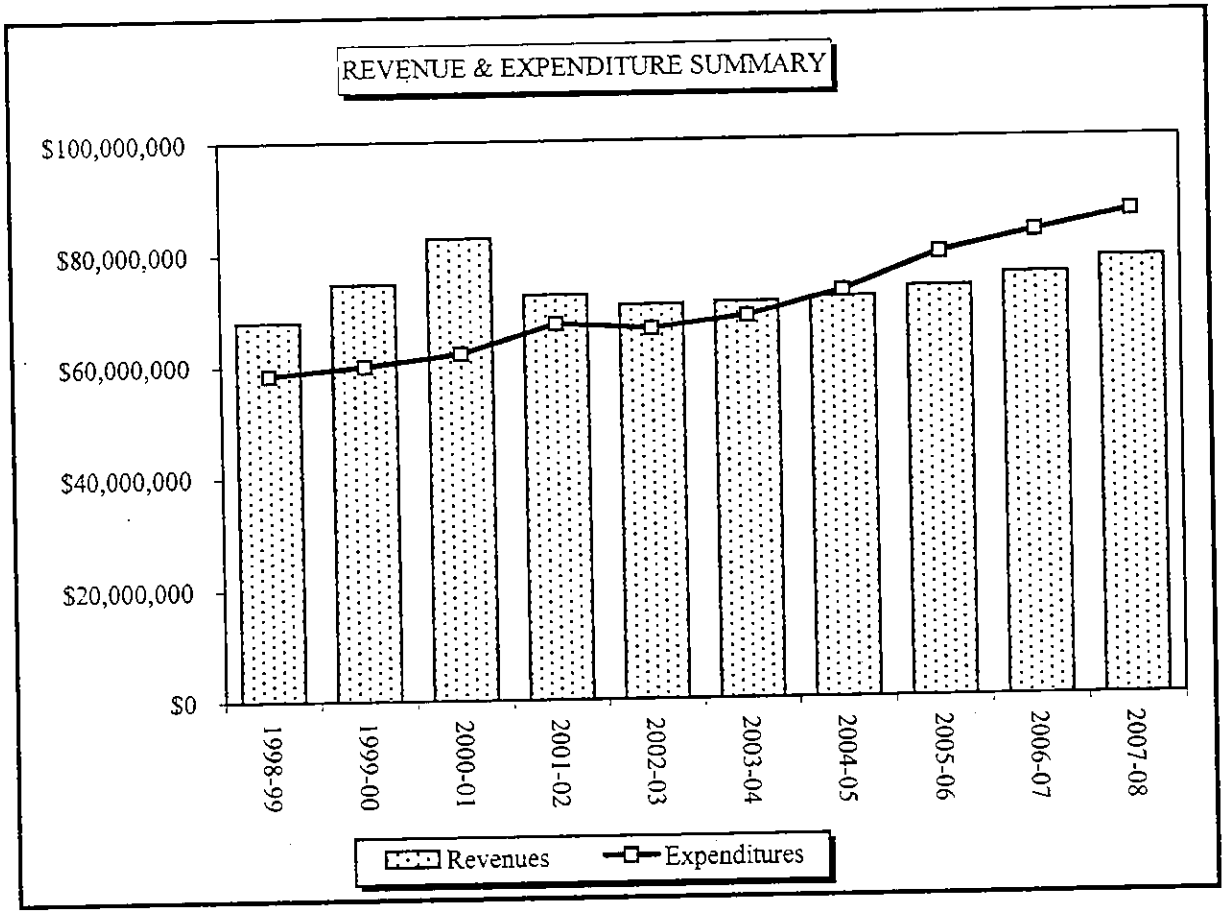
Expenditures are trended based on historical experience, assumptions about future growth rates using information gathered from various sources, extrapolations based on the 2002-03 fiscal year, previously negotiated labor agreements and future costs of the Fiscal Year 2003-04 Adopted Budget. The expenditure forecast does not assume any additional programs, positions or service level enhancements.

Conclusion

The General Operating Fund balance in Fiscal Year 2004-05 indicates a negative balance of approximately $1.0 million, growing to $8.3 million by Fiscal Year 2007-08, and does not include any reservation for the Economic Stabilization Contingency after Fiscal Year 2003-04. The funding gap is certain to be exacerbated by any State actions implemented to resolve its own significant fiscal crisis. This projection highlights the continuing necessity of managing the City's expenditures and developing all possible revenue sources.

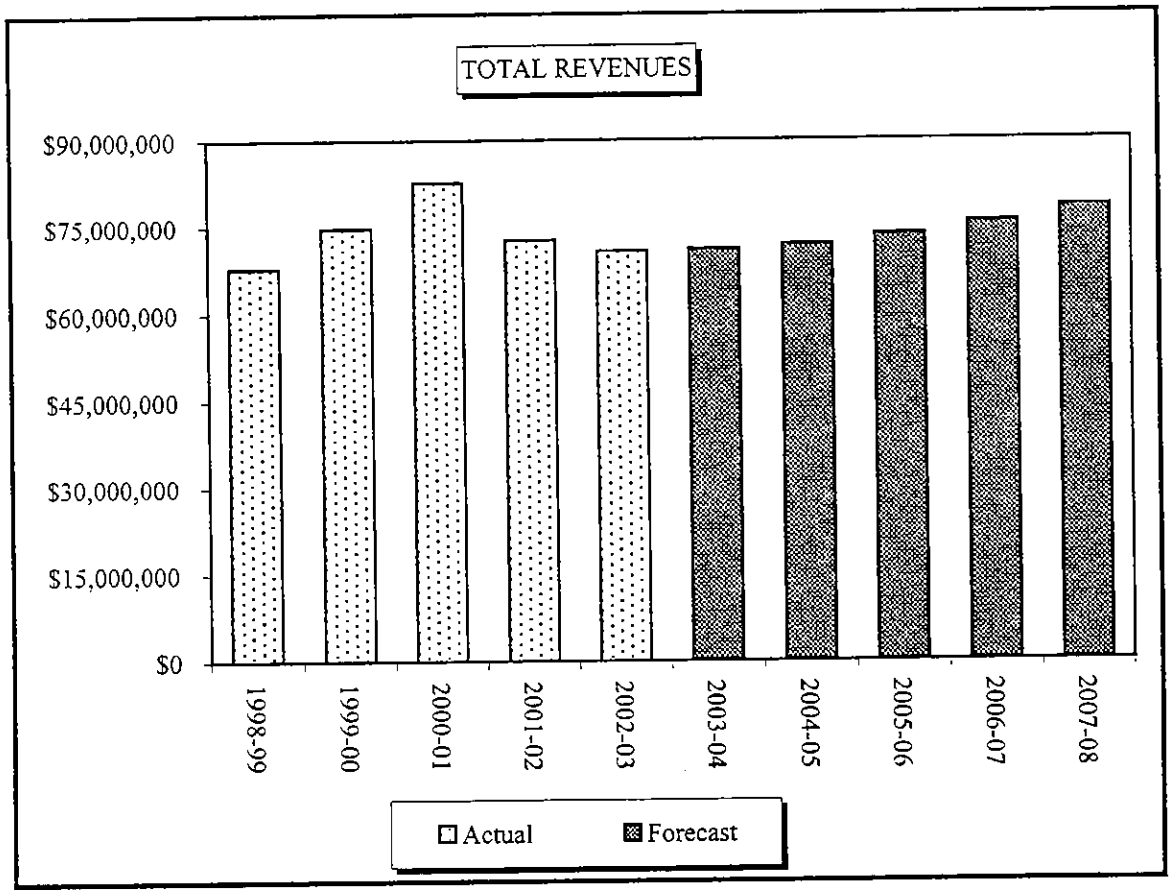
The forecast is updated annually as part of the budget process. Revenue trends are closely monitored and compared to expenditures in the preparation of the budget and each fiscal year appropriate budget proposals are developed based on projected revenues.

Included with this memo is a detailed presentation of the forecast, summarizing, in graphic form, the revenues described above and the assumptions used to prepare the forecast.



Fiscal Year		Annual Revenues	Annual Expenditures
1998-99		67,900,000	58,341,000
1999-00		74,712,000	59,846,000
2000-01		82,708,000	62,057,000
2001-02		72,631,000	67,281,000
2002-03	*	70,736,000	66,340,000
2003-04	**	71,030,000	68,465,000
2004-05		71,781,000	72,829,000
2005-06		73,492,000	79,426,000
2006-07		75,633,000	83,089,000
2007-08		78,302,000	86,580,000

* Unaudited
** Adopted



Fiscal Year		Annual Revenues	% Change
1998-99		67,900,000	1.3%
1999-00		74,712,000	10.0%
2000-01		82,708,000	10.7%
2001-02		72,631,000	(12.2%)
2002-03	*	70,736,000	(2.6%)
2003-04	**	71,030,000	0.4%
2004-05		71,781,000	1.1%
2005-06		73,492,000	2.4%
2006-07		75,633,000	2.9%
2007-08		78,302,000	3.5%

* Unaudited
** Adopted

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PROPERTY TAXES

Property taxes include the revenue generated from the City's share of the 1.0 percent levy assessed on the taxable value of real and personal property located within the City limits. The assessed value of secured real property that does not experience a change in ownership is increased at an inflationary rate not to exceed the California Consumer Price Index (CPI) or 2.0 percent, whichever is less. However, if a property changes ownership, it is reassessed at the current market value and new construction is initially valued at the cost of the construction. Unsecured tax on personal property such as computers and other equipment is assessed on the value of the property as reported annually to the County by each business.

PROPERTY TAX SOURCES

- Property tax assessed on secured real property
- Property tax assessed on unsecured personal property

ECONOMIC FACTORS

- General economic conditions
- Proposition 13—determines methodology of tax application, limits the annual assessed value increase and sets the tax rate
- Consumer Price Index (CPI)
- Property demand, sales and values
- New development
- Timeliness of County processing of new development and ownership transfers to the tax roll
- State legislation regarding tax allocation
- Assessment appeals

HISTORY

During Fiscal Years 1992-93 and 1993-94, the State transferred a total of $2.5 million of City secured property tax revenues to schools ("ERAF Shift") as a way of solving its own budget shortfall at the time. This is an ongoing annual loss to the City, increasing every

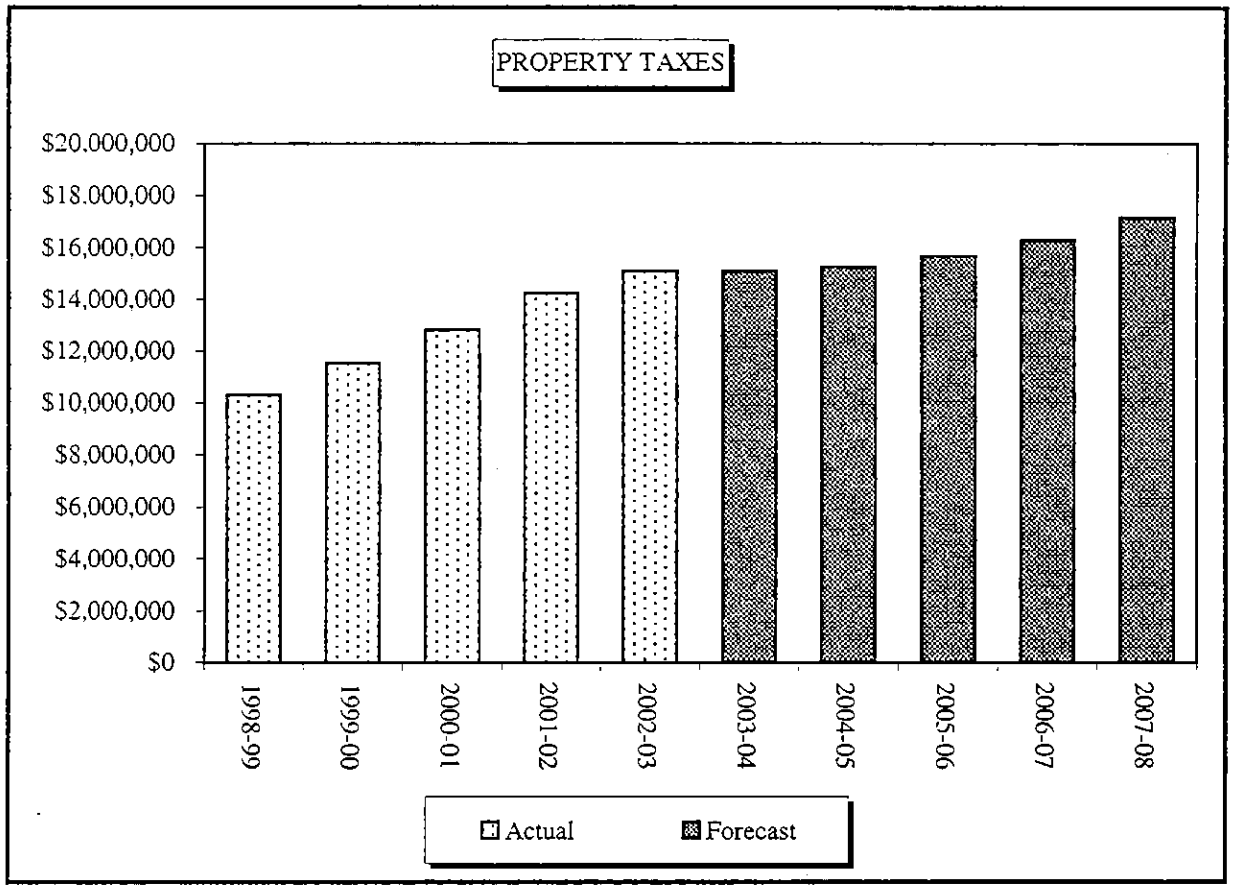
fiscal year as assessed values increase and totals $4.2 million for Fiscal Year 2002-03. Cumulatively, the City has lost $30.5 million since the inception of ERAF. At the same time, assessed values declined as a result of the depressed economic climate, and commercial and residential property owners filed successful assessment appeals which resulted in reduced secured and unsecured property tax revenue. The appeal activity was so high that over several fiscal years, the County was consumed with processing appeals and unable to add new development to the tax roll in a timely manner, thereby delaying payment of property tax revenue the City and other County agencies were entitled to. Beginning in Fiscal Year 1997-98, the County made significant progress adding new development to the roll and restoring assessments reduced in prior fiscal years. Over the next few years, the lack of housing for the growing employment base in Silicon Valley and the capital gains from stock sales combined to drive housing prices and taxable assessed values to an unprecedented level. Then, in early 2001, the economy stalled and property sales slowed. While establishing the tax roll for Fiscal Year 2002-03, the County proactively reviewed all commercial property as well as residential properties sold during the prior two fiscal years and reduced values for many properties.

FORECAST

Fiscal Year 2003-04 includes a 4.0 percent increase in assessed value, encompassing increased value for some new development and improvements, changes in ownership and the 2.0 percent annual increase. The County has again proactively reviewed property values, reducing some properties and restoring values for other properties reduced on the 2002-03 fiscal year roll.

The four forecast years assume the assessed value of secured property will increase at the 2.0 percent annual maximum in Fiscal Year 2004-05, increase 1.0 percent each subsequent year and does not anticipate any commercial or residential development.

The current level of commercial vacancies will negatively impact unsecured property as a result of the decreased value of commercial property lease agreements and the reduced amount of property (furnishings, fixtures, etc.) to assess tax on. The unsecured property tax projection for the 2003-04 fiscal year has been reduced 3.0 percent and is decreased 2.0 percent further in the following fiscal year. The last three forecast years include slight increases.



Fiscal Year		Annual Revenues	% Change
1998-99		10,298,000	9.7%
1999-00		11,534,000	12.0%
2000-01		12,825,000	11.2%
2001-02		14,262,000	11.2%
2002-03	*	15,110,000	5.9%
2003-04	**	15,111,000	0.0%
2004-05		15,267,000	1.0%
2005-06		15,676,000	2.7%
2006-07		16,298,000	4.0%
2007-08		17,143,000	5.2%

* Unaudited
** Adopted

SALES TAX

The City of Mountain View receives 1.0 percent of every sales dollar subject to sales tax. During the past decade, industrial businesses have produced a larger share of sales tax revenue. However, last fiscal year, with the decline in the technology sector, retail became the largest producer of sales tax for the City.

SALES TAX SOURCES

- Retail sales of tangible personal property to individuals and other businesses
- Use and excise taxes on business consumption of personal property
- State and County pooled sales tax allocated by population

ECONOMIC FACTORS

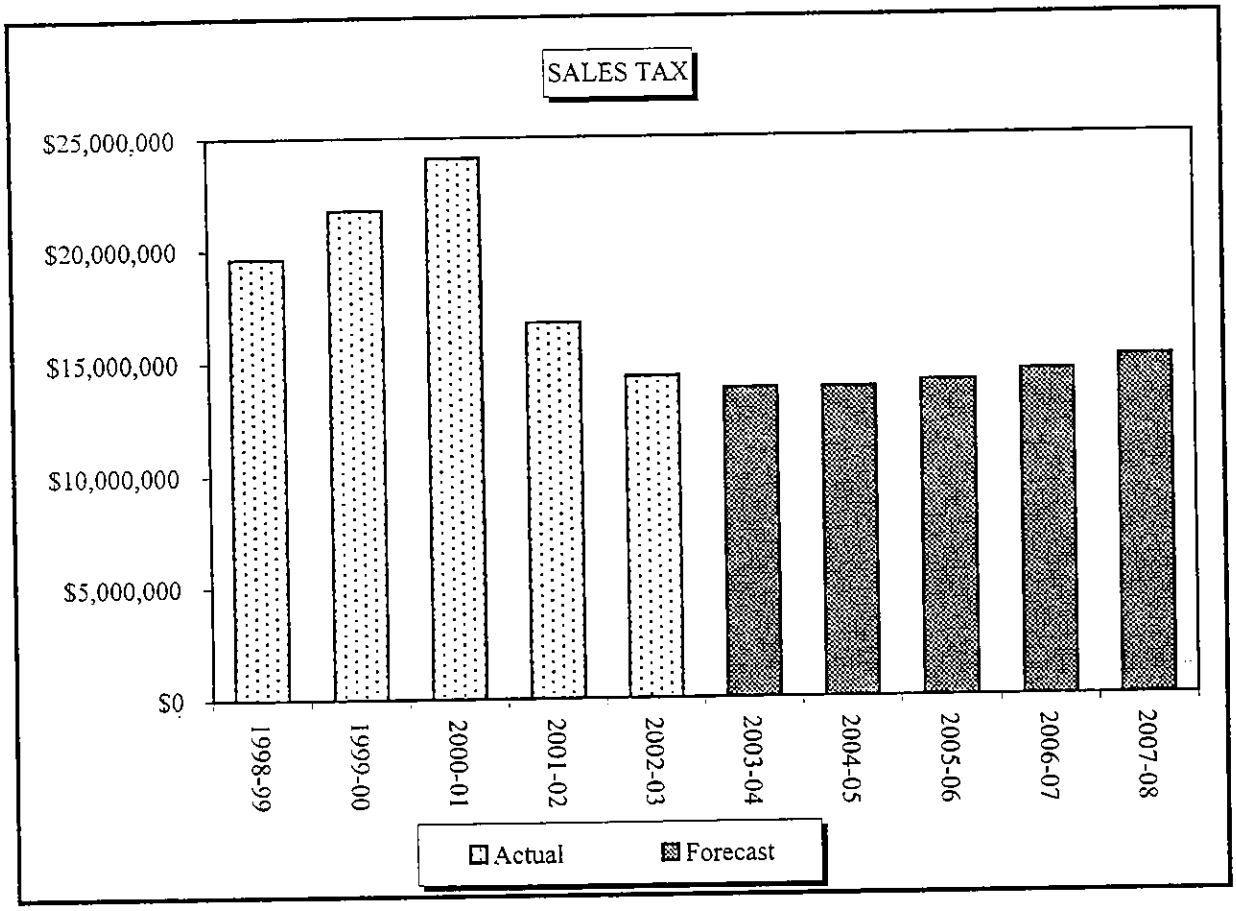
- Business expansions or relocations
- State of the economy
- Purchasing patterns
- State Board of Equalization allocation decisions
- Level of business-to-business sales
- Technological changes

HISTORY

Over the past decade, sales tax has been an extremely volatile revenue source. It dropped 9.3 percent in Fiscal Year 1990-91, almost doubled over the next six fiscal years, fluctuated for the next several fiscal years and reached an all-time record of $24.1 million in Fiscal Year 2000-01. These variations occur as businesses move in and out of the City, companies modify reporting and/or sales methods and the economy changes.

FORECAST

Fiscal Year 2003-04 includes a 3.9 percent decrease compared to the Fiscal Year 2002-03 unaudited, reflecting a continued slowdown in the Bay Area economy and the known relocations of businesses outside of Mountain View.



Fiscal Year		Annual Revenues	% Change
1998-99		19,615,000	(9.9%)
1999-00		21,787,000	11.1%
2000-01		24,108,000	10.7%
2001-02		16,715,000	(30.7%)
2002-03	*	14,328,000	(14.3%)
2003-04	**	13,772,000	(3.9%)
2004-05		13,772,000	0.0%
2005-06		14,050,000	2.0%
2006-07		14,472,000	3.0%
2007-08		15,051,000	4.0%

* Unaudited
** Adopted

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OTHER TAXES

Other Taxes is comprised of Transient Occupancy Tax, Business License Tax and Utility Users Tax.

OTHER TAXES SOURCES

- Transient Occupancy Tax is a 10.0 percent tax assessed on hotel and motel occupancies. Any occupancy by a government employee or a stay exceeding 30 consecutive days is exempt from the tax. This tax is self-reported on a quarterly basis by hotels and motels within the City limits and hotels are audited by the City on a rotating basis.

- The Business License Tax is assessed on all businesses known to be operating in Mountain View and billed annually. The tax rate varies by type of business.

- Utility Users Tax is a 3.0 percent tax assessed on the sale of all commercial and residential intrastate telephone communication and all electricity and gas consumption.

ECONOMIC FACTORS

- Transient Occupancy: Number of hotel rooms, the room rate, the occupancy rate and the number of exemptions.

- Business License Tax: Number and types of businesses licensed by the City and the applicable tax rate.

- Utility Users Tax: Customer base, consumption and price of energy.

HISTORY

Transient Occupancy Tax: The tax rate was last modified in June 1991 from 8.0 percent to 10.0 percent. Occupancy rates throughout the County continued to increase over the past decade until 2001, when the events and aftermath of September 11 significantly hampered travel. In Fiscal Year 2001-02, this revenue source declined approximately 38.7 percent from the prior fiscal year and declined an additional 17.6 percent by the end of Fiscal Year 2002-03, a total decline of 50.1 percent over the past two fiscal years. This revenue continues to be impacted by the reduction in business and leisure travel.

Business License Tax: This revenue does not change significantly from year to year as the tax rate is very low.

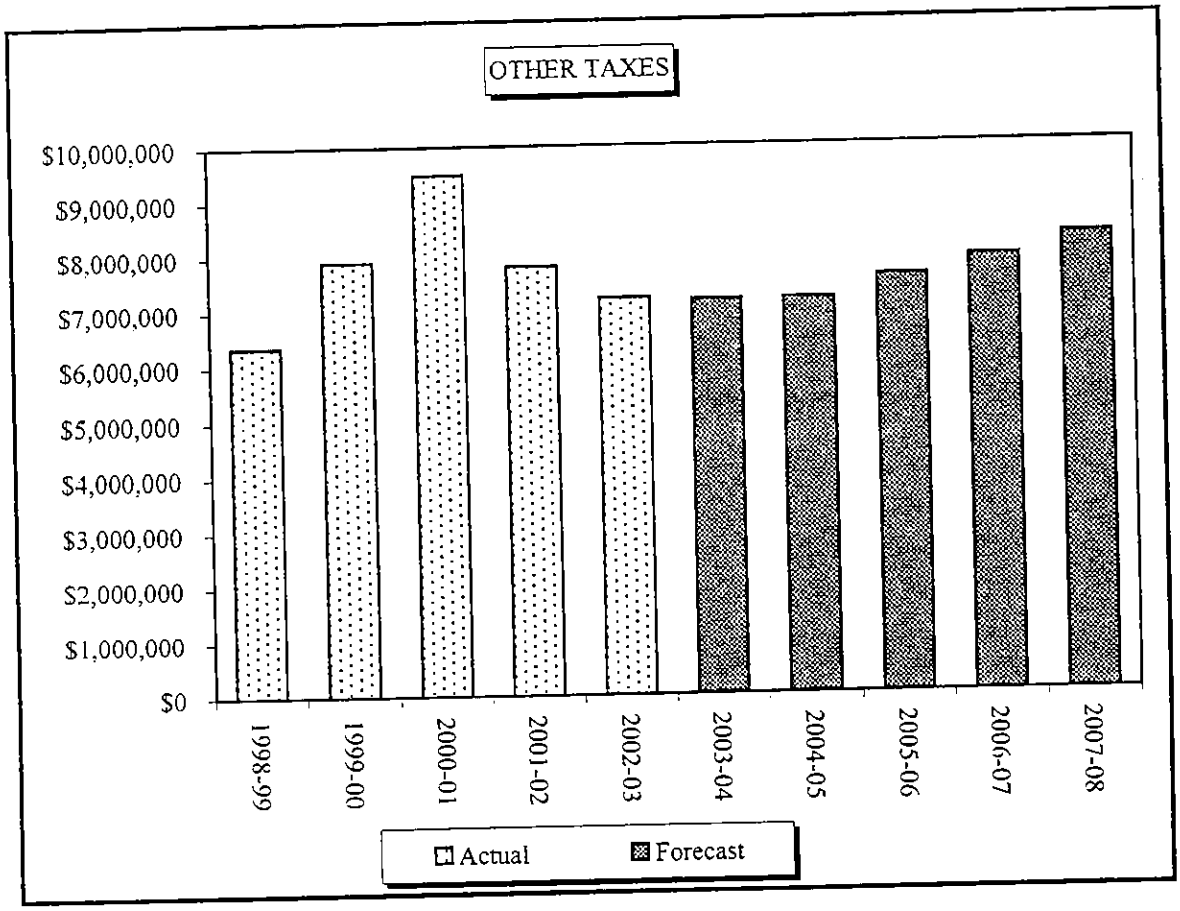
Utility Users Tax: Utility Users Tax is calculated on the consumer cost of the energy used, as the cost and/or customer base increases the tax increases. New commercial and residential development, the high occupancy rate of commercial buildings and demand for multiple phone lines increased the customer base in past fiscal years. During Fiscal Year 2000-01, consumer gas and electricity rates increased. Initially, there was an increase in City revenue from the utility rate increase. Since then, the commercial property vacancies which reduced the customer base have resulted in less than anticipated revenue in Fiscal Years 2001-02 and 2002-03. In addition, the price of gas has dropped and customers have responded to conservation efforts and reduced their usage of electricity.

FORECAST

Transient Occupancy Tax: The Fiscal Year 2003-04 Adopted Budget assumes level revenue and the four forecast years assume the economy will gradually improve and business travel will increase.

Business License Tax: As the tax is low, the license revenue has remained fairly constant over the past several years; therefore, forecast years are based on prior fiscal years' actuals.

Utility Users Tax: The Fiscal Year 2003-04 adopted revenue and the subsequent fiscal year assume essentially no change from the 2002-03 fiscal year. It does not appear the current commercial vacancy rate will change as businesses continue to hold expenses and maintain or reduce staffing levels. The last three forecast years include gradual increases in anticipation of an improvement in the economy.



Fiscal Year		Annual Revenues	% Change
1998-99		6,357,000	6.1%
1999-00		7,908,000	24.4%
2000-01		9,487,000	20.0%
2001-02		7,806,000	(17.7%)
2002-03	*	7,217,000	(7.5%)
2003-04	**	7,167,000	(0.7%)
2004-05		7,186,000	0.3%
2005-06		7,589,000	5.6%
2006-07		7,925,000	4.4%
2007-08		8,306,000	4.8%

* Unaudited
** Adopted

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USE OF MONEY AND PROPERTY

Use of Money and Property is comprised of investment earnings and revenue from rents and leases of City property. Investment earnings are generated from the General Fund's share of the City's pooled investment portfolio. Rents and Leases revenue is generated from rental properties and lease agreements.

USE OF MONEY AND PROPERTY SOURCES

- Monthly interest allocation generated by the City's pooled investment portfolio
- Leased and rented properties, including:
  - North Charleston site
  - Crittenden site
  - Michaels at Shoreline
  - Boathouse
  - Center for the Performing Arts
- Amphitheatre concessions

ECONOMIC FACTORS

- Economy
- Interest rates
- Portfolio balance
- Lease agreements
- Amphitheatre concert season

HISTORY

Investment Earnings: The portfolio has increased over the last few years as a result of the financial strategy to build reserves in anticipation of budget constraints. The Federal Reserve lowered interest rates numerous times since January 2001, which has decreased the yield on newly purchased investment instruments.

Rents and Leases: In March 1995, the City negotiated and signed a lease agreement with Silicon Graphics, Inc. (SGI) for the North Charleston site. In September 1996, the City negotiated and signed a lease agreement with SGI for the Crittenden site. During

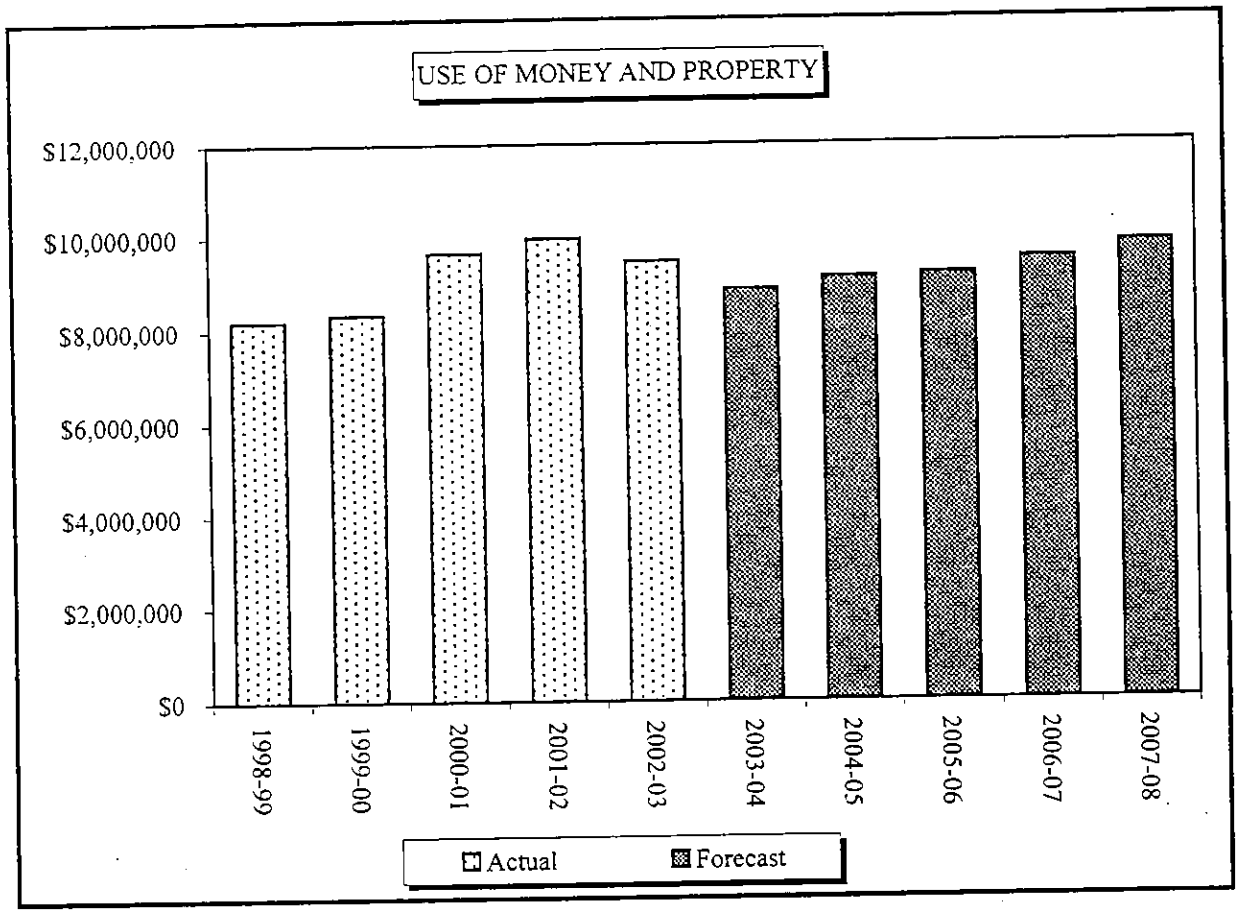
Fiscal Year 2000-01, Goldman Sachs purchased the SGI buildings on the North Charleston and Crittenden sites and SGI has assigned the lease agreements with the City to Goldman Sachs for these properties. The leases contain annual increases to the rent payments.

As allowed in the contract, the City receives between 4.75 percent and 6.75 percent of the revenue from Clear Channel for Amphitheatre concessions.

FORECAST

Investment Earnings: The projection for the Fiscal Year 2003-04 Adopted Budget is based on an assumption the average portfolio rate will decline to 4.0 percent and the four forecast years include 0.5 percent annual yield increases.

Rents and Leases: The current leases with Goldman Sachs end in Fiscal Year 2004-05 and 2005-06. The forecast includes rental income for these leases at lower rents after the expiration of the current leases. The City will remain at the maximum percentage allowed in the contract with Clear Channel.



Fiscal Year	Annual Revenues	% Change
1998-99	8,210,000	(3.3%)
1999-00	8,338,000	1.6%
2000-01	9,644,000	15.7%
2001-02	9,959,000	3.3%
2002-03 *	9,455,000	(5.1%)
2003-04 **	8,850,000	(6.4%)
2004-05	9,096,000	2.8%
2005-06	9,172,000	0.8%
2006-07	9,491,000	3.5%
2007-08	9,822,000	3.5%

* Unaudited
** Adopted

OTHER REVENUE

Other revenue is comprised of Franchise Fees, Licenses and Permits, Fines and Forfeitures, Intergovernmental, Service Charges, Miscellaneous and Interfund Revenue/Transfers.

OTHER REVENUE SOURCES

- The franchisees are required to pay Franchise Fees as compensation to the City for the use of City property while providing a commercial service to Mountain View businesses and residents.
- Licenses and Permits and Service Charge revenues are generated from private development activity and recreation classes.
- Fines and Forfeitures are generated from citations issued by the City and the California Highway Patrol.
- Intergovernmental includes all revenue derived from other government agency sources, the largest of which is motor vehicle license fees (MVLF).
- Miscellaneous Revenue includes revenue from a variety of sources.
- Interfund Revenues are reimbursements to the General Operating Fund from other funds and capital improvement projects for services provided. Interfund Transfers are transfers from other funds.

ECONOMIC FACTORS

- State of the economy
- Franchise agreements and revenues generated by franchisees
- Level of development activity
- Actions by the State Legislature
- Level of service provided to other funds and capital improvement projects by staff budgeted in the General Operating Fund
- State and Federal regulations, legislation and funded programs

HISTORY

Franchise Fees: Franchise revenue generated from gas and electricity usage steadily increased through Fiscal Year 2000-01 as a result of significant commercial and residential development. This new development completely masked the impact of the PG&E rate reduction effective March 1998.

The City's refuse hauler, Foothill Disposal Company (Foothill) is required to pay a franchise fee to the City. This revenue began declining in Fiscal Year 2001-02 as a result of the decreased demand for refuse service, resulting from the large amount of vacant commercial space.

In addition, both of these Franchise Fee sources have been negatively impacted by conservation and recycling efforts.

Licenses and Permits and Service Charges: This revenue source experienced significant growth during the 1990s as a result of new development. Revenues began declining in Fiscal Year 2000-01 as there were no new large commercial development projects.

Intergovernmental Revenue: During the past decade, many revenues from the State have been reduced or eliminated. However, motor vehicle license fees (MVLF) collected on vehicle registrations have steadily increased. MVLF were reduced by the State Legislature in Fiscal Year 1997-98 with the losses to local agencies offset by a "backfill" payment from the State's General Fund. Local agencies are dependent upon the State to continue to backfill the loss of that portion of MVLF.

Interfund Revenues/Transfer: Every two years, the City's A-87 cost allocation plan is updated to accurately reflect the services provided to other funds and capital projects by General Operating Fund staff.

FORECAST

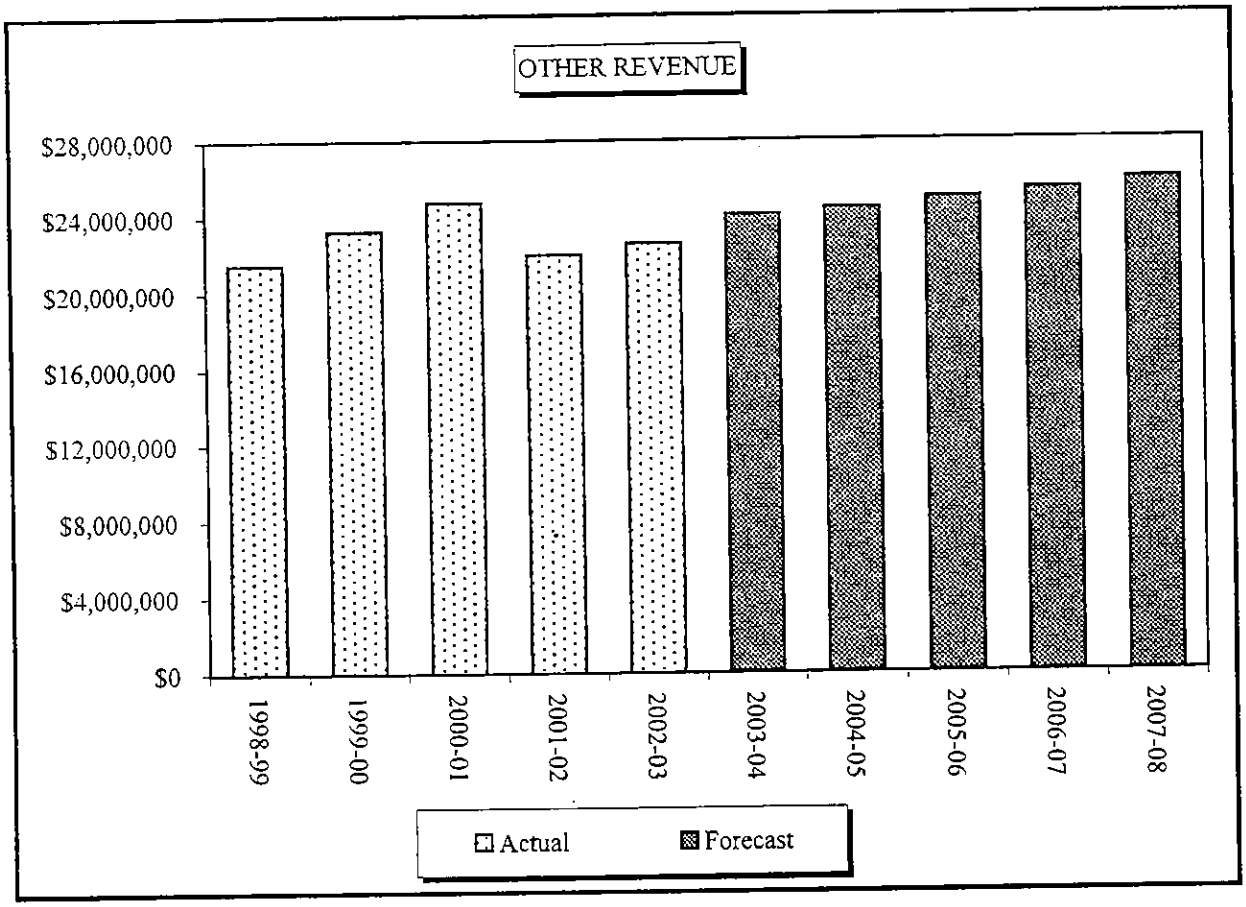
Franchise Fees: The projection for the Fiscal Year 2003-04 Adopted Budget includes an increase in the fee collected from Foothill, resulting from their anticipated increase in revenues. The four forecast years assume inflationary increasing revenue from Foothill and from the other Franchisees.

The PG&E reorganization plan approved by the bankruptcy court did not include the additional corporate entities originally proposed by PG&E; therefore, the adopted budget is based on receiving the full franchise fee.

Licenses and Permits and Service Charges: This revenue is expected to decline slightly during Fiscal Year 2003-04, reflecting the continued slowdown in private construction activity, and increase slightly in the last three forecast years.

Intergovernmental Revenue: The May revision of the Fiscal Year 2003-04 State budget proposes triggering the reinstatement of the full amount of the tax to the vehicle owner and releasing the State from the obligation of backfilling the 67.5 percent to local agencies. No adjustment in MVLF revenues has been reflected in the Fiscal Year 2003-04 Adopted Budget or the four forecast years.

Interfund Revenue/Transfer: The cost allocation plan revision was completed and the updated numbers have been included in the adopted budget. The funding for the biennial update to the plan is included in the 2003-04 fiscal year Adopted Budget.



Fiscal Year		Annual Revenues	% Change
1998-99		21,526,000	10.4%
1999-00		23,251,000	8.0%
2000-01		24,750,000	6.4%
2001-02		21,995,000	(11.1%)
2002-03	*	22,566,000	2.6%
2003-04	**	24,070,000	6.7%
2004-05		24,400,000	1.4%
2005-06		24,945,000	2.2%
2006-07		25,387,000	1.8%
2007-08		25,920,000	2.1%

* Unaudited
** Adopted

LOAN REPAYMENTS

This revenue source reflects the annual repayment of loan obligations from other funds.

LOAN REPAYMENT SOURCES

- Shoreline Regional Park Community
- Revitalization Authority

ECONOMIC FACTORS

- Financial condition of the paying funds

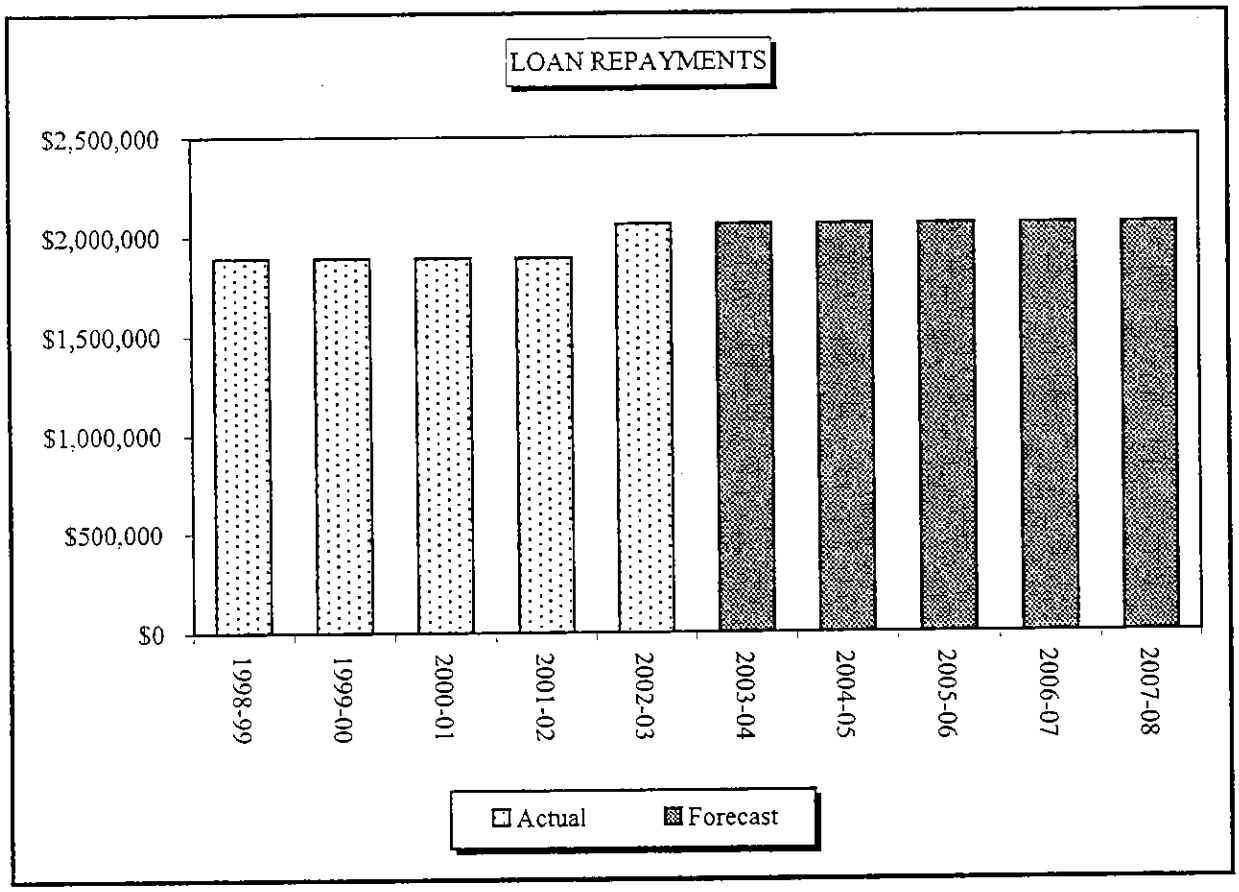
HISTORY

Shoreline Regional Park Community (SRPC): The General Fund made a series of loans to this fund beginning in Fiscal Year 1985-86, which eventually totaled $17.8 million. The loans were combined together into a consolidated loan during Fiscal Year 1988-89. Although this revenue is one-time in nature, it will not be paid off until Fiscal Year 2015-16 and is currently included as operating revenue.

Revitalization Authority (Authority): The General Fund also made a series of loans to this fund in 1989. In the Fiscal Year 1993-94 budget, the Council approved deferring the loan repayments a minimum of three years at no interest and extending the payoff until Fiscal Year 2013-14. Although the financial condition of the Authority subsequently improved, loan repayments continued to be deferred until Fiscal Year 2002-03. At that time, the loan to the Authority was reamortized to 2019, the end of the life of the District, at a 6.0 percent interest rate with an annual loan payment in the amount of $165,500.

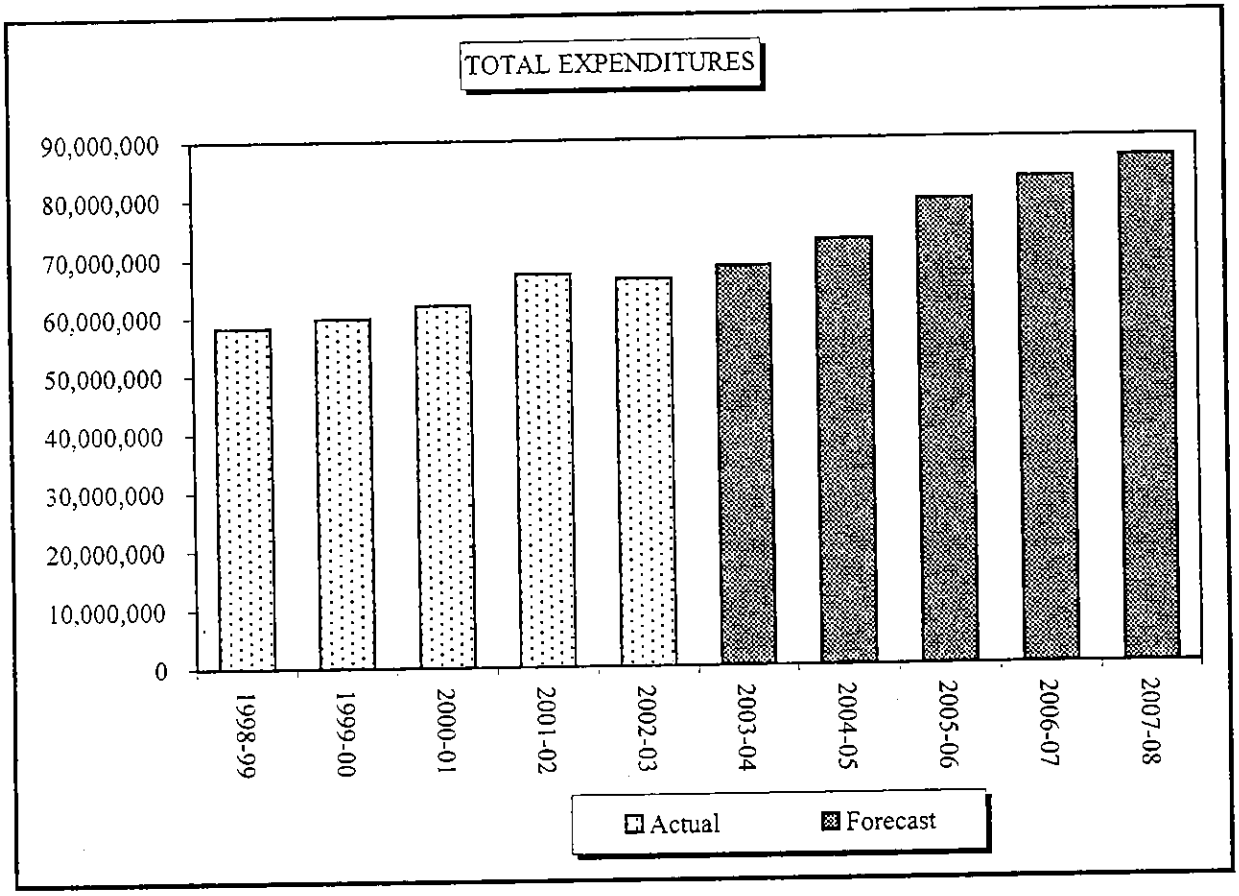
FORECAST

The SRPC and Revitalization Authority loan repayments remain at the same annual amount throughout the life of the debt.



Fiscal Year		Annual Revenues	% Change
1998-99		1,894,000	0.0%
1999-00		1,894,000	0.0%
2000-01		1,894,000	0.0%
2001-02		1,894,000	0.0%
2002-03	*	2,060,000	8.8%
2003-04	**	2,060,000	0.0%
2004-05		2,060,000	0.0%
2005-06		2,060,000	0.0%
2006-07		2,060,000	0.0%
2007-08		2,060,000	0.0%

* Unaudited
** Adopted



Fiscal Year		Annual Expenditures	% Change
1998-99		58,341,000	7.9%
1999-00		59,846,000	2.6%
2000-01		62,057,000	3.7%
2001-02		67,281,000	8.4%
2002-03	*	66,340,000	(1.4%)
2003-04	**	68,465,000	3.2%
2004-05		72,829,000	6.4%
2005-06		79,426,000	9.1%
2006-07		83,089,000	4.6%
2007-08		86,580,000	4.2%

* Unaudited

** Adopted

SALARIES AND BENEFITS

The Salaries and Benefits category makes up the largest component of General Operating Fund expenditures and represents all personnel-related costs. There are currently four union-represented groups in the City: the Police Officers Association (POA sworn and nonsworn), the Mountain View Professional Firefighters Union (IAFF No. 1965) and Service Employees International Union (SEIU No. 715). The remaining employees are Management, Professional and certain Front-Line positions. The outcome of negotiations with each unit is a major factor in salary and benefit costs.

CATEGORIES

- Salaries
- Wages
- Overtime
- Other pays (e.g., holiday-in-lieu, out-of-class, etc.)
- Medical/dental premiums
- Public Employees Retirement System (PERS)
- Other benefits (e.g., long-term disability, FICA, etc.)
- Workers' Compensation

HISTORY

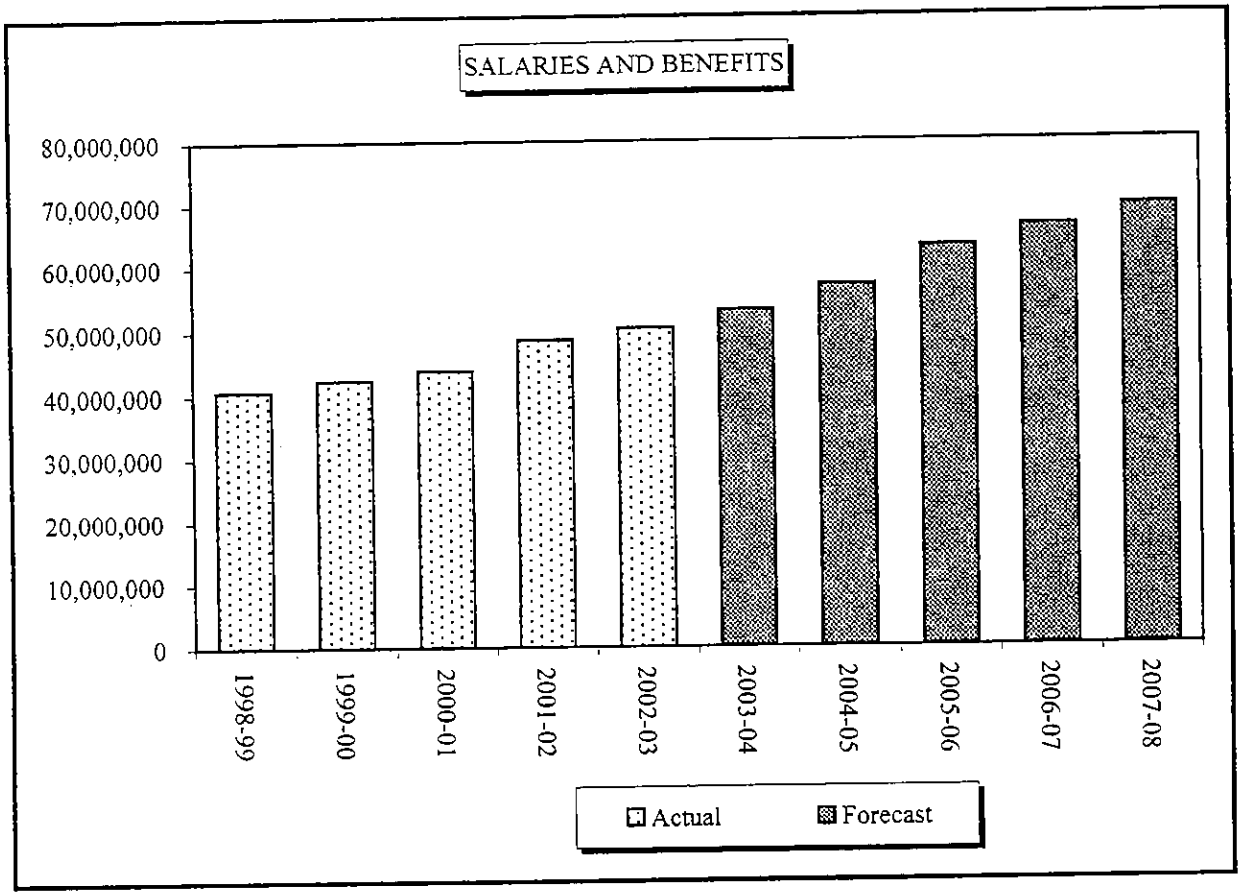
During the recession in the early 1990s, the City experienced retrenchment, eliminating a total of 31.5 General Fund positions. Over the next several fiscal years, the Council approved service enhancements in the highest-priority areas. However, in Fiscal Year 2002-03, in response to the initial signs of the economic slowdown, Council eliminated 4.0 positions and unfunded the equivalent of 16.08 positions. During the 2002-03 fiscal year, the economy continued to erode and the partial hiring freeze implemented in January 2001 was expanded.

FORECAST

As discussed during budget study sessions, the adopted budget includes a total elimination of 42.51 full-time equivalent General Operating Fund positions (including the 16.08 positions unfunded in Fiscal Year 2002-03).

The adopted budget also includes cost-of-living adjustments agreed to in the current IAFF No. 1965 and the POA sworn and nonsworn Memorandums of Understanding (MOU). In addition, as agreed to in the Fiscal Year 2002-03 compensation resolution, Police management are budgeted to receive cost-of-living and equity increases. The Council included funding in the Fiscal Year 2003-04 Adopted Budget for all front-line employees to receive the appropriate step increase and a minimal amount is included for merit increases. There is no cost-of-living increase included for either miscellaneous front-line and management employees or SEIU.

Also, any other anticipated benefit modifications are reflected in the Fiscal Year 2003-04 Adopted Budget. Public Employees Retirement System (PERS) employer contribution rates for Fiscal Year 2003-04 and 2004-05 reflect the normal cost rate calculated by PERS in the most recent actuarial. The Miscellaneous group is 7.01 percent for Fiscal Year 2003-04. For Fiscal Year 2004-05, 7.2 percent is projected and increasing in Fiscal Year 2005-06, reflecting the impact of the substantial losses in the PERS portfolio. The Safety rate is 19.73 percent for Fiscal Year 2003-04, 29.8 percent is projected for Fiscal Year 2004-05, increasing in Fiscal Year 2005-06, reflecting PERS investment losses and the impact of the enhanced retirement benefit granted to Fire Safety in July 2001 and Police Safety in July 2002. Both Police and Fire Safety will be sharing in the increased cost. The last two years of the forecast include incremental increases for all groups. The remaining benefits, consisting primarily of employee insurance coverages, are included in the forecast with projected inflationary increases.



Fiscal Year		Annual Expenditures	% Change
1998-99		40,714,000	8.8%
1999-00		42,394,000	4.1%
2000-01		43,838,000	3.4%
2001-02		48,659,000	11.0%
2002-03	*	50,431,000	3.6%
2003-04	**	53,111,000	5.3%
2004-05		56,977,000	7.3%
2005-06		63,160,000	10.9%
2006-07		66,422,000	5.2%
2007-08		69,496,000	4.6%

* Unaudited
** Adopted

SERVICES AND SUPPLIES

The Services and Supplies category makes up the second largest component of General Operating Fund expenditures and represents costs of operations.

CATEGORIES

- Materials and Supplies
- Maintenance and Operations
- Utilities
- Professional/Technical Services
- Training, Conference and Travel
- Miscellaneous Expenditures

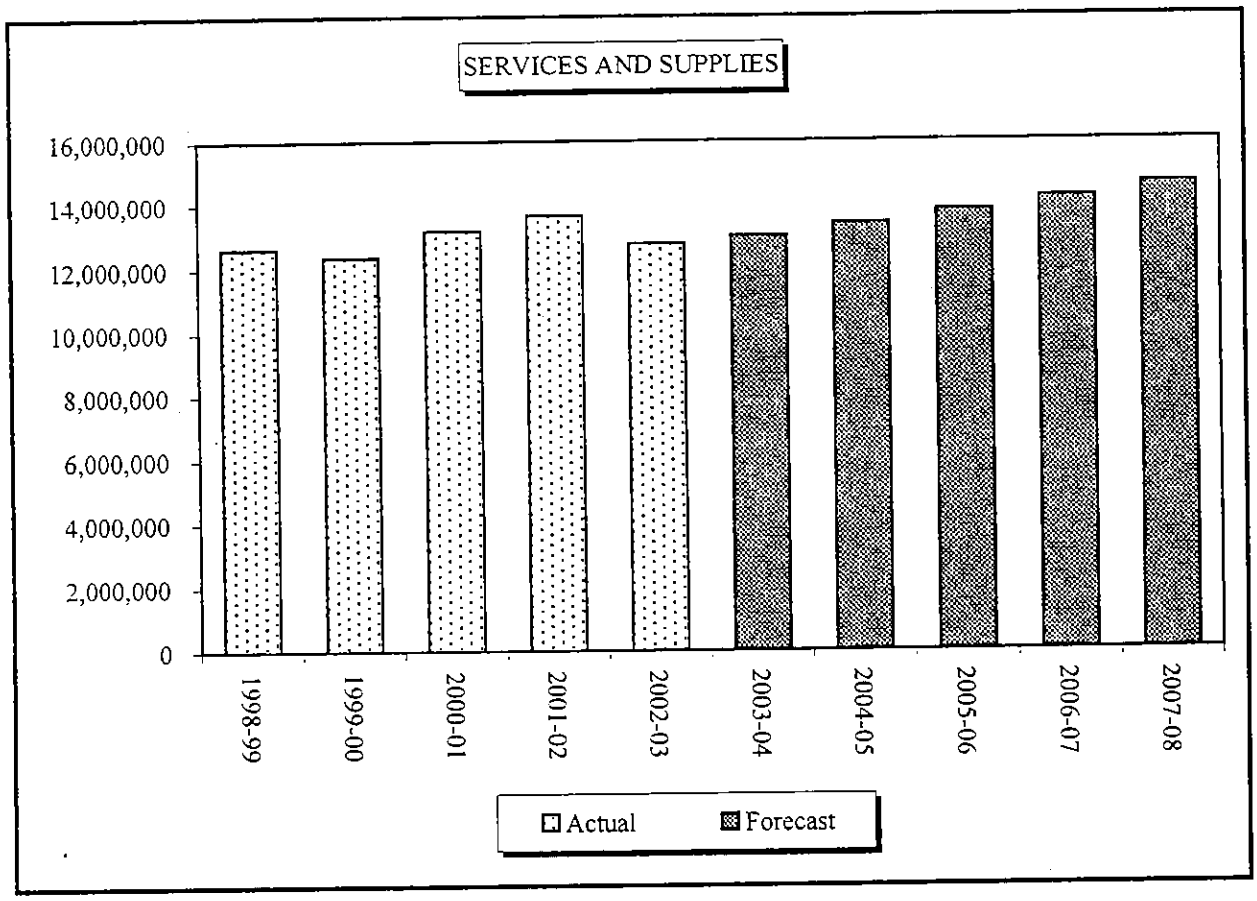
HISTORY

From Fiscal Year 1995-96 through 2001-02, the Council has approved increases (averaging 7.8 percent annually) for the highest-priority programs. In Fiscal Year 2002-03, the Council approved a net 5.0 percent reduction from the prior fiscal year adopted budget.

FORECAST

The Fiscal Year 2003-04 Adopted Budget includes a 10.5 percent reduction in the services and supplies account compared to the prior year adopted budget.

Subsequent forecast years include 3.0 percent increases. This is based on historical averages, after adjusting for significant programs, and the information gathered from the State and other sources.



Fiscal Year		Annual Expenditures		% Change
1998-99		12,648,000	(1)	5.5%
1999-00		12,377,000		(2.1%)
2000-01		13,194,000		6.6%
2001-02		13,658,000	(1)	3.5%
2002-03	*	12,780,000		(6.4%)
2003-04	**	13,001,000		1.7%
2004-05		13,392,000		3.0%
2005-06		13,793,000		3.0%
2006-07		14,207,000		3.0%
2007-08		14,633,000		3.0%

* Unaudited
** Adopted

(1) Includes Interfund Transfers

CAPITAL OUTLAY AND EQUIPMENT REPLACEMENT

The Capital Outlay and Equipment Replacement category represents the new and replacement equipment needs of the City. Although, individually, Capital Outlay is one-time in nature, the City includes this category in the operating budget to reflect capital needs on an annual basis. In addition to the General Operating Fund, the Shoreline Golf Links, Revitalization Authority, Parking District, Shoreline Regional Park Community, Water, Wastewater, Solid Waste Management and Fleet Maintenance Funds make annual contributions based on the equipment used by those operations. Equipment replacement expenses are paid by the Equipment Replacement Reserve Fund.

CATEGORIES

- Capital Outlay
- Equipment Replacement

HISTORY

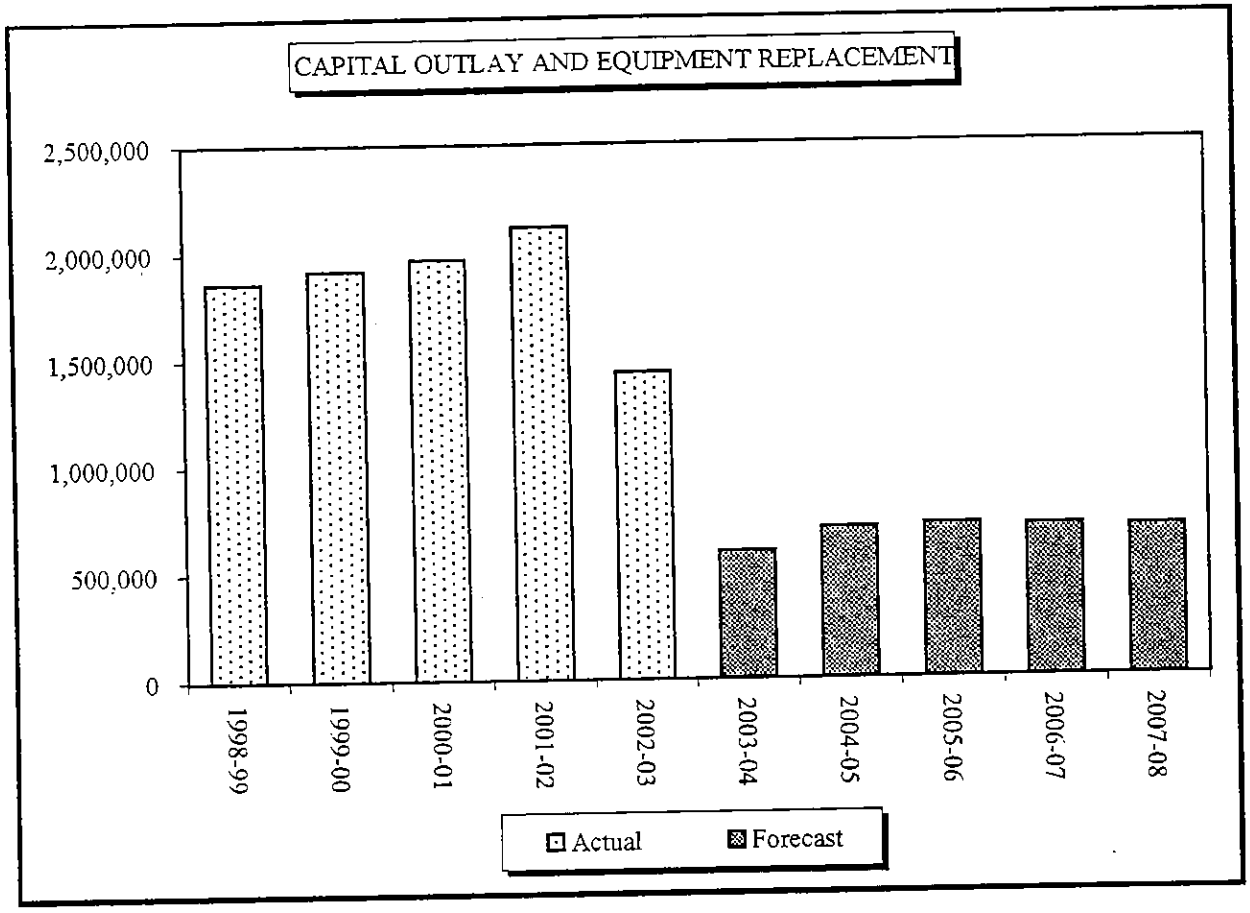
Capital Outlay: Since Fiscal Year 1993-94, the annual expenditures have grown as a result of an increased level of technology and related equipment, and an increase in the number and quality of safety vehicles. The Fiscal Year 2002-03 Adopted Budget included an ongoing $100,000 reduction to capital outlay.

Equipment Replacement: The Equipment Replacement Reserve was initially funded in Fiscal Year 1992-93 with year-end General Fund carryover. Since that time, the Council has approved transfers to this fund from the year-end General Fund carryover to supplement the General Operating Fund's share of funding. The General Operating Fund increased this funding by $200,000 annually from Fiscal Year 1994-95 until it was fully funding its share by Fiscal Year 2001-02. The Fiscal Year 2002-03 Adopted Budget included a $500,000 reduction in the General Operating Fund's contribution to Equipment Replacement. These reductions are temporary in nature and will not be able to be continued into the future.

FORECAST

Capital Outlay: The Fiscal Year 2003-04 Adopted Budget includes a $200,000 reduction in capital outlay.

Equipment Replacement: The Fiscal Year 2003-04 Adopted Budget includes an additional $500,000 reduction in the General Operating Fund's contribution to equipment replacement.



Fiscal Year		Annual Expenditures	% Change
1998-99		1,863,000	21.8%
1999-00		1,919,000	3.0%
2000-01		1,969,000	2.6%
2001-02		2,118,000	7.6%
2002-03	*	1,434,000	(32.3%)
2003-04	**	593,000	(58.6%)
2004-05		702,000	18.4%
2005-06		713,000	1.6%
2006-07		703,000	(1.4%)
2007-08		694,000	(1.3%)

* Unaudited
** Adopted

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SELF-INSURANCES

The Insurances category represents the General Operating Fund's share of insurance costs in the Internal Service Funds. Special Funds and the Enterprise Funds also contribute to benefit insurances.

CATEGORIES

- General Liability
- Retirees' Health Care
- Vision Care

HISTORY

General Liability: In Fiscal Year 1993-94, the City joined a liability insurance pool (ACCEL) with other select cities for the provision of $19.5 million coverage in excess of the current $500,000 self-insured retention (SIR) for total coverage of $20.0 million. Beginning in Fiscal Year 2001-02, funding of liability insurance was spread to all funds which receive a benefit from this insurance coverage. Previously, the cost was funded entirely by the General Operating Fund.

Retirees' Health Care and Vision Care: The medical premiums for retirees are paid by the Retirees' Health Fund, and vision care claims and reimbursement for safety glasses are paid by the Employee Benefits Fund. The annual cost of both of these programs is allocated to all operating funds. The Fiscal Year 2002-03 Adopted Budget included funding of the General Operating Fund's share to be paid by investment earnings generated by the reserve balance.

FORECAST

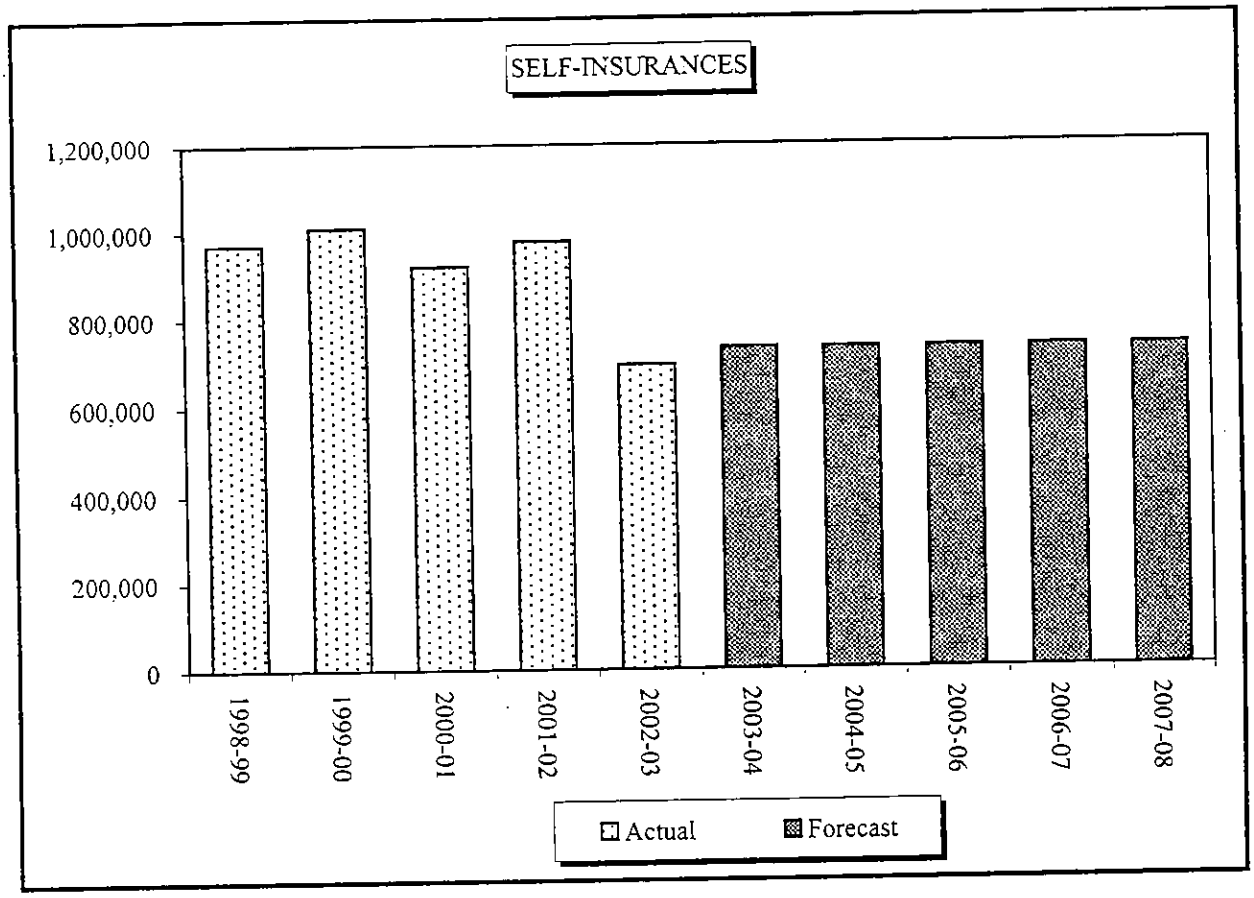
General Liability: The Adopted Budget includes the allocation of this funding to the General Operating Fund, Shoreline Golf Links, Revitalization Authority, Parking District, Shoreline Regional Park Community, Water, Wastewater and Solid Waste Management Funds. The Fiscal Year 2003-04 through 2007-08 projections are based on maintaining the minimum policy level for reserve balances. Operating expenditures for Fiscal Year 2003-04 have been increased, reflecting the overall higher cost of insurances. Property, liability and earthquake insurances all increased for the 2003-04 fiscal year.

Retirees' Health Care: The General Operating Fund's contribution to the Retirees' Health Fund is based on the projected cost of health care premiums for retired employees and the number of retirees. The number of retirees is calculated to increase

by 15 annually through the forecast period. This is based on historical trends and the number of known pending retirements.

To date, the General Operating Fund has contributed the entire reserve balance of the Retirees' Health Fund. The Fiscal Year 2003-04 Adopted Budget continues the funding of the General Operating Fund's share from investment earnings.

Vision Care: The General Operating Fund's contribution is based on the projected amount required to fund vision coverage for employees and retirees and safety glasses for employees.



Fiscal Year		Annual Expenditures	% Change
1998-99		972,000	(0.1%)
1999-00		1,011,000	4.0%
2000-01		921,000	(8.9%)
2001-02		978,000	6.2%
2002-03	*	693,000	(29.1%)
2003-04	**	733,000	5.8%
2004-05		733,000	0.0%
2005-06		733,000	0.0%
2006-07		733,000	0.0%
2007-08		733,000	0.0%

* Unaudited
** Adopted

DEBT SERVICE

The Debt Service category funds the debt obligations of the General Fund to the Debt Service Funds.

CATEGORIES

- City Hall and Center for the Performing Arts

HISTORY

City Hall/Center for the Performing Arts: In Fiscal Year 1988-89, the City issued debt to fund the construction of a new City Hall building and Center for the Performing Arts. The City refinanced this debt in Fiscal Year 1992-93, reducing annual debt service payments an average of $230,000 and a total savings of approximately $5.5 million over the life of the debt.

The Council approved the allocation of $5.0 million from the Fiscal Year 1999-2000 General Fund carryover and $5.0 million from the Fiscal Year 2000-01 carryover to call a portion of the outstanding General Fund bonds. The $10.0 million bond call and refinancing completed in August 2001 reduced the ongoing General Operating Fund debt service obligation by approximately $1.1 million annually.

FORECAST

City Hall/Center for the Performing Arts:

The forecast period reflects the scheduled debt service payments.

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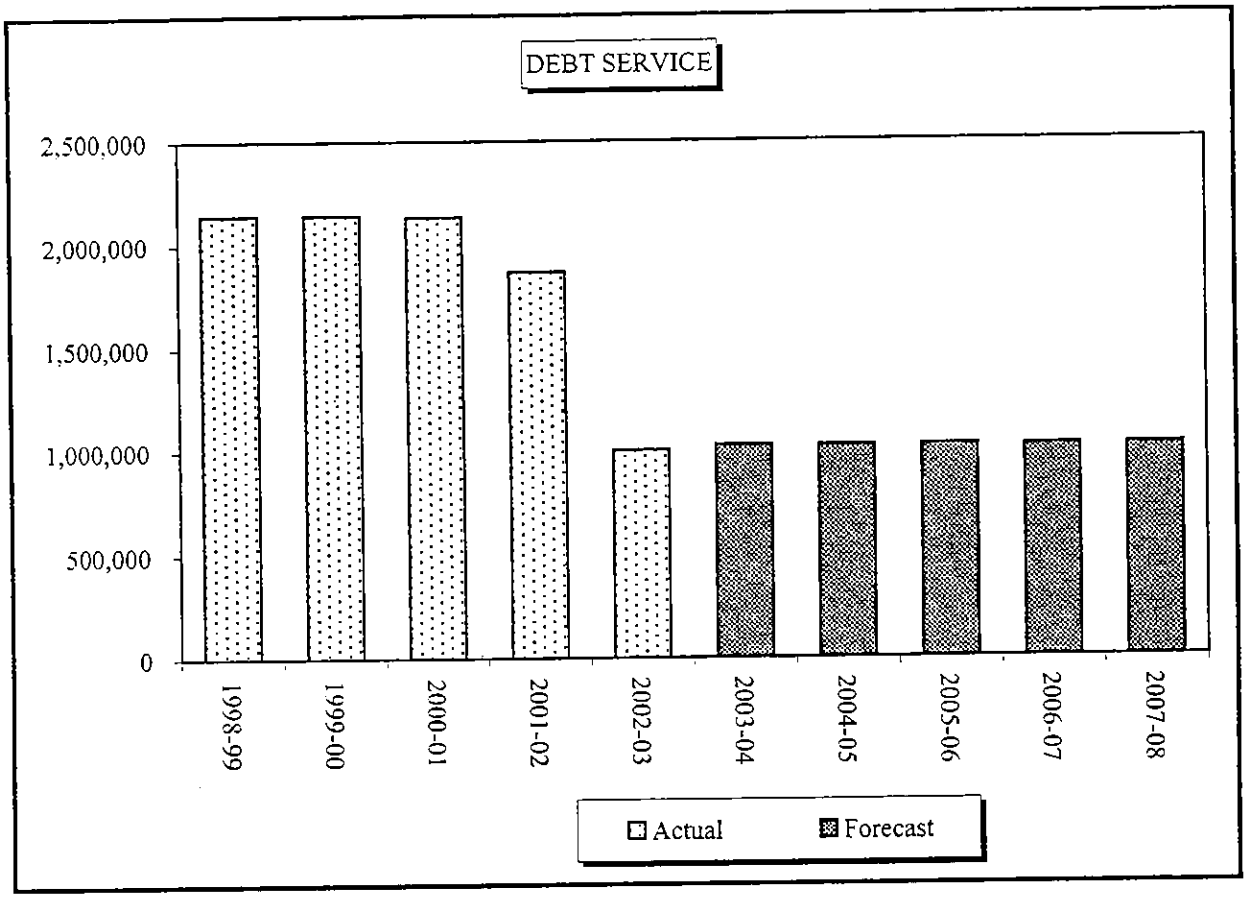

Fiscal Year		Annual Expenditures	% Change
1998-99		2,144,000	(0.2%)
1999-00		2,145,000	0.0%
2000-01		2,135,000	(0.5%)
2001-02		1,868,000	(12.5%)
2002-03	*	1,002,000	(46.4%)
2003-04	**	1,027,000	2.5%
2004-05		1,025,000	(0.2%)
2005-06		1,027,000	0.2%
2006-07		1,024,000	(0.3%)
2007-08		1,024,000	0.0%

* Unaudited
** Adopted

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