

# Palo Alto needs public forum over finances

BY BOB BROWNSTEIN  
Special to The Daily News

As Palo Alto engages in difficult labor/management negotiations, three observations regarding the city budget need to be stated clearly:

1) The questions that city employees raise regarding Palo Alto's fiscal capacities are completely legitimate.

In fact, they are precisely the kinds of questions that neighborhood organizations, unions and residents are asking in cities throughout the state.

2) The answers that city government is providing are insufficient. That doesn't mean they're inaccurate. It means they lack enough detail and explanation to be convincing.

3) The best way to resolve these questions is through an open discussion in a public forum.

Let's consider some of the employees' questions.

First, the city's workers have noted that several of Palo Alto's Internal Service Funds have substantial unrestricted assets (about \$22 million on June 30, 2008). They wondered why these resources couldn't be used to help resolve the current negotiations, especially since only \$3 million is needed to achieve a settlement.

In reply, Palo Alto's government Web site claims all but \$5 million of these funds are in reserves for encumbrances and reap-

ropriations. That information is true but insufficient.

In difficult economic times, past spending practices need to be re-examined. The city's employees know this. That's why they've already offered \$7 million in concessions to the city, including yielding on raises, employee shares of pension costs, and more.

But where is the city's acknowledgment that — in these hard times — encumbrances and re-appropriations also have to be critically reviewed? The city's Web site suggests that the mere label, encumbrance or reappropriation, means all debate should end.

In other cities, encumbrances and reappropriations are receiving intense evaluation. Encumbrances refer to budgeted items for which the city has a legal or contractual obligation. Sometimes, even these items were over-budgeted, and balances can be reduced.

Reappropriations are much less sacrosanct. A reappropriation simply means at some date in the past, almost certainly in better times, the city thought a specific expenditure made sense. If a family living in Palo Alto committed funds for an extravagant vacation, and then the breadwinner lost his or her job, would they automatically "reappropriate" their vacation reserve? Not very likely. Now, in a deep recession, every city reappropriation should likewise be challenged. Is the expenditure still a priority? Is the budgeted amount higher than absolutely necessary? Can past agreements

be re-negotiated?

A second, related line of questions concerns the wisdom of using "one-time" revenues to meet ongoing expenses. The workers believe they've identified one-time funds to pay for a settlement. The city's answer is that prudent management means "one-time funding not be used to solve ongoing, recurring financial needs."

The city's answer is a one-size-fits-all response that reflects neither the practices of numerous other jurisdictions nor the flexibility that leads to success in special circumstances. Much of Palo Alto's current fiscal problem results from the recession.

Using reserves to get through bad times is reasonable; when else would you use them?

The city does refer to an ongoing structural problem, but that assertion deserves public review. Palo Alto has an educated and affluent population, proximity to a major university, and a tax base that other cities would die for (its per capita property tax base is nearly 300 percent greater than San Jose's). If a city transfers substantial operating revenue to its capital budget, as it appears Palo Alto has done, then it is fair to ask whether future shortfalls in the General Fund are structural or the result of disputable priorities.

Palo Alto's employees have raised serious questions that warrant an open debate. A public forum to discuss the budget can help provide the answers.

*Bob Brownstein is research and policy director for Working Partnerships USA.*

## GUEST OPINION