



# City of Palo Alto

## Finance Committee Staff Report

(ID # 11741)

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**Report Type: Action Items**

**Meeting Date: 12/1/2020**

**Council Priority: Fiscal Sustainability**

**Summary Title: Approval of FY 2020 Comprehensive Annual Financial Report (CAFR) & Budget Amendments**

**Title: Recommendation to the City Council to Approve the Fiscal Year (FY) 2020 Comprehensive Annual Financial Report (CAFR) and FY 2020 Budget Amendments in Various Funds**

**From: City Manager**

**Lead Department: Administrative Services**

### **Recommendation**

Staff recommends that the Finance Committee forward to the City Council for its approval:

1. The City's FY 2020 Comprehensive Annual Financial Report (CAFR) (Attachment C); and
2. Amend the Fiscal Year (FY) 2020 Budget Appropriation Ordinance for various funds as identified in the attached Recommended Amendments to the City Manager's FY2020 Budget (Operating Budget: **Attachment B – Exhibit 1**; Capital Budget: **Attachment B – Exhibit 2**).

### **Financial Highlights for FY 2020**

#### ***Government-wide***

At the close of FY 2020, the City's overall Net Position remains positive despite of the financial impacts of COVID-19. The Statement of Activities (p.29 of the attached CAFR) reports Governmental Activities (the City's basic services which are generally funded by taxes, and by specific program revenues such as fees and grants) Net Position at \$440.6 million, a \$9.4 million decrease from the prior year, and Business-Type Activities (the City's enterprise activities which are funded in whole or in part by fees charged to external parties) Net Position at \$785.0 million, a \$43.5 million increase. Various factors contributed to these changes, including accounting adjustments required by the Governmental Accounting Standards Board (GASB). Financial highlights by fund category can be found in the Discussion section of this report.

### **General Fund**

The General Fund ended with a \$35.9 million Budget Stabilization Reserve (BSR), a \$18.9 million, or 34.5 percent, decrease when compared to FY 2019. The BSR decreased mainly due to a \$13.4 million shortfall of revenue to expense resulting from the COVID-19 shelter in place orders. The shelter in place orders impacted the City's revenue from sales tax, transient occupancy tax, and charges for services.

The General Fund ended FY 2020 with a \$2.9 million surplus when compared to the assumptions used in the development of the FY 2021 Adopted Operating Budget and the rebalancing adjustments for FY 2020 approved by the City Council in June 2020 as a result of the financial impacts of COVID-19 ([Staff Report #11328](#)). The primary driver of the surplus was the overall expense savings realized across all the departments, and the largest variances were experienced in the Planning and Development Services department and Non-Departmental. As of June 30, 2020, the BSR is \$35.9 million, which is 18.2 percent of the FY 2021 Adopted General Fund budgeted expenses and \$0.5 million below the City Council target level of \$36.4 million, or 18.5 percent of General Fund expenses.

### **Enterprise Funds**

The City's Enterprise Funds, except for the Refuse fund, ended the year in surplus positions. The Refuse Fund ended with a net loss due to lower revenues resulting from the reduction of services of commercial and industrial customers due to COVID-19 shelter in place order and an increase in reimbursement to GreenWaste of Palo Alto for new waste collection vehicles.

### **Internal Service Funds**

Internal Service Funds ended the fiscal year with \$80.3 million fund balance. All funds showed positive balances except the Printing and Mailing which reported a \$0.4 million negative balance due to the pension liability per GASB 68 and OPEB liability per GASB 75. Once adjusted for these noncash transactions, the Printing and Mailing fund remains with a positive fund balance.

### **Background**

The City's fiscal year ends on June 30, at which time its financial records are closed for the year and financial reports are prepared. The reports, along with the City's financial data, are audited by Macias Gini & O'Connell LLP (MGO), Certified Public Accountants, a firm hired by the City Auditor. MGO issues an audit opinion on the financial position of the City's activities and, together with the City's financial statements and other information; this comprises the City's Comprehensive Annual Financial Report (CAFR) that can be found in **Attachment C**.

**Attachment B** outlines recommended amendments to the FY 2020 Budget. These recommended actions close the fiscal year by reallocating and realigning budget to reappropriate funds or adjust transfers between operating and capital funds. The General Fund Summary found in **Attachment A**, provides detailed information of the fund's activity this year.

The CAFR includes government-wide statements and fund level financial statements that provide a snapshot of fund balances and activity for the year. An overview of financial results, information on how to navigate the CAFR document, and highlights of key fiscal issues affecting the City can be found in the Management's Discussion and Analysis (MD&A) section (CAFR p. 5). The MD&A also provides a discussion and analysis of the City's current fiscal health and includes financial statements and analysis that is compared to the prior year, along with capital asset and debt administration data.

In addition, staff has prepared and attached a budgetary basis summary of General Fund Revenues and Expenditures to provide a snapshot of the fund's revenue and expenditures by department (**Attachment A**). The Discussion section of this staff report includes Results by Fund which discusses position of fund balances, major revenue sources, and expense highlights.

## **Financial Results**

### **Government-wide Statements**

#### ***Statement of Net Position***

The Statement of Net Position presents information on all the City's assets plus deferred outflows of resources, and liabilities plus deferred inflows of resources, with the reported as net position.

The City's net position was \$1,225.6 billion on June 30, 2020 compared to the balance of \$1,191.5 billion on June 30, 2019. Of the total increase of \$34.1 million, or 2.9 percent, \$43.5 million is from business-type activities partially offset by a decrease of \$9.4 million from governmental activities.

The largest portion of the City's net position (\$1,118.7 billion or 91.2 percent) is its net investment in capital assets such as land, buildings, infrastructure and vehicles, less any related outstanding debt that was used to acquire these assets. The restricted portion of the City's net position (\$48.7 million - or 4.0 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$58.2 million, across all funds, representing 4.8 percent of the City's net position, is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors.

The unrestricted net position for the governmental activities portion is negative due to recognition of the net pension liabilities as required by GASB Statement No. 68 and net OPEB liabilities a required by GASB Statement No. 75. The deficit of \$101.4 million in FY 2020 for the governmental activities included the impact of \$291.9 million for the net pension liabilities and the related deferred inflows and outflows of resources and \$93.2 million for the Net OPEB liabilities and the related deferred inflows and outflows of resources.

**STATEMENT OF NET POSITION**  
*As of June 30, 2020*  
(in millions)

	Governmental Activities		Business-type Activities		Government-wide Totals	
	2020	2019	2020	2019	2020	2019
Cash and investments	\$ 342.8	\$ 354.0	\$ 277.4	\$ 253.4	\$ 620.2	\$ 607.4
Other assets	60.5	69.8	52.8	51.3	113.3	121.1
Capital assets	596.3	566.1	693.2	673.5	1,289.5	1,239.6
Deferred outflows	55.8	63.4	21.1	21.7	76.9	85.1
<b>Total assets and deferred outflows</b>	<b>1,055.4</b>	<b>1,053.3</b>	<b>1,044.5</b>	<b>999.9</b>	<b>2,099.9</b>	<b>2,053.2</b>
Net pension and OPEB liabilities	416.3	417.3	153.7	154.4	570.0	571.7
Long-term debt	112.5	115.1	74.5	74.2	187.0	189.3
Other liabilities	61.5	63.8	21.7	26.6	83.2	90.4
Deferred inflows	24.5	7.1	9.6	3.2	34.1	10.3
<b>Total Liabilities</b>	<b>614.8</b>	<b>603.4</b>	<b>259.5</b>	<b>258.4</b>	<b>874.3</b>	<b>861.8</b>
<b>Net Position</b>						
Net investment in capital assets	497.4	493.7	621.3	602.1	1,118.7	1,095.8
Restricted	44.6	45.6	4.1	4.0	48.7	49.7
Unrestricted	(101.4)	(89.4)	159.6	135.4	58.2	46.0
<b>Total Net Position</b>	<b>\$ 440.6</b>	<b>\$ 449.9</b>	<b>\$ 785.0</b>	<b>\$ 741.5</b>	<b>\$ 1,225.6</b>	<b>\$ 1,191.5</b>

**Statement of Activities**

The major sources of the City's revenues are Program Revenues and General Revenues. Program Revenues consist of charges for services (both governmental and business type activities) as well as operating and capital grants and contributions. General Revenues include property tax, sales tax, utility user tax, transient occupancy tax, documentary transfer tax, other taxes and miscellaneous revenue.

Revenues for the City in FY 2020 were \$584.7 million, a decrease of \$20.9 million or 3.5 percent compared to FY 2019, due to a \$25.1 million decrease in Governmental Activities that is partially offset by a \$4.2 million increase from Business Activities. Governmental Activities decreased \$25.1 million mainly due to decreases in sales tax, transient occupancy tax, development and related activities, reduced programs and classes, and the closure of the golf course caused by the COVID-19 shelter in place order. Business Activities revenue increased \$4.2 million mainly due to rate increases in the Electric, Water, Wastewater collection, and Storm Drainage Funds, increased billing for capital, operating and sewage costs in the Wastewater Treatment Fund partially offset by decrease in Gas Fund revenues caused by the COVID-19 shelter in place order.

Expenses for the City in FY 2020 were \$550.6 million, an increase of \$21.0 million or 4 percent compared to FY 2019, due to an \$8.6 million increase from Governmental Activities and a \$12.5 million increase from Business-type expenses. The increase in Governmental Activities expense is driven by an adjustment to capital assets that was offset by disposal of capital asset expense. During this fiscal year, staff reviewed capital asset balances and determined that certain expenses, specifically repair and maintenance costs, should not have been capitalized per GAAP. The expense to correct these balances was recorded as part of Public Works functional expenses. The expense increase in Business Activities is driven by several cost categories and resulted in higher costs compared to prior year, including salaries and benefits, transmission costs in Electric Fund, and reimbursement to GreenWaste of Palo for new waste collection vehicles in Refuse Fund. These increases were partially offset by a decrease of lower commodity purchase costs due to lower than expected natural gas prices and transportation costs in Gas Fund.

**Statement of Activities for the Year Ended June 30**  
**(in millions)**

	<b>2020</b>	<b>2019</b>	Increase / (Decrease)
<b>Revenues</b>			
Program Revenues	\$ 428.6	\$ 435.8	\$ (7.2)
General Revenues	156.1	169.8	(13.7)
<b>Total Revenues</b>	<b>\$ 584.7</b>	<b>\$ 605.6</b>	<b>\$ (20.9)</b>
<b>Expenses</b>			
<b>Governmental Activities</b>			
City Council	\$ 0.2	\$ 0.3	(0.1)
City Manager	3.6	3.3	0.3
City Attorney	2.8	3.1	(0.3)
City Clerk	0.8	0.8	(0.0)
City Auditor	0.6	1.1	(0.5)
Administrative Services	15.9	19.2	(3.3)
Human Resources	3.1	3.0	0.1
Public Works	45.6	36.6	9.0
Planning and Development Services	21.7	24.8	(3.1)
Office Of Transportation	4.7	0.0	4.7
Police	50.9	49.8	1.1
Fire	41.3	39.4	1.9
Community Services	34.1	36.8	(2.7)
Library	13.0	12.6	0.4
Interest and Other Expense	4.7	3.7	1.0
<b>Business Type Activities</b>			
Water	43.0	40.6	2.4
Electric	142.4	139.6	2.8
Fiber Optics	2.8	2.5	0.3
Gas	27.2	30.9	(3.7)
Wastewater Collection	18.9	17.3	1.6
Wastewater Treatment	28.8	27.1	1.7
Refuse	36.9	30.4	6.5
Storm Drainage	5.5	4.9	0.6
Airport	2.1	1.8	0.3
<b>Total Expenses</b>	<b>\$ 550.6</b>	<b>\$ 529.6</b>	<b>\$ 21.0</b>
Change in Net Position	<b>\$ 34.1</b>	<b>\$ 76.0</b>	<b>\$ (41.9)</b>

### **Capital Assets**

The City's capital assets for its governmental and business-type activities as of June 30, 2020, amounts to \$1,289.5 billion (net of accumulated depreciation), which is a \$49.9 million increase, or 4 percent increase, compared to FY 2019. The increase was primarily due to various projects such as Charleston/Arastradero Corridor, New Public Safety Building, California Avenue Parking Garage and Transmission, Distribution and Treatment systems for the various City utility services.

#### **CAPITAL ASSETS AT JUNE 30 (in millions)**

	<u>2020</u>	<u>2019</u>	<u>Increase/ (Decrease)</u>
<b>Governmental activities</b>			
Land and improvements	\$ 82.2	\$ 77.6	4.6
Street trees	14.8	14.7	0.1
Construction in progress	142.1	107.0	35.1
Building and improvements	251.1	247.3	3.8
Intangible assets	3.8	3.8	(0.0)
Equipment	79.2	74.9	4.3
Roadway network	335.2	334.3	0.9
Recreation and open space network	35.2	35.2	-
Less accumulated depreciation	(347.3)	(328.7)	18.6
<b>Business-Type Activities</b>			
Land	5.0	5.0	-
Construction in progress	121.1	158.0	(36.9)
Buildings and improvements	74.0	68.3	5.7
Capital Leases	0.5	0.5	-
Infrastructure	0.6	0.6	-
Transmission, distribution and treatment systems	884.8	822.4	62.4
Less accumulated depreciation	(392.8)	(381.3)	11.5
<b>Total Capital Assets</b>	<u>\$ 1,289.5</u>	<u>\$ 1,239.6</u>	<u>\$ 49.9</u>

### **Long Term Debt**

As of June 30, 2020, the City's long-term obligations totaled \$808.1 million. The long-term obligations for the City include debt, claims payable, compensated absences, pension, other post-employment benefit (OPEB) obligations, and land fill closure.

#### **LONG-TERM DEBT AT JUNE 30** (in millions)

	<u>2020</u>	<u>2019</u>	<u>Increase/ (Decrease)</u>
<b>Governmental Activities</b>			
General Obligation Bonds	\$ 62.1	\$ 64.0	\$ (1.9)
Certificates of Participation	50.5	51.2	(0.7)
Claims payable	29.7	28.4	1.3
Compensated Absences	14.2	12.3	1.9
Net pension liability	325.8	312.0	13.8
Net OPEB liability	90.5	105.3	(14.8)
<b>Business-type Activities</b>			
Utility Revenue Bonds	\$ 40.6	\$ 44.4	\$ (3.8)
Energy Tax Credit Bonds	0.1	0.2	(0.1)
State Water Resources Loan	33.8	29.6	4.2
Landfill post-closure	7.1	7.0	0.1
Net pension liability	117.2	111.9	5.3
Net OPEB liability	36.5	42.5	(6.0)
Total long term liabilities	<u>\$ 808.1</u>	<u>\$ 808.8</u>	<u>\$ (0.7)</u>

### **Fund Financial Statements**

#### **General Fund**

##### **General Fund Reserves**

At the end of the current fiscal year, fund balance of the General Fund was \$61.9 million. The \$61.9 million fund balance is comprised of several reserves: the BSR, reappropriations, notes and loans, inventory, prepaid items, and other general government special purpose reserves (this includes reserves for encumbrances, donations, and Excess ERAF). As described in the BSR reserve (City's general reserve) policy approved by the Council, the reserve is to remain between 15 and 20 percent of the General Fund operating budget, with a target goal of 18.5 percent. Any reserve balance in excess of the 18.5 percent target may be transferred to the Infrastructure Reserve (IR) in the Capital Projects Fund at the discretion of the City Manager.



The FY 2021 Adopted Operating Budget projected a \$33.0 million BSR balance as of June 30, 2020, compared to the actual balance of \$35.9 million (this is a component of the General Fund, fund balance noted above). This is \$2.9 million above estimates; however, at \$35.9 million the BSR is still \$0.5 million below the Council’s 18.5 percent target of the FY 2021 Adopted expenses of \$36.4 million. As such, there are no recommended allocations or adjustments of any “excess” BSR funds as part of this report.

**General Fund Revenues**

General Fund revenues for FY 2020 were \$180.4 million, which is \$16.7 million or 8.5 percent lower than the prior year. Year over year changes in each of the major tax revenue categories are summarized in the following table.

Category	FY 2020	FY 2019	% Change Increase (Decrease)
Property tax	\$ 51,089	\$ 47,327	8.0%
Sales tax	30,563	36,508	(16.3%)
Utility user tax	16,140	16,402	(1.6%)
Transient occupancy tax	18,553	25,649	(27.7%)
Documentary transfer tax	6,903	6,923	(0.3%)

**Property tax** revenue increased \$3.8 million or 8.0 percent, due to increased property assessed value growth and a \$1.2 million increase compared to prior year of the ERAF distribution from the County of Santa Clara. These higher assessed values reflected the continued robust commercial and residential real estate markets during this period. Unlike other tax revenue, property taxes are not yet impacted from COVID-19.

**Sales tax** receipts were \$5.9 million, or 16.3 percent lower compared to the prior fiscal year, due to economic disruptions caused by COVID-19. In the last quarter of FY 2020, the shelter in place order resulted in closure of populous locations and economic engines in the City such as downtown core, California Avenue, Stanford Shopping Center and other related business activities that significantly impacted the sales tax. A portion of the decrease is due to timing difference in receipts rather than performance. The State has offered certain businesses the option to defer sales tax payments through interest free payment plans. This plan allows large businesses to delay their sales and use taxes remittance for ninety days and small businesses to defer remittance over twelve months. In addition, FY 2019 receipts were higher by \$0.7 million due to delay of distribution of sales tax in FY 2018 from California Department of Tax Fee Administration (CDTFA) resulting from the transition of the new technology and collection process.

**Utility user tax** revenues were \$0.3 million, or 1.6 percent, lower compared to the prior year due to lower consumption of both utility commodity and telephone caused by COVID-19. The utility commodity rate increase for FY 2020 offsets with lower consumption.

**Transient occupancy tax (TOT)** ended the year \$7.0 million, or 27.7 percent, lower than prior

year. In November 2018, Measure E was approved by voters to increase the TOT by 1.5 percent, from 14 percent to 15.5 percent. The new tax rate was implemented April 2019 however TOT began to decline almost a year ago by 3.1 percent and worsened as a result of COVID-19. During shelter in place in the last quarter of FY 2020, almost a dozen hotels, which represent 30 percent of available rooms, fully suspended operations. The remaining hotels' last quarter occupancy rate were in the low double digits and the average room rates dropped by over half. For the fiscal year, average occupancy and daily room rate was 61 percent and \$265, respectively. The entire 15.5 percent TOT rate from new hotels, plus 3.5 percent from all other hotels, has been allocated to the Infrastructure Plan pursuant to City Council direction. The following is a comparative breakdown of the allocation of transient occupancy tax receipts:

	FY 2020	FY 2019	% Change Increase (Decrease)
<b>General Fund:</b>	\$ 11,567	\$ 16,957	(31.8%)
<b>Infrastructure Plan:</b>			
New hotels – 12%	2,793	4,423	(36.9%)
All hotels – 3.5%	4,193	4,269	(1.8%)
<i>Subtotal Infrastructure</i>	<i>6,986</i>	<i>8,692</i>	<i>(19.6%)</i>
<b>Total TOT Receipts</b>	<b><u>\$ 18,553</u></b>	<b><u>\$ 25,649</u></b>	<b>(27.7%)</b>

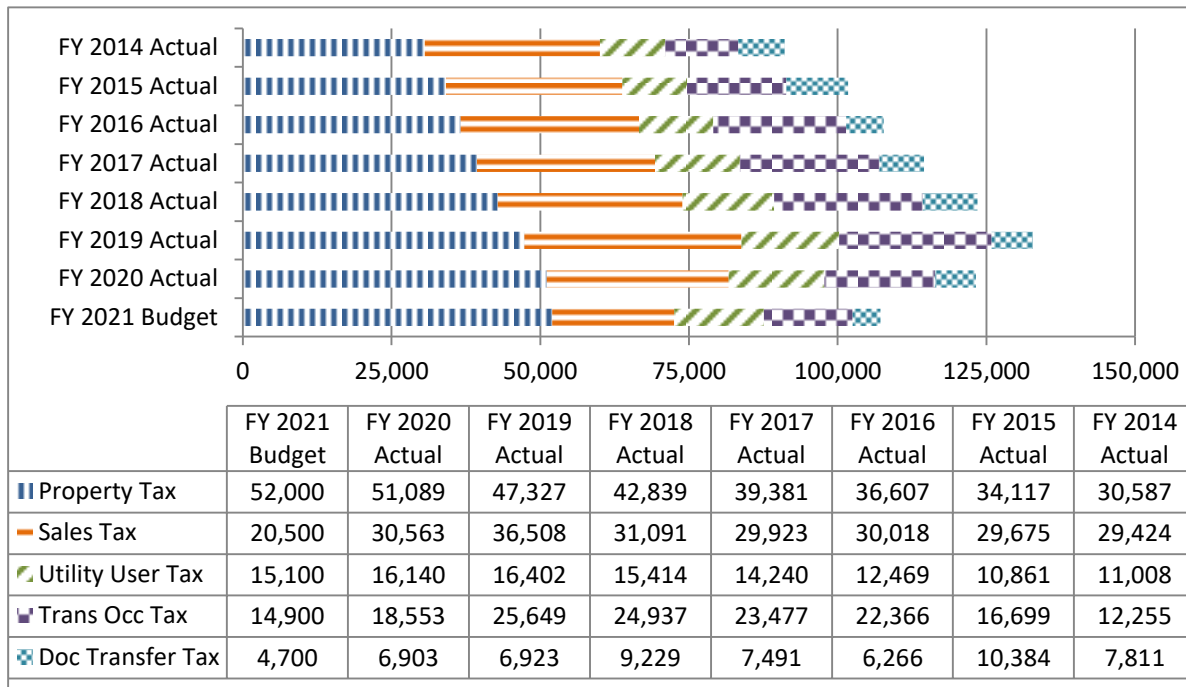
**Documentary transfer tax** had no significant change from FY 2019 to FY 2020 though in the last quarter of FY 2020 receipts declined by 40.9 percent and the number of sales declined 28.2 percent. Overall, the number of transactions for FY2020 were lower than FY 2019 by 13.6 percent. This revenue source is volatile since it is highly dependent on sales volume and the mix of commercial and residential sales.

**Charges for services** decreased \$3.2 million or 11.7 percent. The decrease was primarily due to reduced programs and classes (\$1.6 million), closure of golf course (\$0.6 million) and fewer plan reviews and inspections (\$1.0 million) during the initial phases of COVID-19 shelter in place order and limited operations afterwards.

**All other revenues** decreased from prior year by \$2.9 million primarily due to the \$2.4 million sale of the former City Manager's house in FY 2019 which was co-owned by the City.

The following is a chart which depicts the relative contribution of each tax category over the past seven years (2014 through 2020), as well as the current budgeted year (2021).

**General Fund Tax Revenues**  
**Actual Fiscal Years 2014 – 2020**  
**Budget Fiscal Year 2021**  
**(\$ in thousands)**

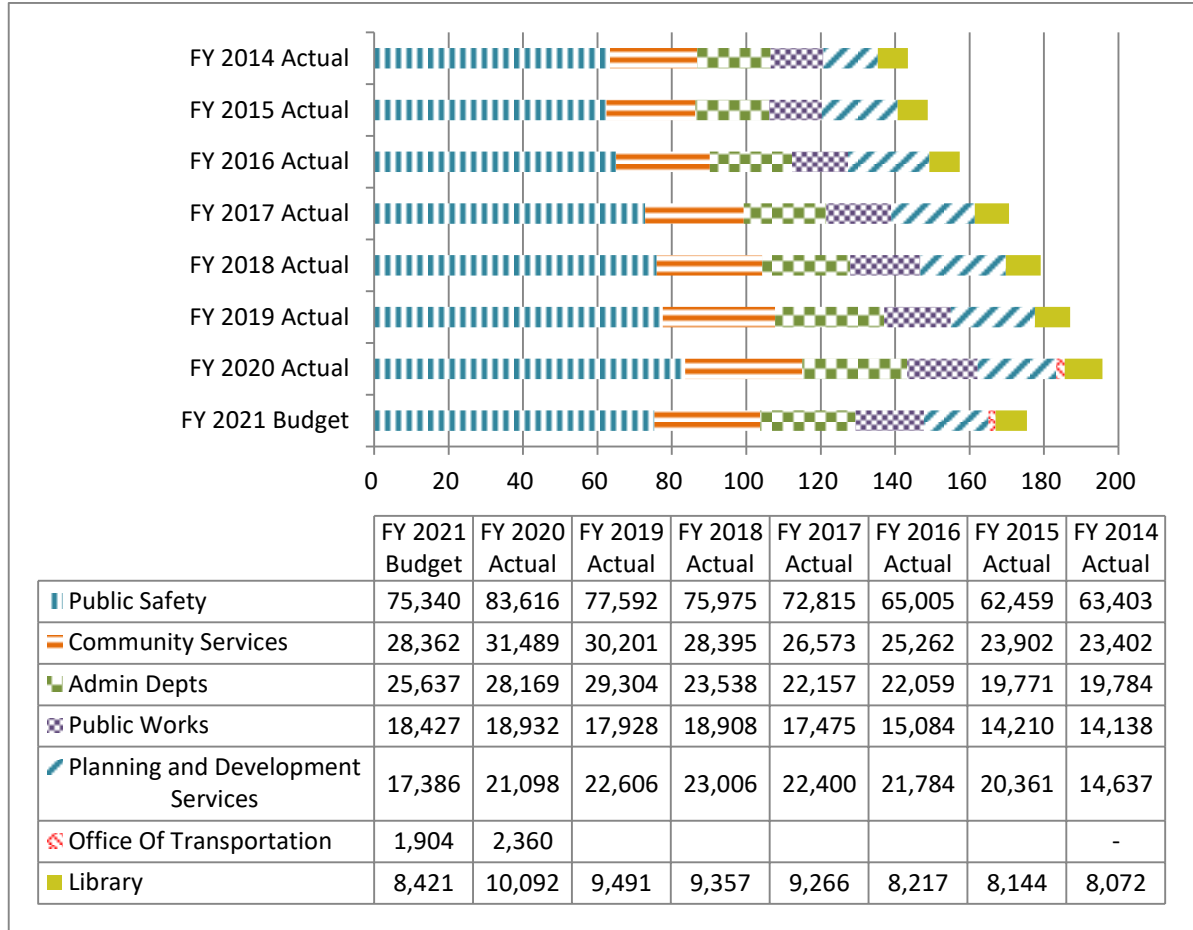


**General Fund Expenditures**

General Fund expenditures for FY 2020, including encumbrances and reappropriations, totaled \$202.1 million; an increase of 4.7 percent from the prior year. The Adopted Budget of \$196.8 million was increased to the Final Adjusted Budget amount of \$206.4 million, primarily due to the expenditure of prior year encumbered and reappropriated balances; increases for several departments throughout the year also occurred based on City Council direction per recommendations contained in City Manager Reports.

The following is a chart which compares actual departmental costs, including encumbrances and reappropriations, excluding Cubberley lease over the past seven years and budgeted costs for FY 2021.

**General Fund Departments**  
**Actual Expenditures Fiscal Years 2014– 2020 (including reappropriations and encumbrances)**  
**Budgeted Expenditures Fiscal Year 2021**  
**(\$ in thousands)**



*The Development Services Department was combined with the Planning and Community Environment in FY 2020 and renamed to the Planning and Development Services Department.*

*The Office of Transportation department, which previously was a division of the Planning and Community Environment Department was established in FY 2020.*

### **Capital Projects Fund**

The Capital Projects Fund ended the year with a fund balance of \$83.6 million, which are comprised of the following:

Fund Balance Component	Amount (\$ in millions)
Restricted for Library projects	\$ 598
Reserved for Roth Building rehabilitation	5,146
Reserved for Cubberley expenditures	4,203
Restricted for California Avenue Parking Garage	12,980
Assigned for all other Capital projects	60,704
<b>Total Capital Projects Fund Balance</b>	<b>\$ 83,631</b>

**Restricted for Library projects** \$0.6 million is the portion of fund balance dedicated to remaining Library expenditures which, if considered bond expenses will be paid for with cash from Bond proceeds. Non-bondable expenditures such as salaries and benefits are funded from the Infrastructure Reserve, as established at the time of the bond issuance. The library project is already completed but a roof defects need to be fixed using this reserve.

**Restricted for California Avenue Parking Garage** \$13.0 million represents the remaining bond funding dedicated to the construction of the new California Avenue parking garage.

**Assigned for all other Capital projects** of \$60.7 million represents the amount of unspent funds associated with Adopted Capital projects and other noted items. Outside funding sources such as grants, donations and future debt issues are not factored into this component of the fund balance until they are actually received.

### **Enterprise Funds**

The City's Enterprise Funds reported a total Net Position of \$781.1 million, a \$39.6 million increase from the prior year. The overall change in Net Position was driven by the Electric Fund, Water Fund, and Airport Fund. The table below summarizes the overall change in Net Position for each Enterprise Fund. Compared to FY 2019, the Change in Net Position for Enterprise funds decreased \$14.8 million driven primarily by the Gas Fund and Refuse Fund – details of these funds are summarized following this table.

**ENTERPRISE FUNDS**  
**Change in Net Position for the Year Ended June 30**  
**(in millions)**

<b>Fund Name</b>	<b>2020</b>	<b>2019</b>	<b>Increase/ (Decrease)</b>
Water	\$ 8.0	\$ 8.0	\$ -
Electric	18.6	19.0	(0.4)
Fiber Optics	2.9	3.5	(0.6)
Gas	3.0	5.3	(2.3)
Wastewater Collection	2.1	3.3	(1.2)
Wastewater Treatment	0.3	1.5	(1.2)
Refuse	(3.1)	4.9	(8.0)
Storm Drainage	2.2	2.3	(0.1)
Airport	5.6	6.6	(1.0)
<b>Total Change in Net Position</b>	<b>\$ 39.6</b>	<b>\$ 54.4</b>	<b>\$ (14.8)</b>

The Gas Fund decreased \$2.3 million compared to prior year due to decrease in revenues as a result of lower consumption; increase in operating expenses partially offset by the decrease in commodity purchase costs due to lower than expected natural gas prices and transportation costs.

The change in net position for Wastewater Collection Fund decreased \$1.2 million due to higher operating expenses offset by the increase in revenues because of the 7.0 percent rate increase effective July 1, 2019.

The change in net position for Wastewater Treatment Fund decreased \$1.2 million due to increase in operating expenses because of higher sewage treatment operation and maintenance cost offset by the increase in revenues resulting from higher partner's billing.

The Refuse Fund decreased by \$8.0 million due to lower revenues from the reduction of services by commercial and industrial customers due to COVID-19 and increase in GreenWaste of Palo Alto charges for reimbursement of new waste collection vehicles.

The table below details the Change in Unrestricted Net Position in the Enterprise Funds. Enterprise Fund Rate Stabilization, Operations and other reserve balances are shown in detail in the CAFR (CAFR p. 84, Footnote 10). Overall, except for the Wastewater Treatment Fund and the Airport Fund, each Enterprise Funds maintained a positive unrestricted net position balance as of June 30, 2020. Adjustments for the Pension Reserve (as required by GASB Pronouncement No. 68) and OPEB Reserve (as required by GASB Pronouncement No. 75) total \$142.4 million for all Enterprise Funds and reduce each fund's unrestricted net position.

The Wastewater Treatment Fund reflects a \$10.5 million Unrestricted Reserve deficit and is driven by \$28.3 million in Pension Reserves and OPEB Reserves negative adjustments.

The Airport Fund reports a \$4.4 million deficit net position which is attributed to the \$1.3 million Pension Reserve and OPEB Reserve adjustments. Second, the fund deficit in the Airport Fund is also a result of cumulative fund deficits over the life of the fund as fiscal operations at the airport stabilize and capital projects near completion. The \$5.6 million change in net position of Airport Fund in current year is not driven by operations but due to \$5.5 million grants received in current year. The General Fund transferred a series of advances totaling \$3.1 million for “start-up” costs for the airport and repayment to the General Fund started in FY 2020.

**Enterprise Funds**  
**Change in Unrestricted (Deficit) Net Position**  
(in Millions)

<u>Fund Name</u>	<u>2020</u>	<u>2019</u>	<u>Increase/ (Decrease)</u>
Water	\$ 28.2	\$ 25.5	\$ 2.7
Electric	83.6	69.8	13.8
Fiber Optics	33.0	30.2	2.8
Gas	8.5	7.5	1.0
Wastewater Collection	1.2	2.2	(1.0)
Wastewater Treatment	(10.5)	(13.8)	3.3
Refuse	12.1	15.1	(3.0)
Storm Drainage	4.0	1.9	2.1
Airport	(4.4)	(3.3)	(1.1)
<b>Total Change in Reserves (Unrestricted)</b>	<b>\$ 155.7</b>	<b>\$ 135.3</b>	<b>\$ 20.4</b>

**Resource Impact**

Recommended actions in the report will align the FY 2020 appropriations with final financial activities as outlined in Attachment B. Overall, the City ended the FY 2020 in a positive net position and in certain areas where net reserves were higher than estimated in the development of the FY 2021 Adopted budget, those additional funds will be included as part of the FY 2021 budget balancing and rate setting activities.

**Stakeholder Engagement**

The review and writing of this report was coordinated among various divisions within the Administrative Services Department, and the actions recommended in this report were discussed and communicated to the impacted departments.

**Environmental Review**

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

**Attachments:**

- Attachment A: Budget to Actuals
- Attachment B: Recommended FY20 Year-end Clean-up Actions
- Attachment C: City of Palo Alto FY2020 Comprehensive Annual Financial Report



**Attachment A**

**Statement of Revenues, Expenditures and Change in Fund Balance - Budget and Actual**

	<b>GENERAL FUND SUMMARY (\$000s)</b>						
	<b>FY 2020 Adopted Budget</b>	<b>FY 2020 Adjusted Budget</b>	<b>FY 2020 Rev/Exp Actuals</b>	<b>FY 2020 Allocated Charges</b>	<b>FY 2020 Encum / Reappropriation</b>	<b>FY 2020 Actual Rev/Exp</b>	<b>FY 2020 Actual to Adj Budget Variance</b>
<b><u>Revenues</u></b>							
Sales Tax	34,346	30,617	30,563			30,563	(54)
Property Tax	48,634	50,853	51,089			51,089	236
Transient Occupancy Tax	29,309	19,425	18,553			18,553	(871)
Documentary Transfer Tax	8,369	6,676	6,903			6,903	227
Utility User Tax	17,581	16,133	16,140			16,140	7
Other Taxes, Fines and penalties	2,032	1,237	1,172			1,172	(64)
Charges for Services	30,127	25,196	24,127			24,127	(1,068)
Permits and Licenses	8,667	6,597	7,467			7,467	870
Investment Earnings	1,433	1,433	1,480			1,480	47
Rental Income	16,326	16,041	15,964			15,964	(77)
From Other Agencies	2,756	3,245	3,783		518	4,301	1,057
Charges to Other Funds	10,908	10,908		11,099		11,099	190
Other Revenues	587	619	585	-		585	(34)
<b>Total Revenues</b>	<b>211,076</b>	<b>188,980</b>	<b>177,828</b>	<b>11,099</b>	<b>518</b>	<b>189,445</b>	<b>465</b>
Add: Operating Transfers In	20,999	20,840	20,840			20,840	-
Prior Year Encum / Reappropriation		6,469	6,469			6,469	-
<b>Total Source of Funds</b>	<b>232,075</b>	<b>216,289</b>	<b>205,137</b>	<b>11,099</b>	<b>518</b>	<b>216,754</b>	<b>465</b>
<b><u>Expenditures</u></b>							
City Attorney	3,387	3,896	2,509	1,013	268	3,789	107
City Auditor	1,235	1,157	680	259	42	981	176
City Clerk	1,346	1,402	815	319	52	1,186	216
City Council	498	542	214	111	89	414	128
City Manager	4,546	4,718	3,273	1,073	325	4,671	47
Administrative Services	8,519	8,770	5,960	2,321	234	8,515	255
Community Services	30,929	31,591	29,603	197	1,689	31,489	103
Fire	34,889	36,773	36,440	163	169	36,772	1
Human Resources	3,902	4,107	2,792	1,095	107	3,994	113
Library	10,314	10,187	9,988	-	104	10,092	95
Office of Transportation	2,312	2,733	2,052	-	308	2,360	373
Planning and Development Services	20,356	22,021	19,269	328	1,501	21,098	923
Police	46,369	46,845	45,679	577	589	46,844	1
Public Works	19,142	19,357	13,577	3,643	1,713	18,932	425
Non-Departmental	2,744	5,874	3,722	-	898	4,618	1,255
Cubberley Lease	6,284	6,438	6,385	-		6,385	53
<b>Total Expenditures</b>	<b>196,773</b>	<b>206,412</b>	<b>182,956</b>	<b>11,099</b>	<b>8,088</b>	<b>202,141</b>	<b>4,271</b>
Add: Operating Trans Out	5,023	8,049	8,049	-		8,049	-
Transfer to Infrastructure	28,962	24,172	24,172	-		24,172	-
<b>Total Use of Funds</b>	<b>230,758</b>	<b>238,633</b>	<b>215,177</b>	<b>11,099</b>	<b>8,088</b>	<b>234,362</b>	<b>4,271</b>
<b>Net Surplus/(Deficit)</b>	<b>1,317</b>	<b>(22,344)</b>	<b>(10,040)</b>	<b>-</b>	<b>8,088</b>	<b>(17,608)</b>	<b>4,736</b>

**ATTACHMENT B, EXHIBIT 1**

**CITY OF PALO ALTO  
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2020 BUDGET**

Department		Revenues Adjustment	Expenses Adjustment
<b>GENERAL FUND (102)</b>			
<i>City Manager's Office</i>	<b>Departmental Expense Savings</b> This action reallocates departmental vacancy savings within the General Fund in order to offset departments with higher than anticipated expenses in FY 2020.	\$ -	\$ (780,000)
<i>Fire</i>	<b>Salaries &amp; Benefits</b> This action reallocates funding as a result of higher than anticipated salary expenses in FY 2020. These higher anticipated expenditures are due to a number of variables including the Department continuing to hire ahead for its recruit academy in an attempt to reduce sworn vacancies. In addition, payments for disability/worker's compensation were higher than budgeted. These overages were partially offset by overtime savings.	\$ -	\$ 764,000
<i>Non-Departmental</i>	<b>Transient Occupancy Tax/Transfer to Capital Improvement Fund</b> This action decreases the transfer to the Capital Improvement Fund as it relates to Transient Occupancy Tax (TOT) revenues earmarked for city-wide infrastructure improvements due to lower than anticipated TOT collections.	\$ (171,173)	\$ (171,173)
<i>Police</i>	<b>Salaries &amp; Benefits</b> This action reallocates funding as a result of higher than anticipated salary expenses in FY 2020. This overage is primarily due to preliminary budget adjustments in Q3 2020 that reduced the Police Department budget by \$350,000 for anticipated expense savings (CMR 11328). These savings did not materialize due to a number of variables including use of overtime for significant vacancies in the Dispatch and Patrol teams, and response to protests.	\$ -	\$ 392,000
<i>Public Works</i>	<b>Departmental Expense Savings</b> This action reallocates departmental vacancy savings within the General Fund in order to offset departments with higher than anticipated expenses in FY 2020.	\$ -	\$ (376,000)
<b>GENERAL FUND (102) SUBTOTAL</b>		<b>\$ (171,173)</b>	<b>\$ (171,173)</b>

**ATTACHMENT B, EXHIBIT 1**

**CITY OF PALO ALTO  
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2020 BUDGET**

Department		Revenues Adjustment	Expenses Adjustment
<b>CAPITAL IMPROVEMENT FUNDS</b>			
<b><u>GENERAL FUND CAPITAL IMPROVEMENT FUND (471)</u></b>			
<i>Capital</i>	<b>Capital Improvement Project Adjustments</b> This action reflects the combined impact from adjustments to projects as outlined in Attachment A, Exhibit 2.	\$ -	\$ 811,000
<i>Capital</i>	<b>Transfer from General Fund</b> This action decreases the transfer from the General Fund related to TOT revenue Council earmarked to use for city-wide infrastructure improvements due to actual revenue collected being lower than budgeted in FY 2020.	\$ (171,173)	\$ -
<i>Capital</i>	<b>Transfer to Parkland Dedication Fee Fund</b> This action transfers funding back to the Parkland Dedication Fee Fund that was intended to be used for the Turf Management Plan capital project (PG-18002). This project was defunded as part of the development of the 2021-2025 Capital Improvement Plan (CIP) due to budget constraints and a reprioritization of projects.	\$ -	\$ 100,000
<i>Capital</i>	<b>Transfer to Parks Development Impact Fee Fund</b> This action transfers funding back to the Parks Development Impact Fee Fund that was intended to be used for the Baylands Athletic Center 10.5 Acre Expansion Plan capital project (PG-19001). This project was defunded as part of the development of the 2021-2025 CIP due to budget constraints and a reprioritization of projects.	\$ -	\$ 85,000
<i>Capital</i>	<b>Transfer to California Avenue Parking Garage COP Fund</b> This action transfers funding to the California Avenue Parking Garage (Certificates of Participation) COP Fund to fund the debt services costs associated with the issuance of the New California Avenue Area Parking Garage (PE-18000) COP funding. This funding was previously budgeted to be spent directly in the Capital Improvement Fund. A corresponding action reduces the debt service payment budgeted in the Capital Improvement Fund.	\$ -	\$ 2,335,000
<i>Capital</i>	<b>Transfer from Gas Tax Fund</b> This action increases the transfer from the Gas Tax Fund due to actual revenue collected being higher than budgeted in FY 2020. A corresponding transfer is recommended from the Gas Tax Fund to the Capital Improvement Fund. The funding will be appropriated to the Street Maintenance capital project (PE-86070) as part of the FY 2021 Mid-Year Budget Review.	\$ 156,270	\$ -
<i>Capital</i>	<b>Debt Service Payments</b> This action reduces funding for the debt service costs associated with the issuance of the 2019 California Avenue Parking Garage COP funding. Corresponding actions in this report transfer funding for these costs to the California Avenue Parking Garage COP Fund and appropriate funding for the debt service costs to be paid out of the California Avenue Parking Garage COP Fund.		\$ (2,335,000)
<i>Fund Balance</i>	<b>Adjustment to Fund Balance</b> This action decreases the fund balance to offset adjustments recommended in this report.	\$ -	\$ (1,010,903)
<b>GENERAL FUND CAPITAL IMPROVEMENT FUND (471) SUBTOTAL</b>		<b>\$ (14,903)</b>	<b>\$ (14,903)</b>

**ATTACHMENT B, EXHIBIT 1**

**CITY OF PALO ALTO  
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2020 BUDGET**

Department		Revenues Adjustment	Expenses Adjustment
<b>CAPITAL IMPROVEMENT FUNDS</b>			
<b><u>CUBBERLEY PROPERTY INFRASTRUCTURE FUND (472)</u></b>			
<i>Capital</i>	<b>Capital Improvement Project Adjustments</b> This action reflects the combined impact from adjustments to projects as outlined in Attachment A, Exhibit 2.	\$ -	\$ 13,400
<i>Fund Balance</i>	<b>Adjustment to Fund Balance</b> This action decreases the fund balance to offset adjustments recommended in this report.	\$ -	\$ (13,400)
<b>CUBBERLEY PROPERTY INFRASTRUCTURE FUND (472) SUBTOTAL</b>		<b>\$ -</b>	<b>\$ -</b>

**ATTACHMENT B, EXHIBIT 1**

**CITY OF PALO ALTO  
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2020 BUDGET**

Department		Revenues Adjustment	Expenses Adjustment
<b>ENTERPRISE FUNDS</b>			
<b><u>ELECTRIC FUND (513 &amp; 523)</u></b>			
<i>Capital</i>	<b>Capital Improvement Project Adjustments</b> This action reflects the combined impact from adjustments to projects as outlined in Attachment A, Exhibit 2.	\$ -	\$ 594,200
<i>Fund Balance</i>	<b>Adjustment to Fund Balance</b> This action decreases the fund balance to offset adjustments recommended in this report.	\$ -	\$ (594,200)
		<b>ELECTRIC FUND (513 &amp; 523) SUBTOTAL</b>	<b>\$ - \$ -</b>
<b><u>STORMWATER MANGEMENT FUND (528)</u></b>			
<i>Capital</i>	<b>Capital Improvement Project Adjustments</b> This action reflects the combined impact from adjustments to projects as outlined in Attachment A, Exhibit 2.	\$ -	\$ 16,000
<i>Fund Balance</i>	<b>Adjustment to Fund Balance</b> This action decreases the fund balance to offset adjustments recommended in this report.	\$ -	\$ (16,000)
		<b>STORMWATER MANGEMENT FUND (528) SUBTOTAL</b>	<b>\$ - \$ -</b>
<b><u>WATER FUND (522)</u></b>			
<i>Capital</i>	<b>Capital Improvement Project Adjustments</b> This action reflects the combined impact from adjustments to projects as outlined in Attachment A, Exhibit 2.	\$ -	\$ 260,000
<i>Fund Balance</i>	<b>Adjustment to Fund Balance</b> This action decreases the fund balance to offset adjustments recommended in this report.	\$ -	\$ (260,000)
		<b>WATER FUND (522) SUBTOTAL</b>	<b>\$ - \$ -</b>

**ATTACHMENT B, EXHIBIT 1**

**CITY OF PALO ALTO  
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2020 BUDGET**

Department		Revenues Adjustment	Expenses Adjustment
<b>INTERNAL SERVICE FUNDS</b>			
<b><u>INFORMATION TECHNOLOGY FUND (682)</u></b>			
<i>Capital</i>	<b>Capital Improvement Project Adjustments</b> This action reflects the combined impact from adjustments to projects as outlined in Attachment A, Exhibit 2.	\$ -	\$ 3,400
<i>Fund Balance</i>	<b>Adjustment to Fund Balance</b> This action decreases the fund balance to offset adjustments recommended in this report.	\$ -	\$ (3,400)
		<b>INFORMATION TECHNOLOGY FUND (682) SUBTOTAL</b>	<b>\$ - \$ -</b>
<b><u>WORKERS' COMPENSATION FUND (688)</u></b>			
<i>Non-Departmental</i>	<b>Charges to Other Funds</b> This action increases the estimate for charges to other funds by \$1,300,000 (\$870,000 in the General Fund) due to an updated actuarial analysis in August 2020 for workers' compensation that have been incurred but not reported (IBNR) being \$3.4 million higher than budgeted. Of this amount, \$1.3 million was charged to departments to offset this expense and ensure positive fund balance. Departments had sufficient savings at the end of FY 2020 to support the additional costs and did not require budgetary adjustments.	\$ 1,300,000	\$ -
<i>Non-Departmental</i>	<b>Liability Insurance</b> This action increases the appropriation for liability insurance expense by \$900,000 due to an updated actuarial analysis in August 2020 for general liabilities that have been incurred but not reported (IBNR) being \$3.4 million higher than budgeted. The additional liability expense has been fully recognized in FY 2020 and has been partially recovered through additional allocations to departments. Due to sufficient savings elsewhere in the General Liability Fund a reduced adjustment of \$0.9 million is recommended for the additional liability expense.	\$ -	\$ 900,000
<i>Fund Balance</i>	<b>Adjustment to Fund Balance</b> This action increases the fund balance to offset adjustments recommended in this report.	\$ -	\$ 400,000
		<b>WORKERS' COMPENSATION FUND (688) SUBTOTAL</b>	<b>\$ 1,300,000 \$ 1,300,000</b>

**ATTACHMENT B, EXHIBIT 1**

**CITY OF PALO ALTO  
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2020 BUDGET**

Department		Revenues Adjustment	Expenses Adjustment
<b>SPECIAL REVENUE FUNDS</b>			
<b><u>GAS TAX FUND (231)</u></b>			
<i>Non-Departmental</i>	<b>State of California Revenue: SB1/Transfer to Capital Improvement Fund</b> This action increases the revenue estimate for State of California SB1 allocations to align with higher than anticipated actuals during the period. In FY 2020, the total allocation to the City was \$1,310,000 which was \$156,000 higher than preliminary estimates from the State Department of Finance. Funding from SB1 is earmarked for transportation and traffic-related capital projects and was used during the period to partially fund the Street Maintenance Capital Improvement Project (PE-86070). The additional revenues are recommended to offset an additional appropriation to this project through a corresponding transfer from the Gas Tax Fund to the Capital Fund.	\$ 156,270	\$ 156,270
		<b>GAS TAX FUND (231) SUBTOTAL</b>	<b>\$ 156,270 \$ 156,270</b>
<b><u>HAMILTON AVENUE - PUBLIC BENEFIT FUND (235)</u></b>			
<i>Planning &amp; Development Services</i>	<b>Unit Resale Revenue</b> This action increases the estimate for unit resales as result of higher than anticipated revenues in FY 2020. Revenues in this fund were established through a developer deposit of \$500,000 for the senior housing project on Hamilton Avenue ("The Hamilton") to provide funding for senior services. Additional revenue is generated through interest earnings and 2.5 percent of the sales price of units.	\$ 239,000	\$ -
<i>Planning &amp; Development Services</i>	<b>Grants &amp; Subsidies</b> This action increases the grants and subsidies appropriation as result of slightly higher than anticipated expenses in FY 2020. Grant & Subsidy expenditures in this fund are attributable to accumulated interest earnings that are required to be paid to the Avenidas agency (formerly Senior Coordinating Council) to provide services to seniors.	\$ -	\$ 8,500
<i>Fund Balance</i>	<b>Adjustment to Fund Balance</b> This action increases the fund balance to offset adjustments recommended in this report.	\$ -	\$ 230,500
		<b>HAMILTON AVENUE - PUBLIC BENEFIT FUND (235) SUBTOTAL</b>	<b>\$ 239,000 \$ 239,000</b>
<b><u>PARKLAND DEDICATION FEE FUND (209)</u></b>			
<i>Community Services</i>	<b>Transfer from Capital Improvement Fund</b> This action transfers funding from the Capital Improvement Fund that was intended to be used for the Turf Management Plan capital project (PG-18002). This project was defunded as part of the development of the 2021-2025 Capital Improvement Plan (CIP) due to budget constraints and a reprioritization of projects.	\$ 100,000	\$ -
<i>Fund Balance</i>	<b>Adjustment to Fund Balance</b> This action increases the fund balance to offset adjustments recommended in this report.	\$ -	\$ 100,000
		<b>PARKLAND DEDICATION FEE FUND (209) SUBTOTAL</b>	<b>\$ 100,000 \$ 100,000</b>

**ATTACHMENT B, EXHIBIT 1**

**CITY OF PALO ALTO  
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2020 BUDGET**

Department		Revenues Adjustment	Expenses Adjustment
<b>SPECIAL REVENUE FUNDS</b>			
<b><u>PARKS DEVELOPMENT IMPACT FEE FUND (210)</u></b>			
<i>Community Services</i>	<b>Transfer from Capital Improvement Fund</b> This action transfers funding from the Capital Improvement Fund that was intended to be used for the Baylands Athletic Center 10.5 Acre Expamnsion Plan capital project (PG-19001). This project was defunded as part of the development of the 2021-2025 CIP due to budget constraints and a reprioritization of projects.	\$ 85,000	\$ -
<i>Fund Balance</i>	<b>Adjustment to Fund Balance</b> This action increases the fund balance to offset adjustments recommended in this report.	\$ -	\$ 85,000
<b>PARKS DEVELOPMENT IMPACT FEE FUND (210) SUBTOTAL</b>		<b>\$ 85,000</b>	<b>\$ 85,000</b>
<b><u>PUBLIC ART FUND (207)</u></b>			
<i>Community Services</i>	<b>Public Art Fee Revenue</b> This action increases the estimate for Art Fees as result of higher than anticipated revenues in FY 2020.	\$ 185,000	\$ -
<i>Community Services</i>	<b>Salaries &amp; Benefits</b> This action increases the salaries and benefits appropriation as result of slightly higher than anticipated expenses in FY 2020.	\$ -	\$ 1,700
<i>Fund Balance</i>	<b>Adjustment to Fund Balance</b> This action increases the fund balance to offset adjustments recommended in this report.	\$ -	\$ 183,300
<b>PUBLIC ART FUND (207) SUBTOTAL</b>		<b>\$ 185,000</b>	<b>\$ 185,000</b>
<b><u>PUBLIC SERVICES DONATION FUND (191)</u></b>			
<i>Various</i>	<b>Donations Revenue/Non-Salary Expenses</b> This action increases the appropriation for expenses in the Public Services Donation Fund to align with FY 2020 year end expense and encumbered funds. Donations in this fund are for activities such as parks and open space activities, art center programs, and animal care services. A corresponding adjustment to revenue reflecting higher than budgeted donations is recommended to offset this increase.	\$ 65,000	\$ 41,000
<i>Fund Balance</i>	<b>Adjustment to Fund Balance</b> This action increases the fund balance to offset adjustments recommended in this report.	\$ -	\$ 24,000
<b>PUBLIC SERVICES DONATION FUND (191) SUBTOTAL</b>		<b>\$ 65,000</b>	<b>\$ 65,000</b>



**ATTACHMENT B, EXHIBIT 1**

**CITY OF PALO ALTO  
RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2020 BUDGET**

Department		Revenues Adjustment	Expenses Adjustment
<b>DEBT SERVICE &amp; AGENCY TRUST FUNDS</b>			
<b><u>2019 CALIFORNIA AVENUE PARKING GARAGE COP FUND (362)</u></b>			
<i>Administrative Services</i>	<b>Transfer from Capital Improvement Fund/Debt Service Payments</b> This action transfers funding from the Capital Improvement Fund to fund the debt services costs associated with the issuance of the New California Avenue Area Parking Garage (PE-18000) COP funding. This action also appropriates funding for principal and interest payments in order to repay the debt service associated with the COP funding. These debt service payments were previously budgeted in the Capital Improvement Fund.	\$ 2,335,000	\$ 2,335,000
<b>2019 CALIFORNIA AVENUE PARKING GARAGE COP FUND (362) SUBTOTAL</b>		<b>\$ 2,335,000</b>	<b>\$ 2,335,000</b>
<b><u>EYERLY TRUST FUND (774)</u></b>			
<i>Administrative Services</i>	<b>Investment Income/General Expense (Special Events)</b> This action increases the interest income revenue collected in this fund to align the budget with the actual revenue collected. A corresponding increase to the appropriation for General Expenses within the fund is also recommended to align budget levels with actual expenditures in FY 2020.	\$ 12,000	\$ 7,000
<i>Fund Balance</i>	<b>Adjustment to Fund Balance</b> This action increases the fund balance to offset adjustments recommended in this report.	\$ -	\$ 5,000
<b>EYERLY TRUST FUND (774) SUBTOTAL</b>		<b>\$ 12,000</b>	<b>\$ 12,000</b>
<b><u>UNIVERSITY AVENUE PARKING ASSESSMENT AGENCY FUND (775)</u></b>			
<i>Administrative Services</i>	<b>Special Assessment District Fees/Contract Services</b> This action increases the Special Assessment District Fee revenue collected in this fund to align the budget with the actual revenue collected. A corresponding increase to the appropriation for Contract Services within the fund is also recommended to align budget levels with actual expenditures in FY 2020.	\$ 21,000	\$ 6,000
<i>Fund Balance</i>	<b>Adjustment to Fund Balance</b> This action increases the fund balance to offset adjustments recommended in this report.	\$ -	\$ 15,000
<b>UNIVERSITY AVENUE PARKING ASSESSMENT AGENCY FUND (775) SUBTOTAL</b>		<b>\$ 21,000</b>	<b>\$ 21,000</b>

## ATTACHMENT B, EXHIBIT 2

### CITY OF PALO ALTO

#### RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2020 CAPITAL IMPROVEMENT PROGRAM

Project Number	Title	Revenue	Expense	Comments
<b>CAPITAL IMPROVEMENT FUND</b>				
AS-10000	Capital Improvement Fund Administration		\$ (453,981)	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
AC-86017	Art in Public Places		\$ 44,500	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
AC-18001	JMZ Renovation		\$ 123,600	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
FD-14002	Fire Ringdown System Replacement		\$ 7,000	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
FD-20000	Cardiac Monitor Replacement		\$ 24,161	Adjustment to shift a Transfer from the Utility Administration Fund to FY 2020 to align with project expenditures.
OS-00001	Open Space Trails and Amenities		\$ 62,200	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PE-17008	City Hall Floor 4 Remodel		\$ 1,380	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PE-17009	City Hall Floor 5 Remodel		\$ 7,600	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PE-19003	Birch Street Improvements		\$ 136,120	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PE-20001	City Bridge Improvements		\$ 6,370	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PF-14002	Fire Station 1 Improvements		\$ 330	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PG-06001	Athletic Courts Resurfacing		\$ 8,000	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PG-17000	Baylands Comprehensive Conservation Plan		\$ 2,400	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PL-19000	Emergency Vehicle Traffic Signal Preemption System Pilot		\$ 26,420	Adjustment to allocate Salaries and Benefits across capital projects based on actual expenditures
PE-15003	Fire Station No. 3 Replacements		\$ 394,100	Adjustment to allocate Salaries and Benefits (\$3,900) and increase project (\$390,200) due to higher than anticipated expenditures in FY 2020.
PE-14015	Lucie Stern Buildings Mechanical and Electrical Upgrades		\$ (251,000)	Adjustment to allocate unspent expenses due to project competition in FY 2020.
PL-15004	Downtown Parking Wayfinding		\$ (139,200)	Adjustment to allocate unspent expenses due to project competition in FY 2020.
PE-15001	New Public Safety Building		\$ 811,000	Adjustment to increase project due to higher than anticipated expenditures in FY 2020.
	<b>Total</b>	<b>\$ -</b>	<b>\$ 811,000</b>	

## ATTACHMENT B, EXHIBIT 2

### CITY OF PALO ALTO

#### RECOMMENDED AMENDMENTS TO THE CITY MANAGER'S FY 2020 CAPITAL IMPROVEMENT PROGRAM

Project Number	Title	Revenue	Expense	Comments
<b>CUBBERLEY PROPERTY INFRASTRUCTURE FUND</b>				
CB-19000	Cubberley Track and Field Replacement		\$ 13,400	Increase to project due to higher than anticipated expenditures.
	<b>Total</b>	<b>\$ -</b>	<b>\$ 13,400</b>	
<b>ELECTRIC FUND</b>				
EL-02010	SCADA System Upgrade		\$ 5,200	Increase to project due to higher than anticipated expenditures.
EL-89028	Electric Customer Connections		\$ 589,000	Increase to project due to higher than anticipated expenditures.
	<b>Total</b>	<b>\$ -</b>	<b>\$ 594,200</b>	
<b>STORMWATER MANAGEMENT FUND</b>				
SD-20000	Storm Drain Pump Station		\$ 16,000	Increase to project due to higher than anticipated expenditures.
	<b>Total</b>	<b>\$ -</b>	<b>\$ 16,000</b>	
<b>TECHNOLOGY FUND</b>				
TE-01012	IT Disaster Recovery		\$ 3,400	Increase to project due to higher than anticipated expenditures.
	<b>Total</b>	<b>\$ -</b>	<b>\$ 3,400</b>	
<b>WATER FUND</b>				
WS-80013	Water System, Customer Connections		\$ 260,000	Increase to project due to higher than anticipated expenditures.
	<b>Total</b>	<b>\$ -</b>	<b>\$ 260,000</b>	
<b>TOTAL CIP ADJUSTMENTS</b>		<b>\$ -</b>	<b>\$ 1,698,000</b>	



City of Palo Alto, California

Fiscal Year Ended  
June 30, 2020

# COMPREHENSIVE ANNUAL FINANCIAL REPORT



CITY OF  
**PALO  
ALTO**





CITY OF  
**PALO  
ALTO**

# Fiscal Year 2020 Comprehensive Annual Financial Report

City of Palo Alto, CA  
Fiscal Year Ended June 30, 2020

## City Council

Adrian Fine, Mayor

Tom DuBois, Vice Mayor

Alison Cormack

Eric Filseth

Liz Kniss

Lydia Kou

Greg Tanaka

Ed Shikada, City Manager

Kiely Nose, Director of Administrative Services/Chief Financial Officer

Prepared by: Administrative Services Department



**CITY OF PALO ALTO**  
**For the Year Ended June 30, 2020**

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**For the Year Ended June 30, 2020**

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**For the Year Ended June 30, 2020**

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# Transmittal Letter.....



OFFICE OF THE CITY MANAGER

250 Hamilton Ave, 7th Floor  
Palo Alto, CA 94301  
650.329.2692

October 30, 2020

**THE HONORABLE CITY COUNCIL**

**Palo Alto, California**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

YEAR ENDED JUNE 30, 2020

**Members of the Council and Citizens of Palo Alto:**

I am pleased to present the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2020 in accordance with Article III, Section 16 and Article IV, Section 13 of the City of Palo Alto Charter. The format and content of this CAFR complies with the principles and standards of accounting and financial reporting adopted by the Governmental Accounting Standards Board (GASB), and contains all information needed for readers to gain a reasonable understanding of City of Palo Alto (City) financial affairs. Management takes sole responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. The objective of internal controls is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The City’s financial statements have been audited by Macias Gini & O’Connell LLP, Certified Public Accountants (MGO). The goal of the audit is to obtain reasonable assurance that the financial statements are free of material misstatements and are fairly presented in conformity with generally accepted accounting principles (GAAP). MGO issued an unmodified opinion for the fiscal year ended June 30, 2020. Their report is presented as the first component of the financial section of this report. While MGO has issued an unmodified opinion for this report, information and the contents of this report is the responsibility of the City.

An overview of the City’s financial activities for the fiscal year is discussed in detail in the Management’s Discussion and Analysis (MD&A) section of the CAFR. MD&A complements this transmittal letter and should be read in conjunction with it.

**CITY OF PALO ALTO PROFILE**

The City was incorporated in 1894 and named after a majestic coastal redwood tree which lives along the San Francisquito Creek where early Spanish explorers settled. Located between the cities of San Francisco and San Jose, the City is a largely built-out community of approximately 67,019 residents. The City delivers a full range of municipal services and public utilities under the Council-Manager form of government and offers an outstanding quality of life for its residents. It covers an area of twenty-six square miles and has dedicated almost one-half of the area to open spaces of parks and wildlife preserves. Public facilities include five libraries, four community centers, a cultural arts center, an adult and children’s theater, a junior museum and zoo, an airport, and a golf course. The City provides a diverse array of services for seniors and youth, an extensive continuing education program, concerts, exhibits, team sports and special events. The independent Palo Alto Unified School District (PAUSD) has achieved State and national recognition for the excellence of its programs.

**City Council:** The seven members are elected at-large for four-year staggered terms. At the first meeting of each calendar year, Council elects a Mayor and Vice-Mayor from its membership, with the Mayor having the duty of presiding over Council meetings. Council is the appointing authority for the positions of City Manager and three other officials, the City Attorney, City Clerk, and City Auditor, all of whom report to Council.

**Finance Committee and Policy and Services Committee:** While retaining the authority to approve all actions, Council has established two subcommittees, the Finance Committee and the Policy and Services Committee. The Finance Committee considers and makes recommendations on matters relating to finance, budget, financial audits, capital planning and debt. Each subcommittee is comprised of three Council members. Staff provides the subcommittees and Council with reports such as the CAFR, quarterly budget-versus-actual results, and various planning reports, all of which are utilized in their review of the City’s financial position.

**FISCAL/ECONOMIC CONDITIONS AND OUTLOOK**

Beginning in March 2020, the City declared a state of emergency and the world began to grapple with the impacts of the novel coronavirus (COVID-19), a global pandemic, and the ensuing public health emergency. This fiscal year ending June 30, 2020 saw the most significant immediate impacts as shelter in place orders were instituted in the County of Santa Clara and State of California. Therefore, these financials reflect nearly three quarters of a healthy economy followed by a quarter with an immediate and stark change in society, impacting residents, business, and visitors in profound and unseen ways.

**Employment Trends:** The City is located in the heart of Silicon Valley and is adjacent to Stanford University, one of the premier institutions of higher education in the nation which has produced much of the talent that founded many successful high-tech companies in Palo Alto and Silicon Valley. With varied historically and relatively stable employers such as Stanford University, Stanford Health Care, Palo Alto Medical Foundation, Palo Alto Unified School District, Stanford Shopping Center and businesses such as Hewlett-Packard, VMware, Tesla, SAP labs Inc. and Space Systems Loral, Palo Alto has enjoyed diverse employment and revenue bases. The City’s unemployment rate was 5.7 percent compared to the prior year level of 2.1 percent. The County of Santa Clara’s unemployment rate of 10.7 percent, compared to the prior year level of 2.7 percent. The State of California’s unemployment rate was 14.9 percent, compared to the prior year level of 4.5 percent. These levels are significantly higher than recent years as many businesses were forced to adjust their workforce and operations were severely restricted by shelter-in-place orders.

**Real Estate Market:** The 2019-2020 County of Santa Clara Assessor’s Annual Report noted that the County of Santa Clara’s annual assessment roll increased by \$32.8 billion to \$516.1 billion, a 6.79 percent increase over the prior year. Palo Alto’s assessment roll represents 7.6 percent of the County of Santa Clara’s assessment roll and grew 6.7 percent over the prior year to \$39.3 billion. Per the Santa Clara County Association of Realtors, home prices in Palo Alto remain well above the County of Santa Clara’s average at \$3.3 million as of second quarter 2020. Cushman & Wakefield has an optimistic look that the Silicon Valley’s office market was flat, as most deals were brought to a halt due to the pandemic and shelter in place. As of second quarter 2020, the overall average asking rent for Class A office space in Palo Alto was reported at \$8.06 per square foot per month, while research and development space was noted at \$7.01 per square foot per month. Cushman & Wakefield expects the Silicon Valley market will recover faster than other markets as the economy recovers from the impacts of the public health emergency.

**Local Trends:** The national and local level economy was healthy at the time that the FY 2020 budget was developed. On March 16, 2020, the State of California and the County of Santa Clara ordered a Shelter in Place directives to slow the spread of COVID-19. Disruptions caused by COVID-19 are both widespread and significant to Palo Alto’s economic environment and community. Nationally, gross domestic product (GDP) declined by 5.0 percent in the first (calendar) quarter and 31.4 percent in the second (calendar) quarter of 2020. California experienced similar GDP declines. The City’s unemployment has been elevated since the pandemic hit the region, however, the rate is significantly lower than national, State of California, and County of Santa Clara’s unemployment rates. Job growth is tepid. Economically sensitive revenue sources such as transient occupancy tax and sales tax have significantly declined while utility user’s and documentary transfer taxes growth have plateaued. Property taxes has been resilient with a healthy growth, however, future years will be monitored closely.

**General Fund Balancing and Results:** In June 2020, the FY 2020 budget was modified by the City Council to balance projected revenue impacts resulting from the public health emergency which included significant adjustments to the City’s major tax revenue sources ([CMR 11328](#)). Compared to the Adopted Budget, the financial impacts of COVID-19 resulted in an estimated reduction in revenue of \$23.7 million: a \$15.0 million loss in General Fund tax revenue, a \$7.5 million reduction in charges for services, and a \$1.2 million loss in permits and licenses revenue. These impacts were balanced through a citywide hiring freeze, a \$6.7 million reduction towards general capital improvement investments, elimination of reserves for recruitment and retention initiatives and operations, and the balance drawn from the City’s Budget Stabilization Reserve (BSR). Through these efforts and active response by departments to the financial implications of the public health emergency the City was able to minimize the impact on reserve balances at the close of FY 2020. While society continues to respond to slow the spread and contain the COVID-19, the magnitude of the financial impacts continues to remain unknown.

Despite the financial constraints, the City maintained its commitment to addressing its long-term liabilities. Contributions towards the City’s long-term pension obligations and other post-employment obligations were maintained this fiscal year including payment to trust funds. These were made possible by cost containment strategies utilized across the organization over the past several years. The FY 2020 budget also includes several one-time actions that are designed to contain costs while departments continue to evaluate service delivery options and redeployment of resources that have minimal service level impact. In addition to the City’s past practice of planning for staffing costs contained in the agreed upon labor terms outlined in memorandums of agreement, CalPERS-

determined retirement contribution levels, and a vacancy factor in the General Fund, proactive pension funding contributions to the City’s irrevocable Section 115 Pension Trust Fund were achieved in FY 2020. In the General Fund, this resulted in \$3.8 million in additional contributions from various departments and reflects what retirement costs would be if the “normal cost” of contributions was budgeted at a 6.2 percent discount rate (CalPERS is currently at a 7.0 percent discount rate). As of June 30, 2020, the City’s irrevocable pension trust fund has a total of \$27.3 million in Citywide contributions (excluding earnings from investments), of which \$17.8 million are from the General Fund.

As the community grapples with the various impacts of COVID-19, the City is taking a hard look at operating and capital budgets by prioritizes essential services, paring back discretionary items, and continually the monitoring impacts the global pandemic has on the City’s major revenue sources and economic sectors. In addition to these challenges, the City remains focused on implementing a Sustainability and Climate Action Plan while structurally balancing revenues and expenses to maintain high quality services. These issues were reflected in the setting of Council priorities for 2020:

- Housing, with an emphasis on affordable housing
- Sustainability, in the context of the changing climate
- Mobility, improving mobility for all

Progress continues to be made on these priorities, which require long-term strategies. The FY 2020 budget established an Office of Transportation in the City Manager’s Office to address the growing complexity and demands associated with parking, traffic, and pending decisions regarding grade separation. This new office will be better able to proactively engage the community and address critical transportation needs.

Staff presented a “Fiscal Sustainability” workplan to the City Council, articulating the ecosystem of available resources, desired outcomes, and long-term solvency of the City. Advancing and establishing the City’s pension policy, with the goal of balancing near-term investments with long-term needs and minimizing service delivery crowd-out from escalating pension costs, is a central focus of the Fiscal Sustainability workplan. It is anticipated that Council will adopt the pension policy before the close of the calendar year.

In FY 2014, the City Council approved a \$125.8 million Infrastructure Plan (IP), which includes projects such as a new Public Safety Building, replacement of two Fire Stations, a Bike and Pedestrian plan and two parking garages. Through the development of the 2020-2024 Capital Improvement Plan (CIP), a tenth project was added to the IP, Downtown Automated Parking Guidance Systems, and the IP projects were updated for scope increases and cost escalations, resulting in a revised Infrastructure Plan of \$280.6 million. These projects will be funded partially by debt to be repaid with voter approved increases of 3.5 percent in the transient occupancy tax (TOT) rate and from other sources such as impact fees and Stanford University Medical Center development agreement monies. The 2020-2024 CIP assumed the opening of new Marriott hotels in FY 2021, and the additional annual TOT funding is estimated to cover the cost of the IP projects. Staff is already revising these figures and adjusting and planning for the impacts associated with the public health emergency and its impact on revenues.

Rates increased in 2020 for electric, gas, storm drain, wastewater, and water services. In general, the size and timing of rate adjustments take into account current and future revenue requirements and reserve levels for needs such as increasing costs of commodity purchases, capital construction costs,



and contractually obligated increases to compensate for inflation, usually based on the annual change to the Bay Area consumer price index (CPI).

**Long Range Financial Forecast:** The City produces a 10-year General Fund Long Range Financial Forecast (LRFF) annually. This comprehensive report analyzes local, state, and federal economic conditions, short and long-term revenue and expense trends, and addresses challenges such as funding long-term pension and healthcare liabilities and infrastructure needs. The forecast is designed to highlight finance issues which the City can address proactively. Moreover, it is a tool that allows policymakers an opportunity to prioritize funding needs over time. It sets the tone for the annual budget process and is one of the many tools and reports that Council uses for financial planning.

The FY 2020-2029 LRFF was presented to the Finance Committee in December 2018 and approved by the City Council in March 2020. The forecast anticipated a near-term gap in the General Fund. Staff identified and recommended a course of action that would structurally balance the General Fund in FY 2020 and largely balance the General Fund on an ongoing basis. As discussed above, the FY 2020 budget included a proactive pension funding contribution to the City’s irrevocable Section 115 Pension Trust Fund, and reflected what retirement costs would be if the “normal cost” of contributions was budgeted at a 6.2 percent discount rate (CalPERS completed its ‘step-down’ to a 7.0 percent discount rate). This resulted in the need to include cost containment actions with specific resulting service impacts such as the elimination of positions and non-salary funding throughout the organization.

Both Moody’s and Standard and Poor’s (S&P) awarded their highest credit rating of Triple A to the City’s general obligation bonds. This rating has been awarded to only a few cities in the State of California.

### **SIGNIFICANT EVENTS AND ACCOMPLISHMENTS**



The City is a community dedicated to meeting the social, cultural, recreational, educational, commercial, and retail needs of its citizens and businesses. As such, open space, education, recreational facilities, cultural events and safe streets and neighborhoods are important aspects of the community and the City has been recognized for its accomplishments with a wide variety of awards and recognitions over the past year. Following is a sampling of those awards and accomplishments:

- Library Council’s Top Innovator 2019 Award for providing education programming for youth and families, using robots
- National Energy Innovator Award and Smart Energy Provider Award from the American Public Power Association (APPA) for the City’s Home Efficiency Genie program
- Implemented emergency telework for 400 nonessential employees to work from home in response to response to the COVID-19 pandemic and continued all essential services
- Provided virtual classes and programs at the Art Center, Children’s Theater, Junior Museum & Zoo and throughout the recreation division as a response to the COVID-19 pandemic
- Achieved annual accreditation with the Center for Public Safety Excellence

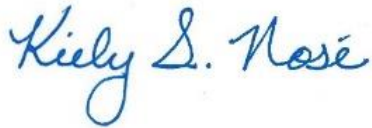
**Awards:** During the past year, the City received an award for the prior fiscal year (2019) CAFR from the Government Finance Officers Association (GFOA) for “excellence in financial reporting.” The 2020 CAFR will be submitted to the GFOA award program to be considered for this distinguished financial reporting award.



**Acknowledgments:** This CAFR reflects the hard work, talent and commitment of the staff members of the Administrative Services Department. This document could not have been accomplished without their efforts and each contributor deserves sincere appreciation. Management wishes to acknowledge the support of the entire accounting staff for their high level of professionalism and dedication. Management would also like to express its appreciation to MGO, the City's independent external auditors, who assisted and contributed to the preparation of this Comprehensive Annual Financial Report.

Special acknowledgment must be given to City Council and the Finance and Policy and Services Committees for their dedication to directing the financial affairs of the City in a responsible, professional and progressive manner.

Respectfully submitted,



KIELY NOSE  
Chief Financial Officer



ED SHIKADA  
City Manager



## City of Palo Alto City Officials .....

### City Council

Adrian Fine, **Mayor**  
Tom DuBois, **Vice-Mayor**  
Alison Cormack  
Eric Filseth  
Liz Kniss  
Lydia Kou  
Greg Tanaka

### Finance Committee

Greg Tanaka, **Chair**  
Tom DuBois  
Liz Kniss

### Policy and Services Committee

Alison Cormack, **Chair**  
Eric Filseth  
Lydia Kou

### Council-Appointed Officers

#### City Manager

Ed Shikada

#### City Attorney

Molly Stump

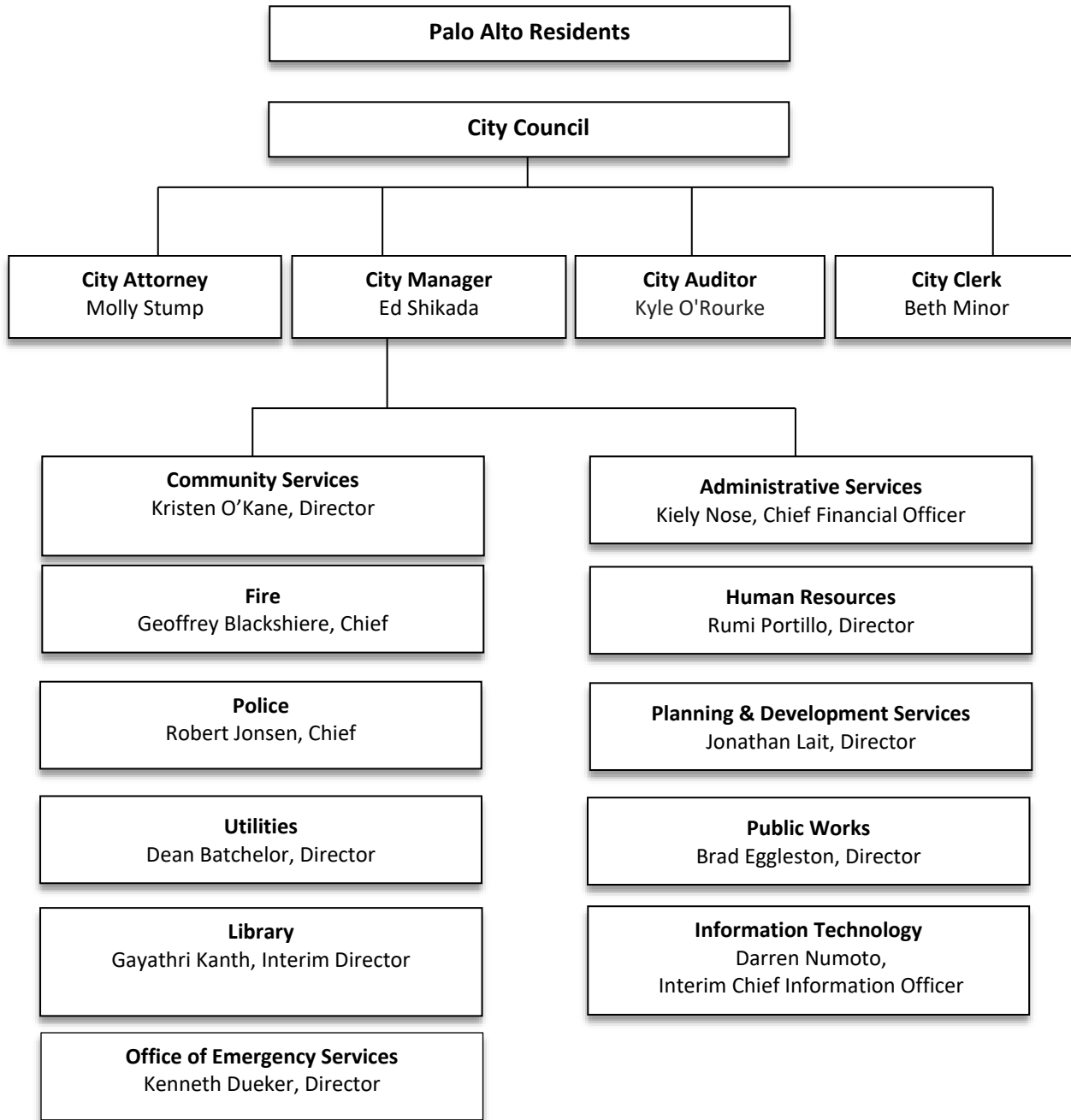
#### City Clerk

Beth Minor

#### City Auditor

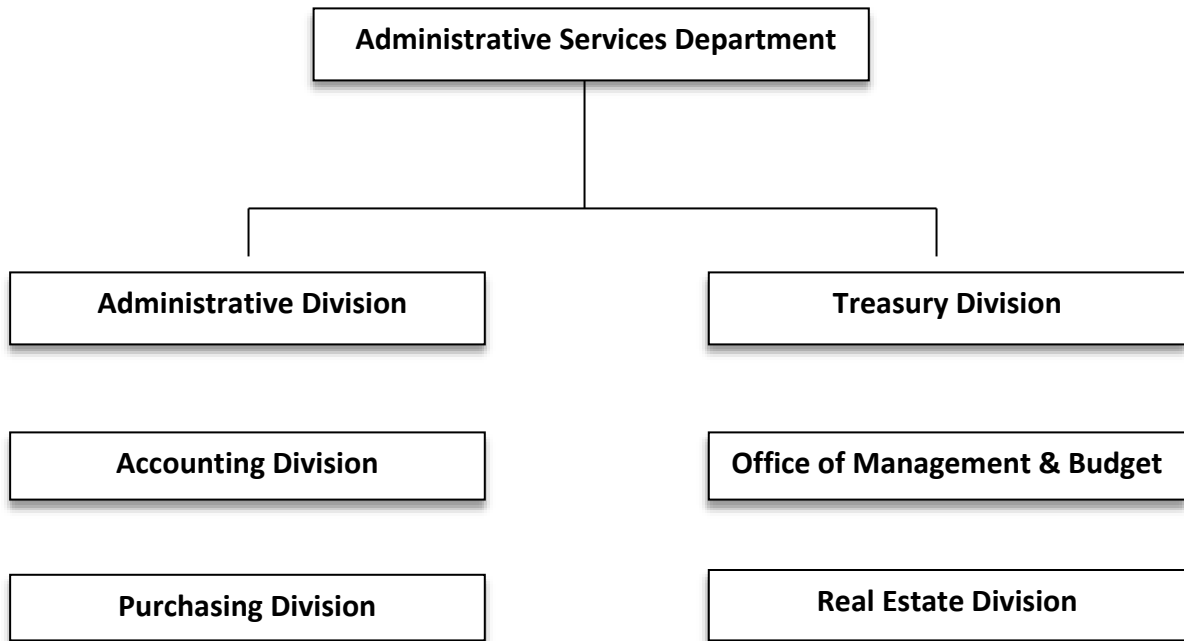
Kyle O'Rourke  
(appointed 9/2020)

# City of Palo Alto Organization .....





# Administrative Services Organization .....



## Mission Statement

*To provide proactive administrative and technical support to City departments and decision makers, and to safeguard and facilitate the optimal use of City resources.*

***Government Finance Officers Association of  
the United States and Canada – Award .....***

Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**City of Palo Alto  
California**

For its Comprehensive Annual  
Financial Report  
For the Fiscal Year Ended

June 30, 2019

*Christopher P. Morill*

Executive Director/CEO



## Independent Auditor's Report

Honorable Mayor and the Members  
of the City Council of  
City of Palo Alto, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Palo Alto, California (City), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of a Matter***

As discussed in Note 17 to the basic financial statements, in March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. The City expects this outbreak to adversely impact revenues and operations for future reporting periods. The City is not able to predict the duration or magnitude of the adverse results of the outbreak and its effects on the City or results of operations. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of changes in net pension liability and related ratios, the schedules of pension contributions, the schedule of changes in net OPEB liability and related ratios, and the schedule of employer OPEB contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2020 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, slightly slanted style.

Walnut Creek, California  
October 30, 2020



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# Management’s Discussion and Analysis (Unaudited)

Management’s Discussion and Analysis (MD&A) provides an overview of the City of Palo Alto’s financial performance for the fiscal year ended June 30, 2020. To obtain a complete understanding of the City’s financial condition, this document should be read in conjunction with the accompanying Transmittal Letter and Basic Financial Statements. Certain balances for prior year are reclassified to conform with current year presentation.

## FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of Palo Alto (City) exceeded its liabilities and deferred inflows of resources at the close of Fiscal Year (FY) 2020 by \$1.2 billion. Of this amount, \$29.5 million represents unrestricted net position, which may be used to meet the government’s ongoing obligations to citizens and creditors.
- The City’s net position increased \$34.1 million, or 2.9 percent, for the current fiscal year including increase of \$43.5 million business-type activities offset by decrease of \$9.4 million by governmental activities.
- The City’s total outstanding long-term debt decreased by \$2.3 million during the current fiscal year.
- At the close of FY 2020, the City’s governmental funds reported total fund balances of \$266.7 million, a decrease of \$38.3 million from the prior year. Approximately 13.4 percent of this amount, or \$35.9 million, is unassigned fund balance and available for spending at the City’s discretion.
- At the end of the current fiscal year, unrestricted fund balance (the total of the committed, assigned and unassigned components of fund balance) for the General Fund was \$52.9 million, or 24.7 percent of total general fund expenditures, including transfers.
- In March 2020, the World Health Organization declared novel coronavirus (COVID-19) a global pandemic. Revenues and operations were adversely impacted and the City expects the impact to continue for future reporting periods. The City is not able to predict the duration or magnitude of the adverse results of the outbreak and its effects on the City or results of operations.

## OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

The CAFR is presented in five sections:

- An introductory section that includes the Transmittal Letter and general information
- Management’s Discussion and Analysis
- The Basic Financial Statements that include the Government-wide and Fund Financial Statements, along with the Notes to the Basic Financial Statements
- Required and Other Supplemental Information
- Statistical Information

## Government-wide Financial Statements

The Government-wide Financial Statements provide a longer-term view of the City’s activities as a whole. They include the Statement of Net Position and the Statement of Activities.

The Statement of Net Position includes the City’s capital assets and long-term liabilities on a full accrual basis of accounting similar to that used by private sector companies. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

.....



The Statement of Activities provides information about the City's revenues and expenses on a full accrual basis, with an emphasis on measuring net revenues or expenses for each of the City's programs. The Statement of Activities explains in detail the change in net position for the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The amounts in the Statement of Net Position and the Statement of Activities are separated into Governmental and Business-type Activities in order to provide a summary of each type of activity.

***Governmental Activities***

All of the City's basic services are considered to be governmental activities. Included in basic services are the City Council, City Manager, City Attorney, City Clerk, City Auditor, Administrative Services, Human Resources, Public Works, Planning and Development Services, Office of Transportation, Police, Fire, Community Services, and Library. These services are supported by City's general revenues such as taxes, and by specific program revenues such as fees and grants.

The City's governmental activities also include the activities of the Palo Alto Public Improvement Corporation, which is a separate legal entity financially accountable to the City.

***Business-type Activities***

All of the City's enterprise activities are reported as business-type activities, including Water, Electric, Fiber Optics, Gas, Wastewater Collection, Wastewater Treatment, Refuse, Storm Drainage, and Airport. Unlike governmental services, these services are intended to recover all or a significant portion of their costs through user fees and charges.

The Government-wide Financial Statements can be found on pages 29 and 31 of this report.

***Fund Financial Statements***

The Fund Financial Statements provide detailed information about each of the City's most significant funds, called major funds. The concept of major funds, and the determination of which funds are major funds, was established by Governmental Accounting Standards Board (GASB) Statement No. 34. Therefore, each major fund is presented individually, with all non-major funds combined in a single column on each fund statement. Supplemental schedules display these non-major funds in more detail. The General Fund is always considered a major fund, but other funds may change from year to year as a result of changes in the pattern of City activities.

The Fund Financial Statements display the City's operations in more detail than the Government-wide Financial Statements. Fund Financial Statements include Governmental, Proprietary, and Fiduciary Funds.

***Governmental Funds***

Governmental Fund Financial Statements are prepared on the modified accrual basis of accounting, which means they measure only current financial resources and uses. Capital assets and other long-term assets, along with long-term liabilities, are presented only in the Government-wide Financial Statements. For FY 2020, the City had two major governmental funds - the General Fund and the Capital Projects Fund. Data from the other governmental funds are combined into a single column for presentation. Individual fund data for each of these non-major governmental funds is provided in the Supplemental Information section of this report.



Because the focus of governmental funds is narrower than that of the Government-wide Financial Statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the Government-wide Financial Statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Governmental Fund Financial Statements can be found on pages 33-37 of this report.

***Proprietary Funds***

Enterprise and Internal Service Fund Financial Statements are prepared on the full accrual basis of accounting, similar to that used by private sector companies. These statements include all of the current and long-term assets, deferred outflows of resources, current and long-term liabilities, and deferred inflows of resources.

The City's Internal Service Funds provide goods and services exclusively to the City's governmental and business-type activities. Internal Service Funds cannot be considered major funds because their revenues are derived from other City funds. Revenues between funds are eliminated in the Government-wide Financial Statements, and any related profits or losses in Internal Service Funds are returned to the activities in which they were created, along with any residual net position of the Internal Service Funds.

The Proprietary Fund Financial Statements can be found on pages 38-43 of this report.

***Fiduciary Funds***

Fiduciary funds accounted for assets held by the City that are custodial in nature and do not involve measurement of results of operations. The City's fiduciary funds are reported in the Statement of Fiduciary Net Position. These funds are excluded from the City's governmental-wide financial statements because the City cannot utilize these assets to finance its own operations.

The Fiduciary Fund Financial Statement can be found on page 44 of this report.

***Notes to the Basic Financial Statements***

The Notes to the Basic Financial Statements provide additional information that is necessary to acquire a full understanding of the data provided in the Government-wide and Fund Financial Statements. The Notes to the financial statements can be found on pages 47-106 of this report.

***Required and Other Supplemental Information***

The Required Supplementary Information related to the City's pension and OPEB plans is included after the Notes to the Basic Financial Statements on pages 107-112. The combining statements and individual fund statements and schedules referred to earlier in connection with non-major Governmental Funds and Internal Service Funds are presented immediately following the Required Supplementary Information and can be found on pages 113-138 of this report.

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## FINANCIAL ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

This section focuses on the City's net position and changes in net position of its governmental and business-type activities for the fiscal year ended June 30, 2020. As noted earlier, the City's total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$1.2 billion at the end of the fiscal year, an increase in net position of \$34.1 million.

### CONDENSED STATEMENT OF NET POSITION

As of June 30

(in millions)

	Governmental Activities		Business-type Activities		Government-wide Totals	
	2020	2019	2020	2019	2020	2019
Cash and investments	\$ 342.8	\$ 354.0	\$ 277.4	\$ 253.4	\$ 620.2	\$ 607.4
Other assets	60.5	69.9	52.8	51.3	113.3	121.2
Capital assets	596.3	566.1	693.2	673.5	1,289.5	1,239.6
<b>Total Assets</b>	<b>999.6</b>	<b>990.0</b>	<b>1,023.4</b>	<b>978.2</b>	<b>2,023.0</b>	<b>1,968.2</b>
Unamortized loss from refunding	-	-	0.2	0.2	0.2	0.2
Pension and OPEB related	55.8	63.4	20.9	21.5	76.7	84.9
<b>Total Deferred Outflows of Resources</b>	<b>55.8</b>	<b>63.4</b>	<b>21.1</b>	<b>21.7</b>	<b>76.9</b>	<b>85.1</b>
Net pension and OPEB liabilities	416.3	417.3	153.7	154.4	570.0	571.7
Long-term debt	112.5	115.1	74.5	74.2	187.0	189.3
Other liabilities	61.5	63.9	21.7	26.6	83.2	90.5
<b>Total Liabilities</b>	<b>590.3</b>	<b>596.3</b>	<b>249.9</b>	<b>255.2</b>	<b>840.2</b>	<b>851.5</b>
Pension and OPEB related	24.5	7.1	9.6	3.2	34.1	10.3
<b>Total Deferred Inflows of Resources</b>	<b>24.5</b>	<b>7.1</b>	<b>9.6</b>	<b>3.2</b>	<b>34.1</b>	<b>10.3</b>
<b>Net Position</b>						
Net investment in capital assets	497.4	493.7	621.3	602.1	1,118.7	1,095.8
Restricted	73.3	59.7	4.1	4.0	77.4	63.7
Unrestricted	(130.1)	(103.4)	159.6	135.4	29.5	32.0
<b>Total Net Position</b>	<b>\$ 440.6</b>	<b>\$ 450.0</b>	<b>\$ 785.0</b>	<b>\$ 741.5</b>	<b>\$ 1,225.6</b>	<b>\$ 1,191.5</b>

The largest portion of the City's net position (91.3 percent) is its net investment in capital assets such as land, buildings, infrastructure and vehicles, less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted portion of the City's net position (6.3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$29.5 million, representing 2.4 percent of the City's net position, is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the City is able to report positive unrestricted net positions for the government as a whole. The unrestricted net position for governmental activities is negative due to recognition of the net pension liabilities as required by GASB Statement No. 68 and net OPEB liabilities as required by GASB Statement No. 75. The deficit of \$130.1 million in FY 2020 for the governmental activities includes the impact of \$291.9 million for the net pension liabilities and the related deferred inflows and outflows of resources and \$93.2 million for the Net OPEB liabilities and the related deferred inflows and outflows of resources.

Components of the \$34.1 million increase in total net position are discussed in the following sections for governmental activities and business-type activities.

**Governmental Activities – Net Position**

The following analysis focuses on the net position and changes in net position of the City's Governmental Activities presented in the Government-wide Statement of Net Position and Statement of Activities.

<b>CONDENSED STATEMENT OF NET POSITION</b>			
<b>GOVERNMENTAL ACTIVITIES</b>			
<i>As of June 30</i>			
(in millions)			
	<u>2020</u>	<u>2019</u>	<u>Increase/ (Decrease)</u>
Cash and investments	\$ 342.8	\$ 354.0	\$ (11.2)
Other assets	60.5	69.9	(9.4)
Capital assets	596.3	566.1	30.2
<b>Total Assets</b>	<b>999.6</b>	<b>990.0</b>	<b>9.6</b>
Pension and OPEB related	55.8	63.4	(7.6)
<b>Total Deferred Outflows of Resources</b>	<b>55.8</b>	<b>63.4</b>	<b>(7.6)</b>
Net pension and OPEB liabilities	416.3	417.3	(1.0)
Long-term debt	112.5	115.1	(2.6)
Other liabilities	61.5	63.9	(2.4)
<b>Total Liabilities</b>	<b>590.3</b>	<b>596.3</b>	<b>(6.0)</b>
Pension and OPEB related	24.5	7.1	17.4
<b>Total Deferred Inflows of Resources</b>	<b>24.5</b>	<b>7.1</b>	<b>17.4</b>
Net investment in capital assets	497.4	493.7	3.7
Restricted	73.3	59.7	13.6
Unrestricted	(130.1)	(103.4)	(26.7)
<b>Total Net Position</b>	<b>\$ 440.6</b>	<b>\$ 450.0</b>	<b>\$ (9.4)</b>

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## Management's Discussion and Analysis

- The City's Governmental Activities total net position decreased \$9.4 million to \$440.6 million as of June 30, 2020.
- Cash and investments decreased \$11.2 million mainly due to the usage of restricted cash and investments for the construction of the California Avenue Parking Garage offset by an increase in restricted cash and investments held in the Public Agency Retirement Services Section 115 irrevocable trust (Section 115 Pension Trust).
- Other assets decreased \$9.4 million mainly due to decrease of tax revenues and receivables caused by COVID-19 and the collection of receivables from Stanford fire protection services during current year.
- Capital assets increased \$30.2 million due to continued construction of the Charleston/Arastradero Corridor, Highway 101 Pedestrian / Bicycle overpass, New Public Safety Building, and California Avenue Parking Garage.
- Pension and OPEB related deferred outflows of resources decreased \$7.6 million primarily due to decrease of pension related deferred outflows of resources of \$12.2 million offset by the increase of OPEB related deferred outflows of resources of \$4.6 million.
- Long-term debt decreased \$2.6 million due to scheduled debt retirements.
- Other liabilities decreased \$2.4 million primarily due to decreases of accruals as a result of COVID-19 related deferment of non-essential spending partially offset by increases of compensated absences and claims payable.
- Pension and OPEB related deferred inflows of resources increased \$17.4 million mainly due to increase in OPEB related deferred inflows of resources for differences between expected and actual experience because of lower than expected medical and premiums caps and demographic differences, such as Medicare eligibility.
- Net investment in capital assets increased \$3.7 million to \$497.4 million due to the net increase in capital assets offset by the reduction of restricted cash and investments used for the construction of the California Avenue Parking Garage. Restricted net position increased \$13.6 million to \$73.3 million primarily due to increase of restricted cash and investments held in the Section 115 Pension Trust. Unrestricted net position is negative primarily due to the recognition of the net pension and OPEB liabilities as required by GASB Statements Nos. 68 and 75.

**Governmental Activities – Revenues**

The table below shows that Governmental Activities revenues totaled \$213.3 million in FY 2020, a decrease of \$25.0 million from prior year revenues of \$238.3 million.

<b>GOVERNMENTAL ACTIVITIES</b>			
<b>Revenues for the Year Ended June 30</b>			
<b>(in millions)</b>			
<u>Revenues by Source</u>	<u>2020</u>	<u>2019</u>	<u>Increase/ (Decrease)</u>
<b>Program Revenues:</b>			
Charges for services	\$ 57.1	\$ 70.9	\$ (13.8)
Operating grants and contributions	2.6	2.1	0.5
Capital grants and contributions	9.0	8.3	0.7
<b>Total Program Revenues</b>	<b>68.7</b>	<b>81.3</b>	<b>(12.6)</b>
<b>General Revenues:</b>			
Property tax	55.6	51.7	3.9
Sales tax	30.6	36.5	(5.9)
Utility user tax	16.1	16.4	(0.3)
Transient occupancy tax	18.6	25.6	(7.0)
Documentary transfer tax	6.9	6.9	0.0
Other tax	2.9	2.6	0.3
Investment earnings	13.8	15.4	(1.6)
Miscellaneous	0.1	1.9	(1.8)
<b>Total General Revenues</b>	<b>144.6</b>	<b>157.0</b>	<b>(12.4)</b>
<b>Total Revenues</b>	<b>\$ 213.3</b>	<b>\$ 238.3</b>	<b>\$ (25.0)</b>

Program Revenues such as charges for services, operating grants and contributions, and capital grants and contributions are generated from or restricted to each activity. Total Program Revenues decreased \$12.6 million, or 15.5 percent, from the prior year due to the following:

- \$7.8 million decrease in developer impact fees, housing in-lieu, and transportation mitigation fees, all of which vary depending on volume and magnitude of development projects.
- \$3.9 million decrease in other revenue due to sale of Transfer Development Rights in FY 2019.
- Reduced programs and classes, closure of golf course and fewer plan reviews and inspections during the initial phase of COVID-19 shelter in place order and limited operations afterwards.





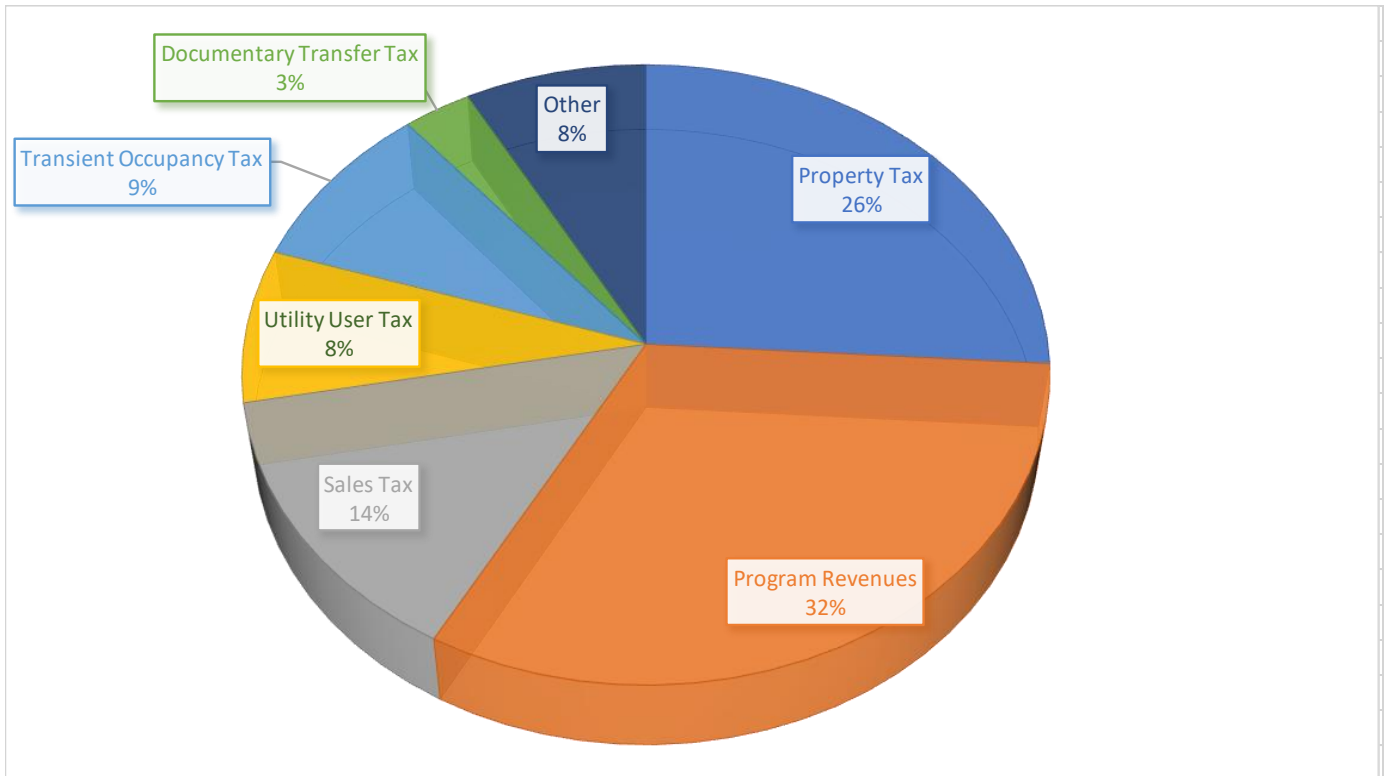
## Management's Discussion and Analysis

General Revenues decreased \$12.4 million, or 7.9 percent, from the prior year mainly due to decreases in sales tax, utility user tax, and transient occupancy tax revenues impacted by the COVID-19 shelter in place order.

Further analysis of program revenues and general revenues can be found in the Financial Analysis of Governmental Funds section of the MD&A.

### Governmental Activities – Revenues by Source

The chart below presents revenues by source for Governmental Activities. General Revenues are composed of taxes and other revenues not specifically generated by, or restricted to, individual activities. All tax revenues and investment earnings are included in General Revenues.



**Governmental Activities – Expenses**

The table below presents a comparison of FY 2020 and FY 2019 expenses by function, along with interest and other expenses and transfers. Total Governmental Activities functional expense was \$242.9 million in FY 2020, an increase of \$8.5 million.

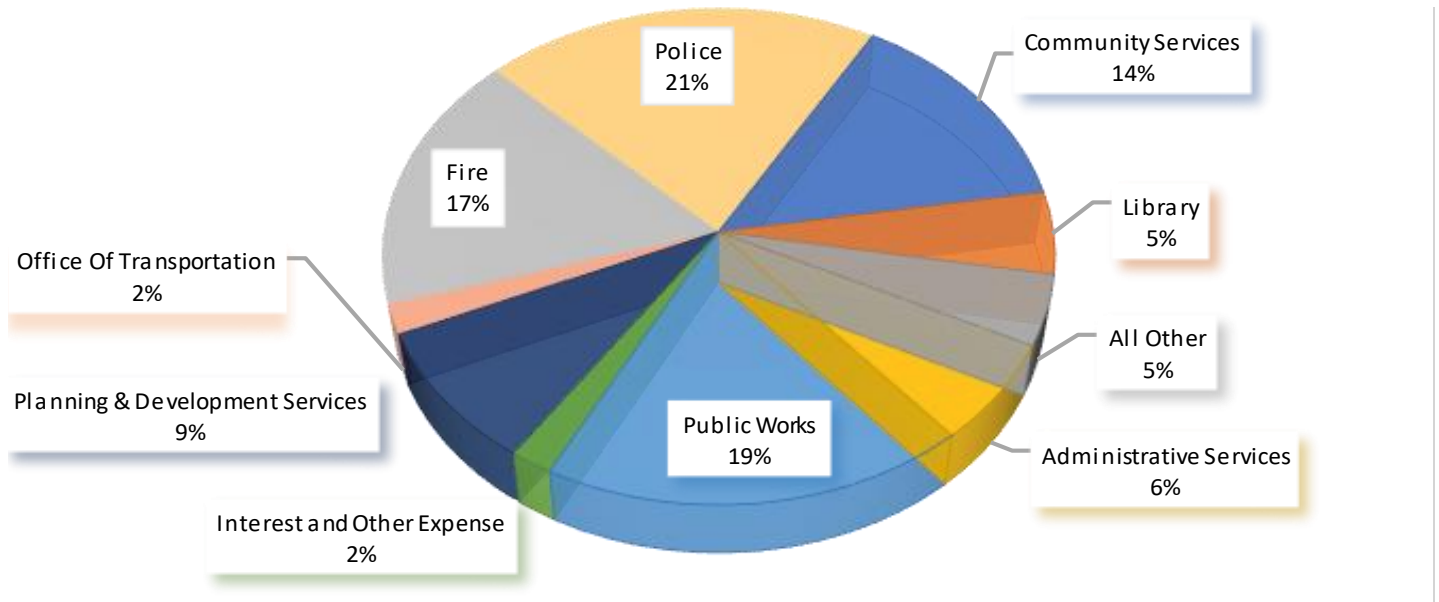
<b>GOVERNMENTAL ACTIVITIES</b>			
<i>Expenses and Change in Net Position for the Year Ended June 30</i>			
(in millions)			
<b>Activities</b>	<b>2020</b>	<b>2019</b>	<b>Increase/ (Decrease)</b>
City Council	\$ 0.2	\$ 0.3	\$ (0.1)
City Manager	3.6	3.3	0.3
City Attorney	2.8	3.1	(0.3)
City Clerk	0.8	0.8	0.0
City Auditor	0.6	1.1	(0.5)
Administrative Services	15.9	19.2	(3.3)
Human Resources	3.0	3.0	0.0
Public Safety	92.2	89.2	3.0
Planning and Development Services	21.7	24.7	(3.0)
Office of Transportation	4.7	-	4.7
Public Works	45.6	36.6	9.0
Community Services	34.2	36.8	(2.6)
Library	13.0	12.6	0.4
Interest and Other Expense	4.6	3.7	0.9
<b>Total Functional Expense</b>	<b>242.9</b>	<b>234.4</b>	<b>8.5</b>
Change in Net Position before Transfers	(29.6)	3.9	(33.5)
Transfers	20.2	18.7	1.5
Change in Net Position	(9.4)	22.6	(32.0)
Net Position, Beginning	450.0	427.4	22.6
<b>Net Position, Ending</b>	<b>\$ 440.6</b>	<b>\$ 450.0</b>	<b>\$ (9.4)</b>

The increase in functional expenses was mainly due to the increase in loss on disposal of capital assets of \$8.7 million recorded as part of Public Works functional expenses, from FY 2019's \$4.0 million to FY 2020's \$12.7 million.



### Governmental Activities – Functional Expenses

The functional expenses chart below includes only current year expenses. It does not include capital outlays, as those are added to the City's capital assets. Functions which comprise less than 2 percent of total expenses are combined into the "All Other" category in the chart below. All Other includes City Council, City Manager, City Attorney, City Clerk, City Auditor, Human Resources.



**Business-Type Activities – Net Position**

The following analysis focuses on the net position and changes in net position of the City's Business-type Activities presented in the Government-wide Statement of Net Position and Statement of Activities.

<b>CONDENSED STATEMENT OF NET POSITION</b>			
<b>BUSINESS-TYPE ACTIVITIES</b>			
<i>As of June 30</i>			
(in millions)			
	<u>2020</u>	<u>2019</u>	<u>Increase/ (Decrease)</u>
Cash and investments	\$ 277.4	\$ 253.4	\$ 24.0
Other assets	52.8	51.3	1.5
Capital assets	693.2	673.5	19.7
<b>Total Assets</b>	<b>1,023.4</b>	<b>978.2</b>	<b>45.2</b>
Unamortized loss from refunding	0.2	0.2	-
Pension and OPEB related	20.9	21.5	(0.6)
<b>Total Deferred Outflows of Resources</b>	<b>21.1</b>	<b>21.7</b>	<b>(0.6)</b>
Net pension and OPEB liabilities	153.7	154.4	(0.7)
Long-term debt	74.5	74.2	0.3
Other liabilities	21.7	26.6	(4.9)
<b>Total Liabilities</b>	<b>249.9</b>	<b>255.2</b>	<b>(5.3)</b>
Pension and OPEB related	9.6	3.2	6.4
<b>Total Deferred Inflows of Resources</b>	<b>9.6</b>	<b>3.2</b>	<b>6.4</b>
<b>Net Position</b>			
Net investment in capital assets	621.3	602.1	19.2
Restricted	4.1	4.0	0.1
Unrestricted	159.6	135.4	24.2
<b>Total Net Position</b>	<b>\$ 785.0</b>	<b>\$ 741.5</b>	<b>\$ 43.5</b>

- The City's Business-type Activities total net position increased \$43.5 million to \$785.0 million as of June 30, 2020.
- Cash and investments increased \$24.0 million primarily due to revenues exceeding expenses for all enterprise funds except for the Refuse fund.
- Capital assets increased \$19.7 million to \$693.2 million primarily due to capital assets addition in the Water, Electric, Gas, Wastewater Collection, Wastewater Treatment, and Airport Funds. These capital assets addition also contributed to the \$19.2 million increase in net investment in capital assets to \$621.3 million in FY 2020.

- Other liabilities decreased \$4.9 million primarily due to lower accruals in the Airport Fund for the Apron Reconstruction Project.
- Deferred inflows of resources increased \$6.4 million mainly due to increase in OPEB related deferred inflows of resources for differences between expected and actual experience because of lower than expected medical and premiums caps and demographic differences, such as Medicare eligibility.
- Unrestricted net position of \$159.6 million, an increase of \$24.2 million from the prior year, represents assets available to finance day-to-day operations and other expenditures approved by the City Council. This amount includes rate stabilization reserves (RSR) of \$72.4 million and operations reserves of \$77.5 million, along with the electric special projects (Calaveras) reserve of \$46.7 million, and the hydro stabilization reserve of \$15.4 million. The positive balances in these reserves are offset by the GASB 68 pension reserve deficit of \$104.8 million and GASB 75 OPEB reserve deficit of \$37.6 million. Additional details are included in Note 10 to the financial statements.

### Business-Type Activities – Revenues

The table below presents the revenues by source of the City's Business-type Activities. The City operates the Water, Electric, Fiber Optics, Gas, Wastewater Collection, Wastewater Treatment, Refuse, Storm Drainage, and Airport funds.

**BUSINESS-TYPE ACTIVITIES**  
**Revenues for the Year Ended June 30**  
**(in millions)**

Revenues by Source	2020	2019	Increase/ (Decrease)
<b>Program Revenues:</b>			
Charges for services	\$ 353.0	\$ 347.4	\$ 5.6
Operating grants and contributions	0.5	0.4	0.1
Capital grants and contributions	6.4	6.7	(0.3)
<b>Total Program Revenues</b>	<b>359.9</b>	<b>354.5</b>	<b>5.4</b>
<b>General Revenues:</b>			
Investment earnings	11.5	12.7	(1.2)
<b>Total General Revenues</b>	<b>11.5</b>	<b>12.7</b>	<b>(1.2)</b>
<b>Total Revenues</b>	<b>\$ 371.4</b>	<b>\$ 367.2</b>	<b>\$ 4.2</b>

Business-type Activities revenues totaled \$371.4 million, an increase of \$4.2 million from the prior year. Program revenues increased \$5.4 million year over year. Charges for services increased \$5.6 million from the prior year due to the following:

- Rate increases in the Electric, Water, Wastewater Collection, and Storm Drainage funds.
- Wastewater Treatment fund revenue increased as a result of increased billing for capital costs, operating and sewage treatment costs.

- The increases mentioned above were partially offset by decreases in the Gas Fund revenues due to lower consumption and in Refuse fund revenues due to reduction of commercial and industrial services caused by COVID-19.

**Business-Type Activities – Expenses**

The table below presents a comparison of the FY 2020 and FY 2019 expenses for the City's Business-type Activities. Encumbrances and reappropriations are not included.

<b>BUSINESS-TYPE ACTIVITIES</b>			
<b>Expenses and Change in Net Position for the Year Ended June 30</b>			
<b>(in millions)</b>			
<u>Business-type Activities</u>	<u>2020</u>	<u>2019</u>	<u>Increase/ (Decrease)</u>
Water	\$ 43.0	\$ 40.6	\$ 2.4
Electric	142.4	139.6	2.8
Fiber Optics	2.8	2.5	0.3
Gas	27.2	30.9	(3.7)
Wastewater Collection	18.9	17.3	1.6
Wastewater Treatment	28.8	27.1	1.7
Refuse	36.9	30.4	6.5
Storm Drainage	5.5	4.9	0.6
Airport	2.1	1.8	0.3
<b>Total Functional Expense</b>	<b><u>307.6</u></b>	<b><u>295.1</u></b>	<b><u>12.5</u></b>
Increase in Net Position before Transfers	63.7	72.1	(8.4)
Transfers	<u>(20.2)</u>	<u>(18.7)</u>	<u>(1.5)</u>
Change in Net Position	43.5	53.4	(9.9)
Net Position, Beginning	<u>741.5</u>	<u>688.1</u>	<u>53.4</u>
<b>Net Position, Ending</b>	<b><u>\$ 785.0</u></b>	<b><u>\$ 741.5</u></b>	<b><u>\$ 43.5</u></b>

Business-type Activities expenses increased \$12.5 million for a total of \$307.6 million mainly due to the following:

- Salaries and benefits for all the funds increased \$13.0 million. The increases are mainly due to increases in salaries and benefits for new labor contracts, contributions to the Section 115 Pension Trust, pension contributions and workers' compensation.
- Electric Fund expenses increased \$2.8 million due to higher electric transmission costs.
- Refuse Fund expenses increased \$6.5 million due to GreenWaste of Palo Alto charges for reimbursement of new waste collection vehicles.
- Gas Fund expenses decreased \$3.7 million due to lower commodity purchases as a result of lower natural gas prices and transportation costs.



**FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the City's Governmental Funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as it represents the portion of fund balance not yet limited to use for a particular purpose by either an external party, the City itself, or an entity that has been delegated authority by the City Council to assign resources for use.

As of June 30, 2020, the City's Governmental Funds reported combined fund balances of \$266.7 million, a decrease of \$38.3 million from the prior year. Approximately 13.4 percent, or \$35.9 million, constitutes unassigned fund balance, which is available for spending at the City's discretion and other purposes. The remainder of the fund balance is either non-spendable, restricted, committed, or assigned to indicate that it is: 1) not in spendable form (\$11.5 million); 2) restricted for particular purposes (\$55.5 million); 3) committed for particular purposes (\$88.5 million); or 4) assigned for particular purposes (\$75.3 million).

Governmental Fund revenues decreased \$23.7 million, or 10.2 percent, from the prior year to \$208.7 million. General Fund revenues decreased \$16.7 million and Capital Projects Fund revenue increased \$6.6 million. Non-major Governmental Funds revenue decreased \$13.6 million primarily due to decreases in developer impact fees, housing in-lieu, transportation mitigation fees and other revenues for the sale of Transfer Development Rights.

Governmental Fund expenditures were \$260.9 million, an increase of \$25.9 million from the prior year. General Fund expenditures increased \$6.4 million, Capital Projects Fund expenditures increased by \$19.4 million, and Non-major Governmental Funds expenditures increased by \$0.1 million. Details of significant changes are discussed in the following sections.



**General Fund**

**Balance Sheet**

The General Fund is the primary operating fund of the City. At the end of the current fiscal year, the fund balance of the General Fund was \$61.8 million, compared to \$75.2 million in the prior year. The fund balance is classified as follows: \$9.0 million non-spendable, \$4.5 million committed, \$12.5 million assigned, and \$35.9 million unassigned. The unassigned amount is designated by the City Council for Budget Stabilization Reserve.

**Statement of Revenues, Expenditures and Changes in Fund Balance - Revenues**

The City's General Fund revenues totaled \$180.4 million in FY 2020. This represents a decrease of \$16.7 million, or 8.5 percent, compared to the prior year. The year over year change in significant revenue sources is noted in the following table.



GENERAL FUND			
<i>Revenues for the Year Ended June 30</i>			
(in millions)			
<u>Revenues by Source</u>	<u>2020</u>	<u>2019</u>	<u>Increase/ (Decrease)</u>
Property tax	\$ 51.1	\$ 47.3	\$ 3.8
Sales tax	30.6	36.5	(5.9)
Utility user tax	16.1	16.4	(0.3)
Transient occupancy tax	18.6	25.6	(7.0)
Documentary transfer tax	6.9	6.9	0.0
Charges for services	24.1	27.3	(3.2)
Permits and licence	7.5	8.4	(0.9)
Rental income	16.0	16.3	(0.3)
Other	<u>9.5</u>	<u>12.4</u>	<u>(2.9)</u>
 Total Revenues	 <u>\$ 180.4</u>	 <u>\$ 197.1</u>	 <u>\$ (16.7)</u>



Property tax revenue increased \$3.8 million, or 8.0 percent, due to property assessed value growth and an increase of \$1.2 million for a temporary Educational Revenue Augmentation Fund (ERAF) distribution from the County of Santa Clara. The higher assessed values reflected the continued robust real estate markets. Unlike other tax revenue, property taxes are not yet impacted by COVID-19.

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## *Management's Discussion and Analysis*

Sales tax receipts were \$5.9 million, or 16.2 percent, lower compared to the prior year mainly due to economic disruptions caused by COVID-19. For the last quarter of FY 2020, the shelter in place order resulted in closure of populous locations and economic engines in the City such as downtown core, California Avenue, Stanford Shopping Center and other related business activities that significantly impacted the sales tax. A portion of the decrease is due to timing difference in receipts rather than performance. The State has offered certain businesses the option to defer sales tax payments through interest free payment plans. This plan allows large businesses to delay their sales and use taxes remittance for ninety days and small businesses to defer remittance over twelve months. In addition, FY2019 receipts were higher by \$0.7 million due to delay of distribution of sales tax in FY 2018 from California Department of Tax Fee Administration (CDTFA) resulting from the transition of the new technology and collection process.

Utility user tax revenues were \$0.3 million, or 1.8 percent, lower compared to the prior year due to lower consumption of both utility commodity and telephone caused by COVID-19. The decrease is offset by utility commodity rate increase for FY 2020.

Transient occupancy tax (TOT) were \$7.0 million, or 27.3 percent, lower than prior year. There is an increase of 1.5 percent TOT rate in April 2019, however, TOT decreased is due to base TOT, which began to decline almost a year ago by 3.1 percent and deepened by COVID-19. During shelter in place in the last quarter of the current year, almost a dozen, which represent 30 percent of available rooms, have fully suspended operations. The remaining hotels' last quarter occupancy rate are in the low double digit and the average room rates have dropped by over half. For the fiscal year, average occupancy and daily room rate is 61 percent and \$265, respectively.

Documentary transfer tax has no significant change for the current year though in the last quarter of FY2020 it declined by 40.9 percent and the number of sales declined 28.2 percent. The number of transactions for FY 2020 are lower than FY 2019 by 13.6 percent. This revenue source is volatile since it is highly dependent on sales volume and the mix of commercial and residential sales.

Charges for services decreased \$3.2 million, or 11.7 percent, when compared to prior year. The decrease was primarily due to reduced programs and classes (\$1.6 million), closure of golf course (\$0.6 million) and fewer plan reviews and inspections (\$1.0 million) during the initial phase of COVID-19 shelter in place order and limited operations afterwards.

Other revenues decreased \$2.9, or 23.4 percent, when compared to prior year primarily due to the one-time revenue of \$ 2.4 million from the sale of the former City Manager's house co-owned by the City in FY 2019.

*Statement of Revenues, Expenditures and Changes in Fund Balance - Expenditures*

General Fund expenditures totaled \$182.1 million for FY 2020 compared to \$175.7 in the prior year. This amount excludes encumbrances and reappropriations. The year over year change for major functions is noted in the following table.

<b>GENERAL FUND</b>			
<i>Expenditures for the Year Ended June 30</i>			
(in millions)			
<u>Expenditures by Function</u>	<u>2020</u>	<u>2019</u>	<u>Increase/ (Decrease)</u>
Administrative Services	\$ 6.0	\$ 5.5	\$ 0.5
Public Works	13.6	13.8	(0.2)
Planning and Community Environment	19.3	19.6	(0.3)
Development Services	2.0	-	2.0
Police	45.7	42.9	2.8
Fire	36.4	33.5	2.9
Community Services	29.6	28.9	0.7
Library	10.0	9.3	0.7
Non-Departmental	9.2	11.8	(2.6)
All other	<u>10.3</u>	<u>10.4</u>	<u>(0.1)</u>
<b>Total Expenditures</b>	<b><u>\$ 182.1</u></b>	<b><u>\$ 175.7</u></b>	<b><u>\$ 6.4</u></b>

Starting FY 2020, the Development Services Department was combined with the Planning and Community Environment Department to form the Planning and Development Services Department. The Office of Transportation Department, which previously was a division of the Planning and Community Environment Department, was established in the current year.

Police Department and Fire Department expenditures increased \$2.8 million and \$2.9 million, respectively, mainly due to increases in salaries and benefits partially offset by decreases in overtime. The increases are due to new labor contracts, increased number of filled positions, contributions to the Section 115 Pension Trust pension contributions, and workers' compensation.

Non-Departmental expenditures decreased \$2.6 million primarily due to a one-time \$5.5 million settlement agreement for an overpayment claim by Stanford University regarding fire protection services in FY 2019. This decrease was offset by a \$2.5 million purchase of current City Manager's house in current year (75 percent City's equity share).

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*Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual*

Revenues, excluding Charges to Other Funds, were originally budgeted at \$200.2 million. Budget estimates were revised downward by \$22.1 million. Revenue categories that were adjusted are shown in the table below.

**GENERAL FUND**  
*Budgeted Revenues for the Year Ended June 30*  
 (in millions)

<u>Budgeted Revenues</u>	<u>Adopted Budget</u>	<u>Final Budget</u>	<u>Increase/ (Decrease)</u>
Property tax	\$ 48.6	\$ 50.9	\$ 2.3
Sales tax	34.3	30.6	(3.7)
Utility user tax	17.6	16.1	(1.5)
Transient occupancy tax	29.3	19.4	(9.9)
Documentary transfer tax	8.4	6.7	(1.7)
All other	62.0	54.4	(7.6)
	<u>200.2</u>	<u>178.1</u>	<u>(22.1)</u>
Charges to other funds	10.9	10.9	-
Prior year encumbrances and appropriations	-	6.5	6.5
<b>Total Budgeted Revenues</b>	<b><u>\$ 211.1</u></b>	<b><u>\$ 195.5</u></b>	<b><u>\$ (15.6)</u></b>

The downward adjustments to the original budget were made as part of the third quarter financial report to the City Council to address the impact of COVID-19. The property tax increased mainly due to additional receipt of excess funds from the ERAF distribution. Historically, during an economic downturn such as recession and/or COVID-19, impact to property tax is delayed by at least a year.

Expenditures, excluding Operating Transfers, were originally budgeted at \$196.8 million and were revised upward by \$9.6 million, for a final budgeted amount of \$206.4 million.



**GENERAL FUND**  
**Budgeted Expenditures for the Year Ended June 30**  
 (in millions)

<u>Budgeted Expenditures</u>	<u>Adopted Budget</u>	<u>Final Budget</u>	<u>Increase/ (Decrease)</u>	<u>Actuals, plus Encumbrances</u>
Community Services	\$ 30.9	\$ 31.6	\$ 0.7	\$ 31.5
Fire	34.9	36.8	1.9	36.8
Police	46.4	46.8	0.4	46.8
Library	10.3	10.2	(0.1)	10.1
Planning and Development Services	20.4	22.0	1.6	21.1
Public Works	19.1	19.4	0.3	18.9
Non-Departmental	9.0	12.3	3.3	11.0
All Other	25.8	27.3	1.5	25.9
<b>Total Budgeted Expenditures</b>	<b><u>\$ 196.8</u></b>	<b><u>\$ 206.4</u></b>	<b><u>\$ 9.6</u></b>	<b>202.1</b>
Less: Charges to Other Funds and Departments				(11.1)
Less: Encumbrances and Reappropriations				(7.6)
Less: Others				(1.3)
<b>Net General Fund Expenditures</b>				<b><u>\$ 182.1</u></b>

Adjustments of \$9.6 million to the original budget were primarily due to the following:

- \$6.5 million carry-forward of encumbrances from prior year and reappropriations.
- \$3.1 million for various budget adjustments that were approved throughout the year by the City Council.

The final budgeted expenditure amount of \$206.4 million compared to the actual expenditures plus encumbrances and reappropriations of \$202.1 million, a difference of \$4.3 million, of which \$7.6 million is encumbrances and reappropriations carried forward to FY 2021. The lower actual expenditures versus the budget were realized across the departments, and the largest variances were experienced in Planning and Development Services and Non-departmental for \$0.9 million and \$1.3 million, respectively.

Transfers out were originally budgeted at \$34.0 million, with the final budget number at \$32.2 million, a decrease of \$1.8 million. The decrease was due to a reduction of the transfer to Capital Project Fund as a result of decreases in Transient Occupancy Tax revenues caused by COVID-19. This reduction was partially offset by an increase of transfer to General Benefits Internal Services Fund to fund the Section 115 Pension Trust.

**Capital Projects Fund**

Capital Projects Fund revenues were \$9.5 million in FY 2020, an increase of \$6.6 million from the prior year primarily due to \$2.6 million from the Santa Clara Valley Transportation Authority for 2016 Measurement B Reimbursement – Local Streets and Roads (LSR) funding, \$2.3 million from San Francisquito Creek Joint Power Authority for Golf Reconfiguration and Bayland Athletic Center Improvement, and \$1.1 million from the State of California for reimbursements of various projects.

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Capital Projects Fund expenditures were \$66.4 million in FY 2020, an increase of \$19.4 million from the prior year driven by the constructions of Charleston/Arastradero Corridor, Highway 101 Pedestrian / Bicycle overpass, New Public Safety Building, and California Avenue Parking Garage. This level of expenditure is consistent with the City's effort to rehabilitate and maintain its existing infrastructure.

**Non-Major Governmental Funds**

These funds are not presented separately in the Basic Financial Statements, but are individually presented in the Other Supplemental Information.

**FINANCIAL ANALYSIS OF ENTERPRISE FUNDS**

At June 30, 2020, the City's Enterprise Funds reported total net position of \$781.1 million, an increase of \$39.6 million or 5.3 percent from the prior year. The increase was primarily from the Electric and Water funds for \$18.6 million and \$7.9 million, respectively. Unrestricted net position for the Enterprise Funds totaled \$155.7 million, a 15.0 percent increase from FY 2019.

The changes in net position for the Enterprise Funds are summarized in the following table.

**Change in Net Position for the Year Ended June 30  
(in millions)**

<b>Fund Name</b>	<b>2020</b>	<b>2019</b>	<b>Increase/ (Decrease)</b>
Water	\$ 8.0	\$ 8.0	\$ -
Electric	18.6	19.0	(0.4)
Fiber Optics	2.9	3.5	(0.6)
Gas	3.0	5.3	(2.3)
Wastewater Collection	2.1	3.3	(1.2)
Wastewater Treatment	0.3	1.5	(1.2)
Refuse	(3.1)	4.9	(8.0)
Storm Drainage	2.2	2.3	(0.1)
Airport	5.6	6.6	(1.0)
<b>Total Change in Net Position</b>	<b>\$ 39.6</b>	<b>\$ 54.4</b>	<b>\$ (14.8)</b>

The most significant factors in the change in net position between years for Enterprise Funds are as follows:

- The change in net position for Gas Fund decreased \$2.3 million in FY 2020 due to decrease in revenues as a result of lower consumption; increase in operating expenses (excluding commodity purchase costs) partially offset by the decrease in commodity purchase costs due to lower than expected natural gas prices and transportation costs.
- The change in net position for Wastewater Collection Fund decreased \$1.2 million due to higher operating expenses offset by the increase in revenues as a result of the 7.0 percent rate increase effective July 1, 2019.
- The change in net position for Wastewater Treatment Fund decreased \$1.2 million due to increase in operating expenses as a result of higher sewage treatment operation and maintenance cost offset by the increase in revenues resulting from higher partner's billing.

- The change in net position of Refuse Fund decreased \$8.0 million due to lower revenues as a result of the reduction of services from commercial and industrial customers resulting from COVID-19 and increase in GreenWaste of Palo Alto charges for reimbursement of new waste collection vehicles.
- The change in net position of Airport Fund decreased \$1.0 million due to the decrease in federal grant revenues for the Apron Reconstruction project and increase in operating expenses.

**CAPITAL ASSETS**

GASB Statement No. 34 requires that the City record all its capital assets, including infrastructure and intangible assets. Infrastructure includes roads, bridges, signals and similar assets used by the entire population. The table below shows capital assets and the amount of accumulated depreciation for these assets for Governmental and Business-type Activities. Further detail can be found in Note 6 to the financial statements.

<b>CAPITAL ASSETS AT JUNE 30</b>			
(in millions)			
	<u>2020</u>	<u>2019</u>	<u>Increase/ (Decrease)</u>
<b>Governmental activities</b>			
<b>Capital Assets</b>			
Land and improvements	\$ 82.2	\$ 77.6	4.6
Street trees	14.8	14.7	0.1
Construction in progress	139.4	104.5	34.9
Building and improvements	251.1	247.3	3.8
Intangible assets	3.8	3.8	-
Equipment	15.7	12.6	3.1
Roadway network	335.2	334.3	0.9
Recreation and open space network	35.2	35.2	-
Less accumulated depreciation	(302.5)	(285.7)	(16.8)
<b>Internal Service funds</b>			
Construction in progress	2.7	2.5	0.2
Equipment	63.5	62.3	1.2
Less accumulated depreciation	(44.8)	(43.0)	(1.8)
<b>Total Governmental Activities</b>	<u>\$ 596.3</u>	<u>\$ 566.1</u>	<u>\$ 30.2</u>
<b>Business-Type Activities</b>			
Land	\$ 5	\$ 5	\$ -
Construction in progress	121.1	158.0	(36.9)
Buildings and improvements	74.0	68.3	5.7
Capital Leases	0.5	0.5	-
Infrastructure	0.6	0.6	-
Transmission, distribution and treatment systems	884.8	822.4	62.4
Less accumulated depreciation	(392.8)	(381.3)	(11.5)
<b>Total Business-type Activities</b>	<u>\$ 693.2</u>	<u>\$ 673.5</u>	<u>\$ 19.7</u>



**Management's Discussion and Analysis**

Governmental Activities' capital assets net of depreciation increased by \$30.2 million from the prior year. The increase was primarily due to activity in various projects such as Charleston/Arastradero Corridor, Highway 101 Pedestrian / Bicycle overpass, New Public Safety Building and California Avenue Parking Garage.

The City Council approved a \$125.8 million Infrastructure Plan (IP) in June 2014, which includes projects such as a new Public Safety Building, replacement of two Fire Stations, a Bike and Pedestrian plan and two parking garages. Through the development of the 2020-2024 Capital Improvement Plan (CIP), a tenth project was added to the IP, Downtown Automated Parking Guidance Systems, and the IP projects were updated for scope increases and cost escalations, resulting in a revised Infrastructure Plan of \$280.6 million. These projects will be funded partially by debt to be repaid with voter approved increases of 3.5 percent in the transient occupancy tax (TOT) rate and from other sources such as impact fees and Stanford University Medical Center development agreement monies. The 2020-2024 CIP assumed the opening of new Marriott hotels in FY 2021, and the additional annual TOT funding is estimated to cover the cost of the IP projects. The City is currently assessing the COVID-19 impact of this project.

Major Governmental Activities' capital projects that are currently in progress, including the remaining capital commitment of each, are as follows:

- Highway 101 Pedestrian/Bicycle Overpass - \$14.5 million
- California Avenue Parking Garage - \$10.4 million
- Charleston Arastradero Corridor – \$7.1 million
- Municipal Service Center Improvements - \$6.0 million
- Vehicle Replacements - \$5.7 million
- Telephone Infrastructure - \$4.6 million

Business-type Activities' capital assets net of depreciation increased by \$19.7 million from the prior year. The increase is primarily due to Water, Electric, Gas, Wastewater Collection, Wastewater Treatment, and Airport Funds.

Major Business-type Activities' capital projects that are currently in progress, including the remaining capital commitment of each, are as follows:

- Seismic Water Systems Upgrades - \$5.1 million
- Water Main Replacement for Water Fund - \$3.1 million
- Wastewater Collection Fund Rehabilitation/Augmentation Project - \$3.7 million

The City depreciates its capital assets over their estimated useful lives, as required by GASB Statement No. 34. The purpose of depreciation is to spread the cost of a capital asset over the years of its useful life so that an allocable portion of the cost of the asset is borne by all users. Additional information on capital assets and depreciable lives are in Note 6.

**DEBT ADMINISTRATION**

Each of the City's debt issues is discussed in detail in Note 7 to the financial statements. The City's debt as of June 30, 2020 is shown in the following table.

<b>LONG-TERM DEBT AT JUNE 30</b>			
(in millions)			
	<u>2020</u>	<u>2019</u>	<u>Increase/ (Decrease)</u>
<b>Governmental Activities</b>			
<b>General Long-Term Obligations</b>			
General Obligation Bonds			
2010	\$ 43.3	\$ 44.6	\$ (1.3)
Add: unamortized premium	2.5	2.6	(0.1)
2013A	15.5	15.9	(0.4)
Add: unamortized premium	0.8	0.8	-
Certificates of Participation			
2018 Capital Improvement Projects	8.7	8.9	(0.2)
2019 California Ave Parking Garage			
Series A & B	37.0	37.4	(0.4)
Add: unamortized premium	4.7	4.9	(0.2)
<b>Total Governmental Activities</b>	<b><u>\$ 112.5</u></b>	<b><u>\$ 115.1</u></b>	<b><u>\$ (2.6)</u></b>
<b>Business-type Activities</b>			
<b>Enterprise Long-Term Obligations</b>			
Utility Revenue Bonds			
1995 Series A	\$ -	\$ 0.6	\$ (0.6)
1999 Refunding	6.7	7.5	(0.8)
2009 Series A	25.5	26.6	(1.1)
2011 Refunding	7.9	9.1	(1.2)
Add: unamortized premium	0.5	0.6	(0.1)
Energy Tax Credit Bonds			
2007 Series A	0.2	0.3	(0.1)
Less: unamortized discount	(0.1)	(0.1)	-
State Water Resources Loan			
2007	4.0	4.5	(0.5)
2009	5.3	5.7	(0.4)
2017	24.5	19.4	5.1
<b>Total Business-type Activities</b>	<b><u>\$ 74.5</u></b>	<b><u>\$ 74.2</u></b>	<b><u>\$ 0.3</u></b>

City-wide long-term debt decreased a total of \$2.3 million due to scheduled debt retirement in the amount of \$7.7 million, amortization of bond premium and discount of \$0.4 million, offset by the addition of State Water Resource loan of \$5.8 million.





***CONTACTING THE CITY'S FINANCIAL MANAGEMENT***

The CAFR is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this report should be directed to the Administrative Services Department, located at 250 Hamilton Avenue, 4<sup>th</sup> Floor, Palo Alto, California. The Department can also be contacted by email at: [adminsvcs@cityofpalto.org](mailto:adminsvcs@cityofpalto.org). This report and other financial reports can be viewed on the City of Palo Alto website at: [www.cityofpalto.org](http://www.cityofpalto.org). On the home page, select Departments, select Administrative Services, and select Financial Reporting. Within Financial Reporting, there are links to reports by title and reporting date.

**CITY OF PALO ALTO**  
**Statement of Net Position**  
**June 30, 2020**  
**(Amounts in thousands)**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS:</b>			
Cash and investments available for operations (Note 3)	\$ 300,540	\$ 273,338	\$ 573,878
Receivables, net:			
Accounts and intergovernmental	17,705	49,437	67,142
Interest receivable	1,726	1,494	3,220
Notes and loans receivable (Note 5)	34,944	-	34,944
Internal balances (Note 4)	1,114	(1,114)	-
Deposits	15	-	15
Due from other government agencies	-	2,700	2,700
Inventory of materials and supplies, prepaids and deposits	4,976	269	5,245
Restricted cash and investments with fiscal agents and trustees (Note 3)	42,305	4,060	46,365
Capital assets (Note 6):			
Nondepreciable	242,648	126,069	368,717
Depreciable, net of accumulated depreciation	353,657	567,182	920,839
Total assets	<u>999,630</u>	<u>1,023,435</u>	<u>2,023,065</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Unamortized loss from refunding	-	179	179
Pension related (Note 11)	39,827	14,595	54,422
OPEB related (Note 12)	15,961	6,288	22,249
Total deferred outflows of resources	<u>55,788</u>	<u>21,062</u>	<u>76,850</u>
<b>LIABILITIES:</b>			
Accounts payable and accruals	12,697	13,422	26,119
Accrued salaries and benefits	2,399	1,129	3,528
Unearned revenue	2,479	-	2,479
Accrued compensated absences (Note 1):			
Due in one year	8,182	-	8,182
Due in more than one year	6,062	-	6,062
Claims payable (Note 14):			
Due in one year	6,198	-	6,198
Due in more than one year	23,515	-	23,515
Landfill post-closure liability (Note 9):			
Due in more than one year	-	7,101	7,101
Net pension liabilities (Note 11):			
Due in more than one year	325,806	117,147	442,953
Net OPEB liabilities (Note 12):			
Due in more than one year	90,486	36,544	127,030
Long-term debt (Note 7):			
Due in one year	2,946	5,551	8,497
Due in more than one year	109,559	68,985	178,544
Total liabilities	<u>590,329</u>	<u>249,879</u>	<u>840,208</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Pension related (Note 11)	5,875	2,258	8,133
OPEB related (Note 12)	18,640	7,354	25,994
Total deferred inflows of resources	<u>24,515</u>	<u>9,612</u>	<u>34,127</u>
<b>NET POSITION (Note 10):</b>			
Net Investment in capital assets	497,378	621,354	1,118,732
Restricted for:			
Transportation mitigation	12,265	-	12,265
Public benefit	19,908	-	19,908
Supplemental pension	28,693	-	28,693
Others	5,980	-	5,980
Debt service	3,888	4,060	7,948
Nonexpendable - Eyerly Family	2,540	-	2,540
Total restricted net position	<u>73,274</u>	<u>4,060</u>	<u>77,334</u>
Unrestricted	(130,078)	159,592	29,514
Total net position	<u>\$ 440,574</u>	<u>\$ 785,006</u>	<u>\$ 1,225,580</u>

See accompanying notes to the basic financial statements.

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**CITY OF PALO ALTO**  
**Statement of Activities**  
**For the Year Ended June 30, 2020**  
**(Amounts in thousands)**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
<b>Governmental Activities:</b>							
City Council	\$ 172	\$ -	\$ -	\$ -	\$ (172)	\$ -	\$ (172)
City Manager	3,616	-	589	-	(3,027)	-	(3,027)
City Attorney	2,845	-	-	-	(2,845)	-	(2,845)
City Clerk	748	-	-	-	(748)	-	(748)
City Auditor	645	-	-	-	(645)	-	(645)
Administrative Services	15,919	5,758	168	-	(9,993)	-	(9,993)
Human Resources	3,060	-	-	-	(3,060)	-	(3,060)
Public Works	45,609	990	-	4,683	(39,936)	-	(39,936)
Planning and Development Services	21,725	16,173	1,150	-	(4,402)	-	(4,402)
Office of Transportation	4,693	1,161	-	2,579	(953)	-	(953)
Police	50,907	2,703	456	-	(47,748)	-	(47,748)
Fire	41,280	9,398	223	148	(31,511)	-	(31,511)
Community Services	34,147	20,808	16	1,611	(11,712)	-	(11,712)
Library	12,971	94	17	-	(12,860)	-	(12,860)
Interest on long-term debt	4,576	-	-	-	(4,576)	-	(4,576)
<b>Total Governmental Activities</b>	<b>242,913</b>	<b>57,085</b>	<b>2,619</b>	<b>9,021</b>	<b>(174,188)</b>	<b>-</b>	<b>(174,188)</b>
<b>Business-Type Activities:</b>							
Water	43,034	48,740	473	467	-	6,646	6,646
Electric	142,426	169,389	-	-	-	26,963	26,963
Fiber Optics	2,761	4,576	-	-	-	1,815	1,815
Gas	27,212	37,402	-	-	-	10,190	10,190
Wastewater Collection	18,877	20,933	-	501	-	2,557	2,557
Wastewater Treatment	28,755	29,310	-	-	-	555	555
Refuse	36,947	32,695	-	-	-	(4,252)	(4,252)
Storm Drainage	5,514	7,543	-	-	-	2,029	2,029
Airport	2,131	2,362	-	5,481	-	5,712	5,712
<b>Total Business-Type Activities</b>	<b>307,657</b>	<b>352,950</b>	<b>473</b>	<b>6,449</b>	<b>-</b>	<b>52,215</b>	<b>52,215</b>
<b>Total</b>	<b>\$ 550,570</b>	<b>\$ 410,035</b>	<b>\$ 3,092</b>	<b>\$ 15,470</b>	<b>(174,188)</b>	<b>52,215</b>	<b>(121,973)</b>
<b>General Revenues:</b>							
<b>Taxes:</b>							
Property tax					55,604	-	55,604
Sales tax					30,563	-	30,563
Utility user tax					16,140	-	16,140
Transient occupancy tax					18,553	-	18,553
Documentary transfer tax					6,903	-	6,903
Other taxes					2,872	-	2,872
Investment earnings					13,850	11,482	25,332
Miscellaneous					60	-	60
Transfers (Note 4)					20,234	(20,234)	-
<b>Total general revenues and transfers</b>					<b>164,779</b>	<b>(8,752)</b>	<b>156,027</b>
<b>Change in net position</b>					<b>(9,409)</b>	<b>43,463</b>	<b>34,054</b>
<b>Net position, beginning of year</b>					<b>449,983</b>	<b>741,543</b>	<b>1,191,526</b>
<b>Net position, end of year</b>					<b>\$ 440,574</b>	<b>\$ 785,006</b>	<b>\$ 1,225,580</b>

See accompanying notes to the basic financial statements.

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**CITY OF PALO ALTO**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2020**  
**(Amounts in thousands)**

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>				
Cash and investments available for operations (Note 3)	\$ 46,853	\$ 71,221	\$ 87,039	\$ 205,113
Receivables, net:				
Accounts and intergovernmental	11,944	5,314	416	17,674
Interest receivable	695	29	495	1,219
Notes and loans receivable (Note 5)	845	-	34,099	34,944
Deposits	15	-	-	15
Due from other fund (Note 4)	1,895	-	-	1,895
Advances to other funds (Note 4)	3,233	-	-	3,233
Inventory of materials and supplies	4,874	-	-	4,874
Restricted cash and investments with fiscal agents (Note 3)	-	13,578	34	13,612
Total assets	<u>\$ 70,354</u>	<u>\$ 90,142</u>	<u>\$ 122,083</u>	<u>\$ 282,579</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:</b>				
<b>Liabilities:</b>				
Accounts payable and accruals	\$ 3,581	\$ 5,386	\$ 594	\$ 9,561
Accrued salaries and benefits	2,046	123	27	2,196
Unearned revenue	2,479	-	-	2,479
Due to other funds (Note 4)	-	-	136	136
Total liabilities	<u>8,106</u>	<u>5,509</u>	<u>757</u>	<u>14,372</u>
<b>Deferred inflows of resources</b>				
Deferred inflows of resources - Unavailable revenue	409	1,002	71	1,482
Total liabilities and deferred inflows of resources	<u>8,515</u>	<u>6,511</u>	<u>828</u>	<u>15,854</u>
<b>Fund balances (Note 10):</b>				
<b>Nonspendable:</b>				
Deposits	15	-	-	15
Inventories	4,874	-	-	4,874
Advances to other funds	3,233	-	-	3,233
Notes and loans receivable	845	-	-	845
Eyerly family	-	-	2,540	2,540
<b>Restricted for:</b>				
Transportation mitigation	-	-	12,265	12,265
Federal revenue	-	-	5,221	5,221
Street improvement	-	-	73	73
Local law enforcement	-	-	615	615
California Avenue parking garage	-	12,980	-	12,980
Library bond project	-	598	-	598
Public benefit	-	-	19,908	19,908
Debt service	-	-	3,888	3,888
<b>Committed for:</b>				
Development services	3,804	-	-	3,804
Roth building rehabilitation	-	5,146	-	5,146
Cubberley improvements	-	4,203	-	4,203
Developer impact fees	-	-	15,028	15,028
Housing in-lieu	-	-	52,882	52,882
Special districts	-	-	6,649	6,649
Edgewood Plaza	701	-	-	701
Downtown business	-	-	65	65
<b>Assigned for:</b>				
Unrealized gains on investments	3,199	-	2,121	5,320
Capital projects	-	60,704	-	60,704
Other general government purposes	7,219	-	-	7,219
Electric charger	25	-	-	25
College Terrace fines	160	-	-	160
Reappropriations	1,893	-	-	1,893
<b>Unassigned for:</b>				
Budget Stabilization	35,871	-	-	35,871
Total fund balances	<u>61,839</u>	<u>83,631</u>	<u>121,255</u>	<u>266,725</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 70,354</u>	<u>\$ 90,142</u>	<u>\$ 122,083</u>	<u>\$ 282,579</u>

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Reconciliation of the Balance Sheet of Governmental Funds to**  
**the Statement of Net Position - Governmental Activities**  
**June 30, 2020**  
**(Amounts in thousands)**

Total fund balances reported on the governmental funds balance sheet	\$ 266,725
<p>Amounts reported for governmental activities in the statement of net position are different from those reported in the governmental funds balance sheet because of the following:</p>	
<p>Deferred outflows and inflows of resources in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>	
Deferred outflows of resources	55,788
Deferred inflows of resources	(24,515)
<p>Certain receivables are not available to pay for current period expenditures and therefore are deferred in the governmental funds.</p>	
	1,482
<p>Capital assets used in governmental activities are not current assets or financial resources and therefore are not reported in the governmental funds (Note 6)</p>	
	596,305
<p>Internal service funds are used by management to charge the costs of activities such as insurance, equipment acquisition and maintenance, and certain employee benefits to individual funds. The assets and liabilities of the internal service funds are therefore included in governmental activities in the statement of net position (excludes capital assets, deferred outflows of resources, deferred inflows of resources, net pension liabilities and net OPEB liabilities reported herein)</p>	
	75,154
<p>Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds:</p>	
Interest payable	(1,568)
Net pension liabilities (Note 11)	(325,806)
Net OPEB liabilities (Note 12)	(90,486)
Long-term debt (Note 7)	(112,505)
	(630,365)
Net position of governmental activities	\$ 440,574

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2020**  
**(Amounts in thousands)**

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Property tax	\$ 51,089	\$ -	\$ 4,515	\$ 55,604
Special assessments	-	-	24	24
Sales tax	30,563	-	-	30,563
Utility user tax	16,140	-	-	16,140
Transient occupancy tax	18,553	-	-	18,553
Documentary transfer tax	6,903	-	-	6,903
Other taxes and fines	1,172	-	2,961	4,133
Charges for services	24,127	-	-	24,127
Intergovernmental	3,783	7,684	848	12,315
Licenses, permits and fees	7,467	-	5,677	13,144
Investment earnings	4,037	1,680	3,689	9,406
Rental income	15,964	-	3	15,967
Housing In-Lieu - residential	-	-	750	750
Other revenue	587	171	333	1,091
Total revenues	<u>180,385</u>	<u>9,535</u>	<u>18,800</u>	<u>208,720</u>
<b>EXPENDITURES:</b>				
Current:				
City Council	214	-	-	214
City Manager	3,273	-	-	3,273
City Attorney	2,509	-	-	2,509
City Clerk	815	-	-	815
City Auditor	680	-	-	680
Administrative Services	5,960	-	284	6,244
Human Resources	2,792	-	-	2,792
Public Works	13,577	-	1,216	14,793
Planning and Development Services	19,269	-	901	20,170
Office of Transportation	2,052	-	2,123	4,175
Police	45,679	-	54	45,733
Fire	36,440	-	-	36,440
Community Services	29,603	-	265	29,868
Library	9,988	-	-	9,988
Non-Departmental	9,255	-	243	9,498
Capital outlay	-	66,362	-	66,362
Debt service:				
Principal	-	-	2,280	2,280
Interest and fiscal charges	-	-	5,025	5,025
Total expenditures	<u>182,106</u>	<u>66,362</u>	<u>12,391</u>	<u>260,859</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,721)</u>	<u>(56,827)</u>	<u>6,409</u>	<u>(52,139)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in (Note 4)	20,568	33,458	4,371	58,397
Transfers out (Note 4)	(32,223)	(2,520)	(9,809)	(44,552)
Total other financing sources (uses)	<u>(11,655)</u>	<u>30,938</u>	<u>(5,438)</u>	<u>13,845</u>
Change in fund balances	(13,376)	(25,889)	971	(38,294)
FUND BALANCES, BEGINNING OF YEAR	<u>75,215</u>	<u>109,520</u>	<u>120,284</u>	<u>305,019</u>
FUND BALANCES, END OF YEAR	<u>\$ 61,839</u>	<u>\$ 83,631</u>	<u>\$ 121,255</u>	<u>\$ 266,725</u>

See accompanying notes to the basic financial statements.



**CITY OF PALO ALTO**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities - Governmental Activities**  
**For the Year Ended June 30, 2020**  
**(Amounts in thousands)**

Net change in fund balances - total governmental funds \$ (38,294)

Amounts reported for governmental activities in the statement of activities are different from those reported in the governmental funds because of the following:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of these assets are capitalized and allocated over their estimated useful lives and reported as depreciation expense. Therefore, the activities associated with capital assets are as follows:

Capital outlay added back to fund balance for current year additions	60,154
Depreciation expense is deducted from fund balance (depreciation expense is net of internal service fund depreciation of \$3,366) (Note 6), which has already been allocated through the internal service fund activities below	(16,818)
Disposal of capital assets	(12,688)

Pension and OPEB contribution made subsequent to the measurement date is an expenditure in the governmental funds, but reported as a deferred outflows of resources in the government-wide financial statements	40,070
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Pension and OPEB expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	(63,307)
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Principal payments on long-term liabilities are reported as expenditures in governmental funds when paid. The governmental activities, however, report principal payments as a reduction of long-term debt on the statement of net position. Interest accrued on long-term debt and amortization of premiums do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Therefore, the activities associated with long-term debt are as follows:

Principal paid during the year	2,280
Change in interest payable	98
Amortization of bond premium	351

Revenues earned but not available are deferred in the governmental funds but are recognized in the government-wide financial statements. Also, revenues recognized in the governmental funds during the current year that were earned and recognized in previous years in the government-wide financial statements are reported as beginning net position in the statement of activities	76
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Internal service funds are used by management to charge the costs of activities, such as insurance, equipment acquisition and maintenance, and employees benefits to individual funds. The portion of the net expense of these internal service funds arising out of their transactions with governmental funds is reported with governmental activities.

Change in net position of governmental activities	18,669
	\$ (9,409)

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2020**  
**(Amounts in thousands)**

	Budgeted Amounts		Actual, Budgetary Basis	Variance with
	Adopted	Final		Final Budget Positive (Negative)
<b>REVENUES:</b>				
Property tax	\$ 48,634	\$ 50,853	\$ 51,089	\$ 236
Sales tax	34,346	30,617	30,563	(54)
Utility user tax	17,581	16,133	16,140	7
Transient occupancy tax	29,309	19,425	18,553	(872)
Documentary transfer tax	8,369	6,676	6,903	227
Other taxes and fines	2,032	1,237	1,172	(65)
Charges for services	30,127	25,196	24,127	(1,069)
Intergovernmental	2,756	3,245	4,301	1,056
Licenses, permits and fees	8,667	6,597	7,467	870
Investment earnings	1,433	1,433	1,480	47
Rental income	16,326	16,041	15,964	(77)
Other revenues	587	619	587	(32)
	<u>200,167</u>	<u>178,072</u>	<u>178,346</u>	<u>274</u>
Charges to other funds and departments	10,908	10,908	11,099	191
Prior year encumbrances	-	6,469	6,469	-
Total revenues	<u>211,075</u>	<u>195,449</u>	<u>195,914</u>	<u>465</u>
<b>EXPENDITURES:</b>				
Current:				
City Council	498	542	414	128
City Manager	4,546	4,718	4,671	47
City Attorney	3,387	3,896	3,789	107
City Clerk	1,346	1,402	1,186	216
City Auditor	1,235	1,157	981	176
Administrative Services	8,519	8,770	8,515	255
Human Resources	3,902	4,107	3,994	113
Public Works	19,142	19,357	18,932	425
Planning and Development Services	20,356	22,021	21,098	923
Office of Transportation	2,312	2,733	2,360	373
Police	46,369	46,845	46,844	1
Fire	34,889	36,773	36,772	1
Community Services	30,929	31,591	31,489	102
Library	10,314	10,187	10,092	95
Non-Departmental	9,028	12,312	11,001	1,311
Total expenditures	<u>196,772</u>	<u>206,411</u>	<u>202,138</u>	<u>4,273</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>14,303</u>	<u>(10,962)</u>	<u>(6,224)</u>	<u>4,738</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	20,999	20,842	20,842	-
Transfers out	(33,985)	(32,223)	(32,223)	-
Total other financing sources (uses)	<u>(12,986)</u>	<u>(11,381)</u>	<u>(11,381)</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, BUDGETARY BASIS	<u>\$ 1,317</u>	<u>\$ (22,343)</u>	<u>(17,605)</u>	<u>\$ 4,738</u>
Adjustment to Budgetary Basis:				
Unrealized gain/loss on investments			2,479	
Changes in interfund balances			(196)	
Changes in notes receivable			845	
Current year encumbrances and reappropriations			7,570	
Prior year encumbrances and reappropriations			(6,469)	
CHANGE IN FUND BALANCE, GAAP BASIS			<u>(13,376)</u>	
FUND BALANCE AT BEGINNING OF YEAR, GAAP BASIS			<u>75,215</u>	
FUND BALANCE AT END OF YEAR, GAAP BASIS			<u>\$ 61,839</u>	

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Proprietary Funds**  
**Statement of Net Position**  
**June 30, 2020**  
**(Amounts in thousands)**

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
<b>ASSETS:</b>				
Current assets:				
Cash and investments available for operations (Note 3)	\$ 43,573	\$ 106,595	\$ 34,283	\$ 28,349
Accounts receivable, net of allowance of \$462	7,054	26,491	1,104	2,545
Interest receivable	241	574	188	155
Due from other government agencies	-	-	-	-
Inventory of materials and supplies	-	-	-	-
Restricted cash and investments with fiscal agents and trustees (Note 3)	3,256	-	-	804
Total current assets	<u>54,124</u>	<u>133,660</u>	<u>35,575</u>	<u>31,853</u>
Noncurrent assets:				
Due from other government agencies	-	-	-	-
Deposit	-	44	-	-
Prepaid expense	75	-	-	-
Capital assets (Note 6):				
Nondepreciable	26,023	26,282	1,858	16,239
Depreciable, net	107,077	179,760	7,475	94,948
Total noncurrent assets	<u>133,175</u>	<u>206,086</u>	<u>9,333</u>	<u>111,187</u>
Total assets	<u>187,299</u>	<u>339,746</u>	<u>44,908</u>	<u>143,040</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
Unamortized loss from refunding	78	-	-	101
Pension related (Note 11)	1,974	4,775	366	2,061
OPEB related (Note 12)	788	2,467	-	1,006
Total deferred outflows of resources	<u>2,840</u>	<u>7,242</u>	<u>366</u>	<u>3,168</u>
<b>LIABILITIES:</b>				
Current liabilities:				
Accounts payable and accruals	4,245	2,491	419	1,472
Accrued salaries and benefits	161	384	24	159
Due to other funds	-	-	-	-
Accrued compensated absences (Note 1)	-	-	-	-
Current portion of long term debt (Note 7)	1,775	100	-	666
Accrued claims payable (Note 14)	-	-	-	-
Total current liabilities	<u>6,181</u>	<u>2,975</u>	<u>443</u>	<u>2,297</u>
Noncurrent liabilities:				
Accrued compensated absences (Note 1)	-	-	-	-
Accrued claims payable (Note 14)	-	-	-	-
Advance from other fund (Note 4)	-	-	-	-
Landfill post-closure liability (Note 9)	-	-	-	-
Net pension liabilities (Note 11)	15,823	37,797	2,458	16,638
Net OPEB liabilities (Note 12)	4,088	13,336	-	5,887
Long term debt, net of unamortized discounts/premiums (Note 7)	27,940	89	-	3,964
Total noncurrent liabilities	<u>47,851</u>	<u>51,222</u>	<u>2,458</u>	<u>26,489</u>
Total liabilities	<u>54,032</u>	<u>54,197</u>	<u>2,901</u>	<u>28,786</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Pension related (Note 11)	266	725	62	274
OPEB related (Note 12)	914	2,872	-	1,177
Total deferred inflows of resources	<u>1,180</u>	<u>3,597</u>	<u>62</u>	<u>1,451</u>
<b>NET POSITION (Note 10):</b>				
Net Investment in capital assets	103,463	205,613	9,333	106,658
Restricted for:				
Debt service	3,256	-	-	804
Supplemental pension	-	-	-	-
Unrestricted (deficit)	28,208	83,581	32,978	8,509
Total net position	<u>\$ 134,927</u>	<u>\$ 289,194</u>	<u>\$ 42,311</u>	<u>\$ 115,971</u>

Some amounts reported for Business-type Activities in the statement of net position are different because certain Internal Service Fund net positions are included with Business-type Activities  
Net position reported in Business-type Activities

See accompanying notes to the basic financial statements.

Business-Type Activities-Enterprise Funds						Governmental
Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Non-Major		Internal Service Funds
				Airport	Totals	
\$ 9,468	\$ 16,233	\$ 26,565	\$ 8,272	\$ -	\$ 273,338	\$ 95,427
2,883	2,977	3,308	846	2,229	49,437	31
53	82	159	42	-	1,494	507
-	300	-	-	-	300	-
-	-	-	-	-	-	102
-	-	-	-	-	4,060	28,693
<u>12,404</u>	<u>19,592</u>	<u>30,032</u>	<u>9,160</u>	<u>2,229</u>	<u>328,629</u>	<u>124,760</u>
-	2,400	-	-	-	2,400	-
-	-	-	-	-	44	-
-	150	-	-	-	225	-
14,200	5,933	1,952	9,067	24,515	126,069	2,723
<u>77,662</u>	<u>62,463</u>	<u>3,157</u>	<u>31,673</u>	<u>2,967</u>	<u>567,182</u>	<u>18,642</u>
<u>91,862</u>	<u>70,946</u>	<u>5,109</u>	<u>40,740</u>	<u>27,482</u>	<u>695,920</u>	<u>21,365</u>
<u>104,266</u>	<u>90,538</u>	<u>35,141</u>	<u>49,900</u>	<u>29,711</u>	<u>1,024,549</u>	<u>146,125</u>
-	-	-	-	-	179	-
1,111	2,861	615	620	212	14,595	2,303
385	983	441	160	58	6,288	881
<u>1,496</u>	<u>3,844</u>	<u>1,056</u>	<u>780</u>	<u>270</u>	<u>21,062</u>	<u>3,184</u>
431	1,474	2,441	116	333	13,422	1,568
85	208	45	44	19	1,129	203
-	-	-	-	1,759	1,759	-
-	-	-	-	-	-	8,182
104	2,131	-	775	-	5,551	-
-	-	-	-	-	-	6,198
<u>620</u>	<u>3,813</u>	<u>2,486</u>	<u>935</u>	<u>2,111</u>	<u>21,861</u>	<u>16,151</u>
-	-	-	-	-	-	6,062
-	-	-	-	-	-	23,515
-	-	-	-	3,233	3,233	-
-	-	7,101	-	-	7,101	-
9,251	23,535	6,286	4,312	1,047	117,147	16,867
2,250	6,973	2,502	1,099	409	36,544	4,889
<u>348</u>	<u>34,081</u>	<u>-</u>	<u>2,563</u>	<u>-</u>	<u>68,985</u>	<u>-</u>
<u>11,849</u>	<u>64,589</u>	<u>15,889</u>	<u>7,974</u>	<u>4,689</u>	<u>233,010</u>	<u>51,333</u>
<u>12,469</u>	<u>68,402</u>	<u>18,375</u>	<u>8,909</u>	<u>6,800</u>	<u>254,871</u>	<u>67,484</u>
179	451	104	137	60	2,258	462
450	1,168	514	190	69	7,354	1,027
<u>629</u>	<u>1,619</u>	<u>618</u>	<u>327</u>	<u>129</u>	<u>9,612</u>	<u>1,489</u>
91,410	34,884	5,109	37,402	27,482	621,354	21,365
-	-	-	-	-	4,060	-
-	-	-	-	-	-	28,693
<u>1,254</u>	<u>(10,523)</u>	<u>12,095</u>	<u>4,042</u>	<u>(4,430)</u>	<u>155,714</u>	<u>30,278</u>
<u>\$ 92,664</u>	<u>\$ 24,361</u>	<u>\$ 17,204</u>	<u>\$ 41,444</u>	<u>\$ 23,052</u>	<u>781,128</u>	<u>\$ 80,336</u>

3,878  
\$ 785,006

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Proprietary Funds**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**For the Year Ended June 30, 2020**  
**(Amounts in thousands)**

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
<b>OPERATING REVENUES:</b>				
Sales to:				
Customers	\$ 43,929	\$ 132,080	\$ 3,391	\$ 34,647
City departments	2,441	4,286	1,054	527
Surplus energy	-	9,695	-	-
Service connection charges and miscellaneous	1,351	1,432	42	905
Charges for services	-	-	-	-
Other	1,019	21,896	89	1,323
Total operating revenues	<u>48,740</u>	<u>169,389</u>	<u>4,576</u>	<u>37,402</u>
<b>OPERATING EXPENSES:</b>				
Purchase of utilities:				
Retail purchase of utilities	21,773	84,924	-	11,102
Surplus energy	-	5,867	-	-
Administrative and general	6,655	10,805	864	5,504
Engineering (operating)	402	2,056	-	666
Resource management and energy efficiency	1,159	5,460	-	1,013
Operations and maintenance	7,021	13,440	1,526	5,334
Rent	1,904	5,667	81	645
Depreciation	3,002	8,498	418	3,454
Claims payments and changes in estimated self-insurance liability	-	-	-	-
Refund of charges for services	-	-	-	-
Employment benefits	-	-	-	-
Total operating expenses	<u>41,916</u>	<u>136,717</u>	<u>2,889</u>	<u>27,718</u>
Operating income (loss)	<u>6,824</u>	<u>32,672</u>	<u>1,687</u>	<u>9,684</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Investment earnings	1,906	4,463	1,415	1,138
Interest expense	(1,546)	(7,094)	-	(124)
Gain on disposal of capital assets	-	-	-	-
Loss on disposal of capital assets	(252)	(87)	-	(48)
Other nonoperating revenues	473	-	-	-
Total nonoperating revenues (expenses)	<u>581</u>	<u>(2,718)</u>	<u>1,415</u>	<u>966</u>
Income (loss) before transfers and capital contributions	7,405	29,954	3,102	10,650
Capital contributions	467	-	-	-
Transfers in (Note 4)	548	2,582	-	-
Transfers out (Note 4)	(475)	(13,906)	(162)	(7,683)
Change in net position	7,945	18,630	2,940	2,967
NET POSITION, BEGINNING OF YEAR	<u>126,982</u>	<u>270,564</u>	<u>39,371</u>	<u>113,004</u>
NET POSITION, END OF YEAR	<u>\$ 134,927</u>	<u>\$ 289,194</u>	<u>\$ 42,311</u>	<u>\$ 115,971</u>

Some amounts reported for Business-type Activities in the statement of activities are different because certain Internal Service Fund activities are included with Business-type Activities

Change in net position reported in Business-type Activities

See accompanying notes to the basic financial statements.

Business-Type Activities-Enterprise Funds						Governmental
Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Non-Major		Governmental Activities- Internal Service Funds
				Airport	Totals	
\$ 20,189	\$ 18,434	\$ 29,214	\$ 7,068	\$ 1,665	\$ 290,617	\$ -
146	10,278	911	423	-	20,066	-
-	-	-	-	-	9,695	-
185	-	-	-	-	3,915	-
-	-	-	-	-	-	124,832
413	598	2,570	52	697	28,657	112
<u>20,933</u>	<u>29,310</u>	<u>32,695</u>	<u>7,543</u>	<u>2,362</u>	<u>352,950</u>	<u>124,944</u>
10,234	-	23,044	-	-	151,077	-
-	-	-	-	-	5,867	-
2,431	-	1,713	1,187	1,219	30,378	13,783
339	2,417	271	204	-	6,355	-
-	-	-	1,150	-	8,782	-
3,467	22,284	9,495	1,737	775	65,079	15,221
332	-	2,130	44	-	10,803	-
2,443	3,257	86	1,015	49	22,222	3,366
-	-	-	-	-	-	7,023
-	-	-	-	-	-	131
-	-	-	-	-	-	73,604
<u>19,246</u>	<u>27,958</u>	<u>36,739</u>	<u>5,337</u>	<u>2,043</u>	<u>300,563</u>	<u>113,128</u>
<u>1,687</u>	<u>1,352</u>	<u>(4,044)</u>	<u>2,206</u>	<u>319</u>	<u>52,387</u>	<u>11,816</u>
404	621	1,218	317	-	11,482	4,444
(29)	(779)	(196)	(218)	(129)	(10,115)	-
-	-	-	-	-	-	-
(2)	(422)	-	-	-	(811)	(178)
-	-	-	-	-	473	30
<u>373</u>	<u>(580)</u>	<u>1,022</u>	<u>99</u>	<u>(129)</u>	<u>1,029</u>	<u>4,296</u>
2,060	772	(3,022)	2,305	190	53,416	16,112
501	-	-	-	5,481	6,449	-
-	-	-	-	-	3,130	9,256
(467)	(432)	(116)	(92)	(31)	(23,364)	(2,867)
<u>2,094</u>	<u>340</u>	<u>(3,138)</u>	<u>2,213</u>	<u>5,640</u>	<u>39,631</u>	<u>22,501</u>
<u>90,570</u>	<u>24,021</u>	<u>20,342</u>	<u>39,231</u>	<u>17,412</u>		<u>57,835</u>
<u>\$ 92,664</u>	<u>\$ 24,361</u>	<u>\$ 17,204</u>	<u>\$ 41,444</u>	<u>\$ 23,052</u>		<u>\$ 80,336</u>

3,832  
\$ 43,463

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2020**  
**(Amounts in thousands)**

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
Cash flows from operating activities:				
Cash received from customers	\$ 44,559	\$ 140,821	\$ 3,463	\$ 36,073
Cash payments to suppliers for goods and services	(27,828)	(103,513)	(557)	(14,155)
Cash payments to employees	(9,955)	(22,811)	(1,641)	(8,823)
Internal activity- receipts (payments) from (to) other funds	2,441	4,286	1,054	527
Other receipts	1,019	21,896	89	1,323
Net cash provided by (used in) operating activities	<u>10,236</u>	<u>40,679</u>	<u>2,408</u>	<u>14,945</u>
Cash flows from noncapital financing activities:				
Receipt (repayment) of loans from other funds	-	-	-	-
Interest subsidy received from Build America Bonds	473	-	-	-
Transfers in	548	2,582	-	-
Transfers out	(475)	(13,906)	(162)	(7,683)
Net cash provided by (used in) noncapital financing activities	<u>546</u>	<u>(11,324)</u>	<u>(162)</u>	<u>(7,683)</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(6,737)	(13,248)	(586)	(4,792)
Proceeds from sale of capital assets	-	-	-	-
Capital grants and contributions	467	-	-	-
Proceeds from debt issuance	-	-	-	-
Principal paid on long-term debt	(1,706)	(100)	-	(644)
Interest paid on long-term debt	(1,571)	(7,089)	-	(155)
Net cash used in capital and related financing activities	<u>(9,547)</u>	<u>(20,437)</u>	<u>(586)</u>	<u>(5,591)</u>
Cash flows from investing activities:				
Interest received	1,930	4,504	1,427	1,165
Net cash provided by investing activities	<u>1,930</u>	<u>4,504</u>	<u>1,427</u>	<u>1,165</u>
Net change in cash and cash equivalents	3,165	13,422	3,087	2,836
Cash and cash equivalents, beginning of year	43,664	93,173	31,196	26,317
Cash and cash equivalents, end of year	<u>\$ 46,829</u>	<u>\$ 106,595</u>	<u>\$ 34,283</u>	<u>\$ 29,153</u>
Financial statement presentation:				
Cash and investments available for operations	\$ 43,573	\$ 106,595	\$ 34,283	\$ 28,349
Restricted cash and investments with fiscal agents and trustees	3,256	-	-	804
Cash and cash equivalents, end of year	<u>\$ 46,829</u>	<u>\$ 106,595</u>	<u>\$ 34,283</u>	<u>\$ 29,153</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 6,824	\$ 32,672	\$ 1,687	\$ 9,684
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	3,002	8,498	418	3,454
Other	-	-	-	-
Change in assets and liabilities:				
Accounts receivable	(721)	(2,386)	30	521
Inventory of materials and supplies	-	-	-	-
Deposit	8	(3)	-	-
Deferred outflow of resources - pension plans	239	688	44	351
Deferred outflow of resources - OPEB	(271)	(784)	-	(265)
Accounts payable and accruals	161	(234)	117	382
Accrued salaries and benefits	55	124	4	49
Accrued compensated absences	-	-	-	-
Landfill closure and post-closure care	-	-	-	-
Accrued claims payable	-	-	-	-
Net pension liability	824	1,753	107	699
Net OPEB liability	(687)	(2,215)	-	(957)
Deferred inflow of resources - pension plans	(24)	(18)	1	(23)
Deferred inflow of resources - OPEB	826	2,584	-	1,050
Net cash provided by (used in) operating activities	<u>\$ 10,236</u>	<u>\$ 40,679</u>	<u>\$ 2,408</u>	<u>\$ 14,945</u>

See accompanying notes to the basic financial statements.

Business-Type Activities-Enterprise Funds						Governmental
Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Non-Major		Governmental Activities- Internal Service Funds
				Airport	Totals	
\$ 20,226	\$ 18,384	\$ 29,976	\$ 7,052	\$ 3,660	\$ 304,214	\$ 127,068
(11,045)	(11,019)	(34,030)	(1,705)	(4,619)	(208,471)	(14,509)
(5,411)	(13,428)	(2,794)	(2,632)	(1,002)	(68,497)	(85,643)
146	10,278	911	423	-	20,066	(5,566)
413	598	2,696	52	697	28,783	30
4,329	4,813	(3,241)	3,190	(1,264)	76,095	21,380
-	-	-	-	1,877	1,877	(737)
-	-	-	-	-	473	-
-	-	-	-	-	3,130	9,256
(467)	(432)	(116)	(92)	(31)	(23,364)	(2,867)
(467)	(432)	(116)	(92)	1,846	(17,884)	5,652
(5,420)	(4,729)	-	(394)	(6,857)	(42,763)	(3,194)
-	-	-	-	-	-	96
501	300	-	-	5,481	6,749	-
-	5,775	-	-	-	5,775	-
(99)	(2,131)	-	(730)	-	(5,410)	-
(29)	(777)	(196)	(216)	(129)	(10,162)	-
(5,047)	(1,562)	(196)	(1,340)	(1,505)	(45,811)	(3,098)
411	622	1,235	313	7	11,614	4,463
411	622	1,235	313	7	11,614	4,463
(774)	3,441	(2,318)	2,071	(916)	24,014	28,397
10,242	12,792	28,883	6,201	916	253,384	95,723
\$ 9,468	\$ 16,233	\$ 26,565	\$ 8,272	\$ -	\$ 277,398	\$ 124,120
\$ 9,468	\$ 16,233	\$ 26,565	\$ 8,272	\$ -	\$ 273,338	\$ 95,427
-	-	-	-	-	4,060	\$ 28,693
\$ 9,468	\$ 16,233	\$ 26,565	\$ 8,272	\$ -	\$ 277,398	\$ 124,120
\$ 1,687	\$ 1,352	\$ (4,044)	\$ 2,206	\$ 319	\$ 52,387	\$ 11,816
2,443	3,257	86	1,015	49	22,222	3,366
-	-	-	-	-	-	30
(148)	(50)	762	(16)	1,995	(13)	2,233
-	-	-	-	-	-	146
-	17	-	-	-	22	-
201	589	141	67	48	2,368	611
(102)	(111)	(126)	(22)	(7)	(1,688)	(264)
(106)	(1,056)	(513)	(329)	(3,835)	(5,413)	(326)
27	59	18	14	8	358	82
-	-	-	-	-	-	1,909
-	-	126	-	-	126	-
-	-	-	-	-	-	1,348
286	832	264	306	201	5,272	340
(366)	(1,083)	(410)	(172)	(64)	(5,954)	(802)
5	(12)	(5)	(45)	(38)	(159)	(30)
402	1,019	460	166	60	6,567	921
\$ 4,329	\$ 4,813	\$ (3,241)	\$ 3,190	\$ (1,264)	\$ 76,095	\$ 21,380

See accompanying notes to the basic financial statements.



**CITY OF PALO ALTO**  
**Agency Funds**  
**Statement of Assets and Liabilities**  
**June 30, 2020**  
**(Amounts in thousands)**

	Agency Funds
<b>ASSETS:</b>	
Cash and investments available for operations (Note 3)	\$ 2,824
Accounts receivable	499
Interest receivable	16
Restricted cash and investments with fiscal agents (Note 3)	2,701
Total assets	\$ 6,040
<b>LIABILITIES:</b>	
Accounts payable and accruals	\$ 219
Due to bondholders	4,824
Due to other governments	997
Total liabilities	\$ 6,040

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Index to the Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

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Notes are essential to present fairly the information contained in the overview level of the basic financial statements. Narrative explanations are intended to communicate information that is not readily apparent or cannot be included in the statements themselves, and to provide additional disclosures as required by the Governmental Accounting Standards Board.

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**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Palo Alto (the City) was incorporated in 1894 and operates as a charter city, having had its first charter granted by the State of California in 1909. The City operates under the Council-Manager form of government and provides the following services: public safety (police and fire), public works, electric, fiber optics, water, gas, wastewater, storm drain, refuse, airport, golf course, planning and zoning, general administration services, library, open space and science, recreational and human services.

**(a) Reporting Entity**

The City is governed by a seven-member council, elected by City residents. The City is legally separate and fiscally independent, which means it can issue debt, set and modify budgets and fees, and sue or be sued. The accompanying basic financial statements present the financial activities of the City, which is the primary government presented, along with the financial activities of its component unit, which is an entity for which the City is financially accountable. Although a separate legal entity, a blended component unit is, in substance, part of the City's operations and is reported as an integral part of the City's financial statements. The City's component unit described below is blended.

**The Palo Alto Public Improvement Corporation** (the Corporation) provides financing of public capital improvements for the City through the issuance of Certificates of Participation (COPs), a form of debt that allows investors to participate in a stream of future lease payments. Proceeds from the COPs are used to construct projects that are leased to the City. The lease payments are sufficient in timing and amount to meet the debt service requirements of the COPs. The Board of Directors of the Corporation is composed of the same members as the City Council. The Corporation is controlled by the City, which performs all accounting and administrative functions for the Corporation. The financial activities of the Corporation are included in the Downtown Parking Improvement Debt Service Fund.

Financial statements for the Corporation may be obtained from the City of Palo Alto, Administrative Services Department, 4<sup>th</sup> Floor, 250 Hamilton Avenue, Palo Alto, CA 94301.

**(b) Basis of Presentation**

The City's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States.

These standards require that the financial statements described below be presented:

**Government-wide Statements:** The Statement of Net Position and the Statement of Activities display information about the primary government and its component unit. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. However, interfund goods and services transactions have not been eliminated in the consolidation process. These statements distinguish between the governmental and business-type activities of the City.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(b) Basis of Presentation (Continued)**

Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include: (a) charges paid by the recipients for goods and services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program, and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the City's funds, including fiduciary funds and its blended component unit. Separate statements for each fund category – governmental, proprietary and fiduciary – are presented. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and internal service funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as utilities sales and charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All expenses not meeting this definition are reported as nonoperating expenses.

**(c) Major Funds and Other Funds**

The City's major governmental and enterprise funds need to be identified and presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund type.

Major funds are defined as funds that have assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses equal to at least 10 percent of their fund type total and at least 5 percent of the grand total. The General Fund is always a major fund. The City may also select other funds it believes should be presented as major funds on a qualitative basis.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(c) Major Funds and Other Funds (Continued)**

The City reported the following major governmental funds in the accompanying financial statements:

**General Fund** – This is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Capital Projects Fund** – This fund accounts for resources used for the acquisition and construction of capital facilities by the City, with the exception of those assets financed by proprietary funds.

The City reported the following enterprise funds as major funds in the accompanying financial statements:

**Water Services Fund** – This fund accounts for all financial transactions relating to the City’s water service. Services are on a user-charge basis to residents and business owners located in the City.

**Electric Services Fund** – This fund accounts for all financial transactions relating to the City’s electric service. Services are on a user-charge basis to residents and business owners located in the City.

**Fiber Optics Fund** – This fund accounts for all financial transactions relating to the City’s fiber optics service. Services are on a user-charge basis to licensees located in the City.

**Gas Services Fund** – This fund accounts for all financial transactions relating to the City’s gas service. Services are on a user-charge basis to residents and business owners located in the City.

**Wastewater Collection Services Fund** – This fund accounts for all financial transactions relating to the City’s wastewater collection service. Services are on a user-charge basis to residents and business owners located in the City.

**Wastewater Treatment Services Fund** – This fund accounts for all financial transactions relating to the City’s wastewater treatment. Services are on a user-charge basis to residents and business owners located in the City.

**Refuse Services Fund** – This fund accounts for all financial transactions relating to the City’s refuse service. Services are on a user-charge basis to residents and business owners located in the City.

**Storm Drainage Services Fund** – This fund accounts for all financial transactions relating to the City’s storm drainage service. Services are on a user-charge basis to residents and business owners located in the City.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(c) Major Funds and Other Funds (Continued)**

The City also reports the following funds:

**Airport Fund** – This non-major enterprise fund accounts for all financial transactions relating to the Palo Alto Airport (PAO). The City assumed control over operation of PAO from the County of Santa Clara, effective August 11, 2014.

**Internal Service Funds** – These funds account for fleet replacement and maintenance, technology, central duplicating, printing and mailing services, administration of compensated absences and health benefits, and the City’s self-insured workers’ compensation and general liability programs, all of which are provided to other departments on a cost-reimbursement basis. Also included is the Retiree Health Benefits Internal Service Fund, which accounts for benefits to retirees.

*Vehicle Replacement and Maintenance* – This fund accounts for the maintenance and replacement of vehicles and equipment used by all City departments. The source of revenue is from reimbursement of fleet replacement and maintenance costs allocated to each department by usage of vehicle.

*Technology* – This fund accounts for replacement and upgrade of technology, and covers four primary areas used by all City departments: desktop, infrastructure, applications, and technology research and development. The source of revenue is from reimbursement of costs for support provided to other departments.

*Printing and Mailing Services* – This fund accounts for central duplicating, printing and mailing services provided to all City departments. The source of revenue for this fund is from reimbursement of costs for services and supplies purchased by other departments.

*General Benefits* – This fund accounts for the administration of compensated absences and health benefits.

*Workers’ Compensation Insurance Program* – This fund accounts for the administration of the City’s self-insured workers’ compensation program.

*General Liability Insurance Program* – This fund accounts for the administration of the City’s self-insured general liability program.

*Retiree Health Benefits* – This fund accounts for retiree health benefits.

**Fiduciary Funds** – These funds account for assets held by the City, an agent for assessment districts, and members of the Cable Joint Powers Authority. These funds are custodial in nature and do not involve measurement of results of operations. The City maintains two agency funds. The financial activities of these funds are excluded from the government-wide financial statements, but are presented in separate fiduciary fund financial statements. Agency funds apply the accrual basis of accounting but do not have a measurement focus.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(c) Major Funds and Other Funds (Continued)**

*Cable Joint Powers Authority* – This fund accounts for the activities of the cable television system on behalf of the members.

*University Avenue Area Off-Street Parking Assessment District* – This fund accounts for the receipts and disbursements associated with the 2012 Limited Obligation Refunding Improvement Bonds.

**(d) Basis of Accounting**

The government-wide and proprietary fund financial statements are reported using the *economic resources* measurement focus and the *full accrual* basis of accounting. Agency funds do not have a measurement focus but are reported using the accrual basis of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The City considers revenues susceptible to accrual reported in the governmental funds to be available if the revenues are collected within ninety days after year-end, except for property taxes, which are available if collected within sixty days after year-end.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Revenues susceptible to accrual include taxes, intergovernmental revenues, interest and charges for services.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the City may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures. The City's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities. Transactions representing the exchange of interfund goods and services have also been included.



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(e) Cash and Cash Equivalents**

Restricted and unrestricted pooled cash and investments held in the City Treasury, and other unrestricted investments invested by the City Treasurer, are considered cash equivalents for purposes of the statement of cash flows because the City’s cash management pool and funds invested by the City Treasurer possess the characteristics of demand deposit accounts. Other restricted and unrestricted investments with maturities of less than three months at the time of purchase are considered cash equivalents for purposes of the statement of cash flows.

**(f) Investments**

The City’s investments are carried at fair value, and its fair value measurements are categorized within the fair value hierarchy established by generally accepted accounting principles. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**(g) Inventory of Materials and Supplies**

Materials and supplies are held for consumption and are valued at average cost. The consumption method is used to account for inventories. Under the consumption method, inventories are recorded as expenditures at the time inventory items are used, rather than purchased.

**(h) Prepaid items**

Prepaid items are recorded at cost. Using the consumption method, prepaid items are recorded as expenditures over the period that service is provided.

**(i) Compensated Absences**

The liability for compensated absences includes the vested portion of vacation, sick leave, and overtime compensation pay. The City’s liability for accrued compensated absences is recorded in the General Benefits Internal Service Fund. The fund is reimbursed through payroll charges to all other funds. Earned but unpaid vacation and overtime compensation pay are recognized as an expense or expenditure in the proprietary and governmental fund types when earned because the City has provided financial resources for the full amount through its budgetary process. Vested accumulated sick pay is paid in the event of termination due to disability and, under certain conditions, is specified in employment agreements.

During the fiscal year ended June 30, 2020, changes to the compensated absences liabilities were as follows (in thousands):

Beginning balance	\$ 12,335
Additions	7,412
Payments	<u>(5,503)</u>
Ending balance	<u>\$ 14,244</u>
Current portion	<u>\$ 8,182</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(j) Property Tax**

Santa Clara County (the County) assesses properties and bills, collects, and distributes property taxes to the City. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties.

The County assesses property values, levies bills and collects taxes as follows:

	<u>Secured</u>	<u>Unsecured</u>
Lien Dates	January 1	January 1
Levy Dates	October 1	July 1
Due Dates	50% on November 1 50% on February 1	Upon receipt of billing
Delinquent after	December 10 (for November) April 10 (for February)	August 31

The term “unsecured” refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the City in the fiscal year they are assessed, provided they become available as defined previously within sixty days after year-end.

**(k) Deferred Outflows of Resources and Deferred Inflows of Resources**

A deferred outflow of resources is the consumption of net position that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net position applicable to a future reporting period.

**(l) Pensions and OPEB**

For purposes of measuring the net pension liability and net OPEB liability, deferred outflows/inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the City’s pension and OPEB plans and additions to/deductions from the plans’ fiduciary net positions have been determined on the same basis as they are reported by the California Public Employees’ Retirement System (CalPERS) and the California Employer’s Retiree Benefit Trust Fund Program (CERBT), respectively. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The governmental activities’ share of net pension liability and net OPEB liability are typically liquidated by the General Fund.

**(m) Rounding**

All amounts included in the basic financial statements and footnotes are presented to the nearest thousand.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(n) Effects of New Pronouncements**

As of July 1, 2019, the City implemented the following GASB Statement:

In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. This primary object of this statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. The objective is accomplished by postponing the effective dates of certain provisions in GASB Statements and Implementation Guides that first became effective or are scheduled to become effective for period beginning after June 15, 2018, and later. Implementation of this statement did not have a significant impact on the City's financial statements for the fiscal year ended June 30, 2020.

The City is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The statement provides recognition and measurement guidance for situations in which a government is a beneficiary of these agreements. The requirements of this statement are effective for the City's fiscal year ending June 30, 2021.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for the City's fiscal year ending June 30, 2022.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this statement are 1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and 2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this statement are effective for the City's fiscal year ending June 30, 2022.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(n) Effects of New Pronouncements (Continued)**

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61*. The objectives of this statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this statement are effective for the City's fiscal year ending June 30, 2021.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with 1) commitments extended by issuers, 2) arrangements associated with conduit debt obligations, and 3) related note disclosure. The requirements of this statement are effective for the City's fiscal year ending June 30, 2023.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements. The requirements of this statement are effective for the City's fiscal year ending June 30, 2022.

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this statement is to address those and other accounting and financial reporting implications that result from the replacement of an interbank offered rate. The requirements of this statement are effective for the City's fiscal year ending June 30, 2022.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this statement are effective for the City's fiscal year ending June 30, 2023.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this statement are effective for the City's fiscal year ending June 30, 2023.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(n) Effects of New Pronouncements (Continued)**

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*. The primary objectives of this statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of this statement are effective for the City’s fiscal year ending June 30, 2022.

**(o) Use of Estimates**

The accompanying basic financial statements have been prepared on the modified accrual and accrual basis of accounting in accordance with generally accepted accounting principles. This requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING**

1. The City Manager submits proposed operating and capital budgets to the City Council for the fiscal year commencing the following July 1. The budget includes planned expenditures and the means of financing them.
2. Public hearings are conducted to obtain comments on the proposed budgets.
3. The budget is approved with the adoption of a budget ordinance for all funds except Agency Funds.
4. Per the Palo Alto Municipal Code, only the City Manager is authorized to reallocate funds from contingency accounts maintained in the General Fund. Amendments to appropriations to departments in the General Fund, to total appropriations for all other budgeted funds, or to transfer of appropriations between funds, require approval by the City Council. Amendments to budgeted revenue and expenditures are added to or subtracted from the Adopted Budget and the resulting totals are reflected as Final Budget amounts.
5. As defined in the Palo Alto Municipal Code, expenditures may not exceed budgeted appropriations at the department level for the General Fund, and at the fund level for Enterprise, Internal Service, Special Revenue and Debt Service Funds.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING (Continued)**

6. Budgets for governmental funds are adopted on a basis consistent with generally accepted accounting principles (GAAP), except that unrealized gains or losses on investments, changes in advances to other funds and notes receivable are not recognized on a budgetary basis and encumbrances are treated as budgetary expenditures when incurred.
7. Expenditures for the Capital Projects Fund are budgeted and maintained at a project level for the life of the project. Budget to actual comparisons for these expenditures have been excluded from the accompanying financial statements.

**NOTE 3 – CASH AND INVESTMENTS**

The City pools cash from all sources and all funds, except restricted bond proceeds with fiscal agents and Public Agency Retirement Services, and invests its pooled idle cash according to State of California law and the City’s Investment Policy. The basic principles underlying the City’s investment philosophy are to ensure the safety of public funds, ensure that sufficient funds are available to meet current expenditures, and achieve a reasonable rate of return on investments.

**Policies**

The City invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable securities instruments, or by an electronic entry registering the owner in the records of the institution issuing the security, called the book entry system. In order to increase security, the City employs the trust department of a bank as the custodian of certain City managed investments.

**Classification**

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of City debt instruments or agreements (in thousands):

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
Cash and investments:				
Available for operations	\$ 300,540	\$ 273,338	\$ 2,824	\$ 576,702
With fiscal agents and trustees	42,305	4,060	2,701	49,066
Total cash and investments	<u>\$ 342,845</u>	<u>\$ 277,398</u>	<u>\$ 5,525</u>	<u>\$ 625,768</u>

**Investments Authorized by the City’s Investment Policy, Debt Agreements and Trust Agreements**

The table below summarizes the investment types that are authorized by the California Government Code (Code) and the City’s Investment Policy, and includes the interest rate risk, credit risk and concentration of credit risk as outlined in the Investment Policy. In addition, the table discloses investment of debt proceeds held by bond trustees. These investments are governed by the provisions of each debt agreement of the City, rather than the general provisions of the City’s Investment Policy.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Government Securities	10 years (*)	N/A	No Limit	No Limit
U.S. Federal Agency Securities (C)	10 years (*)	N/A	No Limit (A)	No Limit
Certificates of Deposit	10 years (*)	N/A	20%	10% of the par value of portfolio
Bankers Acceptances	180 days (D)	N/A (D)	30%	\$5 million
Commercial Paper	270 days	A-1	15%	\$3 million (B)
Local Agency Investment Fund	N/A	N/A	No Limit	\$50 million per account
Short-Term Repurchase Agreements	1 year	N/A	No Limit	No Limit
City of Palo Alto Bonds	N/A	N/A	No Limit	No Limit
Money Market Mutual Funds	N/A	N/A (E)	No Limit	No Limit
Mutual Funds (F)	N/A	N/A	20%	10%
Negotiable Certificates of Deposit	10 years (*)	N/A	10%	\$5 million
Medium-Term Corporate Notes	5 years	AA	10%	\$5 million
Bonds of State of California Municipal Agencies & Other U.S. States	10 years (*)	AA/AA2	30%	No Limit
Supranational	5 years	AA/AA2	20%	10% of the par value of portfolio

(A) Callable and multi-step securities are limited to no more than 25% of the par value of the portfolio, provided that: 1) the potential call dates are known at the time of purchase, 2) the interest rates at which they "step-up" are known at the time of purchase, and 3) the entire face value of the security is redeemable at the call date.

(B) The lesser of \$3 million or 10% of outstanding commercial paper of any one institution.

**Debt Agreements:**

(C) Utility Revenue Bonds 2011 Refunding and 1999 Refunding allow general obligations of states with a minimum credit quality rating of A2/A by Moody's and Standard & Poor's.

(D) Utility Revenue Bonds 2011 Refunding and 1999 Refunding require a minimum credit quality rating of A-1/P-1 by Moody's and Standard & Poor's and maturing after no more than 360 days.

(E) Water Revenue Bonds 2009 Series A, Utility Revenue Bonds 2011 Refunding and 1999 Refunding require a minimum credit quality rating of AAAM or AAAM-G by Standard & Poor's.

(F) Utility Revenue Bonds 2011 Refunding, General Obligation Bonds 2010 and 2013A, and University Avenue Parking Bond 2012 are allowed to invest in the California Asset Management Program.

(\*) The maximum maturity is based on the Investment Policy that is approved by the City Council and is less restrictive than the California Government Code.

The City must maintain required amounts of cash and investments with trustees under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged as reserves to be used if the City fails to meet its obligations under these debt issues. The Code requires these funds to be invested in accordance with City ordinance, bond indentures or state statute. All of these funds have been invested as permitted under the Code and the investment policy approved by the City Council.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

The City has implemented investment guidelines for its Public Agencies Retirement Services (PARS) Trust which authorizes the investments in U.S. Treasury securities, federal agencies and U.S. guaranteed obligations, corporate notes, certificates of deposit, bankers' acceptances, equities investments, and mutual funds.

**Fair Value Measurements**

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. All of the investments are measured using level 2 inputs, except for investments in money market mutual funds, California Asset Management Program and Local Agency Investment Fund, which are not subject to the fair value hierarchy.

Investment securities classified in Level 2 of the fair value hierarchy are valued using prices determined by the use of matrix pricing techniques maintained by the pricing vendors for these securities. Matrix pricing is used to value securities based on the securities relationship to benchmark quoted prices.

The following is a summary of the fair value measurements of the City as of June 30, 2020 (in thousands):

<u>Type of Investment</u>	<u>June 30, 2020</u>	<u>Level 2</u>
Investments by fair value hierarchy		
U.S. Federal Agency Securities	\$ 214,818	\$ 214,818
U.S. Treasury Notes	11,911	11,911
Local Government Bonds	169,956	169,956
Negotiable Certificates of Deposit	40,555	40,555
Corporate Bonds	17,061	17,061
Supranational Bonds	26,351	26,351
Total investments by fair value hierarchy	<u>480,652</u>	<u>\$ 480,652</u>
Investment not subject to fair value hierarchy		
Money Market Mutual Funds	37,485	
Equity Mutual Funds (Irrevocable for Pension)	28,693	
California Asset Management Program	3,299	
Local Agency Investment Fund	75,350	
Total investments not subject to fair value hierarchy	<u>144,827</u>	
Total investments measured at fair value	<u>\$ 625,479</u>	

**Local Agency Investment Fund**

The City participates in the Local Agency Investment Fund (LAIF) which, under the oversight of the Treasury of the State of California, is regulated by California Government Code Section 16429. LAIF management calculates the fair value and cost of the entire LAIF pool. The City adjusts its cost basis invested in LAIF to fair value based on this ratio. The fair value of the City's position in the pool is the same as the value of the pool share. The balance available for withdrawal on demand is based on



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is part of the State's Pooled Money Investment Account (PMIA). The total balance of the PMIA is approximately \$101.0 billion as of June 30, 2020. Of that amount, 96.6 percent was invested in nonderivative financial products and 3.4 percent in structured notes and asset backed securities. At June 30, 2020, LAIF had a weighted average maturity of 191 days.

**Money Market Mutual Funds**

Money market mutual funds are available for withdrawal on demand and at June 30, 2020, had a weighted average maturity of 49 days.

**California Asset Management Program**

The City is a voluntary participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust). The Trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Sections 6500 et seq., or the "Act") for the purpose of exercising the common power of its participants to invest certain proceeds of debt issues and surplus funds. The City's investments are limited to investments permitted by subdivisions (a) to (n), inclusive, of Section 53601 of the California Government Code. The City reports its investments in CAMP at the fair value amounts provided by CAMP, which is the same as the value of the pool share. At June 30, 2020, the fair value approximated the City's cost. CAMP had a weighted average maturity of 53 days at June 30, 2020.

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates may adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity its fair value is to changes in market interest rates. As of June 30, 2020, the City's investments consisted of the following (in thousands):

Type of Investment	Maturities				Total
	Less Than One Year	One to Three Years	Three to Five Years	Over Five Years	
U.S. Federal Agency Securities	\$ 35,414	\$ 65,324	\$ 36,537	\$ 77,543	\$ 214,818
U.S. Treasury Notes	-	11,911	-	-	11,911
Local Government Bonds	12,689	41,539	35,214	80,514	169,956
Corporate Bonds	10,069	1,456	5,536	-	17,061
Money Market Mutual Funds	37,485	-	-	-	37,485
Equity Mutual Funds (Irrevocable for Pension)	28,693	-	-	-	28,693
Negotiable Certificates of Deposit	5,941	20,277	13,580	757	40,555
California Asset Management Program	3,299	-	-	-	3,299
Supranational Bonds	-	3,326	23,025	-	26,351
Local Agency Investment Fund	75,350	-	-	-	75,350
<b>Total Investments</b>	<b>\$ 208,940</b>	<b>\$ 143,833</b>	<b>\$ 113,892</b>	<b>\$ 158,814</b>	<b>625,479</b>
Cash in bank and on hand					289
<b>Total Cash and Investments</b>					<b>\$ 625,768</b>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

**Investment with Fair Values Highly Sensitive to Interest Rate Fluctuations**

At June 30, 2020, the City’s investments (including investments held by bond trustees) include U.S. Federal Agency Callable Securities totaling \$84 million. These investments are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above) and are subject to early redemption.

**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Presented below is the actual rating as provided by Standard & Poor’s, Moody’s and/or Fitch’s investment rating system as of June 30, 2020, for each investment type (in thousands):

<u>Type of Investment</u>	<u>Rating</u>	<u>Total</u>
U.S. Federal Agency Securities	AA+	\$ 214,818
Corporate Bonds	AAA	10,063
	AA+	6,025
	AA	973
Total Corporate Bonds		<u>17,061</u>
Local Government Bonds	AAA	55,719
	AA+	54,347
	AA	43,264
	N/A	16,626
Total Government Bonds		<u>169,956</u>
Supranational Bonds	AAA	<u>26,351</u>
Money Market Mutual Funds	AA+	17,074
	N/A	20,411
Total Money Market Mutual Funds		<u>37,485</u>
Subtotal rated investments		<u>465,671</u>
Not Applicable:		
U.S. Treasury Notes		11,911
Not Rated:		
California Asset Management Program		3,299
Local Agency Investment Fund		75,350
Negotiable Certificates of Deposit		40,555
Equity Mutual Funds (Irrevocable for Pension)		28,693
Cash in bank and on hand		289
Total Cash and Investments		<u>\$ 625,768</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

**Concentration of Credit Risk**

Investments in any one issuer, other than U.S. Treasury securities, mutual funds, and external investment pools, that represent 5 percent or more of total City portfolio investments are as follows at June 30, 2020 (in thousands):

Investments	Reporting Type	Fair Value at Year-End
Federal Home Loan Bank	U.S. Federal Agency Securities	\$ 46,813
Federal Agricultural Mortgage Corporation	U.S. Federal Agency Securities	83,134
Federal Farm Credit Bank	U.S. Federal Agency Securities	44,906

**Custodial Credit Risk**

California law requires banks and savings and loan institutions to pledge government securities with a market value of 110 percent of the City’s cash on deposit or first trust deed mortgage notes with a value of 150 percent of the deposit as collateral for these deposits. Under California Law, this collateral is considered held in the City’s name and places the City ahead of general creditors of the institution. The City has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City’s Investment Policy limits its exposure to custodial credit risk by requiring that all security transactions entered into by the City be conducted on a delivery-versus-payment basis. Securities are to be held by a third-party custodian.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 4 – INTERFUND TRANSACTIONS**

**Transfers Between Funds**

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to subsidize a fund. Less often, a transfer may be made to open or close a fund. Transfers between City funds during fiscal year 2020 were as follows on the following page (in thousands):

Fund Receiving Transfer	Fund Making Transfer	Amount Transferred
General Fund	Nonmajor Governmental Funds	\$ 492 A
	Electric Services Fund	13,134 B
	Gas Services Fund	6,942 B
Capital Projects Fund	General Fund	24,173 C
	Nonmajor Governmental Funds	9,285 C
Nonmajor Governmental Funds	General Fund	1,774 A
	Capital Projects Fund	2,520 A
	Water Services Fund	11 A
	Electric Services Fund	23 A
	Fiber Optics Fund	2 A
	Gas Services Fund	9 A
	Wastewater Collection Fund	6 A
	Internal Service Funds	26 A
Water Services Fund	Gas Services Fund	274 C
	Wastewater Collection Fund	274 C
Electric Services Fund	General Fund	2,083 D
	Water Services Fund	136 C
	Gas Services Fund	136 C
	Fiber Optics Fund	102 C
	Internal Service Funds	125 C
Internal Service Funds	General Fund	4,193 E/F
	Nonmajor Governmental Funds	32 E/F
	Water Services Fund	328 E/F
	Electric Services Fund	749 E/F
	Fiber Optics Fund	58 E/F
	Gas Services Fund	322 E/F
	Wastewater Collection Fund	187 E/F
	Wastewater Treatment Fund	432 E/F
	Refuse Services Fund	116 E/F
	Storm Drainage Services Fund	92 E/F
	Airport	31 E/F
	Internal Service Funds	2,716 E/G
Total	<u>\$ 70,783</u>	

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 4 – INTERFUND TRANSACTIONS (Continued)**

The reasons for these transfers are set forth below:

- (A) Transfer to fund street maintenance activities, to pay debt service, fund City employee parking, and to return unspent project funds.
- (B) Transfer to fund the return of initial investment made by general fund when utility department was created.
- (C) Transfers of funds to construct, purchase or maintain capital assets.
- (D) Transfer to fund electricity costs associated with City streetlight and traffic signal costs.
- (E) Transfer to fund supplemental pension trust fund.
- (F) Transfer to fund replacement and maintenance of critical desktop, software, infrastructure, vehicles and equipment.
- (G) Transfer to fund an implied subsidy for retiree healthcare.

**Current Interfund Balances**

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. At June 30, 2020, the non-major Street Improvement Special Revenue Fund, the non-major Federal Revenue Special Revenue Fund, and the non-major Airport Enterprise Fund owed the General Fund \$109 thousand, \$27 thousand, and \$1.8 million, respectively.

**Long-Term Interfund Advance**

On December 6, 2010, the City Council accepted an Airport Business Plan of the Palo Alto Airport (PAO) and approved creation of the Airport Enterprise Fund to facilitate the transition of PAO control from the County of Santa Clara to the City. The City Council approved six separate general fund advances to the non-major Airport Enterprise Fund. All advances bear interest equal to the average return yield on the City's investment portfolio. The six separate advances and interest incurred have been consolidated and are scheduled to be repaid by June 2034. At June 30, 2020, the outstanding advances was \$3.2 million.

**Internal Balances**

Internal balances represent the net interfund receivables and payables remaining after the elimination of all such balances within governmental and business-type activities.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 5 – NOTES AND LOANS RECEIVABLE**

At June 30, 2020, the City’s notes and loans receivable totaled (in thousands):

Palo Alto Housing Corporation:	
Tree House Apartments	\$ 5,344
Emerson Street Project	375
Alma Single Room Occupancy Development	2,222
Barker Hotel	2,111
Sheridan Apartments	2,222
Oak Court Apartments, L.P.	7,834
El Dorado Palace, LLC	150
Mid-Peninsula Housing Coalition:	
Palo Alto Gardens Apartments	100
Community Working Group, Inc.	1,280
Opportunity Center Associates, L.P.	945
Home Rehabilitation Loans	46
Executive Relocation Assistance Loans	845
Below Market Rate Assessment Loans	53
Oak Manor Townhouse Water System	114
Lytton Gardens Assisted Living	101
Emergency Housing Consortium	75
Alma Gardens Apartments	1,150
2811-2825 Alma Street Acquisition	1,890
Palo Alto Family Housing, 801 Alma Street	6,422
Palo Alto Senior Housing Project - Stevenson House, LLC	901
MP Palo Alto Garden, LLC	672
Colorado Park Housing Corporation	204
Buena Vista - County of Santa Clara	<u>14,500</u>
Total Notes and Loans Receivable	49,556
Less: Valuation Allowance	<u>(14,612)</u>
Total Notes and Loans Receivable, Net	<u>\$ 34,944</u>

**Housing Loans**

The City engages in programs designed to encourage construction or improvement in low-to-moderate income housing or other projects. Under these programs, grants or loans are provided under favorable terms to homeowners or developers who agree to spend these funds in accordance with the City’s terms. These loans have been offset by restricted or committed fund balances, as they are not expected to be repaid immediately.

Some of these loans contain forgiveness clauses that provide for the amount loaned to be forgiven if the third party maintains compliance with the terms of the loan and associated regulatory agreements. Since some of these loans are secured by trust deeds that are subordinated to other debt on the associated projects or are only repayable from residual cash receipts on the projects, collectability of some of the outstanding balances may not be realized. As a result of the forgiveness clauses and nature of these housing projects and associated cash flows, a portion of the outstanding balances of the loans has been offset by a valuation allowance.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)**

**Tree House Apartments**

In March 2009, the City agreed to loan \$2.8 million to Tree House Apartments, L.P. (THA) for the purchase of the real property located at 488 West Charleston Road. The loan accrues simple interest at the rate of 3 percent per annum. The loan was funded with \$1.8 million of Community Development Block Grant (CDBG) funds and \$1.0 million of residential housing funds. An additional development loan in the amount of \$2.5 million was approved by the City on October 18, 2010. Principal and interest payments will be deferred, however if the borrower has earned extra income, and if it is acceptable to the other entities providing final permanent sources of funds, payment of interest and principal based on the City's proportionate share of the project's residual receipts from net operating income shall be made by the borrower. In no event shall full payment be made by the borrower later than concurrently with the expiration or earlier termination of the loan agreement, which is December 31, 2067.

**Emerson Street Project**

On November 8, 1994, the City loaned \$375,000 to Palo Alto Housing Corporation (PAHC) for expenses necessary to acquire an apartment complex for the preservation of rental housing for low and very low income households in the City. This loan is collateralized by a second deed of trust. The loan bears interest at 3 percent.

**Alma Single Room Occupancy Development**

On December 13, 1996, the City loaned \$2.2 million to Alma Place Associates, L.P. for development of a 107-unit single room occupancy development. This loan bears interest at 3 percent and is collateralized by a subordinated deed of trust. The principal balance is due in 2041.

**Barker Hotel**

On April 12, 1994, the City loaned a total of \$2.1 million for the preservation, rehabilitation and expansion of a low-income, single occupancy hotel. This loan was funded by three sources: \$400,000 from the Housing In-Lieu Fund, \$1.0 million from HOME Investment Partnership Program Funds, and \$670,000 from CDBG funds. All three notes bear no interest and are collateralized by a deed of trust, which is subordinated to private financing. Loan repayments are deferred until 2035.

In July 2004, the City agreed to loan up to \$41,000 to PAHC to rehabilitate the interior of the Barker Hotel. The loan was funded with CDBG funds and is collateralized by a deed of trust on the property. Annual loan payments are deferred until certain criteria defined in the loan agreement are reached. The loan will be forgiven if the borrower satisfactorily complies with all terms and conditions of the loan agreement.

**Sheridan Apartments**

On December 8, 1998, the City loaned \$2.2 million to PAHC for the purchase and rehabilitation of a 57-unit apartment complex to be used for senior and low-income housing (Sheridan Apartments). The loan was funded with \$1.6 million in CDBG funds, and \$825,000 of Housing In-Lieu funds. The note is collateralized by a second deed of trust and an affordability reserve account held by PAHC. The loan was amended in June 2017. It will not accrue interest between May 1, 2017 and March 1, 2030. The loan will be forgiven on June 30, 2030 if PAHC uses the funds that would otherwise have been due to the City for another affordable housing project.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)**

**Oak Court Apartments, L.P.**

On August 18, 2003, the City loaned \$5.9 million to PAHC for the purchase of land. The note bears interest of 5 percent and is secured by a deed of trust. Note payments are due annually after 55 years, or beginning in 2058, unless PAHC elects to extend the note until 2102, as defined in the regulatory agreement. The City also loaned \$1.9 million to Oak Court Apartments, L.P. for the construction of a 53-unit rental apartment complex for low and very low-income households with children, which was completed in April 2005. The note bears no interest until certain criteria defined in the note are satisfied, at which time the note will bear an interest rate not to exceed 3 percent. The note is secured by a subordinate deed of trust. The principal balance is due in 2060.

**El Dorado Palace, LLC**

On June 22, 2015, the City approved a loan to PAHC in the amount of \$375,000 to increase the supply of affordable low income housing in the City. The City loaned \$52,000 and \$13,000 in June 2017 and March 2018, respectively. In February 2019, the City loaned an additional \$85,000. The loan bears three percent (3%) interest, however in the event of default will accrue at the lesser of 8% or the highest rate permitted by law. The term of the loan shall expire 55 years unless the City agree to extend an additional 44 years. As of June 30, 2020, the outstanding balance was \$150,000.

**Palo Alto Gardens Apartments**

On April 22, 1999, the City loaned \$1.0 million to Mid-Peninsula Housing Coalition (the Coalition) for the purchase and rehabilitation of a 155-unit complex for the continuation of low-income housing. The loan was funded with \$659,000 of CDBG funds and \$341,000 of Housing In-Lieu funds. The two notes bear interest at 3 percent and are secured by second deeds of trust and a City Affordability Reserve Account held by the Coalition. The remaining principal balance is due in 2039. As of June 30, 2020, the outstanding balance was \$100,000.

**Community Working Group, Inc.**

On May 13, 2002, the City loaned \$1.3 million to Community Working Group, Inc. for predevelopment, relocation and acquisition of land for development of an 89-unit complex and homeless service center for very low income households. The loan was funded with \$1.3 million of CDBG funds. The note bears no interest and is secured by a first deed of trust. No repayment is required as long as the borrower complies with all terms and conditions of the agreement. After 89 years of compliance with the regulatory agreement, the City's loan would convert to a grant and its deed of trust would be re-conveyed.

**Opportunity Center Associates, L.P.**

On July 19, 2004, the City loaned \$750,000 for a 55-year term to Opportunity Center Associates, L.P. for construction of 89 units of rental housing for extremely low-income and very low-income households. The loan was funded with \$750,000 of residential housing funds. The note bears 3 percent interest and is secured by a deed of trust. The loan remains outstanding and becomes due at the end of the 55-year term. During fiscal year 2019, the City received \$25,000 in principal payments. On April 17, 2019, the City approved up to an additional \$220,000 loan drawn from CDBG for the improvement of rental housing. In February 2019 and April 2019, the City loaned \$191,000 and \$29,000, respectively. The note bears 3 percent interest, and all payments of interest and principal shall be deferred until July 19, 2103. The loan balance owed as of June 30, 2020 was \$945,000.



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)**

**Home Rehabilitation Loans**

The City administers a closed housing rehabilitation loan program initially funded with CDBG funds. Under this program, individuals with incomes below a certain level are eligible to receive low interest loans for rehabilitation work on their homes. These loans are secured by deeds of trust, which may be subordinated to subsequent encumbrances upon said real property with the prior written consent of the City. The loan repayments may be amortized over the life of the loans, deferred, or a combination of both.

**Executive Relocation Assistance Loans**

The City Council may authorize a mortgage loan as part of a relocation assistance package to executive staff. The loans are secured by first deeds of trust, and interest is adjusted annually based on the rate of return of invested funds of the City for the year ended June 30 plus one-quarter of a percent. Principal and interest payments are due monthly. Employees must pay any outstanding balance on their loans within a certain period after ending employment with the City. During the year ended June 30, 2020, the City entered into a 30-year loan with the City Manager for \$845,000. The purchase cost for the City Manager's home was \$3.4 million and the City holds 75 percent equity share.

**Below Market Rate Assessment Loans**

In December 2002, the City loaned \$53,000 to below market rate homeowners with low incomes and/or very limited assets for capital repairs, special assessments and improvements of their properties. The loans bear interest at 3 percent and are secured by a deed of trust on each property. Loan payments are deferred until 2032.

**Oak Manor Townhouse Water System**

On May 12, 2003, the City Council approved an allocation of \$114,000 to Palo Alto Housing Corporation Apartments, Inc. (PAHCA) to replace the water pipes. Repayment of the loan will not be required unless the property is sold, the program is terminated or purpose of the program is changed without City's approval prior to July 1, 2033. The loan for this project is subordinated to the existing City loan with PAHCA dated January 7, 1991 for the acquisition of the project site, which is discussed earlier in this section.

**Lytton Gardens Assisted Living**

In June 2005, the City loaned \$101,000 to Community Housing, Inc. to upgrade and modernize the existing kitchens at the senior residential facility known as Lytton Gardens Assisted Living. The loan was funded with CDBG funds, and bears simple interest of 3 percent. Principal and interest payments are deferred until July 1, 2035, as long as the borrower continues to comply with all terms and conditions of the agreement.

**Emergency Housing Consortium**

In November 2005, the City agreed to loan up to \$75,000 to Emergency Housing Consortium to cover architectural expenses that will be incurred in rehabilitating and expanding the property. The loan was funded with CDBG funds, and bears simple interest of 3 percent. Principal and interest payments are deferred until July 1, 2035, as long as the borrower continues to comply with all terms and conditions of the agreement.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)**

**Alma Garden Apartments**

In March 2006, the City agreed to loan up to \$1.2 million to Community Working Group, Inc. to acquire a 10-unit multi-family housing complex known as Alma Garden Apartments. The loan was funded with CDBG funds. Principal and interest payments are deferred until July 1, 2061 as long as the borrower complies with all terms and conditions of the agreement.

**2811-2825 Alma Street Acquisition**

On October 9, 2011, the City agreed to loan \$1.3 million to PAHC to acquire properties on Alma Street for the purpose of developing an affordable rental housing project. On June 29, 2015, the City loaned PAHC an additional \$0.6 million, and entered into an Amended and Restated Acquisition and Development Agreement which combined the two loans for a total loan of \$1.9 million. The loan term expires on December 8, 2066 with an option to extend the term for an additional 44 years. The loan bears simple interest of 3 percent, however in the event of default interest will accrue at the lesser of 8 percent or the highest rate permitted by law. Principal and interest payments are payable during the term of the agreement on a “residual receipt” basis as described in the agreement. All principal and interest is due in the event of an unauthorized transfer, a default or the expiration of the term.

**Palo Alto Family Housing, 801 Alma Street**

On February 14, 2011, the City agreed to loan Palo Alto Family, LP up to \$9.3 million for the purposes of predevelopment expenses and acquiring certain real property for the Alma Street Affordable Multi-Family Rental Housing Project. The loan bears simple interest of 3 percent. Principal and interest are due and payable during the term of the agreement on a “residual receipt” basis as described in the agreement. Except in the case of default, all remaining principal and interest shall be payable on the Restriction Termination Date as defined in the agreement. As of June 30, 2020, the outstanding amount is \$6.4 million.

**Palo Alto Senior Housing Project**

On October 1, 2015, the City entered into an affordable housing fund loan agreement with PASHPI Stevenson House LP, a California limited partnership, in the principal amount of \$1 million to assist in the rehabilitation of the Stevenson House. The loan bears simple interest of 3 percent. As of June 30, 2020, the loan outstanding balance is \$901,000 and is due at the end of the 55-year term.

**MP Palo Alto Garden, LLC**

The City loaned \$619,000 and \$53,000 in March 2017 and October 2017, respectively, in CDBG funds for the rehabilitation of the property. The note bears 3% simple interest and shall be deferred until April 24, 2054. If there are no Events of Default prior to the end of the terms, the unpaid principal and interest will be treated as a grant and no repayment will be due to the City.

**Colorado Park Housing Corporation**

On September 8, 2014, the City entered into an affordable housing fund loan agreement with Colorado Park Housing Corporation (CPHC), a California nonprofit public benefit corporation, in the principal amount of \$204,000. The loan bears no interest except in the event of default. The principal and any accrued interest is due and payable on the earlier of (a) expiration of the term, or (b) a default by CPHC which has not been cured as provided for in the agreement.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)**

**Buena Vista Mobile Home Park – Santa Clara County**

In September 2017, the City entered into an agreement with the Santa Clara County Housing Authority (SCCHA) for the acquisition of Buena Vista Mobile Home Park. The City loaned SCCHA \$14.5 million for the acquisition. The City is entitled to twenty six percent of all residual receipts. Interest for the promissory note is 3% simple interest. Principal and interest payments commenced on September 30, 2019 and the note and all interest is payable in full on September 29, 2092.

**NOTE 6 – CAPITAL ASSETS**

**Valuation**

Capital assets are valued at historical cost if purchased or constructed. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are recorded at acquisition value at the time received. The City's policy is to capitalize all assets when costs are equal to or exceed \$5,000 and the useful life exceeds one year. Infrastructure assets are capitalized when costs are equal to or exceed \$100,000.

Proprietary fund capital assets are recorded at cost including significant interest costs incurred under restricted tax-exempt borrowings, which finance the construction of capital assets. These interest costs, net of interest earned on investment of proceeds of such borrowings, are capitalized and added to the cost of capital assets during the construction period. Maintenance and repairs are expensed as incurred.

The City has recorded all its public domain capital assets, consisting of roadway and recreation and open space, in its government-wide financial statements. GASB Statement No. 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Alternatively, the "modified approach" may be used for certain capital assets. Depreciation is not provided under this approach, but all expenditures on these assets are expensed unless they are additions or improvements. The City has elected to use the depreciation method for its capital assets. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of those assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation of capital assets is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the statement of net position as a reduction in the book value of capital assets.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 6 – CAPITAL ASSETS (Continued)**

Depreciation is calculated using the straight line method, which means the cost of the asset is divided by its expected useful life in years, and the result is charged to expense each year until the asset is fully depreciated. The City has assigned the useful lives listed below to capital assets.

<u>Governmental Activities</u>	<u>Years</u>
Buildings and structures	20 - 30
Equipment:	
Computer equipment	3 - 5
Office machinery and equipment	5
Machinery and equipment	5 - 30
Intangible assets - software	5-20
Roadway network:	
Includes pavement, striping and legends, curbs, gutters and sidewalks, parking lots, traffic signage, and bridges	5 - 40
Recreation and open space network:	
Includes major park facilities, park trails, bike paths and medians	25 - 40
 <u>Business-type Activities</u>	
Buildings and structures	25 - 60
Vehicles and heavy equipment	3 - 10
Machinery and equipment	10 - 50
Transmission, distribution and treatment systems	10 - 100

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 6 – CAPITAL ASSETS (Continued)**

**Governmental Activities**

Changes in the capital assets for governmental activities during the year ended June 30, 2020 were (in thousands):

	Balance July 1, 2019	Additions	Retirements	Transfers	Balance June 30, 2020
<i>Governmental activities</i>					
Nondepreciable capital assets:					
Land and improvements	\$ 77,575	\$ 1,930	\$ -	\$ 2,701	\$ 82,206
Street trees	14,720	143	(76)	-	14,787
Intangible assets - Easement	3,567	-	-	-	3,567
Construction in progress	104,465	57,457	(12,612)	(9,945)	139,365
Total nondepreciable capital assets	<u>200,327</u>	<u>59,530</u>	<u>(12,688)</u>	<u>(7,244)</u>	<u>239,925</u>
Depreciable capital assets:					
Buildings and structures	247,274	607	-	3,238	251,119
Intangible assets - Software	279	-	-	-	279
Equipment	12,600	17	(14)	3,134	15,737
Roadway network	334,330	-	-	872	335,202
Recreation and open space network	35,186	-	-	-	35,186
Total depreciable capital assets	<u>629,669</u>	<u>624</u>	<u>(14)</u>	<u>7,244</u>	<u>637,523</u>
Less accumulated depreciation:					
Buildings and structures	(98,657)	(7,327)	-	-	(105,984)
Intangible assets - Software	(279)	-	-	-	(279)
Equipment	(8,376)	(494)	14	-	(8,856)
Roadway network	(163,779)	(7,743)	-	-	(171,522)
Recreation and open space network	(14,613)	(1,254)	-	-	(15,867)
Total accumulated depreciation	<u>(285,704)</u>	<u>(16,818)</u>	<u>14</u>	<u>-</u>	<u>(302,508)</u>
Depreciable capital assets, net	<u>343,965</u>	<u>(16,194)</u>	<u>-</u>	<u>7,244</u>	<u>335,015</u>
Internal service fund capital assets					
Construction in progress	2,530	3,176	-	(2,983)	2,723
Equipment	62,307	18	(1,832)	2,983	63,476
Less accumulated depreciation	(43,026)	(3,366)	1,558	-	(44,834)
Net internal service fund capital assets	<u>21,811</u>	<u>(172)</u>	<u>(274)</u>	<u>-</u>	<u>21,365</u>
Governmental activities capital assets, net	<u>\$ 566,103</u>	<u>\$ 43,164</u>	<u>\$ (12,962)</u>	<u>\$ -</u>	<u>\$ 596,305</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 6 – CAPITAL ASSETS (Continued)**

**Business-Type Activities Capital Assets**

Changes in the capital assets for the business-type activities during the year ended June 30, 2020 were (in thousands):

	Balance July 1, 2019	Additions	Retirements	Transfers	Balance June 30, 2020
<i>Business-type activities</i>					
Nondepreciable capital assets:					
Land and improvements	\$ 4,973	\$ -	\$ -	\$ -	\$ 4,973
Construction in progress	157,986	42,144	-	(79,034)	121,096
Total nondepreciable capital assets	<u>162,959</u>	<u>42,144</u>	<u>-</u>	<u>(79,034)</u>	<u>126,069</u>
Depreciable capital assets:					
Buildings and structures	68,322	-	-	5,715	74,037
Capital Leases	531	-	-	-	531
Infrastructure	633	-	-	-	633
Transmission, distribution and treatment systems	822,449	619	(11,596)	73,319	884,791
Total depreciable capital assets	<u>891,935</u>	<u>619</u>	<u>(11,596)</u>	<u>79,034</u>	<u>959,992</u>
Less accumulated depreciation:					
Buildings and structures	(14,812)	(1,329)	-	-	(16,141)
Infrastructure	(44)	(21)	-	-	(65)
Transmission, distribution and treatment systems	(366,517)	(20,872)	10,785	-	(376,604)
Total accumulated depreciation	<u>(381,373)</u>	<u>(22,222)</u>	<u>10,785</u>	<u>-</u>	<u>(392,810)</u>
Depreciable capital assets, net	<u>510,562</u>	<u>(21,603)</u>	<u>(811)</u>	<u>79,034</u>	<u>567,182</u>
Business-type activities capital assets, net	<u>\$ 673,521</u>	<u>\$ 20,541</u>	<u>\$ (811)</u>	<u>\$ -</u>	<u>\$ 693,251</u>

**Capital Asset Contributions**

Some capital assets may be acquired using federal and state grant funds, or they may be contributed by developers or other governments. Generally accepted accounting principles require that these contributions be accounted for as revenues at the time the capital assets are contributed.

**Depreciation Allocation**

Depreciation expense was charged to functions and programs based on their usage of the related assets. The amount allocated to each function or program is as follows (in thousands):

<i>Governmental Activities</i>		<i>Business-type Activities</i>	
City Manager	\$ 4	Water	\$ 3,002
City Attorney	1	Electric	8,498
City Clerk	4	Fiber Optics	418
City Auditor	1	Gas	3,454
Administrative Services	4	Wastewater Collection	2,443
Public Works	10,520	Wastewater Treatment	3,257
Planning and Development Services	360	Refuse	86
Office of Transportation	3	Storm Drainage	1,015
Police	135	Airport	49
Fire	209		<u>\$ 22,222</u>
Community Services	3,204		
Library	2,373		
Internal Service Funds	3,366		
	<u>\$ 20,184</u>		

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 6 – CAPITAL ASSETS (Continued)**

**Construction In Progress**

Construction in progress as of June 30, 2020 is comprised of the following (in thousands):

<b>Governmental Activities</b>	<b>Expended to June 30, 2020</b>
California Avenue Parking Garage	\$ 39,779
Charleston/Arastradero Corridor	12,475
Fire Station No. 3 Replacement Design	9,912
Bicycle Boulevards Implementation Project	9,120
New Public Safety Building	8,742
Highway 101 Pedestrian/Bicycle Overpass	8,447
Lucie Stern Buildings Mech/Electrical Improvements	6,388
Traffic Signal Upgrades	4,648
Railroad Grade Separation	3,225
JMZ Renovation	2,486
Baylands Interpretive Center & Boardwalk Improvements	2,384
Rinconada Park Improvements	2,341
Telephone Infrastructure and Network	2,237
Animal Shelter Renovation	1,913
Safe Routes To School	1,812
Cubberley Track and Field Replacement	1,807
CalTrain Corridor Video Management System Installation	1,556
Benches/Signage/Fencing/Walkways	1,458
Newell Road Bridge/SFC Bridge Replacement	1,443
New Downtown Parking Garage	1,440
Quarry Road	1,282
Parks Master Plan	1,254
Art in Public Places	1,100
Tennis & Basketball Court Resurfacing	922
Residential Preferential Parking	874
Other construction in progress	13,043
<b>Total Governmental Activities</b>	<b>\$ 142,088</b>
<b>Business-type Activities</b>	<b>Expended to June 30, 2020</b>
Airport's Apron Reconstruction	\$ 26,354
Gas system extension replacements and improvements	16,075
Electric distribution system improvements	14,229
Sewer system rehabilitation and extensions	13,919
Water system extension replacements and improvements	12,477
Storm drainage structural and water quality improvements	8,725
Water quality control plant equipment replacement and lab facilities	3,033
Fiber Optic system improvements	1,799
Other construction in progress	24,485
<b>Total Business-type Activities</b>	<b>\$ 121,096</b>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 6 – CAPITAL ASSETS (Continued)**

**Construction In Progress Commitments**

Major governmental capital projects that are currently in progress, and the remaining capital commitment of each, are as follows:

- California Avenue Parking Garage - \$10.4 million
- Vehicle Replacements - \$5.7 million
- Charleston Arastradero Corridor – \$7.1 million
- Telephone Infrastructure - \$4.6 million
- Railroad Grade Separation - \$3.7 million
- Highway 101 Pedestrian/Bicycle Overpass - \$14.5 million
- Municipal Service Center Improvements - \$6.0 million
- El Camino / Churchill Intersection Improvement - \$2.9 million
- Animal Shelter Renovation - \$2.0 million

Major business-type capital projects that are currently in progress, and the remaining capital commitment of each, are as follows:

- Seismic Water Systems Upgrades - \$5.1 million
- Water Main Replacement for Water Fund - \$3.1 million
- Wastewater Collection Fund Rehabilitation/Augmentation Project - \$3.7 million

**Vehicle Registration Fees (VRF)**

In fiscal year 2020, the City received VRF funds from the Santa Clara Valley Transportation Authority and expended the full amount on capital expenditures for the Overlay Resurfacing Project (PE-86070) (in thousands):

Starting VRF balance July 1, 2019	\$	-
VRF revenue		465
VRF interest earned		2
VRF expense		(467)
Ending VRF balance June 30, 2020	<u>\$</u>	<u>-</u>



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 7 – LONG-TERM DEBT**

The City's long-term debt balances and activities, other than special assessment debt discussed in Note 8, are as follows (in thousands):

	Original Issue Amount	Balance July 1, 2019	Additions	Retirements	Balance June 30, 2020	Current Portion
<b>Governmental Activities Debt:</b>						
2010 General Obligation Bonds, 3.25% - 5%, due 08/01/2040	\$ 55,305	\$ 44,585	\$ -	\$ 1,290	\$ 43,295	\$ 1,330
2013A General Obligation Bonds, 2 - 5%, due 08/01/2041	20,695	15,915	-	435	15,480	450
2018 Capital Improvement Project and Refinancing Certificates of Participation, 2.2%- 4.22%, due 11/1/2047	8,970	8,935	-	180	8,755	185
2019 California Ave Parking Garage Certificates of Participation, Series A & B 2.5%-5%, due 11/1/2048	37,370	37,370	-	375	36,995	630
Add: Unamortized Premium	-	8,331	-	351	7,980	351
<b>Total Governmental Activities Debt</b>	<b>\$ 122,340</b>	<b>\$ 115,136</b>	<b>\$ -</b>	<b>\$ 2,631</b>	<b>\$ 112,505</b>	<b>\$ 2,946</b>

	Original Issue Amount	Balance July 1, 2019	Additions	Retirements	Balance June 30, 2020	Current Portion
<b>Business-type Activities Debt:</b>						
<b>Utility Revenue Bonds</b>						
1995 Series A, 5.00-6.25%, due 06/01/2020	\$ 8,640	\$ 645	\$ -	\$ 645	\$ -	\$ -
1999 Refunding, 5.125-5.25%, due 06/01/2024	17,735	7,470	-	810	6,660	1,540
2009 Series A, 1.80-5.95%, due 06/01/2035	35,015	26,640	-	1,130	25,510	1,180
2011 Refunding, 3-4%, due 06/01/2035	17,225	9,060	-	1,170	7,890	1,210
Add: Unamortized Premium	-	561	-	82	479	-
<b>Energy Tax Credit Bonds</b>						
2007 Series A, 0%, Due 12/15/2021	1,500	300	-	100	200	100
Less: Unamortized Discount	-	(16)	-	(5)	(11)	-
<b>Total Bonds</b>	<b>80,115</b>	<b>44,660</b>	<b>-</b>	<b>3,932</b>	<b>40,728</b>	<b>4,030</b>
<b>State Water Resources Loans</b>						
Direct Borrowings:						
2007, 1.02%, due 06/30/2029	9,000	4,500	-	450	4,050	450
2009, 2.6%, due 11/30/2030	8,500	5,666	-	408	5,258	419
2017, 1.8%, due 5/31/2049	29,684	19,422	5,775	697	24,500	652
<b>Total Direct Borrowings</b>	<b>47,184</b>	<b>29,588</b>	<b>5,775</b>	<b>1,555</b>	<b>33,808</b>	<b>1,521</b>
<b>Total Business-type Activities Debt</b>	<b>\$ 127,299</b>	<b>\$ 74,248</b>	<b>\$ 5,775</b>	<b>\$ 5,487</b>	<b>\$ 74,536</b>	<b>\$ 5,551</b>

Bond premiums and discounts of long-term debt issues are amortized over the life of the related debt.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 7 – LONG-TERM DEBT (Continued)**

**Description of Long-Term Debt Issues**

**2010 General Obligation Bonds (2010 GO Bonds)** – On June 30, 2010, the City issued \$55.3 million of 2010 GO Bonds to finance costs for constructing a new Mitchell Park Library and Community Center, and to fund substantial improvements to the Rinconada Library and the Downtown Library. Principal payments are due annually on August 1 and interest payments semi-annually on February 1 and August 1 and are payable from property tax revenues. The true interest cost (TIC) is 4.21 percent.

On June 28, 2016, the City defeased \$2.3 million of 2010 GO Bonds using funds from bond premiums received at time of issue by depositing the amount in an irrevocable trust account. The trust account assets and the liability for the defeased bonds are not included in the City’s financial statements. The City legally remains the primary obligor on the \$2.3 million of defeased bonds until they are paid on August 1, 2020.

**2013A General Obligation Bonds (2013A GO Bonds)** – On June 30, 2013, the City issued \$20.7 million of 2013A GO Bonds to finance costs for constructing a new Mitchell Park Library and Community Center, as well as making substantial improvements to the Rinconada Library and the Downtown Library. Principal payments are due annually on August 1 and interest payments semi-annually on February 1 and August 1 from 2 percent to 5 percent, and are payable from property tax revenues. The TIC is 3.85 percent.

On June 28, 2016, the City defeased \$2.8 million of 2013A GO Bonds using funds remaining at completion of the project by depositing the amount in an irrevocable trust account. The trust account assets and the liability for the defeased bonds are not included in the City’s financial statements. The City legally remains the primary obligor on the \$2.8 million of defeased bonds until they are paid on August 1, 2023.

The City’s 2010 and 2013A GO Bonds are general obligations of the City, secured and payable solely from ad valorem property taxes levied by the City and collected by the County of Santa Clara. The City is empowered and obligated to annually levy ad valorem taxes for the payment of the Bonds and the interest thereon upon all property within the City subject to taxation by the City, without limitation of rate or amount (except certain personal property which is taxable at limited rates) until the final maturity dates of the bonds on August 1, 2040 and August 1, 2041 respectively. For the fiscal year ended June 30, 2020, the City received \$4.5 million in ad valorem property taxes for principal of \$1.7 million and interest of \$2.7 million for the 2010 and 2013A GO Bonds.

**2018 Capital Improvement (“Golf Course”) Project and Refinancing Certificates of Participation (2018 COPs)** – On June 1, 2018, the City issued taxable COPs of \$9.0 million for the renovation of the Palo Alto Municipal Golf Course (\$8.4 million) and to fully refinance the 2002B COPs (\$0.6 million). There are two semi-annual debt service payments, consisting of principal payments due annually on November 1 and interest payments due on May 1 and November 1, which are payable solely from and secured by the lease payments to be made by the City’s General Fund to the Public Improvement Corporation pursuant to the Lease Agreement. The leased property is the Palo Alto University Fire Station 1. The 2018 COPs has a final maturity date of November 1, 2047.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 7 – LONG-TERM DEBT (Continued)**

**2019 California Avenue Parking Garage Series A and B Certificates of Participation (2019A and 2019B COPs)** – On March 21, 2019, the City issued tax exempt 2019A COPs of \$26.8 million and taxable 2019B COPs of \$10.6 million for the construction of the California Avenue Parking Garage. There are two semi-annual debt service payments, consisting of principal payments due annually on November 1 and interest payments due on May 1 and November 1. The debt service is payable solely from and secured by the lease payments to be made by the City’s General Fund to the Public Improvement Corporation pursuant to the Lease Agreement. The leased property is the Rinconada Library and after construction and the substantial readiness of the California Avenue Parking Garage project, the garage will become the leased property. The maturity dates and TIC for 2019A COPs are November 2044 and 3.51 percent, respectively, and 2019B COPs are November 2048 and 4.32 percent, respectively, with a combined rate of 3.75 percent. The reserve account requirement was waived due to the City being a highly rated bond issuer.

**1995 Utility Revenue Bonds, Series A** – The City issued \$8.6 million of Utility Revenue Bonds on February 1, 1995 to finance certain extensions and improvements to the City’s Storm Drainage and Surface Water System. The Bonds are special obligations of the City payable solely from and secured by a pledge of and lien upon the revenues derived by the City from the funds, services and facilities of all Enterprise Funds except the Refuse Services Fund, Fiber Optics Fund and Airport Fund. Principal payments are payable annually on June 1 and interest payments semi-annually on June 1 and December 1. During the year ended June 30, 2020, the outstanding balance of the bonds was paid off.

**1999 Utility Revenue and Refunding Bonds** – The City issued \$17.7 million of Utility Revenue Bonds on June 1, 1999, to refund the 1990 Utility Revenue Refunding Bonds, Series A and the 1992 Utility Revenue Bonds, Series A, and to finance rehabilitation of two Wastewater Treatment sludge incinerators. The 1990 Utility Revenue Refunding Bonds, Series A and the 1992 Utility Revenue Bonds, Series A, were subsequently retired.

The 1999 Bonds are special obligations of the City payable solely from and secured by a pledge of and lien upon certain net revenues derived by the City’s sewer system and its storm and surface water system (the “Storm Drain System”). As of June 30, 2001, the 1999 Bonds had been allocated to and were repayable from net revenues of the following enterprise funds: Wastewater Collection (10.2 percent), Wastewater Treatment (64.6 percent) and Storm Drainage (25.2 percent). Principal payments are payable annually on June 1 and interest payments semi-annually on June 1 and December 1. A \$3.1 million 5.3 percent term bond and a \$5.1 million 5.3 percent term bond are due June 1, 2021 and 2024, respectively.

As required by the Indenture, the City established a Reserve Account with a Reserve Requirement. At the time it issued the Bonds, the City satisfied the Reserve Requirement with a deposit into the Reserve Account of a surety bond issued by Ambac Indemnity Corporation (renamed to Ambac Assurance Corporation in 1997).

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 7 – LONG-TERM DEBT (Continued)**

The pledge of future Net Revenues for the above bonds ends upon repayment of the \$6.7 million principal and \$0.9 million interest as the remaining debt service on the bonds, which is scheduled to occur in fiscal year 2024. For fiscal year 2020, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$59.1 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$45.8 million. Net Revenues available for debt service amounted to \$13.3 million, which represents coverage of 11.1 times over the \$1.2 million in debt service.

**2009 Water Revenue Bonds, Series A** – On October 6, 2009, the City issued \$35.0 million of Water Revenue Bonds to finance certain improvements to the City’s water utility system. Principal payments are due annually on June 1, and interest payments are due semi-annually on June 1 and December 1 from 1.80 percent to 5.95 percent. The 2009 Revenue Bonds are secured by net revenues generated by the Water Services Fund. The 2009 Bonds were issued as bonds designated as “Direct Payment Build America Bonds” under the provisions of the American Recovery and Reinvestment Act of 2009 (“Build America Bonds”). The City expects to receive a cash subsidy payment from the United States Treasury equal to 35 percent of the interest payable on the 2009 Bonds. The lien of the 1995 Bonds on the Net Revenues is senior to the lien on Net Revenues securing the 2009 Bonds and the 2011 Bonds. The City received subsidy payments amounting to \$473 thousand, which represents 33.0 percent of the interest payments due on December 1 and June 1.

The pledge of future Net Revenues for the above bonds ends upon repayment of the \$25.5 million principal and \$13.0 million interest as the remaining debt service on the bonds, which is scheduled to occur in fiscal year 2035. For fiscal year 2020, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$50.6 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$38.9 million. Net Revenues available for debt service amounted to \$11.7 million, which represented coverage of 4.6 times over the \$2.6 million in debt service.

**2011 Utility Revenue Refunding Bonds** – On September 8, 2011, the City issued \$17.2 million in Lease Revenue Bonds (2011 Bonds) to refund the outstanding 2002 Series A Utility Revenue Bonds (2002 Bonds) on a current basis. The 2002 Bonds were issued to finance improvement to the City’s municipal water utility system and the natural gas utility system. Principal of the 2011 Bonds is payable annually on June 1, and interest on the 2011 Bonds is payable semi-annually on June 1 and December 1. The 2011 Bonds are secured by net revenues generated by the Water Services and Gas Services Funds. The TIC is 2.28 percent.

The pledge of future Net Revenues of the above bonds ends upon repayment of the \$7.9 million principal and \$0.9 million interest as remaining debt service on the bonds, which is scheduled to occur in fiscal year 2026. For fiscal year 2020, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$89.1 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$63.1 million. Net Revenues available for debt service amounted to \$26.0 million, which represented coverage of 17.9 times over the \$1.5 million in debt service.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 7 –LONG-TERM DEBT (Continued)**

**2007 Electric System Clean Renewable Energy Tax Credit Bonds, Series A** – In October 2007, the City issued \$1.5 million of Electric Utility Clean Renewable Energy Tax Credit Bonds (CREBs), 2007 Series A, to finance the City’s photovoltaic solar panel project. The CREBs do not bear interest. In lieu of receiving periodic interest payments, bondholders are allowed annual federal income tax credits in an amount equal to a credit rate for such CREBs multiplied by the outstanding principal amount of the CREBs owned by the bondholders. The CREBs are payable solely from and secured solely by a pledge of the Net Revenues of the Electric system and the other funds pledged under the Indenture.

The pledge of future Electric Fund Net Revenues ends upon repayment of the \$0.2 million remaining debt service on the bonds, which is scheduled to occur in fiscal year 2022. For fiscal year 2020, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$173.8 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$128.2 million. Net Revenues available for debt service amounted to \$45.6 million, which represented coverage of 456.4 times over the \$0.1 million in debt service.

**Direct Borrowing - 2007 State Water Resources Loan** – In October 2007, the City approved a \$9 million direct loan agreement with State Water Resources Control Board (SWRCB) to finance the City’s Mountain View/Moffett Area reclaimed water pipeline project. Under the terms of the contract, the City has agreed to repay \$9 million to the State in exchange for receiving \$7.5 million in proceeds to be used to fund the Project. The difference of \$1.5 million between the repayment obligation and proceeds represents in-substance interest on the outstanding balance. Principal payments are payable annually on June 30.

Concurrently with the loan, the City entered into various other agreements including a cost sharing arrangement with the City of Mountain View. Pursuant to that agreement, City of Mountain View agreed to finance a portion of the project with a \$6.0 million loan repayable to the City. This loan has been recorded as “Due from other government agencies” in the accompanying financial statements. The balance due to the City at June 30, 2020 was \$2.7 million.

**Direct Borrowing - 2009 State Water Resources Loan** – In October 2009, the City approved an \$8.5 million direct loan agreement with SWRCB to finance the City’s Ultraviolet Disinfection project. Principal and interest payments are payable annually on November 30. The loan interest rate is 2.60 percent which represents a combination of loan service charge and interest.

**Direct Borrowing - 2017 State Water Resources Loan** - In June 2017, the SWRCB and the City executed a direct loan agreement for an award up to \$30 million, payable over 30 years to finance the replacement of sewage sludge “bio-solids” incinerators at the City’s Regional Water Quality Control Plant (RWQCP). In September 2017, due to the projected lower project costs, the agreement was amended to a lower loan amount of \$29.7 million. Under the terms of the agreement, a portion of the loan amount, \$4.0 million, is federally funded and has been adjusted to reflect the correct long term obligation balance. The loan interest rate is 1.80 percent.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 7 – LONG-TERM DEBT (Continued)**

The new facility will dewater the bio-solids and allow the material to be loaded onto trucks and taken to a separate facility for further treatment. The RWQCP provides treatment and disposal for wastewater for Palo Alto, Mountain View, Los Altos, Los Altos Hills, East Palo Alto Sanitary District, and Stanford University. Though Palo Alto is the recipient of the loan, the City’s agreement with the partner agencies oblige them to pay their proportionate share of the principal and interest of this loan. Palo Alto’s share of the loan payment is 38.2 percent with the partner agencies paying 61.8 percent.

**Debt Service Requirements (in thousands):**

Debt service requirements are shown below for all long-term debt.

For the Year Ending June 30	Governmental Activities			Business-Type Activities					
	Principal	Interest	Total	Bonds			Direct Borrowings		
				Principal	Interest	Total	Principal	Interest	Total
2021	\$ 2,595	\$ 4,740	\$ 7,335	\$ 4,030	\$ 1,982	\$ 6,012	\$ 1,521	\$ 578	\$ 2,099
2022	2,695	4,640	7,335	4,215	1,797	6,012	1,541	317	1,858
2023	2,795	4,535	7,330	4,300	1,616	5,916	1,566	300	1,866
2024	2,910	4,413	7,323	4,485	1,427	5,912	1,589	283	1,872
2025	3,035	4,298	7,333	2,790	1,229	4,019	1,613	266	1,879
2026-2030	17,525	19,030	36,555	9,625	4,655	14,280	7,997	1,057	9,054
2031-2035	22,000	14,466	36,466	10,815	2,005	12,820	4,574	648	5,222
2036-2040	27,530	8,775	36,305	-	-	-	4,409	467	4,876
2041-2045	13,390	3,613	17,003	-	-	-	4,820	284	5,104
2046-2050	10,050	861	10,911	-	-	-	4,178	84	4,262
Total	<u>\$ 104,525</u>	<u>\$ 69,371</u>	<u>\$ 173,896</u>	<u>\$ 40,260</u>	<u>\$ 14,711</u>	<u>\$ 54,971</u>	<u>\$ 33,808</u>	<u>\$ 4,284</u>	<u>\$ 38,092</u>

**Debt Call Provisions**

Long-term debt as of June 30, 2020 is callable on the following terms and conditions:

	<u>Initial Call Date</u>	
<b>Governmental Activities Long-Term Debt</b>		
2010 General Obligation Bonds		
\$6.595 million due 08/01/2032	08/01/31	(2)
\$4.890 million due 08/01/2034	08/01/33	(2)
\$17.725 million due 08/01/2040	08/01/35	(2)
<b>Business-Type Activities Long-Term Debt</b>		
Utility Revenue Bonds		
1999 Refunding	06/01/09	(1)
2011 Refunding	06/01/21	(1)

- (1) Callable in inverse numerical order of maturity at par plus a premium of 2 percent beginning on the initial call date. The call price declines subsequent to the initial date.
- (2) Callable in any order specified by the City at par value plus any accrued interest beginning on the initial call date.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 7 – LONG-TERM DEBT (Continued)**

**Leasing Arrangements**

COPs and Capital Leases are issued for the purpose of financing the construction or acquisition of projects defined in each leasing arrangement. Projects are leased to the City for lease payments which, together with unspent proceeds of the leasing arrangement, will be sufficient to meet the debt service obligations of the leasing arrangement. At the termination of the leasing arrangement, title to the project will pass to the City.

Leasing arrangements are similar to debt in that they allow investors to participate in a share of guaranteed payments made by the City. Because they are similar to debt, the present value of the total payments to be made by the City is recorded as long-term debt. The City's leasing arrangements are included in long-term obligations discussed above.

**Events of Default and Acceleration Clauses**

Generally, the City is considered to be in default if the City fails to pay the principal of and interest on the outstanding long-term debt when become due and payable. If an event of default has occurred and is continuing, the principal of the long-term debt, together with the accrued interest, may be declared due and payable immediately.

**NOTE 8 – SPECIAL ASSESSMENT DEBT**

**Special Assessment Debt with no City Commitment**

On February 29, 2012, the University Avenue Area Off-Street Parking Assessment District issued Limited Obligation Refunding Improvement Bonds (2012 Bonds), but the City has no legal or moral liability with respect to the payment of this debt, which is secured only by assessments on properties in this District. Therefore, this debt is not included in Governmental Activities long-term debt of the City. At June 30, 2020, the District's outstanding debt amounted to \$19.5 million. The proceeds from the 2012 Bonds, combined with available Assessment Funds, were used to redeem the outstanding University Avenue Area Off-Street Parking Assessment District Series 2001-A and Series 2002-A Bonds. On June 28, 2016, the District defeased \$1.6 million of the 2012 Bonds using funds remaining from completion of the project. The defeased debt will be paid on September 2, 2022. The TIC is 3.97 percent.

**NOTE 9 – LANDFILL POST-CLOSURE MAINTENANCE**

The 126 acre Palo Alto Refuse Disposal Site (Palo Alto Landfill) was filled to capacity and stopped accepting waste in July 2011. State and federal laws and regulations require the City to construct a final cover to cap the waste, and to perform certain post-closure maintenance and monitoring activities at the site for a minimum of thirty years after closure. As of November 2015, the Palo Alto Landfill has been fully capped and subsequently converted to a pastoral park (Byxbee Park) that is open to the public. A final post-closure maintenance plan and cost estimate for the thirty year post-closure related activities was approved by State and local regulatory agencies in 2014. This cost estimate is adjusted annually for inflation at a percentage provided by the State. Landfill post-closure liabilities as of June 30, 2020 are \$7.1 million, an increase of \$0.1 million from the previous year. The City is required by State and federal laws and regulations to fund post-closure maintenance activities by pledging future revenue received from Refuse customers through rate fees.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 10 – NET POSITION AND FUND BALANCES**

**Net Position**

Net Position is the excess of the City's assets and deferred outflows of resources over its liabilities and deferred inflows of resources. Net position is divided into three categories that are described below:

*Net Investment in Capital Assets* describes the portion of net position, which is represented by current net book value of the City's capital assets, less the outstanding balance of any debt issued to finance these assets.

*Restricted* describes the portion of net position that is reduced by liabilities related to restricted assets. Generally a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

*Unrestricted* describes the portion of net position which is not restricted as to use.

**Fund Balances**

As prescribed by GASB Statement No. 54, governmental funds report fund balances in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balances for governmental funds are made up of the following:

*Nonspendable* – This category is comprised of amounts that are: (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: prepaid items. The corpus of the permanent fund is contractually required to be maintained intact.

*Restricted* – This category is comprised of amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

*Committed* – This category is comprised of amounts that can only be used for the specific purposes determined by the action that constitutes the most binding constraint (i.e. ordinance) of the City's highest level of decision-making authority, the City Council. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally.

*Assigned* – This category is comprised of amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by the City Council or the City Manager, to whom the City Council has delegated the authority to assign amounts to be used for specific purposes.

*Unassigned* – This category is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. Other governmental funds may report negative unassigned fund balance, which occurs when a fund has a residual deficit after allocation of fund balance to the nonspendable, restricted or committed categories.

The fund balances of all governmental funds are presented by the above mentioned categories on the face of the financial statements. In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance categories, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 10 – NET POSITION AND FUND BALANCES (Continued)**

The General Fund Budget Stabilization Reserve (BSR) is established by authority of the General Fund Reserve Policy, which is approved by the City Council and included in the City’s annual adopted budget. The BSR is maintained in the range of 15 to 20 percent of General Fund expenditures and operating transfers, with a target of 18.5 percent. Any reserve level below 15 percent requires City Council approval. At the discretion of the City Manager, a reserve balance above 18.5 percent may be transferred to the Infrastructure Reserve within the Capital Projects Fund. The purpose of the General Fund BSR is to fund unbudgeted, unanticipated one-time costs. The BSR is not meant to fund ongoing, recurring General Fund expenditures.

As of June 30, 2020 total outstanding encumbrances and reappropriations related to governmental funds were \$7.6 million for the General Fund, \$59.2 million for the Capital Projects Fund, and \$22.0 million for the Special Revenue Funds.

**Enterprise Funds**

At June 30, 2020, enterprise funds’ unrestricted net position (in thousands) were as follows:

	Water	Electric	Fiber Optics	Gas	Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Airport	Total
Unrestricted										
Rate stabilization										
Supply	\$ -	\$ -	\$ -	\$ 2,057	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,057
Distribution	9,069	-	33,064	6,363	342	5,562	16,382	3,681	(4,155)	70,308
	<u>9,069</u>	<u>-</u>	<u>33,064</u>	<u>8,420</u>	<u>342</u>	<u>5,562</u>	<u>16,382</u>	<u>3,681</u>	<u>(4,155)</u>	<u>72,365</u>
Operations										
Supply	-	29,429	-	-	-	-	-	-	-	29,429
Distribution	19,840	9,109	-	13,449	5,661	-	-	-	-	48,059
	<u>19,840</u>	<u>38,538</u>	<u>-</u>	<u>13,449</u>	<u>5,661</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>77,488</u>
Emergency plant replacement	-	-	1,000	-	-	1,980	-	-	-	2,980
Electric special projects	-	46,664	-	-	-	-	-	-	-	46,664
Reappropriations	9,692	6,243	774	799	2,554	1,746	-	4,641	-	26,449
Commitments	2,210	9,372	294	2,930	2,354	6,821	3,025	678	1,039	28,723
Underground loan	-	727	-	-	-	-	-	-	-	727
Notes and loans	-	-	-	-	-	1,651	-	-	-	1,651
Landfill corrective action	-	-	-	-	-	-	771	-	-	771
Hydro stabilization reserve	-	15,400	-	-	-	-	-	-	-	15,400
Public benefit program	-	1,905	-	-	-	-	-	-	-	1,905
Reserve for LCFS	-	6,340	-	-	-	-	-	-	-	6,340
CIP reserve	5,726	5,880	-	3,820	978	-	-	-	-	16,404
Geng Road reserve	-	-	-	-	-	-	268	-	-	268
GASB 68 Pension reserve	(14,114)	(33,747)	(2,154)	(14,851)	(8,319)	(21,125)	(5,775)	(3,829)	(894)	(104,808)
GASB 75 OPEB reserve	(4,215)	(13,741)	-	(6,058)	(2,316)	(7,158)	(2,576)	(1,129)	(420)	(37,613)
Total	<u>\$ 28,208</u>	<u>\$ 83,581</u>	<u>\$ 32,978</u>	<u>\$ 8,509</u>	<u>\$ 1,254</u>	<u>\$ (10,523)</u>	<u>\$ 12,095</u>	<u>\$ 4,042</u>	<u>\$ (4,430)</u>	<u>\$ 155,714</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 10 – NET POSITION AND FUND BALANCES (Continued)**

The City Council has set aside unrestricted net position for general contingencies, and future capital and debt service expenditures including operating and capital contingencies for unusual or emergency expenditures.

**Internal Service Funds**

At June 30, 2020, Internal Service Funds unrestricted net position (in thousands) were as follows:

	Vehicle Replacement and Maintenance	Technology	Printing and Mailing Services	General Benefits	Workers' Compensation Insurance Program	General Liabilities Insurance Program	Retiree Health Benefits	Total
Unrestricted net position:								
Commitments	\$ 6,571	\$ 7,004	\$ 63	\$ 518	\$ 16	\$ 33	\$ -	\$ 14,205
Future catastrophic losses	-	-	-	-	-	4,029	-	4,029
Retiree health care	-	-	-	-	1,459	-	1,310	2,769
GASB 68 pension reserve	(3,326)	(11,418)	(276)	-	(6)	-	-	(15,026)
GASB 75 OPEB reserve	(1,607)	(3,281)	(146)	-	(1)	-	-	(5,035)
Available	6,547	17,861	(33)	4,961	-	-	-	29,336
Total	<u>\$ 8,185</u>	<u>\$ 10,166</u>	<u>\$ (392)</u>	<u>\$ 5,479</u>	<u>\$ 1,468</u>	<u>\$ 4,062</u>	<u>\$ 1,310</u>	<u>\$ 30,278</u>

- **Commitments** represent the portion of net position set aside for open purchase orders and reappropriations.
- **Future catastrophic losses** represent the portion of net position to be used for unforeseen future losses.
- **Retiree health care** represents the portion of net position set aside to defer future costs of retiree health care coverage.
- **GASB 68 pension reserve** is the portion of net position required to be set aside to meet defined benefit pension obligations.
- **GASB 75 OPEB reserve** is the portion of net position required to be set aside to meet OPEB obligations.

**Deficit Fund Balance and Net Position:**

At June 30, 2020, the City's Printing and Mailing Services internal service fund had a deficit net position of \$359 thousand. The deficit is due to the impact of Pension and OPEB liabilities and related balances. The deficit is expected to be funded by future internal service charges to other City funds.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 11 – PENSION PLANS**

**(a) General Information about the Pension Plans**

**Plan Descriptions** - Substantially all permanent City employees are eligible to participate in the City's separate Safety (police and fire) and Miscellaneous (all other) Plans, agent multiple-employer defined benefit pension plans administered by CalPERS, which acts as a common investment and administrative agent for its participating member employers. Benefits provisions under the Plans are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans including benefits provisions, assumptions and membership information. The reports can be found on the CalPERS website.

**Benefits Provided** - CalPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to Plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service (equal to one year of full-time employment), age at retirement and final compensation. The death benefit is one of the following: the 1959 Survivor Benefit, or the pre-retirement option 2W Death Benefit for local fire members only.

The Plans' provisions and benefits in effect at June 30, 2020, are summarized in the following table. Contribution rates are based on the Actuarial Valuation Report as of June 30, 2017.

	Safety Plan			
	Fire Fighters, Fire Chief Association, Police Officers,	Fire Fighters, Fire Chief Association	Police Officers, Police Management	Fire Fighters, Fire Chief Association, Police Officers,
	On or after June 8,	On or after June 8,	On or after Dec. 8,	On or after Jan 1,
Hire Date	Prior to June 8, 2012	2012	2012	2013
Benefit formula <sup>1</sup>	3% at 55	3% at 55	3% at 50	2.7% at 57
Benefit vesting schedule	5 years service	5 years service	5 years service	5 years service
Benefit payment	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	50	55 <sup>1</sup>	55 <sup>1</sup>	57 <sup>1</sup>
Monthly benefit as % of eligible compensation	3%	3%	3%	2.7%
Actuarially determined contribution rate - EE	9%	9%	9%	11.25%
Actuarially determined contribution rate - ER	59.378%	59.378%	59.378%	59.378%
	Miscellaneous Plan			
		On or after July 17,	On or after Jan 1,	
Hire Date	Prior to July 17, 2010	2010	2013	
Benefit formula	2.7% at 55 <sup>2</sup>	2% at 60 <sup>2</sup>	2% at 62 <sup>3</sup>	
Benefit vesting schedule	5 years service	5 years service	5 years service	
Benefit payments	monthly for life	monthly for life	monthly for life	
Retirement age	55 <sup>2</sup>	60 <sup>2</sup>	62 <sup>3</sup>	
Monthly benefit as % of eligible compensation <sup>2</sup>	2.70%	2.0% - 2.418%	2%	
Actuarially determined contribution rate - EE	8%	7%	6.25%	
Actuarially determined contribution rate - ER	35.631%	35.631%	35.631%	

<sup>1</sup> Employees can retire at age 50 with reduced benefits of 2.4% - 2.88% if hired before Jan 1, 2013, or 2.0% - 2.6% if hired on or after Jan 1, 2013.

<sup>2</sup> Employees can retire at age 50 with reduced benefits of 2.0% - 2.56% if hired before July 17, 2010, or 1.092% - 1.874% if hired on or after July 17, 2010.

<sup>3</sup> Employees can retire at age 52 with reduced benefits of 1.0% - 1.9%

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 11 – PENSION PLANS (Continued)**

**Employees Covered** – Based on the Actuarial Valuation Report as of June 30, 2019, the most recent information available, the following employees were covered by the benefits terms for each Plan:

	Miscellaneous Plan	Safety Plan
Inactive employees or beneficiaries currently receiving benefits	1,194	430
Inactive employees entitled to but not yet receiving benefits	826	109
Active employees	773	169
Total	2,793	708

**Contributions** – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Further detail of contributions can be found in the Required Supplemental Information Schedules of Pension Contributions.

In April 2017, the City established a Section 115 irrevocable trust with the Public Agency Retirement Services (PARS). The Council approved an initial deposit of \$2.1 million in General Fund proceeds into the General Fund subaccount of the City’s PARS Trust Account. The Trust Account allows more control and flexibility in investment allocations compared to City’s portfolio which is restricted by State regulations to fixed income instruments. The City proactively contributes to the Section 115 irrevocable trust amounts reflective of what retirement costs would be if the normal cost of contributions was budgeted at a 6.2% discount rate. During the year, the City contributed \$9.5 million to the PARS Trust. As of June 30, 2020, the City reported the account balance of \$28.7 million as restricted investments in the General Benefits Internal Service Fund.

**(b) Net Pension Liability**

The City’s net pension liability for each plan is measured as the total pension liability, less each plan’s fiduciary net position. Net pension liability is measured as of June 30, 2019 (measurement date), using the Actuarial Valuation Report as of June 30, 2018 rolled forward to June 30, 2019 using standard update procedures.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 11 – PENSION PLANS (Continued)**

**Actuarial Assumptions** - The total pension liabilities were determined using the following actuarial assumptions:

	Miscellaneous and Safety Plans
Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varies by Entry Age and Service
Mortality <sup>1</sup>	Derived using CalPERS membership data for all funds.
Post Retirement Benefit Increase	The lessor of contract COLA or 2.50% until Purchasing Power Protection Allowance Floor on purchasing power applies, 2.50% thereafter.

<sup>1</sup> The mortality table used was developed based on CalPERS' specific data. The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and post-retirement mortality rates includes 15 years of projected mortality improvements using 90% of Scale MP-2016 published by the Society of Actuaries. For more details on this table, please refer to the 2017 CalPERS Experience Study available on the CalPERS website.

All other actuarial assumptions used in the June 30, 2018 actuarial valuation were based on the 2017 CalPERS Experience Study for the period from 1997 to 2015, including updates to salary increase, mortality and retirement rates. Further details of the 2017 CalPERS Experience Study can be found on the CalPERS website under Forms and Publications.

**Discount Rate** – The discount rate used to measure the total pension liability was 7.15 percent for each Plan. The projection of cash flows used to determine the discount rate assumed that the contributions from employers will be made at current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 11 – PENSION PLANS (Continued)**

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated and adjusted to account for assumed administrative expenses.

The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The long-term expected real rate of return by asset class and the target allocation adopted by the CalPERS Board effective on July 1, 2018, are as follows:

<u>Asset Class</u>	<u>Current Target Allocation</u>	<u>Real Return Years 1 - 10<sup>1</sup></u>	<u>Real Return Years 11+<sup>2</sup></u>
Global Equity	50.0%	4.80%	5.98%
Global Fixed Income	28.0	1.00	2.62
Inflation Sensitive	0.0	0.77	1.81
Private Equity	8.0	6.30	7.23
Real Estate	13.0	3.75	4.93
Liquidity	1.0	0.00	(0.92)

(1) An expected inflation rate of 2.00% is used for this period.

(2) An expected inflation rate of 2.92% is used for this period.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 11 – PENSION PLANS (Continued)**

**(c) Changes in the Net Pension Liability**

The following table is based on the GASB 68 Accounting Valuation Report and shows the changes in the net pension liability for the Miscellaneous and Safety Plans (in thousands):

	Total Pension Liability	Plan Net Position	Net Pension Liability
<b><u>Miscellaneous Plan:</u></b>			
Balances calculated at July 1, 2019	\$ 811,330	\$ 546,669	\$ 264,661
Changes for the year:			
Service cost	15,045	-	15,045
Interest on total pension liability	57,523	-	57,523
Differences between expected and actual experiences	6,230	-	6,230
Contributions from employer	-	25,423	(25,423)
Contributions from employees	-	6,940	(6,940)
Net investment income	-	36,323	(36,323)
Benefit payments, including refunds of employee contributions	(41,124)	(41,124)	-
Administrative expense	-	(390)	390
Other non-investment expenses	-	(1)	1
Net changes	<u>37,674</u>	<u>27,171</u>	<u>10,503</u>
Balances reported at June 30, 2020	<u>849,004</u>	<u>573,840</u>	<u>275,164</u>
<b><u>Safety Plan:</u></b>			
Balances calculated at July 1, 2019	\$ 439,408	\$ 280,173	\$ 159,235
Changes for the year:			
Service cost	7,259	-	7,259
Interest on total pension liability	31,066	-	31,066
Differences between expected and actual experiences	3,841	-	3,841
Contributions from employer	-	12,370	(12,370)
Contributions from employees	-	3,225	(3,225)
Net investment income	-	18,217	(18,217)
Benefit payments, including refunds of employee contributions	(24,757)	(24,757)	-
Administrative expense	-	(201)	201
Other non-investment income	-	1	(1)
Net changes	<u>17,409</u>	<u>8,855</u>	<u>8,554</u>
Balances reported at June 30, 2020	<u>456,817</u>	<u>289,028</u>	<u>167,789</u>
Total	<u>\$ 1,305,821</u>	<u>\$ 862,868</u>	<u>\$ 442,953</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 11 – PENSION PLANS (Continued)**

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** - The following table presents the net pension liability of the Plans as of the measurement date, calculated using the discount rate of 7.15 percent, compared to a discount rate that is 1 percentage point lower (6.15 percent) or 1 percentage point higher (8.15 percent). Amounts shown below are in thousands:

	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
<b>Miscellaneous Plan:</b>			
Plan's Net Pension Liability	\$ 383,299	\$ 275,164	\$ 185,277
<b>Safety Plan:</b>			
Plan's Net Pension Liability	\$ 226,585	\$ 167,789	\$ 119,244

**Plan Fiduciary Net Position** – Detailed information about the Plan's fiduciary net position is available in the separately issued CalPERS financial report.

**(d) Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions**

For the year ended June 30, 2020, the City recognized a pension expense of \$46.9 million and \$30.5 million for the Miscellaneous and Safety Plan, respectively, for a total of \$77.4 million. At June 30, 2020, the City reported pension related deferred outflows of resources and deferred inflows of resources for the Miscellaneous and Safety Plans from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
<b>Miscellaneous Plan:</b>		
Pension contributions subsequent to measurement date	\$ 28,872	\$ -
Change of assumptions	-	1,891
Difference between expected and actual experience	5,505	-
Net difference between projected and actual earnings on plan investments	-	4,014
Balance reported at June 30, 2020	<u>34,377</u>	<u>5,905</u>
<b>Safety Plan:</b>		
Pension contributions subsequent to measurement date	14,260	-
Change of assumptions	-	393
Difference between expected and actual experience	5,785	-
Net difference between projected and actual earnings on plan investments	-	1,835
Balance reported at June 30, 2020	<u>20,045</u>	<u>\$ 2,228</u>
Total, Miscellaneous and Safety Plans	<u>\$ 54,422</u>	<u>\$ 8,133</u>



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 11 – PENSION PLANS (Continued)**

The \$43.1 million reported as deferred outflows of resources relates to contributions paid by the City from July 1, 2019 through June 30, 2020 which is subsequent to the City’s measurement date of June 30, 2019 for both the Miscellaneous and Safety Plans. This amount will be recognized as a reduction of the net pension liability in the year ended June 30, 2021.

The net differences reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in future pension expense as follows (in thousands):

Year Ended June 30,	Miscellaneous Plan	Safety Plan	Total
2021	\$ 3,307	\$ 5,299	\$ 8,606
2022	(3,139)	(1,528)	(4,667)
2023	(1,034)	(503)	(1,537)
2024	466	289	755
	\$ (400)	\$ 3,557	\$ 3,157

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)**

**(a) General Information about the OPEB Plan**

In addition to providing pension benefits, the City participates in the California Public Employees’ Medical and Health Care Act program to provide certain health care benefits for retired employees. The City’s Other Post-Employment Benefit plan is an agent multiple-employer defined benefit plan. Employees who retire directly from the City are eligible for retiree health benefits if they retire on or after age 50 with 5 years of service and are receiving a monthly pension from CalPERS. Details of benefits to retirees are noted in the following tables:

Unit	Hired Before	Retiree Coverage <sup>1</sup>	Dependent Coverage	Retired on or After	Retiree Contribution
Management & Professional <sup>2</sup>	1/1/2004	100%	100%	5/1/2011	Flat rate <sup>4</sup>
Police Management <sup>2</sup>	1/1/2004	100%	100%	6/1/2012	Flat rate <sup>4</sup>
Fire Fighters <sup>2</sup>	1/1/2004	100%	100%	12/1/2011	Flat rate <sup>4</sup>
Fire Chiefs Association <sup>2</sup>	1/1/2004	100%	100%	1/1/2013	Flat rate <sup>4</sup>
SEIU <sup>2</sup>	1/1/2005	100%	100%	5/1/2011	Flat rate <sup>4</sup>
Police Officers <sup>3</sup>	1/1/2006	100%	100%	4/1/2015	Flat rate <sup>4</sup>
Utilities Managers & Professional <sup>2</sup>	1/1/2004	100%	100%	5/1/2011	10%

<sup>1</sup> 100% of benefits if the employee has five years CalPERS service credit and the employee retired from the City.

<sup>2</sup> Effective 1/1/2007 plan capped at the second highest CalPERS Bay Area Basic plan premium.

<sup>3</sup> Effective 7/1/2014 plan capped at the second highest CalPERS Bay Area Basic plan premium.

<sup>4</sup> For the year ended June 20, 2020, City pays \$804-\$840 for employee, \$1,606-1,680 for employee +1, and \$2,088-\$2,180 for family.

Retiree contributions for units with the following hire dates are determined by Government Code Section 22893, 20 year graduated schedule:

Unit	Hired on or After	Retiree Coverage <sup>1</sup>	Dependent Coverage <sup>2</sup>
Management & Professional	1/1/2004	50%-100%	Max. 90%
Police Management	1/1/2004	50%-100%	Max. 90%
Fire Fighters	1/1/2004	50%-100%	Max. 90%
Fire Chiefs Association	1/1/2004	50%-100%	Max. 90%
Utilities Managers & Professional	1/1/2004	50%-100%	Max. 90%
SEIU	1/1/2005	50%-100%	Max. 90%
Police Officers	1/1/2006	50%-100%	Max. 90%

<sup>1</sup> Employees with ten years of CalPERS service, at least five of which are at the City of Palo Alto, receive 50% of the specified employer contribution, with the City portion increasing by 5% for each additional year of service credit.

<sup>2</sup> The City will contribute an additional 90 percent of the weighted average of the additional premiums required for enrollment of those family members, during the benefit year to which the formula is applied.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)**

In fiscal year 2008, the City elected to participate in an irrevocable trust to provide a funding mechanism for retiree health benefits. The Trust, California Employers’ Retirees Benefit Trust (CERBT), is administrated by CalPERS and managed by a separately appointed board, which is not under control of the City Council. This Trust is not considered a component unit of the City.

**Employees Covered** – Employees covered by the benefit terms as of June 30, 2019, the most recent information available, are as follows:

Inactive employees or beneficiaries currently receiving benefits	974
Inactive employees entitled to but not yet receiving benefits	123
Active employees	930
Total	2,027

**Contributions** – The City’s OPEB funding policy is to contribute 100 percent or more of the actuarially determined contribution each year pursuant to City Council Resolution. For the year ended June 30, 2020, the City’s contributions totaled \$16.5 million.

**(b) Net OPEB Liability**

The City’s net OPEB liability is measured as the total OPEB liability, less the OPEB plan’s fiduciary net position. The net OPEB liability is measured as of June 30, 2019, using an annual actuarial valuation as of June 30, 2019. A summary of principal assumptions and methods used to determine the net OPEB liability is shown below.

Valuation Date	June 30, 2019
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry-Age, level percentage of payroll
Actuarial Assumptions:	
Discount Rate	6.75%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	2017 CalPERS Experience Study for the period from 1997 to 2015
Medical Trend	Non-Medicare - 7.25% for 2021, decreasing to an ultimate rate of 4.0% in 2076 Medicare - 6.3% for 2021, decreasing to an ultimate rate of 4.0% in 2076
Disability, Termination, Retirement Mortality	CalPERS 1997-2015 Experience Study 2017 CalPERS Experience Study for the period from 1997 to 2015
Mortality Improvement	Post-retirement mortality projected fully generational with Society of Actuaries Scale MP-2019
Increase to Group 3 Flat Dollar Caps	1/2 of Medical Trend, not less than assumed inflation (2.75%)
Healthcare Participation for Future ACA Excise Tax	Future retirees: 95-98%, based on Plan experience Estimate by 2% load on cash subsidy

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)**

**Change of Assumptions** – During measurement period 2019, demographic assumptions were change in accordance to the 2017 CalPERS Experience Study while mortality improvement scale was updated to Scale MP-2019.

**Discount Rate** – The discount rate used to measure the total OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that the City’s contribution will be made equal to the actuarially determined contribution. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments applied to all periods of projected benefit payments to determine the total OPEB liability.

The long-term expected rate of return for OPEB plan investments was 6.75%. The asset class target allocation and geometric real rates of return for each major asset class are summarized in the following table.

Asset Class	Current Target Allocation	Expected Real Rate of Return
Global Equity	59.0%	4.82%
Fixed Income	25.0	1.47
TIPS	5.0	1.29
Commodities	3.0	0.84
REITS	8.0	3.76
Assumed long-term rate of inflation of 2.75%		

**(c) Changes in the Net OPEB Liability**

The following table shows the changes in the net OPEB liability (in thousands):

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2019	\$ 255,630	\$ 107,810	\$ 147,820
Changes during the measurement period:			
Service cost	6,622	-	6,622
Interest on the total OPEB liability	17,292	-	17,292
Changes in benefit terms	972	-	972
Changes in assumptions	7,057	-	7,057
Differences between expected and actual experience	(29,907)	-	(29,907)
Contributions - employer	-	15,997	(15,997)
Investment income	-	6,852	(6,852)
Administrative expenses	-	(23)	23
Benefit payments	(12,157)	(12,157)	-
Net changes	(10,121)	10,669	(20,790)
Balance at June 30, 2020	\$ 245,509	\$ 118,479	\$ 127,030

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)**

**Sensitivity of the Net OPEB Liability to Changes in the Discount Rate** – The following presents the net OPEB liability of the City as of the measurement date, calculated using the discount rate of 6.75 percent, as well as what the City’s net OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.75 percent) or 1 percentage-point higher (7.75 percent) than the current discount rate:

Discount Rate -1% (5.75%)	Current Discount Rate (6.75%)	Discount Rate +1% (7.75%)
\$ 158,831	\$ 127,030	\$ 100,815

**Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate** – The following presents the net OPEB liability of the City, as well as what the City’s net OPEB liability would be if it were calculated using healthcare cost trends rates that are 1% lower or 1% higher than the current healthcare cost trend rates.

Healthcare Trend Rate - 1%	Healthcare Trend Current Rate	Healthcare Trend Rate + 1%
\$ 99,522	\$ 127,030	\$ 160,713

**OPEB Plan Fiduciary Net Position** – Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued CalPERS financial report.

**(d) OPEB Expenses and Deferred Outflows/Inflows of Resources Related to OPEB**

For the fiscal year ended June 30, 2020, the City recognized an OPEB expense of \$12.7 million for the OPEB plan. At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 16,475	\$ -
Differences between expected and actual experience	-	24,469
Changes in assumptions	5,774	-
Net differences between projected and actual earnings on plan investments	-	1,525
Total	\$ 22,249	\$ 25,994

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 12 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)**

The \$16.5 million reported as deferred outflows of resources relates to contributions made by the City from July 1, 2019 through June 30, 2020, which is subsequent to the City’s measurement date of June 30, 2019. This amount will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2021.

The net differences reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in future OPEB expense as follows (in thousands):

<u>Fiscal Year Ending June 30,</u>	
2021	\$ (4,903)
2022	(4,903)
2023	(4,275)
2024	(4,064)
2025	<u>(2,075)</u>
Total	<u>\$ (20,220)</u>

**NOTE 13 – DEFERRED COMPENSATION PLAN**

City employees may defer a portion of their compensation under City sponsored Deferred Compensation Plans created in accordance with Internal Revenue Code Section 457. Under these Plans, participants are not taxed on the deferred portion of their compensation until distributed to them. Distributions may be made only at termination, retirement, death or in an emergency as defined by the Plans.

The laws governing deferred compensation plan assets require plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the City’s property and are not subject to City control, they have been excluded from these financial statements.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 14 – RISK MANAGEMENT**

**Coverage**

The City provides dental coverage to employees through a City plan, which is administered by a third party service agent. The City is self-insured for dental claims.

The City has a workers' compensation insurance policy with coverage up to the statutory limit set by the State of California. The City retains the risk for the first \$750,000 in losses for each accident and employee under this policy.

The City also has public employee dishonesty insurance with a \$5,000 deductible and coverage up to \$1.0 million per loss. The Director of Administrative Services/CFO and City Manager each have coverage up to \$4.0 million per loss.

The City's property, boiler, and machinery insurance policy has various deductibles and coverage based on the type of property.

The City is a member of the Authority for California Cities Excess Liability (ACCEL), which provides excess general liability insurance coverage, including auto liability, up to \$200 million per occurrence. The City retains the risk for the first \$1.0 million in losses for each occurrence under this policy.

ACCEL was established for the purpose of creating a risk management pool for central California municipalities. ACCEL is governed by a Board of Directors consisting of representatives of its member cities. The board controls the operations of ACCEL, including selection of claims management, general administration and approval of the annual budget.

The City's deposits with ACCEL equal the ratio of the City's payroll to the total payroll of all entities. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

During the year ended June 30, 2020, the City paid \$1.4 million to ACCEL for current year coverage.

Audited financial statements are available from ACCEL at 100 Pine Street, 11<sup>th</sup> Floor, San Francisco, California 94111.

**Claims Liability**

The City provides for the uninsured portion of claims and judgments in the General Liabilities insurance program funds. Claims and judgments, including a provision for claims incurred but not reported, and claim adjustment expenses are recorded when a loss is deemed probable of assertion and the amount of the loss is reasonably determinable. As discussed above, the City has coverage for such claims, but it has retained the risk for the deductible or uninsured portion of these claims.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 14 – RISK MANAGEMENT (Continued)**

The City’s liability for uninsured claims is limited to dental, general liability, and workers’ compensation claims, as discussed above. Dental liability is based on a percentage of current year actual expense. General and workers’ compensation liabilities are based on the results of actuarial studies, and include amounts for claims incurred but not reported as follows as of June 30 (in thousands):

	Year Ended June 30	
	2020	2019
Beginning balance	\$ 28,365	\$ 23,748
Claims expense, including claims incurred but not reported (IBNR)	6,914	8,998
Claims paid	(5,566)	(4,381)
Ending balance	\$ 29,713	\$ 28,365
Current portion	\$ 6,198	\$ 6,171

The City has not incurred a claim that has exceeded its insurance coverage limits in any of the last three years, nor have there been any significant reductions in insurance coverage.

**NOTE 15 – JOINT VENTURES**

**General**

The City participates in joint ventures through Joint Powers Authorities (JPAs) established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these JPAs exercise full powers and authorities within the scope of the related Joint Powers Agreement, including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Obligations and liabilities of the JPAs, including the long-term debt in which the City participates in repayment, are not obligations and liabilities of the City, and are not reported on the City’s financial statements.

Each JPA is governed by a board consisting of representatives from each member agency. Each board controls the operations of its respective JPA, including selection of management and approval of operating budgets, independent of any influence by member agencies beyond their representation on the Board.

**Northern California Power Agency**

The City is a member of Northern California Power Agency (NCPA), a joint powers agency which operates under a joint powers agreement among fifteen public agencies. The purpose of NCPA is to use the combined strength of its members to purchase, generate, sell and interchange electric energy and capacity through the acquisition and use of electrical generation and transmission facilities. Each agency member has agreed to fund a pro rata share of certain assessments by NCPA and enter into take-or-pay power supply contracts with NCPA. While NCPA is governed by its members, none of its obligations are those of its members unless expressly assumed by them.



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 15 – JOINT VENTURES (Continued)**

During the year ended June 30, 2020, the City incurred expenses totaling \$84.9 million for purchased power and assessments earned by NCPA.

The City's interest in NCPA projects and reserves, as computed by NCPA, was \$8.0 million at June 30, 2020. This amount represents the City's portion of funds, which resulted from the settlement with third parties of issues with financial consequences and reconciliations of several prior years' budgets for programs. It is recognized that all the funds credited to the City are linked to the collection of revenue from the City's ratepayers, or to the settlement of disputes relating to electric power supply and that the money was collected from the City's ratepayers to pay power bills. Additionally, the NCPA Commission identified and approved the funding of specific reserves for working capital, accumulated employees' post-retirement medical benefits, and billed property taxes for the geothermal project. The Commission also identified a number of contingent liabilities that may or may not be realized, the cost of which in most cases is difficult to estimate at this time. One such contingent liability is the steam field depletion, which will require funding to cover debt service and operational costs in excess of the expected value of the electric power. The General Operating Reserve (GOR) is intended to minimize the number and amount of individual reserves needed for each project, protect NCPA's financial condition and maintain its credit worthiness. There are no funds on deposit with NCPA as a reserve against these contingencies identified by NCPA.

Members of NCPA may participate in an individual project of NCPA without obligation for any other project. Member assessments collected for one project may not be used to finance other projects of NCPA without the member's permission.

**Geothermal Projects**

A purchased power agreement with NCPA obligated the City for 6.2 percent and 6.2 percent, respectively, of the operating costs and debt service of the two NCPA 110-megawatt geothermal steam-powered generating plants, Project Number 2 and Project Number 3.

The City's participation in the Geothermal Project was sold to Turlock Irrigation District in October 1984. Accordingly, the City is liable for payment of outstanding geothermal related debt only in the event that Turlock Irrigation District fails to make specified payments. Effective July 2019, the City's obligation to backstop Turlock Irrigation District is completed as the related outstanding debt are paid off.

**Calaveras Hydroelectric Project**

In July 1981, NCPA agreed with Calaveras County Water District to purchase the output of the North Fork Stanislaus River Hydroelectric Development Project and to finance its construction. Debt service payments to NCPA began in February 1990 when the project was declared substantially complete and power was delivered to the participants. Under its power purchase agreement with NCPA, the City is obligated to pay 22.9 percent of this Project's debt service and operating costs. At June 30, 2020, the book value of this Project's plant, equipment and other assets was \$333.2 million, while its long-term debt totaled \$279.4 million and other liabilities totaled \$46.8 million. The City's share of the Project's long-term debt amounted to \$64.0 million at that date.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 15 – JOINT VENTURES (Continued)**

**Geothermal Public Power Line**

In 1983, NCPA, the Sacramento Municipal Utility District, the City of Santa Clara and the Modesto Irrigation District (Joint Owners) initiated studies for a Geothermal Public Power Line (GPPL), which would carry power generated at several existing and planned geothermal plants in The Geysers area to a location where the Joint Owners could receive it for transmission to their load centers. NCPA has an 18.5 percent share of this Project and the City has an 11.1 percent participation in NCPA's share. In 1989, the development of the proposed Geothermal Public Power Line was discontinued because NCPA was able to contract for sufficient transmission capacity to meet its needs in The Geysers.

However, because the project financing provided funding for an ownership interest in a Pacific Gas & Electric (PG&E) transmission line, a central dispatch facility and a performance bond pursuant to the Interconnection Agreement with PG&E, as well as an ownership interest in the proposed GPPL, NCPA issued \$16 million in long-term, fixed-rate revenue bonds in November 1989 to defease the remaining variable rate refunding bonds used to refinance this project. The City is obligated to pay its 11.1 percent share of the related debt service, but debt service costs are covered through NCPA billing mechanisms that allocate the costs to members based on use of the facilities and services.

At June 30, 2020, the book value of this Project's plant, equipment and other assets was zero, and its long-term debt totaled zero.

NCPA's financial statements can be obtained from NCPA, 180 Cirby Way, Roseville, CA 95678.

**Transmission Agency of Northern California (TANC)**

The City is a member of a joint powers agreement with 14 other entities in Transmission Agency of Northern California (TANC). TANC's purpose is to provide electrical transmission or other facilities for the use of its members. While governed by its members, none of TANC's obligations are those of its members unless expressly assumed by them. The City was obligated to pay 4 percent of TANC's debt-service and operating costs. However, a Resolution was approved authorizing the execution of a Long-Term Layoff Agreement (LTLA) between the Cities of Palo Alto and Roseville. These two agencies desired to "layoff" their entitlement rights to the California-Oregon Transmission Project (COTP) (and Roseville's South of Tesla entitlement rights) for a period of 15 years to those acquiring members (Sacramento Municipal Utility District, Turlock Irrigation District, and Modesto Irrigation District). The effective date of this Agreement was February 1, 2009. As a result, the City is not obligated to pay TANC's debt-service and operating costs starting February 1, 2009, for a period of fifteen years.

TANC's financial statements can be obtained from TANC, P.O. Box 15129, Sacramento, CA 95851.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 15 – JOINT VENTURES (Continued)**

**Bay Area Water Supply and Conservation Agency (BAWSCA)**

The City is a member of a regional water district with 26 other entities, the Bay Area Water Supply and Conservation Agency (BAWSCA). BAWSCA was created on May 27, 2003 to represent the interests of 24 cities and water districts and two private utilities in Alameda, Santa Clara and San Mateo counties that purchase water on a wholesale basis from the San Francisco regional water system. It has the power to issue debt and plan, finance, construct, and operate water supply, transmission, reclamation, and conservation projects on behalf of its members.

In 2013 the City participated in a debt issuance by BAWSCA. The debt was issued to repay certain long-term costs associated with the San Francisco Public Utilities Commission (SFPUC) water supply contract. During the fiscal year, the City paid its share of the annual debt service of \$1.9 million, which will vary based on annual water purchases of the City compared to other BAWSCA agencies.

BAWSCA’s financial statements can be obtained from BAWSCA, 155 Bovet Road, Suite 650, San Mateo, California 94402.

**NOTE 16 – COMMITMENTS AND CONTINGENCIES**

**Palo Alto Unified School District** – The City leases 27 acres of the former Cubberley School site and twelve extended day care sites from Palo Alto Unified School District (PAUSD). The lease includes a mechanism for a joint planning process between the City and PAUSD to develop a long-term master plan for the Cubberley site. The City agreed to pay \$1.86 million annually into a separate fund to be used for repairing, renovating and/or improving the infrastructure at the Cubberley site. The previous lease term expired on December 31, 2014, and the City and PAUSD reached an agreement to extend the lease agreement for an additional five (5) years, with an expiration date of December 31, 2019. The City and PAUSD also agreed to distribute gains or losses of revenue that resulted from the Foothill College departure from Cubberley.

The City entered into a new lease agreement with PAUSD that was effective July 1, 2020. Under the new Cubberley lease, the City will lease approximately 65,046 rentable square feet of building area and 15.94 acres of outdoor recreational area through December 31, 2024 and will continue to lease the twelve extended daycare sites through June 30, 2022.

Total lease expenditures for the year ended June 30, 2020 amounted to \$7.7 million. Future minimum annual lease payments are as follows (in thousands):

Year Ending	Payment
June 30	<u>          </u>
2021	3,489
2022	3,489
2023	2,733
2024	2,733
2025	<u>1,367</u>
	<u><u>\$ 13,811</u></u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 16 – COMMITMENTS AND CONTINGENCIES (Continued)**

**GreenWaste of Palo Alto** – GreenWaste of Palo Alto is the City’s contractor for waste collection, transportation, and processing services. The agreement expires June 30, 2026. The base compensation for GreenWaste is adjusted annually based on CPI indicators stipulated in the contract. In fiscal year 2020 payments to GreenWaste were \$11.7 million.

**City of Palo Alto Regional Water Quality Control Plant** – The cities of Palo Alto, Mountain View and Los Altos (the Partners) participate jointly in the cost of maintaining and operating the City of Palo Alto Regional Water Quality Control Plant and related system (the Plant). The City is the owner and administrator of the Plant, which provides the transmission, treatment and disposal of sewage for the Partners. The cities of Mountain View and Los Altos are entitled to use a portion of the capacity of the Plant for a specified period of time. Each partner has the right to rent unused capacity from/to the other partners. The expenses of operations and maintenance are paid quarterly by each partner based on its pro rata share of treatment costs. Additionally, joint system revenues are shared by the partners in the same ratio as expenses are paid. The amended agreement has a term of fifty years beginning from the original signing in October 1968, but may be terminated by any partner upon ten years’ notice to the other partners. All sewage treatment property, plant and equipment are included in the Wastewater Treatment Enterprise Fund’s capital assets balance. If the City initiates the termination of the contracts, it is required to pay the other partners their unamortized contribution towards the capital assets.

**Solid Waste Materials Recovery and Transfer Station (SMaRT Station)** – On June 9, 1992, the City, along with the City of Mountain View, signed a Memorandum of Understanding (MOU) with the City of Sunnyvale (Sunnyvale) to participate in the construction and operation of the SMaRT Station, which recovers recyclable materials from the municipal solid waste delivered from participating cities. Per the MOU, the City has a capacity share of 21.3 percent of this facility and reimburses its proportionate capacity share of design, construction and operation costs to Sunnyvale.

In fiscal year 2008, the members agreed to finance an Equipment Replacement Project from existing reserves and proceeds from the Solid Waste Revenue Bond, Series 2007. The City has committed to repay 27.8 percent of the remaining debt service on the Bonds. The City’s portion of the Bonds amounts to \$0.2 million as of June 30, 2020. During the year ended June 30, 2020, the City paid \$0.2 million as its portion of current debt services.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 16 – COMMITMENTS AND CONTINGENCIES (Continued)**

**UTILITIES ENERGY RESOURCE MANAGEMENT**

**Electric Power Supply Purchase Agreements** – The City has numerous power purchase agreements with power producers to purchase capacity and energy to supply a portion of its load requirements. As of June 30, 2020, the approximate minimum obligations for the contracts, assuming the energy is delivered over the next four years, are as follows:

Fiscal Year	Projected Obligation
2021	\$61.72 million
2022	\$62.08 million
2023	\$61.60 million
2024	\$60.95 million

**Contractual Commitments beyond 2022 (Electricity)** – Several of the City’s purchase power and transmission contracts extend beyond the five-year summary presented above. These contracts expire between 2026 and 2051 and provide for power under various terms and conditions. The City also has a new solar power purchase agreement that is schedule to start in January 2023. The City estimates that its annual minimum commitments under all of its contracts, assuming the energy is delivered, ranges between \$62.06 million in 2025 and \$67.13 million in 2034. The City’s largest single purchase power source is the Western Base Resource contract, whereby the City receives 12.31 percent of the amount of energy made available by Western, after meeting Central Valley Project use requirements, in any given year at a 12.31 percent share of their revenue requirement. The Western contract expires on December 31, 2024. The City has the option to extend the Western contract for an additional 30-year period beyond 2024, although at a slightly lower share of the total energy output and revenue requirement (12.06 percent instead of 12.31 percent).

**Gas Transmission and Local Transportation Rates** – The City relies on Pacific Gas and Electric Company’s (PG&E) natural gas pipeline infrastructure, including both high-pressured transmission and medium-pressure local transportation, to move gas from the California border to the City’s distribution system. Rates are determined through proceedings at the California Public Utilities Commission. The rate Palo Alto pays for gas transmission increased by 31% from fiscal year 2019 to fiscal year 2020 and are expected to increase by another 15% in fiscal year 2021; the rate Palo Alto pays for local transportation decreased by 15% from fiscal year 2019 to fiscal year 2020. Fiscal year 2021 local transmission rates are not expected to change significantly, however, an ongoing proceeding may result in significant increases in fiscal year 2022.

**San Francisco Public Utilities Commission** – The City purchases water from the San Francisco Public Utilities Commission (SFPUC) under a Water Supply Agreement (WSA) terminating in 2034. The City’s wholesale water rate under this contract is determined by a ratemaking process under the authority of the SFPUC, with contractual limitations on the types of costs that may be allocated to wholesale water purchasers like the City. The WSA contains certain restrictions regarding water purchases from other water suppliers, though those restrictions do not apply to recycled water or emergency water supplies. The City’s cost of water under this contract is projected to remain flat through 2022.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2020**

**NOTE 16 – COMMITMENTS AND CONTINGENCIES (Continued)**

**Litigation**

The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney, there is no pending litigation, claims or assessments that are likely to have a materially adverse effect on the City's financial condition.

A class action lawsuit for refund of telephone users tax was filed against the City in August 2015. The City Attorney is of the opinion that a loss is reasonably possible but cannot be reasonably estimated at this time.

A class action lawsuit for refund of allegedly illegal charges to gas and electrical customers was filed against the City in October 2016. The City Attorney is of the opinion that the loss is reasonably possible but cannot be reasonably estimated at this time.

**Grant Programs**

The City participates in Federal and State grant programs. These programs have been audited by the City's independent auditors in accordance with the provisions of the Federal Single Audit Act amendments of 1996 and applicable State requirements. No costs were questioned as a result of these audits; however, these programs are still subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

**Note 17 - UNCERTAINTIES**

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected organizations and its workforces, as well as the economy and financial markets globally, and has led to an economic downturn. It has also disrupted the normal operations of many governmental organizations, including the City. This outbreak decreased the revenues and impacted the City's operations starting March 2020. The City expects this outbreak to adversely impact revenues and operations for future reporting periods. It is not possible for the City to predict the duration or magnitude of the adverse results of the outbreak and its effects on the City or results of operations at this time.

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**CITY OF PALO ALTO**  
**Required Supplementary Information (Unaudited)**  
**Last 6 Fiscal Years\***

**I. SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS – MISCELLANEOUS PLAN**  
**(In thousands)**

Fiscal year	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15
Measurement Period	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14
<b>Total pension liability</b>						
Service cost	\$ 15,045	\$ 14,724	\$ 14,423	\$ 12,582	\$ 12,183	\$ 12,442
Interest	57,523	54,903	52,831	51,531	49,345	46,963
Changes of assumptions	-	(5,673)	42,239	-	(11,552)	-
Difference between expected and actual experience	6,230	4,271	(6,378)	757	3,507	-
Benefit payments, including refunds of employee contributions	(41,124)	(37,624)	(36,405)	(34,825)	(32,980)	(31,781)
<b>Net change in total pension liability</b>	<b>37,674</b>	<b>30,601</b>	<b>66,710</b>	<b>30,045</b>	<b>20,503</b>	<b>27,624</b>
<b>Total pension liability - beginning</b>	<b>811,330</b>	<b>780,729</b>	<b>714,019</b>	<b>683,974</b>	<b>663,471</b>	<b>635,847</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 849,004</b>	<b>\$ 811,330</b>	<b>\$ 780,729</b>	<b>\$ 714,019</b>	<b>\$ 683,974</b>	<b>\$ 663,471</b>
<b>Plan fiduciary net position</b>						
Contributions - employer	\$ 25,423	\$ 23,342	\$ 20,638	\$ 18,840	\$ 18,610	\$ 17,400
Contributions - employee	6,939	6,654	6,314	5,812	5,730	6,345
Net investment income	36,322	43,690	53,259	2,464	10,597	70,989
Benefit payments, including refunds of employee contributions	(41,124)	(37,624)	(36,405)	(34,825)	(32,980)	(31,781)
Administrative expense	(390)	(799)	(694)	(291)	(538)	-
Other non-investment income (expenses)	1	(1,518)	30	-	-	-
<b>Net change in fiduciary net position</b>	<b>27,171</b>	<b>33,745</b>	<b>43,142</b>	<b>(8,000)</b>	<b>1,419</b>	<b>62,953</b>
<b>Plan fiduciary net position - beginning</b>	<b>546,669</b>	<b>512,924</b>	<b>469,782</b>	<b>477,782</b>	<b>476,363</b>	<b>413,410</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 573,840</b>	<b>\$ 546,669</b>	<b>\$ 512,924</b>	<b>\$ 469,782</b>	<b>\$ 477,782</b>	<b>\$ 476,363</b>
<b>Plan net pension liability/(asset) - Ending (a) - (b)</b>	<b>\$ 275,164</b>	<b>\$ 264,661</b>	<b>\$ 267,805</b>	<b>\$ 244,237</b>	<b>\$ 206,192</b>	<b>\$ 187,108</b>
<b>Plan fiduciary net position as a percentage of total pension liability</b>	<b>67.59%</b>	<b>67.38%</b>	<b>65.70%</b>	<b>65.79%</b>	<b>69.85%</b>	<b>71.80%</b>
<b>Covered payroll</b>	<b>\$ 82,573</b>	<b>\$ 80,634</b>	<b>\$ 77,606</b>	<b>\$ 73,722</b>	<b>\$ 69,837</b>	<b>\$ 66,373</b>
<b>Plan net pension liability/(asset) as a percentage of covered payroll</b>	<b>333.24%</b>	<b>328.23%</b>	<b>345.08%</b>	<b>331.29%</b>	<b>295.25%</b>	<b>281.90%</b>

**Notes to Schedule:**

**Benefit changes** - The figures above do not include any liability that may have resulted from plan changes which occurred after the June 30, 2018 valuation date. This applies for voluntary benefit changes as well as any offers of two years additional service credit (a.k.a. Golden Handshake).

**Change in assumptions** - During measurement period 2014, the discount rate was 7.50%. During measurement period 2015, the discount rate was increased from 7.50 percent to 7.65 percent. There is no change in discount rate during measurement period 2016. During measurement period 2017, the discount rate was reduced from 7.65 percent to 7.15 percent. During measurement period 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There is no change in assumptions during measurement period 2019.

\* Fiscal year ended June 30, 2015 was the first year of implementation of GASB Statement No. 68, therefore only six years of information is shown.



**CITY OF PALO ALTO**  
**Required Supplementary Information (Unaudited)**  
**Last 7 Fiscal Years\***

**II. SCHEDULE OF PENSION CONTRIBUTIONS– MISCELLANEOUS PLAN**  
**(In thousands)**

Fiscal Year	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14
Contractually required contribution (actuarially determined)	\$ 28,872	\$ 25,423	\$ 23,342	\$ 20,638	\$ 18,840	\$ 18,610	\$ 17,400
Actual contribution	<u>(28,872)</u>	<u>(25,423)</u>	<u>(23,342)</u>	<u>(20,638)</u>	<u>(18,840)</u>	<u>(18,610)</u>	<u>(17,400)</u>
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 85,441	\$ 82,573	\$ 80,634	\$ 77,606	\$ 73,722	\$ 69,837	\$ 66,373
Contributions as percentage of covered payroll	33.79%	30.79%	28.95%	26.59%	25.56%	26.65%	26.22%

**Notes to Schedule:**

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2020 contribution rates are as follows:

ADC for fiscal year	June 30, 2020
Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry-Age Normal Cost Method
Asset valuation method	Actuarial value of assets
Inflation	2.625%
Salary increases	Varies by entry age and services
Payroll growth	2.75%
Investment rate of return	7.25%, net of pension plan investment and administrative expenses, includes inflation.
Retirement age	The probabilities of retirement are based on the 2017 CalPERS Experience Study for the period 1997 to 2015.
Mortality	The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and post-retirement mortality rates includes 15 years of projected mortality improvements using 90% of Scale MP-2016 published by the Society of Actuaries.

\* Fiscal year ended June 30, 2015 was the first year of implementation of GASB Statement No. 68, therefore only seven years of information is shown.

**CITY OF PALO ALTO**  
**Required Supplementary Information (Unaudited)**  
**Last 6 Fiscal Years\***

**III. SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS – SAFETY PLAN**  
**(In thousands)**

Fiscal year	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15
Measurement Period	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14
<b>Total pension liability</b>						
Service cost	\$ 7,259	\$ 7,168	\$ 6,584	\$ 5,916	\$ 5,959	\$ 6,221
Interest	31,066	29,871	28,272	27,816	27,047	26,113
Changes of assumptions	-	(1,374)	22,566	-	(6,327)	-
Difference between expected and actual experience	3,841	11,604	(2,790)	(1,516)	75	-
Benefit payments, including refunds of employee contributions	(24,757)	(23,636)	(22,413)	(21,669)	(21,148)	(19,985)
<b>Net change in total pension liability</b>	<b>17,409</b>	<b>23,633</b>	<b>32,219</b>	<b>10,547</b>	<b>5,606</b>	<b>12,349</b>
<b>Total pension liability - beginning</b>	<b>439,408</b>	<b>415,775</b>	<b>383,556</b>	<b>373,009</b>	<b>367,403</b>	<b>355,054</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 456,817</b>	<b>\$ 439,408</b>	<b>\$ 415,775</b>	<b>\$ 383,556</b>	<b>\$ 373,009</b>	<b>\$ 367,403</b>
<b>Plan fiduciary net position</b>						
Contributions - employer	\$ 12,370	\$ 11,030	\$ 10,220	\$ 9,403	\$ 8,617	\$ 7,616
Contributions - employee	3,225	2,799	2,475	2,059	2,047	2,762
Net investment income	18,217	22,724	28,112	1,259	5,774	40,033
Benefit payments, including refunds of employee contributions	(24,757)	(23,636)	(22,413)	(21,669)	(21,148)	(19,985)
Administrative expense	(201)	(418)	(370)	(157)	(290)	-
Other non-investment income (expenses)	1	(794)	(30)	-	-	-
<b>Net change in fiduciary net position</b>	<b>8,855</b>	<b>11,705</b>	<b>17,994</b>	<b>(9,105)</b>	<b>(5,000)</b>	<b>30,426</b>
<b>Plan fiduciary net position - beginning</b>	<b>280,173</b>	<b>268,468</b>	<b>250,474</b>	<b>259,579</b>	<b>264,579</b>	<b>234,153</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 289,028</b>	<b>\$ 280,173</b>	<b>\$ 268,468</b>	<b>\$ 250,474</b>	<b>\$ 259,579</b>	<b>\$ 264,579</b>
<b>Plan net pension liability/(asset) - Ending (a) - (b)</b>	<b>\$ 167,789</b>	<b>\$ 159,235</b>	<b>\$ 147,307</b>	<b>\$ 133,082</b>	<b>\$ 113,430</b>	<b>\$ 102,824</b>
<b>Plan fiduciary net position as a percentage of total pension liability</b>	<b>63.27%</b>	<b>63.76%</b>	<b>64.57%</b>	<b>65.30%</b>	<b>69.59%</b>	<b>72.01%</b>
<b>Covered payroll</b>	<b>\$ 24,263</b>	<b>\$ 24,131</b>	<b>\$ 21,906</b>	<b>\$ 21,822</b>	<b>\$ 21,912</b>	<b>\$ 21,896</b>
<b>Plan net pension liability/(asset) as a percentage of covered payroll</b>	<b>691.54%</b>	<b>659.88%</b>	<b>672.45%</b>	<b>609.85%</b>	<b>517.66%</b>	<b>469.60%</b>

**Notes to Schedule:**

**Benefit changes** - The figures above do not include any liability that may have resulted from plan changes which occurred after the June 30, 2018 valuation date. This applies for voluntary benefit changes as well as any offers of two years additional service credit (a.k.a. Golden Handshake).

**Change in assumptions** - During measurement period 2014, the discount rate was 7.50%. During measurement period 2015, the discount rate was increased from 7.50 percent to 7.65 percent. There is no change in discount rate during measurement period 2016. During measurement period 2017, the discount rate was reduced from 7.65 percent to 7.15 percent. During measurement period 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There is no change in assumptions during measurement period 2019.

\* Fiscal year ended June 30, 2015 was the first year of implementation of GASB Statement No. 68, therefore only six years of information is shown.

**CITY OF PALO ALTO**  
**Required Supplementary Information (Unaudited)**  
**Last 7 Fiscal Years\***

**IV. SCHEDULE OF PENSION CONTRIBUTIONS – SAFETY PLAN**  
**(In thousands)**

Fiscal Year	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14
Contractually required contribution (actuarially determined)	\$ 14,260	\$ 12,370	\$ 11,030	\$ 10,220	\$ 9,403	\$ 8,617	\$ 7,616
Actual contribution	<u>(14,260)</u>	<u>(12,370)</u>	<u>(11,030)</u>	<u>(10,220)</u>	<u>(9,403)</u>	<u>(8,617)</u>	<u>(7,616)</u>
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 25,570	\$ 24,263	\$ 24,131	\$ 21,906	\$ 21,822	\$ 21,912	\$ 21,896
Contributions as percentage of covered payroll	55.77%	50.98%	45.71%	46.65%	43.09%	39.33%	34.78%

**Notes to Schedule:**

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2020 contribution rates are as follows:

ADC for fiscal year	June 30, 2020
Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry-Age Normal Cost Method
Asset valuation method	Actuarial value of assets
Inflation	2.625%
Salary increases	Varies by entry age and services
Payroll growth	2.75%
Investment rate of return	7.25%, net of pension plan investment and administrative expenses, includes inflation.
Retirement age	The probabilities of retirement are based on the 2017 CalPERS Experience Study for the period 1997 to 2015.
Mortality	The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and post-retirement mortality rates includes 15 years of projected mortality improvements using 90% of Scale MP-2016 published by the Society of Actuaries.

\* Fiscal year ended June 30, 2015 was the first year of implementation of GASB Statement No. 68, therefore only seven years of information is shown.

**CITY OF PALO ALTO**  
**Required Supplementary Information (Unaudited)**  
**Last 3 Fiscal Years\***

**V. SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS**  
**(In thousands)**

Fiscal year	<u>2019-20</u>	<u>2018-19</u>	<u>2017-18</u>
Measurement Period	2018-19	2017-18	2016-17
<b>Total OPEB liability</b>			
Service cost	\$ 6,622	\$ 6,429	\$ 6,242
Interest	17,292	16,546	15,853
Changes in benefit terms	972	-	-
Changes of assumptions	7,057	-	-
Difference between expected and actual experience	(29,907)	-	-
Benefit payments, including refunds of employee contributions	(12,157)	(12,104)	(11,916)
<b>Net change in total OPEB liability</b>	<b>(10,121)</b>	<b>10,871</b>	<b>10,179</b>
<b>Total OPEB liability - beginning</b>	<b>255,630</b>	<b>244,759</b>	<b>234,580</b>
<b>Total OPEB liability - ending (a)</b>	<b><u>\$ 245,509</u></b>	<b><u>\$ 255,630</u></b>	<b><u>\$ 244,759</u></b>
<b>Plan fiduciary net position</b>			
Contributions - employer	\$ 15,997	\$ 21,349	\$ 14,739
Net investment income	6,852	7,519	8,628
Benefit payments, including refunds of employee contributions	(12,157)	(12,104)	(11,916)
Administrative expense	(23)	(204)	(44)
<b>Net change in fiduciary net position</b>	<b>10,669</b>	<b>16,560</b>	<b>11,407</b>
<b>Plan fiduciary net position - beginning</b>	<b>107,810</b>	<b>91,250</b>	<b>79,843</b>
<b>Plan fiduciary net position - ending (b)</b>	<b><u>\$ 118,479</u></b>	<b><u>\$ 107,810</u></b>	<b><u>\$ 91,250</u></b>
<b>Plan net OPEB liability/(asset) - Ending (a) - (b)</b>	<b><u>\$ 127,030</u></b>	<b><u>\$ 147,820</u></b>	<b><u>\$ 153,509</u></b>
<b>Plan fiduciary net position as a percentage of total OPEB liability</b>	<b>48.26%</b>	<b>42.17%</b>	<b>37.28%</b>
<b>Covered employee payroll</b>	<b>\$ 118,014</b>	<b>\$ 119,090</b>	<b>\$ 118,774</b>
<b>Plan net OPEB liability/(asset) as a percentage of covered employee payroll</b>	<b>107.64%</b>	<b>124.12%</b>	<b>129.24%</b>

**Notes to Schedule:**

**Benefit changes** - The figures above do not include any liability that may have resulted from plan changes which occurred after the measurement dates.

**Changes in assumptions** - During measurement period 2019, demographic assumptions were change in accordance to the 2017 CalPERS Experience Study while mortality improvement scale was updated to Scale MP-2019.

\* Fiscal year ended June 30, 2018 was the first year of implementation of GASB Statement No. 75, therefore only three years of information is shown.

**CITY OF PALO ALTO**  
**Required Supplementary Information (Unaudited)**  
**Last 4 Fiscal Years\***

**VI. SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS**  
**(In thousands)**

Fiscal Year	2019-20	2018-19	2017-18	2016-17
Contractually required contribution (actuarially determined)	\$ 16,482	\$ 15,997	\$ 16,938	\$ 16,365
Actual contribution	<u>(16,475)</u>	<u>(15,997)</u>	<u>(21,349)</u>	<u>(14,739)</u>
Contribution deficiency/(excess)	<u>\$ 7</u>	<u>\$ -</u>	<u>\$ (4,411)</u>	<u>\$ 1,626</u>
Covered employee payroll	\$ 125,676	\$ 118,014	\$ 119,090	\$ 118,774
Contributions as percentage of covered employee payroll	13.11%	13.56%	17.93%	12.41%

**Notes to Schedule:**

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2020 contribution rates are as follows:

ADC for fiscal year	June 30, 2020
Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry-Age, level percentage of payroll
Amortization method	Level percent of pay
Amortization period	25-year fixed period for 2019/20
Asset valuation method	Market value, no smoothing
Inflation	2.75%
Payroll growth	3.00%
Investment rate of return	6.75%
Medical trend	Non-Medicare - 7.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076 Medicare - 6.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076
Mortality	2014 CalPERS Experience Study for the period 1997 to 2011
Mortality Improvement	Post-retirement mortality projected fully generational with Society of Actuaries Scale MP-2017

\* Fiscal year ended June 30, 2018 was the first year of implementation of GASB Statement No. 75, therefore only four years of information is shown.

**CITY OF PALO ALTO**  
**Non-major Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2020**  
**(Amounts in thousands)**

	Special Revenue Funds	Debt Service Funds	Permanent Fund	Total Other Governmental Funds
<b>ASSETS:</b>				
Cash and investments available for operations	\$ 80,684	\$ 3,826	\$ 2,529	\$ 87,039
Receivables, net:				
Accounts and intergovernmental	409	7	-	416
Interest	460	21	14	495
Notes and loan receivable	34,099	-	-	34,099
Restricted cash and investments with fiscal agents	-	34	-	34
Total assets	<u>\$ 115,652</u>	<u>\$ 3,888</u>	<u>\$ 2,543</u>	<u>\$ 122,083</u>
<b>LIABILITIES AND FUND BALANCES:</b>				
<b>Liabilities:</b>				
Accounts payable and accruals	\$ 591	\$ -	\$ 3	\$ 594
Accrued salaries and benefits	27	-	-	27
Due to other funds	136	-	-	136
Total liabilities	<u>754</u>	<u>-</u>	<u>3</u>	<u>757</u>
Deferred inflows of resources				
Deferred inflows of resources - Unavailable revenue	71	-	-	71
Total liabilities and deferred inflows of resources	<u>825</u>	<u>-</u>	<u>3</u>	<u>828</u>
<b>Fund balances:</b>				
<b>Nonspendable</b>				
Eyerly family	-	-	2,540	2,540
<b>Restricted for:</b>				
Transportation mitigation	12,265	-	-	12,265
Federal revenue	5,221	-	-	5,221
Street improvement	73	-	-	73
Local law enforcement	615	-	-	615
Public benefit	19,908	-	-	19,908
Debt service	-	3,888	-	3,888
<b>Committed for:</b>				
Developer impact fee	15,028	-	-	15,028
Housing In-Lieu	52,882	-	-	52,882
Special districts	6,649	-	-	6,649
Downtown business	65	-	-	65
<b>Assigned for:</b>				
Unrealized gain on investment	2,121	-	-	2,121
<b>Unassigned for:</b>				
Total fund balances	<u>114,827</u>	<u>3,888</u>	<u>2,540</u>	<u>121,255</u>
Total liabilities and fund balances	<u>\$ 115,652</u>	<u>\$ 3,888</u>	<u>\$ 2,543</u>	<u>\$ 122,083</u>

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**CITY OF PALO ALTO**  
**Non-major Governmental Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2020**  
**(Amounts in thousands)**

	Special Revenue Funds	Debt Service Funds	Permanent Fund	Total Other Governmental Funds
<b>REVENUES:</b>				
Property tax	\$ -	\$ 4,515	\$ -	\$ 4,515
Special assessments	24	-	-	24
Other taxes and fines	2,961	-	-	2,961
Intergovernmental	848	-	-	848
Licenses, permits and fees:				
University Avenue Parking	2,454	-	-	2,454
California Avenue Parking	348	-	-	348
Other licenses, permits and fees	2,875	-	-	2,875
Investment earnings	3,462	119	108	3,689
Rental income	3	-	-	3
Housing In-Lieu - residential	750	-	-	750
Other revenue	333	-	-	333
<b>Total revenues</b>	<b>14,058</b>	<b>4,634</b>	<b>108</b>	<b>18,800</b>
<b>EXPENDITURES:</b>				
Current:				
Administrative Services	284	-	-	284
Public Works	1,216	-	-	1,216
Planning and Development Services	901	-	-	901
Office of Transportation	2,123	-	-	2,123
Police	54	-	-	54
Community Services	265	-	-	265
Non-Departmental	237	-	6	243
Debt service:				
Principal retirement	-	2,280	-	2,280
Interest and fiscal charges	-	5,025	-	5,025
<b>Total expenditures</b>	<b>5,080</b>	<b>7,305</b>	<b>6</b>	<b>12,391</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>8,978</b>	<b>(2,671)</b>	<b>102</b>	<b>6,409</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	1,506	2,865	-	4,371
Transfers out	(9,809)	-	-	(9,809)
<b>Total other financing sources (uses)</b>	<b>(8,303)</b>	<b>2,865</b>	<b>-</b>	<b>(5,438)</b>
Change in fund balances	675	194	102	971
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<b>114,152</b>	<b>3,694</b>	<b>2,438</b>	<b>120,284</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 114,827</b>	<b>\$ 3,888</b>	<b>\$ 2,540</b>	<b>\$ 121,255</b>



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## **NON-MAJOR GOVERNMENTAL FUNDS**

### **SPECIAL REVENUE FUNDS**

#### **Street Improvement**

This fund accounts for revenues received from state gas tax. Allocations must be spent on the construction and maintenance of the road network system of the City.

#### **Federal Revenue**

This fund accounts for grant funds received under the Community Development Act of 1974 and HOME Investment Grant Programs, for activities approved and subject to federal regulations.

#### **Housing In-Lieu**

This fund accounts for revenues from commercial and residential developers to provide housing under the City's Below Market Rate program.

#### **Special Districts**

This fund accounts for revenues from parking permits and for maintenance of various parking lots within the City's parking districts.

#### **Transportation Mitigation**

This fund accounts for revenues from fees or contributions required for transportation mitigation issues encountered as a result of City development.

#### **Local Law Enforcement**

This fund accounts for revenues received in support of City's law enforcement program.

#### **Asset Seizure**

This fund accounts for seized property and funds associated with drug trafficking. Under California Assembly Bill No. 4162, the monies are released to the City for specific expenditures related to law enforcement activities.

#### **Developer Impact Fee**

This fund accounts for fees imposed on new developments to be used for parks, community centers and libraries.

#### **Downtown Business Development District**

The Downtown Business Development District Fund was established to account for the activities of the Palo Alto Downtown Business Development District, which was established to enhance the viability of the downtown business district.

#### **Public Benefit**

This fund accounts for the activities of the Stanford University Medical Center (SUMC) Development Agreement (DA) whereby SUMC will enhance and expand their facilities and the City will grant SUMC the right to develop the facilities in accordance with the DA.

**CITY OF PALO ALTO**  
**Non-major Special Revenue Funds**  
**Combining Balance Sheet**  
**June 30, 2020**  
**(Amounts in thousands)**

	Street Improvement	Federal Revenue	Housing In-Lieu	Special Districts
<b>ASSETS:</b>				
Cash and investments available for operations	\$ -	\$ -	\$ 24,683	\$ 7,042
Receivables, net:				
Accounts and intergovernmental	184	218	7	-
Interest	-	-	136	37
Notes and loan receivable	-	5,351	28,748	-
Total assets	<u>\$ 184</u>	<u>\$ 5,569</u>	<u>\$ 53,574</u>	<u>\$ 7,079</u>
<b>LIABILITIES AND FUND BALANCES:</b>				
Liabilities:				
Accounts payable and accruals	\$ -	\$ 249	\$ 64	\$ 237
Accrued salaries and benefits	-	1	-	23
Due to other funds	109	27	-	-
Total liabilities	<u>109</u>	<u>277</u>	<u>64</u>	<u>260</u>
Deferred inflows of resources				
Deferred inflows of resources - Unavailable revenue	-	71	-	-
Total liabilities and deferred inflows of sources	<u>109</u>	<u>348</u>	<u>64</u>	<u>260</u>
Fund balances:				
Nonspendable				
Restricted				
Transportation mitigation	-	-	-	-
Federal revenue	-	5,221	-	-
Street improvement	73	-	-	-
Local law enforcement	-	-	-	-
Public benefit	-	-	-	-
Committed				
Developer impact fee	-	-	-	-
Housing In-Lieu	-	-	52,882	-
Special districts	-	-	-	6,649
Downtown business	-	-	-	-
Assigned				
Unrealized gains on investments	2	-	628	170
Total fund balances	<u>75</u>	<u>5,221</u>	<u>53,510</u>	<u>6,819</u>
Total liabilities and fund balances	<u>\$ 184</u>	<u>\$ 5,569</u>	<u>\$ 53,574</u>	<u>\$ 7,079</u>

Transportation Mitigation	Local Law Enforcement	Asset Seizure	Developer Impact Fee	Downtown Business Development District	Public Benefit	Total Special Revenue Funds
\$ 12,530	\$ 624	\$ 3	\$ 15,366	\$ 107	\$ 20,329	\$ 80,684
-	-	-	-	-	-	409
74	3	-	93	-	117	460
-	-	-	-	-	-	34,099
<u>\$ 12,604</u>	<u>\$ 627</u>	<u>\$ 3</u>	<u>\$ 15,459</u>	<u>\$ 107</u>	<u>\$ 20,446</u>	<u>\$ 115,652</u>
\$ -	\$ -	\$ -	\$ -	\$ 41	\$ -	\$ 591
-	-	-	3	-	-	27
-	-	-	-	-	-	136
-	-	-	3	41	-	754
-	-	-	-	-	-	71
-	-	-	3	41	-	825
12,265	-	-	-	-	-	12,265
-	-	-	-	-	-	5,221
-	-	-	-	-	-	73
-	612	3	-	-	-	615
-	-	-	-	-	19,908	19,908
-	-	-	15,028	-	-	15,028
-	-	-	-	-	-	52,882
-	-	-	-	-	-	6,649
-	-	-	-	65	-	65
339	15	-	428	1	538	2,121
<u>12,604</u>	<u>627</u>	<u>3</u>	<u>15,456</u>	<u>66</u>	<u>20,446</u>	<u>114,827</u>
<u>\$ 12,604</u>	<u>\$ 627</u>	<u>\$ 3</u>	<u>\$ 15,459</u>	<u>\$ 107</u>	<u>\$ 20,446</u>	<u>\$ 115,652</u>

**CITY OF PALO ALTO**  
**Non-major Special Revenue Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2020**  
**(Amounts in thousands)**

	Street Improvement	Federal Revenue	Housing In-Lieu	Special Districts
<b>REVENUES:</b>				
Special assessments	\$ -	\$ -	\$ -	\$ -
Other taxes and fines	2,817	-	-	144
Intergovernmental	78	606	-	-
Licenses, permits and fees:				
University Avenue Parking	-	-	-	2,454
California Avenue Parking	-	-	-	348
Other licenses, permits and fees	-	-	-	787
Investment earnings	2	-	1,076	275
Rental income	-	-	3	-
Housing In-Lieu - residential	-	-	750	-
Other revenue	-	-	270	63
<b>Total revenues</b>	<b>2,897</b>	<b>606</b>	<b>2,099</b>	<b>4,071</b>
<b>EXPENDITURES:</b>				
Current:				
Administrative Services	-	-	-	284
Public Works	-	-	-	1,216
Planning and Development Services	-	685	216	-
Office of Transportation	-	-	-	2,123
Police	-	-	-	-
Community Services	-	-	-	52
Non-Departmental	-	-	37	185
<b>Total expenditures</b>	<b>-</b>	<b>685</b>	<b>253</b>	<b>3,860</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>2,897</b>	<b>(79)</b>	<b>1,846</b>	<b>211</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	-	1,064
Transfers out	(3,074)	-	(1)	(154)
<b>Total other financing sources (uses)</b>	<b>(3,074)</b>	<b>-</b>	<b>(1)</b>	<b>910</b>
Change in fund balances	(177)	(79)	1,845	1,121
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<b>252</b>	<b>5,300</b>	<b>51,665</b>	<b>5,698</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 75</b>	<b>\$ 5,221</b>	<b>\$ 53,510</b>	<b>\$ 6,819</b>

Transportation Mitigation	Local Law Enforcement	Asset Seizure	Developer Impact Fee	Downtown Business Development District	Public Benefit	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ 24	\$ -	\$ 24
-	-	-	-	-	-	2,961
-	164	-	-	-	-	848
-	-	-	-	-	-	2,454
-	-	-	-	-	-	348
180	-	-	1,908	-	-	2,875
551	24	-	669	2	863	3,462
-	-	-	-	-	-	3
-	-	-	-	-	-	750
-	-	-	-	-	-	333
<u>731</u>	<u>188</u>	<u>-</u>	<u>2,577</u>	<u>26</u>	<u>863</u>	<u>14,058</u>
-	-	-	-	-	-	284
-	-	-	-	-	-	1,216
-	-	-	-	-	-	901
-	-	-	-	-	-	2,123
-	54	-	-	-	-	54
-	-	-	213	-	-	265
-	-	-	-	15	-	237
<u>-</u>	<u>54</u>	<u>-</u>	<u>213</u>	<u>15</u>	<u>-</u>	<u>5,080</u>
<u>731</u>	<u>134</u>	<u>-</u>	<u>2,364</u>	<u>11</u>	<u>863</u>	<u>8,978</u>
-	-	-	355	87	-	1,506
<u>(1,283)</u>	<u>-</u>	<u>-</u>	<u>(4,397)</u>	<u>-</u>	<u>(900)</u>	<u>(9,809)</u>
<u>(1,283)</u>	<u>-</u>	<u>-</u>	<u>(4,042)</u>	<u>87</u>	<u>(900)</u>	<u>(8,303)</u>
(552)	134	-	(1,678)	98	(37)	675
<u>13,156</u>	<u>493</u>	<u>3</u>	<u>17,134</u>	<u>(32)</u>	<u>20,483</u>	<u>114,152</u>
<u>\$ 12,604</u>	<u>\$ 627</u>	<u>\$ 3</u>	<u>\$ 15,456</u>	<u>\$ 66</u>	<u>\$ 20,446</u>	<u>114,827</u>

**CITY OF PALO ALTO**  
**Non-major Special Revenue Funds**  
**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual**  
**For the Year Ended June 30, 2020**  
**(Amounts in thousands)**

	Street Improvement			Federal Revenue		
	Budget	Actual, Budgetary Basis	Variance Positive (Negative)	Budget	Actual, Budgetary Basis	Variance Positive (Negative)
<b>REVENUES:</b>						
Special assessments	-	\$ -	\$ -	-	\$ -	\$ -
Other taxes and fines	3,061	2,817	(244)	-	-	-
Intergovernmental	79	78	(1)	636	606	(30)
Licenses, permits and fees						
University Avenue Parking	-	-	-	-	-	-
California Avenue Parking	-	-	-	-	-	-
Other licenses, permits and fees	-	-	-	-	-	-
Investment earnings	12	2	(10)	-	-	-
Rental income	-	-	-	-	-	-
Housing In-Lieu - residential	-	-	-	-	-	-
Other:						
Loan payoffs	-	-	-	-	-	-
Other revenue	-	-	-	-	-	-
Total revenues	<u>3,152</u>	<u>2,897</u>	<u>(255)</u>	<u>636</u>	<u>606</u>	<u>(30)</u>
<b>EXPENDITURES:</b>						
Current:						
Administrative Services	-	-	-	-	-	-
Public Works	-	-	-	-	-	-
Planning and Development Services	-	-	-	935	974	(39)
Office of Transportation	-	-	-	-	-	-
Police	-	-	-	-	-	-
Community Services	-	-	-	-	-	-
Non-Departmental	-	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>935</u>	<u>974</u>	<u>(39)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,152</u>	<u>2,897</u>	<u>(255)</u>	<u>(299)</u>	<u>(368)</u>	<u>(69)</u>
<b>OTHER FINANCING SOURCES (USES):</b>						
Transfers in	-	-	-	-	-	-
Transfers out	(3,074)	(3,074)	-	-	-	-
Total other financing sources (uses)	<u>(3,074)</u>	<u>(3,074)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in fund balances, budgetary basis	<u>\$ 78</u>	<u>(177)</u>	<u>\$ (255)</u>	<u>\$ (299)</u>	<u>(368)</u>	<u>\$ (69)</u>
Adjustment to Budgetary Basis:						
Unrealized gain (loss) on investments		-			-	
Current year encumbrances/reappropriations		-			289	
CHANGE IN FUND BALANCE, GAAP BASIS		<u>(177)</u>			<u>(79)</u>	
FUND BALANCES, BEGINNING OF YEAR, GAAP BASIS		<u>252</u>			<u>5,300</u>	
FUND BALANCES, END OF YEAR, GAAP BASIS		<u>\$ 75</u>			<u>\$ 5,221</u>	

Housing In-Lieu			Special Districts			Transportation Mitigation		
Budget	Actual, Budgetary Basis	Variance Positive (Negative)	Budget	Actual, Budgetary Basis	Variance Positive (Negative)	Budget	Actual, Budgetary Basis	Variance Positive (Negative)
-	\$ -	\$ -	-	\$ -	\$ -	-	\$ -	\$ -
-	-	-	333	144	(189)	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	3,263	2,454	(809)	-	-	-
-	-	-	522	348	(174)	-	-	-
-	-	-	838	787	(51)	276	180	(96)
297	555	258	80	136	56	199	278	79
9	3	(6)	-	-	-	-	-	-
2,989	750	(2,239)	-	-	-	-	-	-
25	-	(25)	-	-	-	-	-	-
170	270	100	-	63	63	-	-	-
<u>3,490</u>	<u>1,578</u>	<u>(1,912)</u>	<u>5,036</u>	<u>3,932</u>	<u>(1,104)</u>	<u>475</u>	<u>458</u>	<u>(17)</u>
-	-	-	326	284	42	-	-	-
-	-	-	1,547	1,365	182	-	-	-
20,490	21,015	(525)	-	-	-	2,200	-	2,200
-	-	-	3,936	2,878	1,058	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	31	52	(21)	-	-	-
696	37	659	231	185	46	-	-	-
<u>21,186</u>	<u>21,052</u>	<u>134</u>	<u>6,071</u>	<u>4,764</u>	<u>1,307</u>	<u>2,200</u>	<u>-</u>	<u>2,200</u>
<u>(17,696)</u>	<u>(19,474)</u>	<u>(1,778)</u>	<u>(1,035)</u>	<u>(832)</u>	<u>203</u>	<u>(1,725)</u>	<u>458</u>	<u>2,183</u>
-	-	-	1,064	1,064	-	-	-	-
(1)	(1)	-	(1,683)	(154)	1,529	(1,283)	(1,283)	-
(1)	(1)	-	(619)	910	1,529	(1,283)	(1,283)	-
<u>\$ (17,697)</u>	<u>(19,475)</u>	<u>\$ (1,778)</u>	<u>\$ (1,654)</u>	<u>78</u>	<u>\$ 1,732</u>	<u>\$ (3,008)</u>	<u>(825)</u>	<u>\$ 2,183</u>
	521			139			273	
	<u>20,799</u>			<u>904</u>			<u>-</u>	
	1,845			1,121			(552)	
	<u>51,665</u>			<u>5,698</u>			<u>13,156</u>	
	<u>\$ 53,510</u>			<u>\$ 6,819</u>			<u>\$ 12,604</u>	



**CITY OF PALO ALTO**  
**Non-major Special Revenue Funds**  
**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual**  
**For the Year Ended June 30, 2020**  
**(Amounts in Thousands)**

	Local Law Enforcement			Asset Seizure		
	Budget	Actual, Budgetary Basis	Variance Positive (Negative)	Budget	Actual, Budgetary Basis	Variance Positive (Negative)
<b>REVENUES:</b>						
Special assessments	-	\$ -	\$ -	-	\$ -	\$ -
Other taxes and fines	-	-	-	-	-	-
Intergovernmental	105	164	59	-	-	-
Licenses, permits and fees						
University Avenue Parking	-	-	-	-	-	-
California Avenue Parking	-	-	-	-	-	-
Other licenses, permits and fees	-	-	-	-	-	-
Investment earnings	5	12	7	-	-	-
Rental income	-	-	-	-	-	-
Housing In-Lieu - residential	-	-	-	-	-	-
Other:						
Loan payoffs	-	-	-	-	-	-
Other revenue	-	-	-	-	-	-
Total revenues	<u>110</u>	<u>176</u>	<u>66</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>EXPENDITURES:</b>						
Current:						
Administrative Services	-	-	-	-	-	-
Public Works	-	-	-	-	-	-
Planning and Development Services	-	-	-	-	-	-
Office of Transportation	-	-	-	-	-	-
Police	155	54	101	-	-	-
Community Services	-	-	-	-	-	-
Non-Departmental	-	-	-	-	-	-
Total expenditures	<u>155</u>	<u>54</u>	<u>101</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(45)</u>	<u>122</u>	<u>167</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES):</b>						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in fund balances, budgetary basis	<u>\$ (45)</u>	<u>122</u>	<u>\$ 167</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Adjustment to Budgetary Basis:						
Unrealized gain (loss) on investments		12			-	
Current year encumbrances/reappropriations		-			-	
CHANGE IN FUND BALANCE, GAAP BASIS		<u>134</u>			<u>-</u>	
FUND BALANCES, BEGINNING OF YEAR, GAAP BASIS		<u>493</u>			<u>3</u>	
FUND BALANCES, END OF YEAR, GAAP BASIS		<u>\$ 627</u>			<u>\$ 3</u>	

Developer Impact Fee			Downtown Business Improvement District			Public Benefit		
Budget	Actual, Budgetary Basis	Variance Positive (Negative)	Budget	Actual, Budgetary Basis	Variance Positive (Negative)	Budget	Actual, Budgetary Basis	Variance Positive (Negative)
-	\$ -	\$ -	88	\$ 24	\$ (64)	-	\$ -	\$ -
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
1,058	1,908	850	-	-	-	-	-	-
257	326	69	-	1	1	325	436	111
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>1,315</u>	<u>2,234</u>	<u>919</u>	<u>88</u>	<u>25</u>	<u>(63)</u>	<u>325</u>	<u>436</u>	<u>111</u>
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
454	213	241	-	-	-	-	-	-
-	-	-	125	72	53	-	-	-
<u>454</u>	<u>213</u>	<u>241</u>	<u>125</u>	<u>72</u>	<u>53</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>861</u>	<u>2,021</u>	<u>1,160</u>	<u>(37)</u>	<u>(47)</u>	<u>(10)</u>	<u>325</u>	<u>436</u>	<u>111</u>
355	355	-	87	87	-	-	-	-
(6,896)	(4,397)	2,499	-	-	-	(1,400)	(900)	500
<u>(6,541)</u>	<u>(4,042)</u>	<u>2,499</u>	<u>87</u>	<u>87</u>	<u>-</u>	<u>(1,400)</u>	<u>(900)</u>	<u>500</u>
<u>\$ (5,680)</u>	<u>(2,021)</u>	<u>\$ 3,659</u>	<u>\$ 50</u>	<u>40</u>	<u>\$ (10)</u>	<u>\$ (1,075)</u>	<u>(464)</u>	<u>\$ 611</u>
	343			1			427	
	-			57			-	
	(1,678)			98			(37)	
	17,134			(32)			20,483	
	<u>\$ 15,456</u>			<u>\$ 66</u>			<u>\$ 20,446</u>	

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## **NON-MAJOR GOVERNMENTAL FUNDS**

### **DEBT SERVICE FUNDS**

#### **2018 Golf Course Capital Improvement**

This fund accounts for revenues received from the General Fund to provide payment of principal and interest associated with the 2018 Golf Course Capital Improvement Certificates of Participation as they become due.

#### **2019 California Avenue Parking Garage COPs**

This fund accounts for revenues received from the General Fund to provide payment of principal and interest associated with the 2019 California Avenue Parking Garage Certificates of Participation as they become due.

#### **Library Projects**

This fund accounts for revenues received from property taxes to provide payment of principal and interest associated with the 2010 and 2013A General Obligation Bonds as they become due.

**CITY OF PALO ALTO**  
**Non-major Debt Service Funds**  
**Combining Balance Sheet**  
**June 30, 2020**  
**(Amounts in thousands)**

	2018 Golf Course Capital Improvement	2019 California Avenue Parking Garage COPS	Library Projects	Total Debt Service Funds
<b>ASSETS:</b>				
Cash and investments available for operations	\$ 1	\$ 3	\$ 3,822	\$3,826
Receivables:				
Accounts and intergovernmental	-	-	7	7
Interest	-	-	21	21
Restricted cash and investments with fiscal agents	18	16	-	34
Total assets	<u>\$ 19</u>	<u>\$ 19</u>	<u>\$ 3,850</u>	<u>\$ 3,888</u>
<b>FUND BALANCES:</b>				
Restricted:				
Debt service	<u>\$ 19</u>	<u>\$ 19</u>	<u>\$ 3,850</u>	<u>\$ 3,888</u>

**CITY OF PALO ALTO**  
**Non-major Debt Service Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2020**  
**(Amounts in thousands)**

	2018 Golf Course Capital Improvement	2019 California Avenue Parking Garage COPs	Library Projects	Total Debt Service Funds
<b>REVENUES:</b>				
Property tax	\$ -	\$ -	\$ 4,515	\$ 4,515
Investment earnings	1	1	117	119
Total revenues	<u>1</u>	<u>1</u>	<u>4,632</u>	<u>4,634</u>
<b>EXPENDITURES:</b>				
Debt service:				
Principal retirement	180	375	1,725	2,280
Interest and fiscal charges	350	1,958	2,717	5,025
Total expenditures	<u>530</u>	<u>2,333</u>	<u>4,442</u>	<u>7,305</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(529)</u>	<u>(2,332)</u>	<u>190</u>	<u>(2,671)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	530	2,335	-	2,865
Total other financing sources (uses)	<u>530</u>	<u>2,335</u>	<u>-</u>	<u>2,865</u>
Change in fund balances	1	3	190	194
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>18</u>	<u>16</u>	<u>3,660</u>	<u>3,694</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 19</u>	<u>\$ 19</u>	<u>\$ 3,850</u>	<u>\$ 3,888</u>

**CITY OF PALO ALTO**  
**Non-major Debt Service Funds**  
**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual**  
**For the Year Ended June 30, 2020**  
**(Amounts in thousands)**

	2018 Golf Course Capital Improvement			2019 California Avenue Parking Garage COPs			Library Projects		
	Budget	Actual, Budgetary Basis	Variance Positive (Negative)	Budget	Actual Budgetary Basis	Variance Positive (Negative)	Budget	Actual Budgetary Basis	Variance Positive (Negative)
<b>REVENUES:</b>									
Property tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,442	\$ 4,515	\$ 73
Investment earnings	-	1	1	-	1	1	-	38	38
Total revenues	-	1	1	-	1	1	4,442	4,553	111
<b>EXPENDITURES:</b>									
Debt service:									
Principal retirement	180	180	-	375	375	-	1,725	1,725	-
Interest and fiscal charges	350	350	-	1,960	1,958	2	2,717	2,717	-
Total expenditures	530	530	-	2,335	2,333	2	4,442	4,442	-
Excess (deficiency) of revenues over (under) expenditures	(530)	(529)	1	(2,335)	(2,332)	3	-	111	111
<b>OTHER FINANCING SOURCES (USES):</b>									
Transfers in	530	530	-	2,335	2,335	-	-	-	-
Change in fund balances, budgetary basis	\$ -	1	\$ 1	\$ -	3	\$ 3	\$ -	111	\$ 111
<b>Adjustment to Budgetary Basis:</b>									
Unrealized gain (loss) on investments		-			-			79	
<b>CHANGE IN FUND BALANCE, GAAP BASIS</b>		1			3			190	
<b>FUND BALANCES, BEGINNING OF YEAR</b>		18			16			3,660	
<b>FUND BALANCES, END OF YEAR</b>		\$ 19			\$ 19			\$ 3,850	

**NON-MAJOR GOVERNMENTAL FUNDS**

**PERMANENT FUND**

**Eyerly Family**

This fund accounts for the revenues received from assets donated by Mr. and Mrs. Fred Eyerly for the City and or its citizenry.



**CITY OF PALO ALTO**  
**Non-major Permanent Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance -**  
**Budget and Actual**  
**For the Year Ended June 30, 2020**  
**(Amounts in thousands)**

	Eyerly Family Permanent Fund		
	Budget	Actual, Budgetary Basis	Variance Positive (Negative)
REVENUES:			
Investment earnings	\$ 53	\$ 53	\$ -
EXPENDITURES:			
Current:			
Non-Departmental	7	6	1
Change in fund balance	\$ 46	47	\$ 1
Adjustment to Budgetary Basis:			
Unrealized gain (loss) on investments		55	
CHANGE IN FUND BALANCE, GAAP BASIS		102	
FUND BALANCE, BEGINNING OF YEAR		2,438	
FUND BALANCE, END OF YEAR		\$ 2,540	

## **INTERNAL SERVICE FUNDS**

### **INTRODUCTION**

Internal Service Funds are used to finance and account for special activities and services performed by a designated department for other departments in the City on a cost reimbursement basis.

### **Vehicle Replacement and Maintenance**

This fund accounts for the maintenance and replacement of vehicles and equipment used by all City departments. The source of revenue is from reimbursement of fleet replacement and maintenance costs allocated to each department by usage of vehicle.

### **Technology**

This fund accounts for replacement and upgrade of technology, and covers four primary areas used by all City departments: desktop, infrastructure, applications, and technology research and development. The source of revenue is from reimbursement of costs for support provided to other departments.

### **Printing and Mailing Services**

This fund accounts for central duplicating, printing and mailing services provided to all City departments. Source of revenue for this fund is from reimbursement of costs for services and supplies purchased by other departments.

### **General Benefits**

This fund accounts for the administration of compensated absences and health benefits.

### **Workers' Compensation Insurance Program**

This fund accounts for the administration of the City's self-insured workers' compensation programs.

### **General Liabilities Insurance Program**

This fund accounts for the administration of the City's self-insured general liability programs.

### **Retiree Health Benefits**

This fund accounts for the retiree health benefits contributions.

**CITY OF PALO ALTO**  
**Internal Service Funds**  
**Combining Statement of Fund Net Position**  
**June 30, 2020**  
**(Amounts in thousands)**

	Vehicle Replacement and Maintenance	Technology	Printing and Mailing Services	General Benefits	Workers' Compensation Insurance Program	General Liabilities Insurance Program	Retiree Health Benefits	Total Internal Services Funds
<b>ASSETS:</b>								
<b>Current Assets:</b>								
Cash and investments available for operations	\$ 13,116	\$ 25,056	\$ 75	\$ 20,861	\$ 25,372	\$ 9,641	\$ 1,306	\$ 95,427
Accounts receivable, net	3	5	-	17	6	-	-	31
Interest receivable	67	146	1	105	133	51	4	507
Inventory of materials and supplies	102	-	-	-	-	-	-	102
Restricted cash and investments with fiscal agents and trustees	-	-	-	28,693	-	-	-	28,693
<b>Total current assets</b>	<b>13,288</b>	<b>25,207</b>	<b>76</b>	<b>49,676</b>	<b>25,511</b>	<b>9,692</b>	<b>1,310</b>	<b>124,760</b>
<b>Noncurrent Assets:</b>								
<b>Capital assets:</b>								
Nondepreciable	486	2,237	-	-	-	-	-	2,723
Depreciable, net	16,305	2,304	33	-	-	-	-	18,642
<b>Total noncurrent assets</b>	<b>16,791</b>	<b>4,541</b>	<b>33</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21,365</b>
<b>Total assets</b>	<b>30,079</b>	<b>29,748</b>	<b>109</b>	<b>49,676</b>	<b>25,511</b>	<b>9,692</b>	<b>1,310</b>	<b>146,125</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>								
Pension related	501	1,728	33	-	41	-	-	2,303
OPEB related	283	576	11	-	11	-	-	881
<b>Total deferred outflows of resources</b>	<b>784</b>	<b>2,304</b>	<b>44</b>	<b>-</b>	<b>52</b>	<b>-</b>	<b>-</b>	<b>3,184</b>
<b>LIABILITIES:</b>								
<b>Current Liabilities:</b>								
Accounts payable and accruals	136	211	42	1,100	69	10	-	1,568
Accrued salaries and benefits	34	131	4	-	34	-	-	203
Accrued compensated absences	-	-	-	8,182	-	-	-	8,182
Accrued claims payable - current	-	-	-	160	3,960	2,078	-	6,198
<b>Total current liabilities</b>	<b>170</b>	<b>342</b>	<b>46</b>	<b>9,442</b>	<b>4,063</b>	<b>2,088</b>	<b>-</b>	<b>16,151</b>
<b>Noncurrent liabilities:</b>								
Accrued compensated absences	-	-	-	6,062	-	-	-	6,062
Accrued claims payable	-	-	-	-	19,973	3,542	-	23,515
Net pension liabilities	3,696	12,820	306	-	45	-	-	16,867
Net OPEB liabilities	1,561	3,185	143	-	-	-	-	4,889
<b>Total noncurrent liabilities</b>	<b>5,257</b>	<b>16,005</b>	<b>449</b>	<b>6,062</b>	<b>20,018</b>	<b>3,542</b>	<b>-</b>	<b>51,333</b>
<b>Total liabilities</b>	<b>5,427</b>	<b>16,347</b>	<b>495</b>	<b>15,504</b>	<b>24,081</b>	<b>5,630</b>	<b>-</b>	<b>67,484</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>								
Pension related	131	326	3	-	2	-	-	462
OPEB related	329	672	14	-	12	-	-	1,027
<b>Total deferred inflows of resources</b>	<b>460</b>	<b>998</b>	<b>17</b>	<b>-</b>	<b>14</b>	<b>-</b>	<b>-</b>	<b>1,489</b>
<b>NET POSITION:</b>								
Net Investment in capital assets	16,791	4,541	33	-	-	-	-	21,365
Restricted for supplemental pension	-	-	-	28,693	-	-	-	28,693
Unrestricted	8,185	10,166	(392)	5,479	1,468	4,062	1,310	30,278
<b>Total net position</b>	<b>\$ 24,976</b>	<b>\$ 14,707</b>	<b>\$ (359)</b>	<b>\$ 34,172</b>	<b>\$ 1,468</b>	<b>\$ 4,062</b>	<b>\$ 1,310</b>	<b>\$ 80,336</b>

**CITY OF PALO ALTO**  
**Internal Service Funds**  
**Combining Statement of Revenues, Expenses and Changes in Fund Net Position**  
**For the Year Ended June 30, 2020**  
**(Amounts in thousands)**

	Vehicle Replacement and Maintenance	Technology	Printing and Mailing Services	General Benefits	Workers' Compensation Insurance Program	General Liabilities Insurance Program	Retiree Health Benefits	Total Internal Services Funds
<b>OPERATING REVENUES:</b>								
Charges for services	\$ 9,457	\$ 14,458	\$ 1,592	\$ 73,430	\$ 7,381	\$ 4,300	\$ 14,214	\$ 124,832
Other	-	-	-	-	109	3	-	112
Total operating revenues	9,457	14,458	1,592	73,430	7,490	4,303	14,214	124,944
<b>OPERATING EXPENSES:</b>								
Administrative and general	1,525	8,622	1,146	174	846	1,441	29	13,783
Operations and maintenance	4,113	8,264	380	2,255	209	-	-	15,221
Depreciation	2,879	480	7	-	-	-	-	3,366
Claim payments and change in estimated self-insured liability	-	-	-	1,131	6,414	(522)	-	7,023
Refund of charges for services	111	20	-	-	-	-	-	131
Employment benefits	-	-	-	57,129	-	-	16,475	73,604
Total operating expenses	8,628	17,386	1,533	60,689	7,469	919	16,504	113,128
Operating income (loss)	829	(2,928)	59	12,741	21	3,384	(2,290)	11,816
<b>NONOPERATING REVENUES (EXPENSES):</b>								
Investment earnings	500	1,090	(2)	1,455	981	354	66	4,444
Loss on disposal of capital assets	(178)	-	-	-	-	-	-	(178)
Other nonoperating revenues	30	-	-	-	-	-	-	30
Total nonoperating revenues (expenses)	352	1,090	(2)	1,455	981	354	66	4,296
Income (loss) before transfers	1,181	(1,838)	57	14,196	1,002	3,738	(2,224)	16,112
Transfers in	-	1,626	-	5,241	-	5	2,384	9,256
Transfers out	(244)	(220)	(14)	(2,384)	(5)	-	-	(2,867)
Change in net position	937	(432)	43	17,053	997	3,743	160	22,501
NET POSITION, BEGINNING OF YEAR	24,039	15,139	(402)	17,119	471	319	1,150	57,835
NET POSITION, END OF YEAR	\$ 24,976	\$ 14,707	\$ (359)	\$ 34,172	\$ 1,468	\$ 4,062	\$ 1,310	\$ 80,336

**CITY OF PALO ALTO**  
**Internal Service Funds**  
**Combining Statement of Cash Flows**  
**For the Year Ended June 30, 2020**  
**(Amounts in thousands)**

	Vehicle Replacement and Maintenance	Technology	Printing and Mailing Services	General Benefits	Workers' Compensation Insurance Program	General Liabilities Insurance Program	Retiree Health Benefits	Total Internal Services Funds
<b>Cash flows from operating activities:</b>								
Cash received from customers	\$ 9,494	\$ 14,772	\$ 1,592	\$ 73,435	\$ 7,375	\$ 4,303	\$ 16,097	\$ 127,068
Cash payments to suppliers for goods and services	(3,008)	(7,997)	(1,400)	(153)	(500)	(1,451)	-	(14,509)
Cash payments to employees	(2,569)	(8,253)	(250)	(57,501)	(566)	-	(16,504)	(85,643)
Cash payments for judgments and claims	-	-	-	(1,131)	(2,880)	(1,555)	-	(5,566)
Other cash receipts	30	-	-	-	-	-	-	30
Net cash flows provided by (used in) operating activities	3,947	(1,478)	(58)	14,650	3,429	1,297	(407)	21,380
<b>Cash flows from noncapital financing activities:</b>								
Repayment of loans from other funds	-	-	-	-	-	-	(737)	(737)
Transfers in	-	1,626	-	5,241	-	5	2,384	9,256
Transfers out	(244)	(220)	(14)	(2,384)	(5)	-	-	(2,867)
Net cash flows provided by (used in) noncapital financing activities	(244)	1,406	(14)	2,857	(5)	5	1,647	5,652
<b>Cash flows from capital and related financing activities:</b>								
Acquisition of capital assets	(1,570)	(1,624)	-	-	-	-	-	(3,194)
Proceeds from sale of capital assets	96	-	-	-	-	-	-	96
Net cash flows (used in) capital and related financing activities	(1,474)	(1,624)	-	-	-	-	-	(3,098)
<b>Cash flows from investing activities:</b>								
Interest received (charged)	500	1,108	(2)	1,460	984	348	65	4,463
Net change in cash and cash equivalents	2,729	(588)	(74)	18,967	4,408	1,650	1,305	28,397
Cash and cash equivalents, beginning of year	10,387	25,644	149	30,587	20,964	7,991	1	95,723
Cash and cash equivalents, end of year	\$ 13,116	\$ 25,056	\$ 75	\$ 49,554	\$ 25,372	\$ 9,641	\$ 1,306	\$ 124,120
<b>Financial statement presentation:</b>								
Cash and investments available for operations	\$ 13,116	\$ 25,056	\$ 75	\$ 20,861	\$ 25,372	\$ 9,641	\$ 1,306	\$ 95,427
Restricted cash and investments with fiscal agents and trustees	-	-	-	28,693	-	-	-	28,693
Cash and cash equivalents, end of year	\$ 13,116	\$ 25,056	\$ 75	\$ 49,554	\$ 25,372	\$ 9,641	\$ 1,306	\$ 124,120
<b>Reconciliation of operating income (loss) to net cash flows provided by (used in) operating activities:</b>								
Operating income (loss)	\$ 829	\$ (2,928)	\$ 59	\$ 12,741	\$ 21	\$ 3,384	\$ (2,290)	\$ 11,816
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:</b>								
Depreciation	2,879	480	7	-	-	-	-	3,366
Other	30	-	-	-	-	-	-	30
<b>Change in assets and liabilities:</b>								
Accounts receivable	37	314	-	5	(6)	-	1,883	2,233
Inventory of materials and supplies	146	-	-	-	-	-	-	146
Deferred outflows of resources - pension plans	170	404	21	-	16	-	-	611
Deferred outflows of resources - OPEB	(86)	(174)	7	-	(11)	-	-	(264)
Accounts payable and accruals	(44)	(129)	(113)	(23)	(7)	(10)	-	(326)
Accrued salaries and benefits	10	53	1	-	18	-	-	82
Accrued compensated absences	(5)	(12)	-	1,927	(1)	-	-	1,909
Accrued claims payable	-	-	-	-	3,425	(2,077)	-	1,348
Net pension liability	(57)	466	(32)	-	(37)	-	-	340
Net OPEB liability	(257)	(525)	(20)	-	-	-	-	(802)
Deferred inflows of resources - pension plans	-	(30)	1	-	(1)	-	-	(30)
Deferred inflows of resources - OPEB	295	603	11	-	12	-	-	921
Net cash flows provided by (used in) operating activities	\$ 3,947	\$ (1,478)	\$ (58)	\$ 14,650	\$ 3,429	\$ 1,297	\$ (407)	\$ 21,380

## **FIDUCIARY FUNDS**

### **INTRODUCTION**

Fiduciary Funds are used to account for assets held by the City acting in a fiduciary capacity for other entities and individuals. The funds are operated to carry out the specific actions required by the trust agreements, ordinances and other governing regulations.

Fiduciary Funds are presented separately from the Citywide and Fund financial statements.

Agency Funds are custodial in nature and do not involve measurement of results of operations. The City maintains two agency funds, as follows:

#### **Cable Joint Powers Authority**

The fund was established to account for the activities of the cable television system on behalf of the members.

#### **University Avenue Area Off-Street Parking Assessment District**

The fund accounts for the receipts and disbursements associated with the Series 2012 Limited Obligation Refunding Improvement Bonds.

**CITY OF PALO ALTO**  
**All Agency Funds**  
**Statement of Changes in Assets and Liabilities**  
**For the Year Ended June 30, 2020**  
**(Amounts in thousands)**

	Balance June 30, 2019	Additions	Deletions	Balance June 30, 2020
<u>Cable Joint Powers Authority</u>				
<b>ASSETS:</b>				
Cash and investments available for operations	\$ 739	\$ -	\$ 11	\$ 728
Accounts receivable	497	-	13	484
Interest receivable	4	-	-	4
Total assets	<u>\$ 1,240</u>	<u>\$ -</u>	<u>\$ 24</u>	<u>\$ 1,216</u>
<b>LIABILITIES:</b>				
Accounts payable and accruals	\$ -	\$ 219	\$ -	\$ 219
Due to other governments	1,240	-	243	997
Total Liabilities	<u>1,240</u>	<u>219</u>	<u>243</u>	<u>1,216</u>
<u>University Avenue Area</u> <u>Off-Street Parking Assessment District</u>				
<b>ASSETS:</b>				
Cash and investments available for operations	\$ 2,028	\$ 68	\$ -	\$ 2,096
Accounts receivable	13	2	-	15
Interest receivable	11	1	-	12
Cash and investments with fiscal agents	2,657	44	-	2,701
Total assets	<u>\$ 4,709</u>	<u>\$ 115</u>	<u>\$ -</u>	<u>\$ 4,824</u>
<b>LIABILITIES:</b>				
Due to bondholders	<u>\$ 4,709</u>	<u>\$ 115</u>	<u>\$ -</u>	<u>\$ 4,824</u>
<u>Total Agency Funds</u>				
<b>ASSETS:</b>				
Cash and investments available for operations	\$ 2,767	\$ 68	\$ 11	\$ 2,824
Accounts receivable	510	2	13	499
Interest receivable	15	1	-	16
Cash and investments with fiscal agents	2,657	44	-	2,701
Total assets	<u>\$ 5,949</u>	<u>\$ 115</u>	<u>\$ 24</u>	<u>\$ 6,040</u>
<b>LIABILITIES:</b>				
Accounts payable and accruals	\$ -	\$ 219	\$ -	\$ 219
Due to bondholders	4,709	115	-	4,824
Due to other governments	1,240	-	243	997
Total liabilities	<u>\$ 5,949</u>	<u>\$ 334</u>	<u>\$ 243</u>	<u>\$ 6,040</u>

## **STATISTICAL SECTION**

The statistical section contains comprehensive statistical data, which relates to physical, economic, social and political characteristics of the City. It is intended to provide users with a broader and more complete understanding of the City and its financial affairs than is possible from the financial statements and supporting schedules included in the financial section.

In this section, readers will find comparative information related to the City's revenue sources, expenditures, property tax valuations, levies and collections, general obligation bonded debt, utility revenue debt service, and demographics. Where available, the comparative information is presented for the last ten fiscal years.

In addition, this section presents information related to the City's legal debt margin computation, principal taxpayers, notary and security bond coverages, and other miscellaneous statistics pertaining to services provided by the City.

In contrast to the financial section, the statistical section information is not usually subject to independent audit.

### **Financial Trends**

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time:

- Net Position by Component
- Changes in Net Position
- Fund Balances of Governmental Funds
- Changes in Fund Balances of Governmental Funds

### **Revenue Capacity**

These schedules contain information to help the reader assess the City's most significant local revenue sources, property tax and electric charges:

- Electric Operating Revenue by Source
- Supplemental Disclosure for Water Utilities
- Supplemental Disclosure for Gas Utilities
- Assessed Value of Taxable Property
- Property Tax Rates, All Overlapping Governments
- Property Tax Levies and Collections
- Principal Property Taxpayers
- Assessed Valuation and Parcels by Land Use
- Per Parcel Assessed Valuation of Single Family Residential

### **Debt Capacity**

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future:

- Ratio of Outstanding Debt by Type
- Computation of Direct and Overlapping Debt
- Computation of Legal Bonded Debt Margin
- Revenue Bond Coverage



## **STATISTICAL SECTION**

### **Demographic and Economic Information**

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place:

- Taxable Transactions by Type of Business
- Demographic and Economic Statistics
- Principal Employers

### **Operating Information**

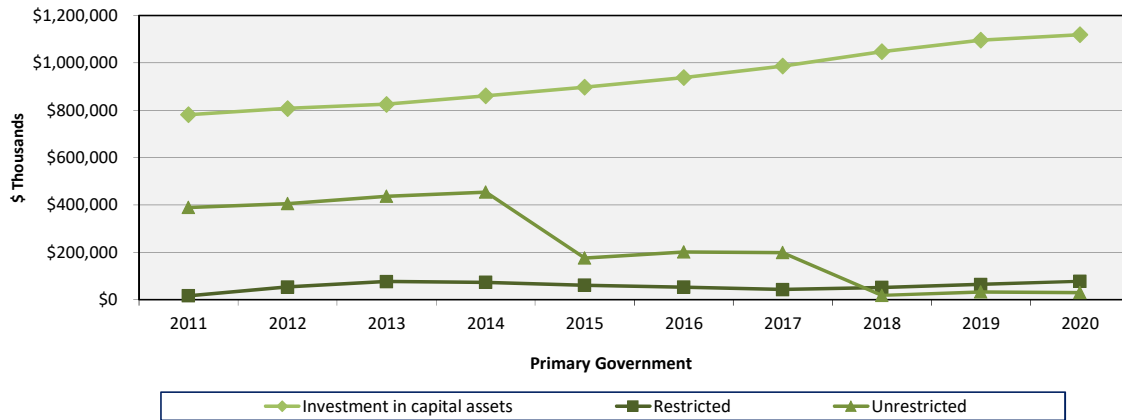
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

- Operating Indicators by Function/Program
- Capital Asset Statistics by Function/Program
- Full-Time Equivalent City Government Employees by Function

### **Sources**

Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

**CITY OF PALO ALTO**  
**Net Position by Component**  
**Last Ten Fiscal Years**  
**(Accrual basis of accounting)**  
**(Amounts in thousands)**



	Fiscal Year Ended June 30									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Governmental Activities</b>										
Investment in capital assets	\$ 364,747	\$ 370,111	\$ 378,047	\$ 386,696	\$ 405,921	\$ 425,179	\$ 453,878	\$ 473,233	\$ 493,706	\$ 497,378
Restricted	16,437	52,934	71,717	68,331	55,963	47,907	38,138	46,724	59,669	73,274
Unrestricted	134,722	142,102	165,810	187,386	1,972	37,905	35,273	(92,587)	(103,392)	(130,078)
<b>Total Governmental Activities Net Position</b>	<b>\$ 515,906</b>	<b>\$ 565,147</b>	<b>\$ 615,574</b>	<b>\$ 642,413</b>	<b>\$ 463,856</b>	<b>\$ 510,991</b>	<b>\$ 527,289</b>	<b>\$ 427,370</b>	<b>\$ 449,983</b>	<b>\$ 440,574</b>
<b>Business-type Activities</b>										
Investment in capital assets	\$ 416,418	\$ 437,151	\$ 446,597	\$ 473,795	\$ 490,874	\$ 512,918	\$ 532,063	\$ 573,688	\$ 602,136	\$ 621,354
Restricted	-	-	4,060	4,166	4,142	4,115	4,073	4,014	4,016	4,060
Unrestricted	253,740	262,602	269,926	266,794	172,802	162,806	163,158	110,429	135,391	159,592
<b>Total Business-type Activities Net Position</b>	<b>\$ 670,158</b>	<b>\$ 699,753</b>	<b>\$ 720,583</b>	<b>\$ 744,755</b>	<b>\$ 667,818</b>	<b>\$ 679,839</b>	<b>\$ 699,294</b>	<b>\$ 688,131</b>	<b>\$ 741,543</b>	<b>\$ 785,006</b>
<b>Primary Government</b>										
Investment in capital assets	\$ 781,165	\$ 807,262	\$ 824,644	\$ 860,491	\$ 896,795	\$ 938,097	\$ 985,941	\$ 1,046,921	\$ 1,095,842	\$ 1,118,732
Restricted	16,437	52,934	75,777	72,497	60,105	52,022	42,211	50,738	63,685	77,334
Unrestricted	388,462	404,704	435,736	454,180	174,774	200,711	198,431	17,842	31,999	29,514
<b>Total Primary Government Net Position</b>	<b>\$ 1,186,064</b>	<b>\$ 1,264,900</b>	<b>\$ 1,336,157</b>	<b>\$ 1,387,168</b>	<b>\$ 1,131,674</b>	<b>\$ 1,190,830</b>	<b>\$ 1,226,583</b>	<b>\$ 1,115,501</b>	<b>\$ 1,191,526</b>	<b>\$ 1,225,580</b>

Notes: The City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective July 1, 2014, and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*, effective July 1, 2017. The City's unrestricted net position decreased in FY 2015 and again in FY 2018 as a result.

Source: Annual Financial Statements, Statement of Net Position

**CITY OF PALO ALTO**  
**Changes in Net Position**  
**Last Ten Fiscal Years**  
**(Accrual basis of accounting)**  
**(Amounts in thousands)**

	Fiscal Year Ended June 30									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>PROGRAM REVENUES</b>										
<b>Governmental Activities</b>										
Charges for services										
Administrative Services	\$ 2,889	\$ 1,647	\$ 15,629	\$ 4,055	\$ 5,460	\$ 9,444	\$ 5,242	\$ 6,536	\$ 6,413	\$ 5,758
Public Works	2,419	1,008	1,314	1,093	1,209	599	878	781	1,478	990
Planning & Community Environment <sup>2</sup>	7,237	31,491	28,768	12,896	8,090	9,071	6,067	5,119	11,997	-
Development Services <sup>1&amp;2</sup>	-	-	-	-	12,019	12,570	11,768	16,000	13,904	-
Planning & Development Services <sup>2</sup>	-	-	-	-	-	-	-	-	-	16,173
Office of Transportation <sup>3</sup>	-	-	-	-	-	-	-	-	-	1,161
Public Safety	15,274	15,658	16,139	14,902	15,726	13,945	12,670	13,507	14,179	12,101
Community Services	7,724	11,365	13,808	20,882	20,912	21,551	20,472	21,285	22,805	20,808
Library	480	1,600	187	166	137	198	139	145	134	94
Operating grants and contributions	2,884	3,441	5,038	5,360	5,300	2,164	1,990	14,054	2,100	2,619
Capital grants and contributions	1,903	1,064	515	917	619	344	1,929	1,534	8,247	9,021
<b>Total Governmental Activities</b>										
<b>Program Revenues</b>	<b>40,810</b>	<b>67,274</b>	<b>81,398</b>	<b>60,271</b>	<b>69,472</b>	<b>69,886</b>	<b>61,155</b>	<b>78,961</b>	<b>81,257</b>	<b>68,725</b>
<b>Business-type Activities</b>										
Charges for services										
Water	26,624	31,467	37,746	40,291	35,847	37,588	42,678	45,087	45,571	48,740
Electric	122,109	118,886	121,805	121,916	120,842	120,743	137,543	154,142	163,514	169,389
Fiber Optics	3,322	3,662	4,382	4,485	4,627	4,505	4,553	4,529	4,657	4,576
Gas	43,584	41,774	34,633	35,737	30,751	30,212	36,431	37,044	42,113	37,402
Wastewater Collection	15,094	14,942	16,077	15,599	16,182	16,496	17,748	17,990	20,219	20,933
Wastewater Treatment	18,830	22,200	21,528	18,460	24,120	23,825	23,649	27,382	27,573	29,310
Refuse	30,469	30,645	30,583	30,297	31,576	32,169	33,918	34,647	33,996	32,695
Storm Drainage	5,796	5,892	6,053	6,183	6,281	6,520	6,693	6,964	7,249	7,543
Airport	-	-	-	-	683	826	1,286	2,382	2,483	2,362
Operating grants and contributions	610	605	572	549	534	744	512	501	488	473
Capital grants and contributions	3,004	1,526	2,224	2,005	2,080	1,061	4,265	14,194	6,677	6,449
<b>Total Business-type Activities</b>										
<b>Program Revenues</b>	<b>269,442</b>	<b>271,599</b>	<b>275,603</b>	<b>275,522</b>	<b>273,523</b>	<b>274,689</b>	<b>309,276</b>	<b>344,862</b>	<b>354,540</b>	<b>359,872</b>
<b>Total Primary Government</b>										
<b>Program Revenues</b>	<b>\$ 310,252</b>	<b>\$ 338,873</b>	<b>\$ 357,001</b>	<b>\$ 335,793</b>	<b>\$ 342,995</b>	<b>\$ 344,575</b>	<b>\$ 370,431</b>	<b>\$ 423,823</b>	<b>\$ 435,797</b>	<b>\$ 428,597</b>
<b>EXPENSES</b>										
<b>Governmental Activities</b>										
City Council	\$ 15	\$ 345	\$ 94	\$ 387	\$ 271	\$ 352	\$ 329	\$ 345	\$ 270	\$ 172
City Manager	1,842	1,960	1,237	2,180	2,155	2,662	1,975	2,757	3,336	3,616
City Attorney	953	1,656	1,642	1,797	1,759	2,472	2,140	2,511	3,086	2,845
City Clerk	803	908	330	641	680	582	762	931	822	748
City Auditor	138	235	464	489	362	414	847	994	1,081	645
Administrative Services	9,888	10,100	7,614	11,388	9,980	10,637	11,887	13,949	19,169	15,919
Human Resources	1,346	1,071	1,420	1,346	1,464	2,224	2,272	2,674	3,021	3,060
Public Works	19,357	14,568	20,816	24,577	21,075	24,613	25,539	30,349	36,617	45,609
Planning & Community Environment <sup>2</sup>	15,031	12,074	13,549	14,926	8,423	10,208	10,918	11,357	12,169	-
Development Services <sup>1&amp;2</sup>	-	-	-	-	10,449	11,158	11,102	12,664	12,622	-
Planning & Development Services <sup>2</sup>	-	-	-	-	-	-	-	-	-	21,725
Office of Transportation <sup>3</sup>	-	-	-	-	-	-	-	-	-	4,693
Public Safety (Police and Fire)	58,996	62,817	59,452	62,883	58,660	56,653	73,320	83,923	89,189	92,187
Community Services	22,845	21,915	22,705	23,822	24,688	28,547	27,866	33,709	36,815	34,147
Library	6,920	7,323	7,319	7,758	7,721	10,825	11,437	12,208	12,557	12,971
Interest on long term debt	2,742	2,575	2,562	3,367	3,658	3,552	2,846	2,761	3,653	4,576
<b>Total Governmental</b>										
<b>Activities Expenses</b>	<b>140,876</b>	<b>137,547</b>	<b>139,204</b>	<b>155,561</b>	<b>151,345</b>	<b>164,899</b>	<b>183,240</b>	<b>211,132</b>	<b>234,407</b>	<b>242,913</b>
<b>Business-type Activities</b>										
Water	24,268	29,093	30,707	31,593	33,205	35,120	37,535	40,836	40,605	43,034
Electric	100,130	102,030	106,438	113,004	122,499	120,319	128,603	146,033	139,605	142,426
Fiber Optics	1,561	1,489	1,437	1,661	1,891	2,107	2,159	2,653	2,476	2,761
Gas	32,051	28,878	26,749	26,869	23,525	20,879	26,783	27,930	30,915	27,212
Wastewater Collection	12,275	14,825	14,313	13,235	14,595	15,199	16,405	16,801	17,324	18,877
Wastewater Treatment	19,731	20,712	20,635	21,018	21,553	22,546	23,498	27,518	27,070	28,755
Refuse	30,684	31,900	28,542	28,413	27,974	30,370	30,665	28,808	30,391	36,947
Storm Drainage	3,229	3,103	3,703	3,644	3,721	3,735	4,106	5,059	4,951	5,514
Airport	31	153	246	466	1,004	970	1,274	1,656	1,790	2,131
<b>Total Business-type</b>										
<b>Activities Expenses</b>	<b>223,960</b>	<b>232,183</b>	<b>232,770</b>	<b>239,903</b>	<b>249,967</b>	<b>251,245</b>	<b>271,028</b>	<b>297,294</b>	<b>295,128</b>	<b>307,657</b>
<b>Total Primary</b>										
<b>Government Expenses</b>	<b>\$ 364,836</b>	<b>\$ 369,730</b>	<b>\$ 371,974</b>	<b>\$ 395,464</b>	<b>\$ 401,312</b>	<b>\$ 416,144</b>	<b>\$ 454,268</b>	<b>\$ 508,426</b>	<b>\$ 529,535</b>	<b>\$ 550,570</b>

	Fiscal Year Ended June 30									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>NET (EXPENSE)/REVENUE</b>										
Governmental Activities	\$ (100,066)	\$ (70,273)	\$ (57,806)	\$ (95,290)	\$ (81,873)	\$ (95,013)	\$ (122,085)	\$ (132,171)	\$ (153,150)	\$ (174,188)
Business-type Activities	45,482	39,416	42,833	35,619	23,556	23,444	38,248	47,568	59,412	52,215
<b>Total Primary Government</b>										
<b>Net (Expense)/Revenue</b>	<u>\$ (54,584)</u>	<u>\$ (30,857)</u>	<u>\$ (14,973)</u>	<u>\$ (59,671)</u>	<u>\$ (58,317)</u>	<u>\$ (71,569)</u>	<u>\$ (83,837)</u>	<u>\$ (84,603)</u>	<u>\$ (93,738)</u>	<u>\$ (121,973)</u>

**GENERAL REVENUES AND OTHER CHANGES IN NET POSITION**

**Governmental Activities**

Taxes										
Property tax	\$ 29,156	\$ 30,104	\$ 31,929	\$ 35,299	\$ 38,750	\$ 41,189	\$ 43,953	\$ 47,170	\$ 51,718	\$ 55,604
Sales tax	20,746	22,132	25,606	29,424	29,675	30,018	29,923	31,091	36,508	30,563
Utility user tax	10,851	10,834	10,861	11,008	10,861	12,469	14,240	15,414	16,402	16,140
Transient occupancy tax	8,082	9,664	10,794	12,255	16,699	22,366	23,477	24,937	25,649	18,553
Other taxes	8,156	8,173	10,504	9,660	11,867	7,868	8,989	11,337	9,525	9,775
Investment earnings	3,500	6,238	(1,228)	5,859	5,010	8,639	(711)	420	15,375	13,850
Miscellaneous	12,377	14,943	518	2,575	3,428	894	168	1,973	1,906	60
Transfers	17,083	17,426	19,249	17,103	16,405	18,705	18,344	19,077	18,680	20,234
<b>Total Governmental Activities</b>	<u>109,951</u>	<u>119,514</u>	<u>108,233</u>	<u>123,183</u>	<u>132,695</u>	<u>142,148</u>	<u>138,383</u>	<u>151,419</u>	<u>175,763</u>	<u>164,779</u>

**Business-type Activities**

Investment earnings	5,722	7,605	(2,754)	6,379	4,857	7,282	(449)	596	12,680	11,482
Transfers	(17,083)	(17,426)	(19,249)	(17,103)	(16,405)	(18,705)	(18,344)	(19,077)	(18,680)	(20,234)
<b>Total Business-type Activities</b>	<u>(11,361)</u>	<u>(9,821)</u>	<u>(22,003)</u>	<u>(10,724)</u>	<u>(11,548)</u>	<u>(11,423)</u>	<u>(18,793)</u>	<u>(18,481)</u>	<u>(6,000)</u>	<u>(8,752)</u>

<b>Total Primary Government</b>	<u>\$ 98,590</u>	<u>\$ 109,693</u>	<u>\$ 86,230</u>	<u>\$ 112,459</u>	<u>\$ 121,147</u>	<u>\$ 130,725</u>	<u>\$ 119,590</u>	<u>\$ 132,938</u>	<u>\$ 169,763</u>	<u>\$ 156,027</u>
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**CHANGE IN NET POSITION**

Governmental Activities	\$ 9,885	\$ 49,241	\$ 50,427	\$ 27,893	\$ 50,822	\$ 47,135	\$ 16,298	\$ 19,248	\$ 22,613	\$ (9,409)
Business-type Activities	34,121	29,595	20,830	24,895	12,008	12,021	19,455	29,087	53,412	43,463

**Total Primary Government**

<b>Change in Net Position</b>	<u>\$ 44,006</u>	<u>\$ 78,836</u>	<u>\$ 71,257</u>	<u>\$ 52,788</u>	<u>\$ 62,830</u>	<u>\$ 59,156</u>	<u>\$ 35,753</u>	<u>\$ 48,335</u>	<u>\$ 76,025</u>	<u>\$ 34,054</u>
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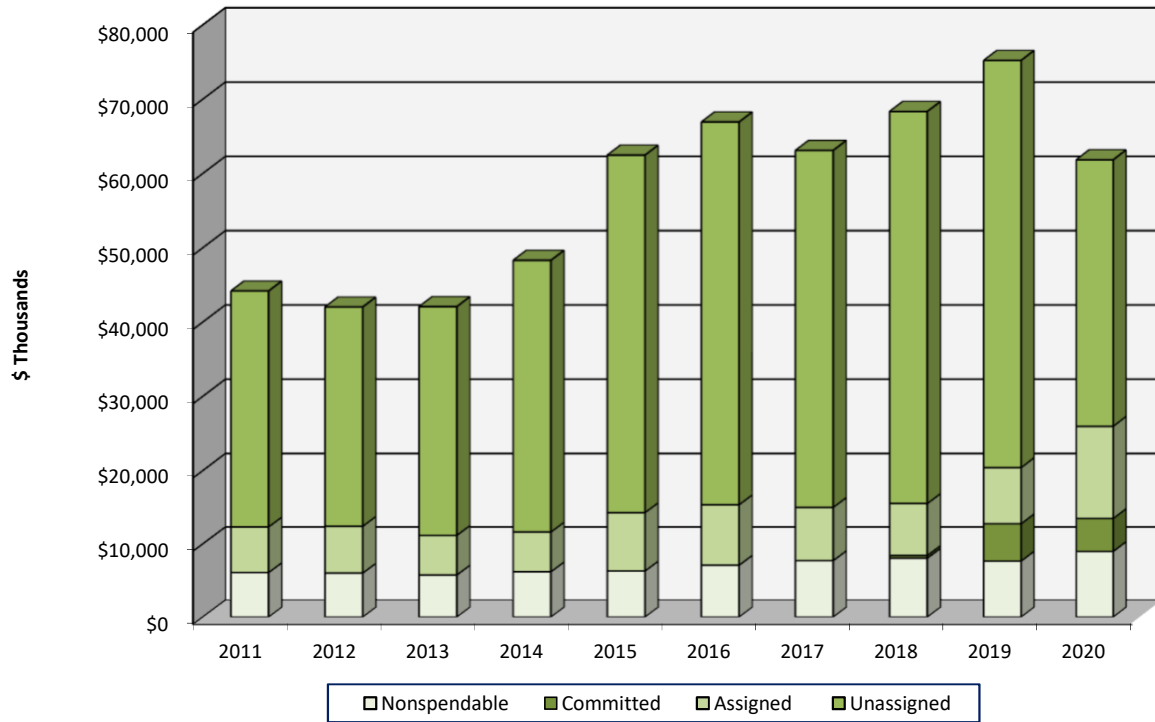
Notes: <sup>1</sup>The Development Services Department was formed in FY15.

<sup>2</sup>In FY20, the Development Services Department was combined with the Planning and Community Environment Department to form the Planning and Development Services Department.

<sup>3</sup>In FY20, the City established the Office of Transportation in FY20.

Source: Annual Financial Statements, Statement of Activities

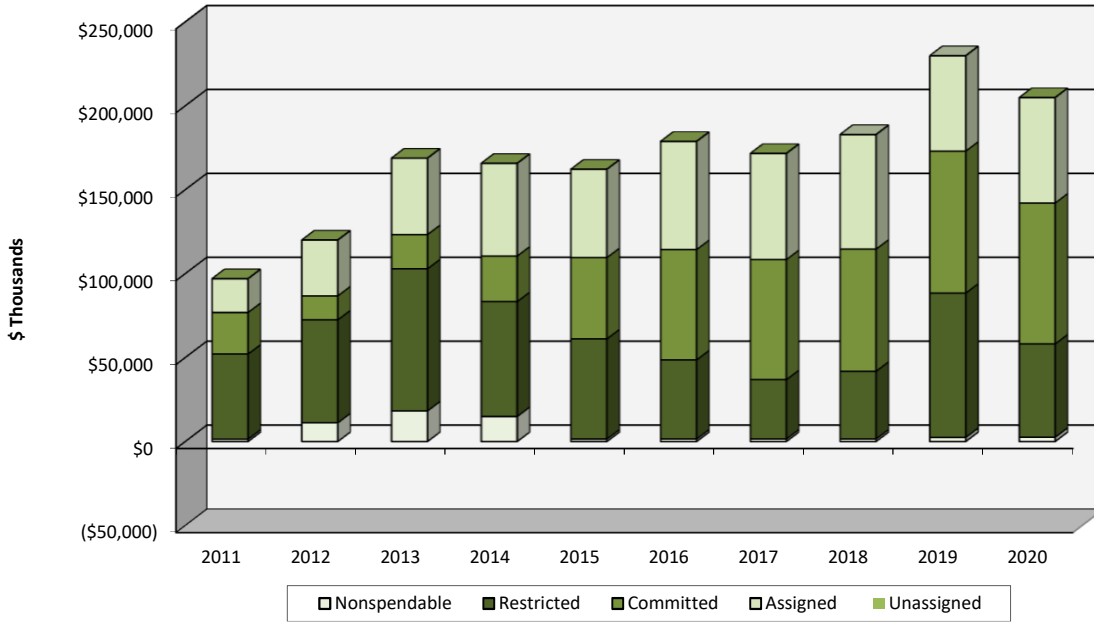
**CITY OF PALO ALTO**  
**Fund Balances of Governmental Funds (General Fund)**  
**Last Ten Fiscal Years**  
**(Modified accrual basis of accounting)**  
**(Amounts in thousands)**



	<b>Fiscal Year Ended June 30</b>									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>General Fund</b>										
Nonspendable	\$ 6,085	\$ 6,007	\$ 5,749	\$ 6,188	\$ 6,296	\$ 7,088	\$ 7,709	\$ 8,049	\$ 7,647	\$ 8,967
Committed	-	-	-	-	-	-	-	373	5,100	4,505
Assigned	6,235	6,400	5,415	5,432	7,976	8,261	7,280	7,098	7,657	12,496
Unassigned	31,859	29,616	30,913	36,690	48,198	51,582	48,118	52,826	54,811	35,871
<b>Total General Fund</b>	<b>\$ 44,179</b>	<b>\$ 42,023</b>	<b>\$ 42,077</b>	<b>\$ 48,310</b>	<b>\$ 62,470</b>	<b>\$ 66,931</b>	<b>\$ 63,107</b>	<b>\$ 68,346</b>	<b>\$ 75,215</b>	<b>\$ 61,839</b>

Source: Annual Financial Statements, Balance Sheet

**CITY OF PALO ALTO**  
**Fund Balances of Governmental Funds (All Other Governmental Funds)**  
**Last Ten Fiscal Years**  
**(Modified accrual basis of accounting)**  
**(Amounts in thousands)**



	Fiscal Year Ended June 30									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>All Other Governmental Funds</b>										
Nonspendable	\$ 1,422	\$ 11,112	\$ 18,189	\$ 14,869	\$ 1,468	\$ 1,505	\$ 1,499	\$ 1,498	\$ 2,438	\$ 2,540
Restricted	50,646	61,324	84,688	68,468	59,650	47,113	35,298	40,317	85,940	55,548
Committed	24,775	14,284	20,400	27,145	48,434	65,745	71,566	72,781	84,616	83,973
Assigned	20,114	33,264	45,514	55,211	52,627	64,411	63,225	68,261	56,842	62,825
Unassigned	-	-	-	-	-	-	-	(32)	(32)	-
<b>Total All Other Governmental Funds</b>	<b>\$ 96,957</b>	<b>\$ 119,984</b>	<b>\$ 168,791</b>	<b>\$ 165,693</b>	<b>\$ 162,179</b>	<b>\$ 178,774</b>	<b>\$ 171,588</b>	<b>\$ 182,825</b>	<b>\$ 229,804</b>	<b>\$ 204,886</b>

Source: Annual Financial Statements, Balance Sheet

**CITY OF PALO ALTO**  
**Changes in Fund Balances of Governmental Funds**  
**Last Ten Fiscal Years**  
**(Modified accrual basis of accounting)**  
**(Amounts in thousands)**

	Fiscal Year Ended June 30									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Revenues</b>										
Property tax	\$ 29,248	\$ 30,216	\$ 32,040	\$ 35,393	\$ 38,836	\$ 41,289	\$ 44,050	\$ 47,242	\$ 51,776	\$ 55,628
Sales tax	20,746	22,132	25,606	29,424	29,675	30,018	29,923	31,091	36,508	30,563
Other taxes and fines	27,890	29,231	32,141	35,305	41,576	44,909	48,875	53,837	53,525	45,729
Contributions <sup>5</sup>	-	-	-	-	-	-	-	11,733	-	-
Charges for services	22,311	46,273	38,976	23,962	25,973	23,910	22,267	26,835	27,346	24,127
From other agencies	1,614	1,116	4,109	5,700	7,727	4,417	5,443	5,392	4,689	12,315
Permits and licenses	5,433	7,136	8,218	8,990	9,179	11,228	10,523	12,786	17,759	13,144
Interest and rentals	16,553	18,583	12,136	18,445	18,658	22,269	15,348	16,288	32,905	26,123
Other revenue	8,624	12,739	17,570	7,471	12,837	13,827	4,985	6,067	7,955	1,091
<b>Total Revenues</b>	<b>132,419</b>	<b>167,426</b>	<b>170,796</b>	<b>164,690</b>	<b>184,461</b>	<b>191,867</b>	<b>181,414</b>	<b>211,271</b>	<b>232,463</b>	<b>208,720</b>
<b>Expenditures</b>										
Administration <sup>1</sup>	8,351	9,412	8,291	9,961	10,806	11,501	13,192	14,721	15,799	16,527
Public Works	11,317	11,304	11,489	12,439	12,276	13,112	14,485	15,426	14,764	14,793
Planning and Community Environment <sup>3</sup>	10,309	11,966	13,474	14,761	8,628	9,722	10,568	10,332	10,911	-
Development Services <sup>2,3</sup>	-	-	-	-	11,152	10,643	10,908	11,749	11,549	-
Planning and Development Services <sup>2</sup>	-	-	-	-	-	-	-	-	-	20,170
Office of Transportation <sup>4</sup>	-	-	-	-	-	-	-	-	-	4,175
Public Safety (Police and Fire)	58,874	62,418	59,537	62,028	61,447	63,784	71,164	73,916	76,344	82,173
Community Services	20,029	20,860	21,661	22,644	23,553	25,511	25,408	29,831	31,619	29,868
Library	6,509	7,072	6,902	7,340	7,980	7,960	8,953	9,120	9,288	9,988
Non-departmental	7,352	6,819	4,567	8,135	6,180	8,068	6,566	7,579	12,231	9,498
Capital Outlay	35,486	29,154	29,542	37,035	41,754	24,457	39,643	40,971	46,914	66,362
Debt service - principal payments	870	1,743	1,489	1,524	1,948	7,130	2,066	2,961	2,101	2,280
Debt service - interest and fiscal fees	1,815	2,757	2,659	3,196	3,404	4,266	3,032	2,956	3,398	5,025
Payment to bond refunding escrow	-	586	540	-	-	-	-	-	-	-
<b>Total Expenditures</b>	<b>160,912</b>	<b>164,091</b>	<b>160,151</b>	<b>179,063</b>	<b>189,128</b>	<b>186,154</b>	<b>205,985</b>	<b>219,562</b>	<b>234,918</b>	<b>260,859</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>(28,493)</b>	<b>3,335</b>	<b>10,645</b>	<b>(14,373)</b>	<b>(4,667)</b>	<b>5,713</b>	<b>(24,571)</b>	<b>(8,291)</b>	<b>(2,455)</b>	<b>(52,139)</b>
<b>Other Financing Sources (Uses)</b>										
Issuance of Debt	-	-	-	-	-	-	-	8,970	42,297	-
Proceeds from sale of capital assets	-	-	-	-	-	-	-	-	2,442	-
Transfers in	30,323	47,200	50,343	41,683	45,137	61,835	58,331	56,882	54,711	58,397
Transfers out	(14,352)	(29,782)	(33,833)	(24,175)	(29,824)	(46,492)	(44,770)	(41,085)	(43,147)	(44,552)
Proceeds from long term debt	(101)	3,222	21,706	-	-	-	-	-	-	-
Payments to refund bond escrow	-	(3,104)	-	-	-	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>15,870</b>	<b>17,536</b>	<b>38,216</b>	<b>17,508</b>	<b>15,313</b>	<b>15,343</b>	<b>13,561</b>	<b>24,767</b>	<b>56,303</b>	<b>13,845</b>
<b>Net Change in Fund Balances</b>	<b>\$ (12,623)</b>	<b>\$ 20,871</b>	<b>\$ 48,861</b>	<b>\$ 3,135</b>	<b>\$ 10,646</b>	<b>\$ 21,056</b>	<b>\$ (11,010)</b>	<b>\$ 16,476</b>	<b>\$ 53,848</b>	<b>\$ (38,294)</b>
<b>Debt Service as a Percentage of Non-Capital Expenditures</b>	2.2%	3.5%	3.2%	3.3%	3.7%	7.1%	3.1%	3.3%	2.8%	3.6%

Notes: <sup>1</sup>Comprised of the following departments: City Council, City Manager, City Attorney, City Clerk, City Auditor, Administrative Services, and Human Resources.  
<sup>2</sup>The Development Services Department was formed in FY15.  
<sup>3</sup>In FY20, the Development Services Department was combined with the Planning and Community Environment Department to form the Planning and Development Services Department.  
<sup>4</sup>In FY20, the City established the Office of Transportation.  
<sup>5</sup>Represents contributions from the Stanford University Medical Center in FY18.

Source: Annual Financial Statements, Governmental Funds, Statement of Revenues, Expenditures and Changes in Fund Balances

**CITY OF PALO ALTO**  
**Electric Operating Revenue by Source \***  
**Last Ten Fiscal Years**  
**(Amounts in thousands)**

<b>Fiscal Year</b>	<b>Residential</b>	<b>Commercial &amp; Industrial</b>	<b>City of Palo Alto</b>	<b>Total</b>
2011	\$ 19,848	\$ 88,076	\$ 2,991	\$ 110,915
2012	20,328	85,895	3,352	109,575
2013	19,951	86,998	3,265	110,214
2014	18,744	88,419	3,225	110,388
2015	17,404	88,257	3,234	108,895
2016	18,191	86,715	3,127	108,033
2017	20,269	90,635	3,780	114,684
2018	22,764	100,200	4,264	127,228
2019	23,613	103,509	4,404	131,526
2020	25,466	107,335	4,286	137,087

\* The electric operating revenues include sales to customers and City departments, and excludes the sale of surplus energy, utility billing discounts, and bad debt expense.

**Top Ten Electric Customers by Revenue<sup>1</sup>**

<b>Customer (alphabetical order)</b>	<b>Type of Business</b>
529 Bryant Street LLC	Technology
City of Palo Alto	Municipal
Communications & Power Industries (CPI)	Research
Lucille Packard Children's Hospital	Hospital
Space Systems/Loral, LLC	Satellite & Satellite Systems
Stanford Health Care	Hospital/Health Care
Stanford Hospital & Clinics	Hospital
Varian Medical Systems, Inc.	Manufacturing
Veterans Administration Hospital	Hospital
VMware, Inc.	Computer

<sup>1</sup>The top ten customers accounted for approximately 36.3% of total kWh consumption (310,022,386 kWh) and 33.6% of revenue (\$45,596,827). The largest customer accounted for 9.4% of total kWh consumption and 8.3% of revenue. The smallest customer accounted for 2.1% of total kWh consumption and 1.8% of revenue. Revenue used to determine top ten electric customers includes metered and non-metered charges, adjustments, surcharges and discounts. Revenue does not include Utility Users Tax (UUT) and deposits.

	<b>Number of Customers</b>	<b>Kilowatt-hour Sales (kWh)</b>	<b>Revenue<sup>2</sup></b>
Residential	25,326	154,509,779	\$ 25,466
Commercial	3,665	551,244,105	89,063
Industrial	68	123,237,426	18,272
CPA	143	25,680,554	4,286
<b>Total</b>	<b>29,202</b>	<b>854,671,864</b>	<b>\$ 137,087</b>

**City of Palo Alto Power Purchase**

Western Area Power Administration Hydroelectric	45.0%
Forward Market Purchases	-9.0%
Wind Energy	11.0%
Landfill Gas Energy	12.0%
Solar Energy	39.0%
Northern California Power Agency Hydroelectric	12.0%
Short-Term Market	-10.0%

<sup>2</sup>Revenue includes metered and non-metered charges and revenue adjustments. Revenue does not include California Energy Commission (CEC) surcharges, Utility Users Tax (UUT), Primary Voltage and Rate Assistance (RAP) discounts and deposits. Parts of this schedule are provided as required by the Continuing Disclosure Agreement for the City's Utility Revenue Bond and are not required by Governmental Accounting Standards Board (GASB).

Source: City of Palo Alto, Utilities and Accounting Departments



**CITY OF PALO ALTO**  
**Supplemental Disclosure for Water Utilities**  
**Fiscal Year 2020**

**Top Ten Largest Water Utility Customers (alphabetical order)**

City of Palo Alto  
Oak Creek Apartments  
Palo Alto Hills Golf & Country Club  
Palo Alto Unified School District  
Simon Property Group  
Stanford Hospital & Clinics  
Stanford West Management  
Veterans Administration Hospital  
Vi at Palo Alto  
VMware Inc.

The top ten customers total consumption is 885,069 CCF with revenue of \$8,381,271. This amount accounts for approximately 19% of total consumption and 18% of total revenue. The largest customer (other than the City of Palo Alto) accounted for 5.3% of consumption and 5.3% of revenue. The smallest customer accounted for 0.7% of consumption and 0.8% of revenue. Revenue used to determine top ten water utility customers includes metered and non-metered charges, adjustments, surcharges and discounts. Revenue does not include Utility Users Tax (UUT) and deposits.

Note: This schedule is provided as required by the Continuing Disclosure Agreement for the City's Utility Revenue Bond and is not required by Governmental Accounting Standards Board (GASB).

Source: City of Palo Alto, Utilities Department

**CITY OF PALO ALTO**  
**Supplemental Disclosure for Gas Utilities**  
**Fiscal Year 2020**

**Top Ten Largest Gas Utility Customers (alphabetical order)**

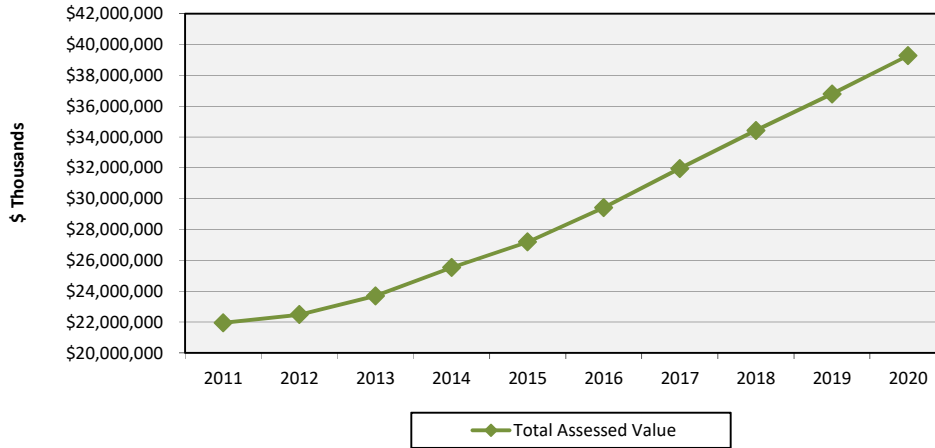
City of Palo Alto  
Genencor International  
Hewlett Packard  
Palo Alto Unified School District  
Space Systems/Loral, LLC  
Stanford Health Care  
Stanford Hospital & Clinics  
Stanford University  
Veterans Administration Hospital  
VMware Inc.

The top ten customers total consumption is 5,984,237 THM with revenue of \$6,678,626. This amount accounts for approximately 22.5% of total consumption and 18.9% of total revenue. The largest customer (other than the City of Palo Alto) accounted for 6.9% of consumption and 5.6% of revenue. The smallest customer accounted for 1.2% of consumption and 1.1% of revenue.

Note: This schedule is provided as required by the Continuing Disclosure Agreement for the City's Utility Revenue Bond and is not required by Governmental Accounting Standards Board (GASB).

Source: City of Palo Alto, Utilities Department

**CITY OF PALO ALTO**  
**Assessed Value of Taxable Property**  
**Last Ten Fiscal Years**  
**(Amounts in thousands)**

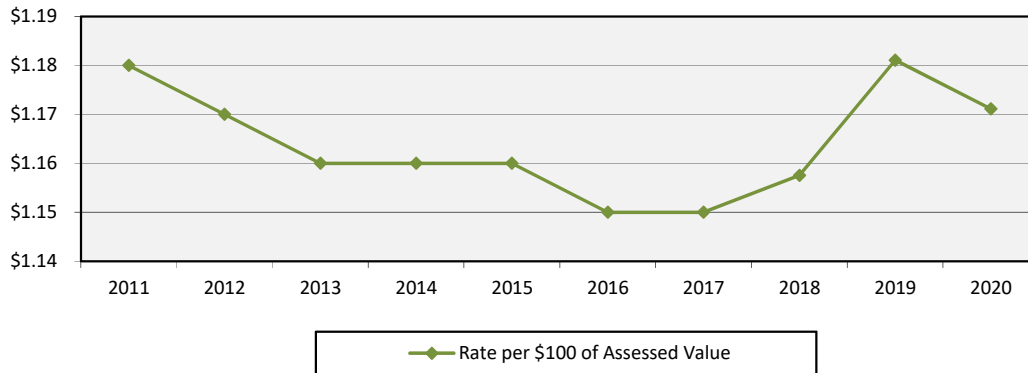


	Fiscal Year Ended June 30									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Net Local Secured Roll</b>										
Land	\$ 11,011,160	\$ 11,352,993	\$ 12,255,515	\$ 13,357,851	\$ 14,409,837	\$ 15,718,665	\$ 17,333,969	\$ 18,770,642	\$ 20,386,904	\$ 22,186,582
Improvements	10,962,928	11,703,597	12,381,306	12,984,735	13,633,986	14,998,502	16,752,295	18,642,970	19,845,666	21,183,768
Personal property	241,280	257,436	287,296	307,499	290,590	310,929	306,576	300,352	181,381	194,646
	<u>22,215,368</u>	<u>23,314,026</u>	<u>24,924,117</u>	<u>26,650,085</u>	<u>28,334,413</u>	<u>31,028,096</u>	<u>34,392,840</u>	<u>37,713,964</u>	<u>40,413,951</u>	<u>43,564,996</u>
<b>Less:</b>										
Exemptions net of state aid	<u>(1,757,241)</u>	<u>(2,346,728)</u>	<u>(2,589,653)</u>	<u>(2,610,521)</u>	<u>(2,761,495)</u>	<u>(3,409,836)</u>	<u>(4,244,500)</u>	<u>(5,203,968)</u>	<u>(5,522,323)</u>	<u>(6,233,220)</u>
<b>Total Net Local Secured Roll</b>	<u>20,458,127</u>	<u>20,967,298</u>	<u>22,334,464</u>	<u>24,039,564</u>	<u>25,572,918</u>	<u>27,618,260</u>	<u>30,148,340</u>	<u>32,509,996</u>	<u>34,891,628</u>	<u>37,331,776</u>
Public utilities	2,573	2,573	2,573	2,573	2,573	2,573	2,573	2,573	7,004	7,004
Unsecured property	<u>1,495,574</u>	<u>1,516,837</u>	<u>1,355,970</u>	<u>1,493,922</u>	<u>1,622,636</u>	<u>1,794,921</u>	<u>1,803,468</u>	<u>1,922,170</u>	<u>1,902,781</u>	<u>1,946,680</u>
<b>Total Assessed Value</b>	<u>\$ 21,956,274</u>	<u>\$ 22,486,708</u>	<u>\$ 23,693,007</u>	<u>\$ 25,536,059</u>	<u>\$ 27,198,127</u>	<u>\$ 29,415,754</u>	<u>\$ 31,954,381</u>	<u>\$ 34,434,739</u>	<u>\$ 36,801,413</u>	<u>\$ 39,285,460</u>
<b>Total Direct Tax Rate</b>	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%

Note: The State Constitution requires property to be assessed at 100% of the most recent purchase price, plus an increment of no more than 2% annually, plus any local over-rides. These values are considered to be full market values.

Source: County of Santa Clara Assessor's Office

**CITY OF PALO ALTO  
Property Tax Rates  
All Overlapping Governments  
Last Ten Fiscal Years**



Fiscal Year	Basic County Wide Levy	County Retirement Levy	County Hospital G.O. Bond (Measure A)	City Library G.O. Bond (Measure N)	Santa Clara Valley Water District	School District	Community College	Midpeninsula Open Space <sup>1</sup>	County Affordable Housing Bond (Measure A) <sup>2</sup>	Total Direct and Overlapping Rates
2011	1.00	0.0388	0.0095	0.0171	0.0072	0.0751	0.0326	-	-	1.18
2012	1.00	0.0388	0.0047	0.0155	0.0064	0.0742	0.0297	-	-	1.17
2013	1.00	0.0388	0.0051	0.0129	0.0069	0.0718	0.0287	-	-	1.16
2014	1.00	0.0388	0.0035	0.0177	0.0070	0.0655	0.0290	-	-	1.16
2015	1.00	0.0388	0.0091	0.0159	0.0065	0.0657	0.0276	-	-	1.16
2016	1.00	0.0388	0.0088	0.0148	0.0057	0.0604	0.0240	0.0008	-	1.15
2017	1.00	0.0388	0.0086	0.0129	0.0086	0.0591	0.0234	0.0006	-	1.15
2018	1.00	0.0388	0.0082	0.0118	0.0062	0.0570	0.0220	0.0009	0.0127	1.16
2019	1.00	0.0388	0.0072	0.0111	0.0042	0.0858	0.0217	0.0018	0.0105	1.18
2020	1.00	0.0388	0.0069	0.0106	0.0041	0.0783	0.0208	0.0016	0.0100	1.17

Notes: <sup>1</sup>The Midpeninsula Regional Open Space District Bond Issue and Property Tax, Measure AA, passed in 2014. Rates were first levied for the 2015-16 fiscal year.

<sup>2</sup>The Santa Clara County Affordable Housing Bond - Measure A 2016 passed on November 8, 2016. Rates were first levied for the 2017-18 fiscal year.

Source: County of Santa Clara, Tax Rates and Information

**CITY OF PALO ALTO**  
**Property Tax Levies and Collections**  
**Last Ten Fiscal Years**  
**(Amounts in thousands)**

Fiscal Year Ended June 30	Total Tax Levy for FY <sup>1</sup>	Collected within the Fiscal Year of the Levy			Total Collections to Date	
		Amount	Percentage of Levy	Collections in Subsequent Years <sup>2</sup>	Amount	Percentage of Levy
2011	\$ 25,688	\$ 25,688	100%	-	\$ 25,688	100%
2012	26,494	26,494	100%	-	26,494	100%
2013	28,742	28,742	100%	-	28,742	100%
2014	30,587	30,587	100%	-	30,587	100%
2015	34,117	34,117	100%	-	34,117	100%
2016	36,607	36,607	100%	-	36,607	100%
2017	39,381	39,381	100%	-	39,381	100%
2018	42,839	42,839	100%	-	42,839	100%
2019	47,327	47,327	100%	-	47,327	100%
2020	51,089	51,089	100%	-	51,089	100%

Notes: <sup>1</sup>During fiscal year 1995, the County of Santa Clara began providing the City 100% of its tax levy under an agreement which allows the County to keep all interest and delinquency charges collected.

<sup>2</sup>Effective fiscal year 1994, the City is on the Teeter Plan, under which the County of Santa Clara pays the full tax levy due.

Source: Annual Financial Statements, Government Funds, Statement of Revenues, Expenditures and Changes in Fund Balances.

**CITY OF PALO ALTO**  
**Principal Property Taxpayers**  
**Current Year and Nine Years Ago**  
**(Amounts in thousands)**

Taxpayer	Fiscal Year 2020			Fiscal Year 2011		
	Taxable Assessed	Percentage of Total Taxable		Taxable Assessed	Percentage of Total Taxable	
	Value	Rank	Assessed Value	Value	Rank	Assessed Value
Leland Stanford Jr. University	\$ 5,931,986	1	15.1%	\$ 3,328,472	1	15.2%
Google Inc.	287,898	2	0.7%			
Space Systems Loral Land LLC	173,157	3	0.4%	208,784	2	1.0%
ARE-San Francisco 69 LLC	138,720	4	0.4%			
395 Page Mill LLC	120,669	5	0.3%			
530 Lytton Owner LLC	117,500	6	0.3%			
Hohbach Realty Co. LP	108,228	7	0.3%			
SVF Sherman Palo Alto Corporation	99,813	8	0.3%			
SI 45 LLC	82,768	9	0.2%			
Gwin Property Inc.	80,111	10	0.2%			
899 Charleston				157,700	3	0.7%
Albert L. Schultz Jewish Community Center				123,255	4	0.6%
Arden Realty Limited Partnership				111,632	5	0.5%
Whisman Ventures, LLC				104,281	6	0.5%
ECI 2 Bayshore LLC/ECI Hamilton LLC				73,349	7	0.3%
Blackhawk Parent LLC				49,821	8	0.2%
Ronald & Ann Williams Charitable Foundation				42,951	9	0.2%
300 / 400 Hamilton Associates				41,123	10	0.2%
<b>Total</b>	<b>\$ 7,140,850</b>		<b>18.2%</b>	<b>\$ 4,241,368</b>		<b>19.3%</b>

**Total City Taxable Assessed Value:**

FY 2020	\$ 39,285,460
FY 2011	\$ 21,956,274

Source: California Municipal Statistics, Inc.

**CITY OF PALO ALTO**  
**Assessed Valuation and Parcels by Land Use**  
**As of June 30, 2020**

	<b>2019-2020</b>					
	<b>Assessed</b>	<b>% of</b>	<b>No. of</b>	<b>% of</b>	<b>No. of</b>	<b>% of</b>
	<b>Valuation<sup>1</sup></b>	<b>Total</b>	<b>Parcels</b>	<b>Total</b>	<b>Taxable</b>	<b>Total</b>
					<b>Parcels</b>	<b>Total</b>
<b><u>Non-Residential:</u></b>						
Agricultural/forest	\$ 36,540,315	0.10 %	49	0.23 %	31	0.15 %
Commercial	1,954,320,758	5.24	461	2.20	457	2.23
Professional/office	5,912,420,380	15.84	560	2.68	540	2.63
Industrial/research & development	1,805,192,536	4.84	230	1.10	229	1.12
Recreational	74,033,074	0.20	16	0.08	14	0.07
Government/social/institutional	60,287,227	0.16	114	0.55	49	0.24
Miscellaneous	<u>10,704,235</u>	<u>0.03</u>	<u>18</u>	<u>0.09</u>	<u>17</u>	<u>0.08</u>
Subtotal Non-Residential	9,853,498,525	26.39	1,448	6.92	1,337	6.52
<b>Residential:</b>						
Single family residence	22,095,834,168	59.19	15,095	72.18	15,023	73.27
Condominium/townhouse	2,782,851,226	7.45	3,151	15.07	3,146	15.34
Mobile Home	106,101	0.00	8	0.04	8	0.04
2-4 Residential units	527,914,189	1.41	497	2.38	497	2.42
5+ Residential units	<u>1,685,880,408</u>	<u>4.52</u>	<u>345</u>	<u>1.65</u>	<u>329</u>	<u>1.60</u>
Subtotal Residential	27,092,586,092	72.57	19,096	91.31	19,003	92.68
<b>Vacant Parcels</b>	<u>385,691,046</u>	<u>1.03</u>	<u>370</u>	<u>1.77</u>	<u>164</u>	<u>0.80</u>
<b>Total</b>	<u>\$ 37,331,775,663</u>	<u>100 %</u>	<u>20,914</u>	<u>100 %</u>	<u>20,504</u>	<u>100 %</u>

Notes: This schedule is provided as required by the Continuing Disclosure Agreement for the City's 2010 and 2013A General Obligation Bonds and is not required by Governmental Accounting Standards Board (GASB). Therefore, ten years of comparison data is not presented.

<sup>1</sup>Local secured assessed valuation, excluding tax-exempt property.

Source: California Municipal Statistics, Inc.

**CITY OF PALO ALTO**  
**Per Parcel Assessed Valuation of Single Family Residential**  
**As of June 30, 2020**

	<b>No. of Taxable Parcels<sup>1</sup></b>	<b>2019-2020 Assessed Valuation</b>	<b>Average Assessed Valuation</b>	<b>Median Assessed Valuation</b>
Single Family Residential	15,023	\$22,095,834,168	\$1,470,800	\$1,037,416

<b>2019-2020 Assessed Valuation</b>	<b>No. of Taxable Parcels<sup>1</sup></b>	<b>% of Total Parcels</b>	<b>Cumulative % of Total Parcels</b>	<b>Total Valuation</b>	<b>% of Total Valuation</b>	<b>Cumulative % of Total Valuation</b>
\$0-99,999	883	5.88 %	5.88 %	\$ 71,693,170	0.32 %	0.32 %
\$100,000-199,999	1,651	10.99	16.87	230,388,941	1.04	1.37
\$200,000-299,999	742	4.94	21.81	183,817,379	0.83	2.20
\$300,000-399,999	657	4.37	26.18	228,294,858	1.03	3.23
\$400,000-499,999	559	3.72	29.90	251,431,474	1.14	4.37
\$500,000-599,999	605	4.03	33.93	333,061,263	1.51	5.88
\$600,000-699,999	638	4.25	38.17	413,466,003	1.87	7.75
\$700,000-799,999	538	3.58	41.76	403,501,028	1.83	9.57
\$800,000-899,999	464	3.09	44.84	394,552,829	1.79	11.36
\$900,000-999,999	548	3.65	48.49	520,805,173	2.36	13.72
\$1,000,000-1,099,999	526	3.50	51.99	551,269,412	2.49	16.21
\$1,100,000-1,199,999	503	3.35	55.34	578,026,184	2.62	18.83
\$1,200,000-1,299,999	426	2.84	58.18	531,763,585	2.41	21.24
\$1,300,000-1,399,999	411	2.74	60.91	556,830,012	2.52	23.76
\$1,400,000-1,499,999	366	2.44	63.35	530,472,262	2.40	26.16
\$1,500,000-1,599,999	388	2.58	65.93	601,547,319	2.72	28.88
\$1,600,000-1,699,999	349	2.32	68.26	575,996,170	2.61	31.49
\$1,700,000-1,799,999	348	2.32	70.57	608,396,629	2.75	34.24
\$1,800,000-1,899,999	282	1.88	72.45	521,231,109	2.36	36.60
\$1,900,000-1,999,999	301	2.00	74.45	587,106,616	2.66	39.25
\$2,000,000 and greater	3,838	25.55	100.00	13,422,182,752	60.75	100.00
Total	<u>15,023</u>	<u>100.00</u> %		<u>\$ 22,095,834,168</u>	<u>100.00</u> %	

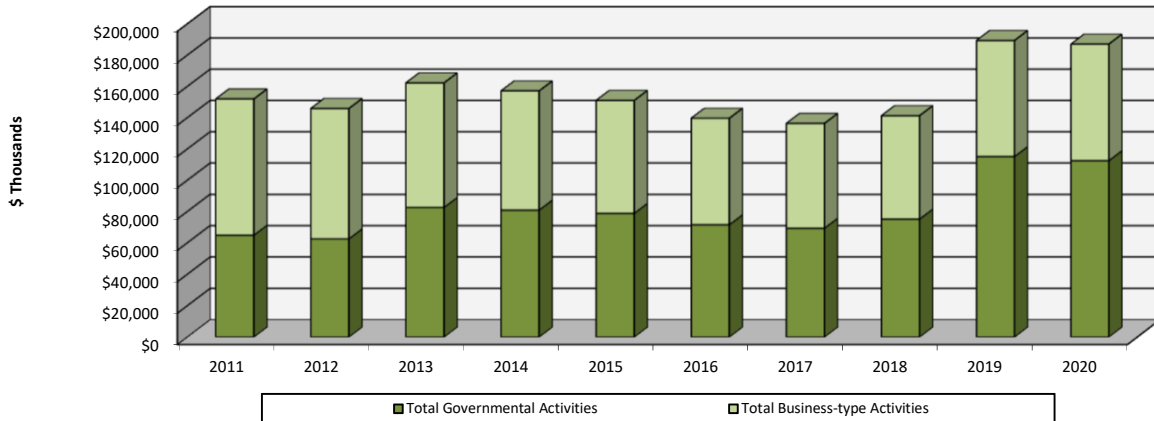
Notes: This schedule is provided as required by the Continuing Disclosure Agreement for the City's 2010 and 2013A General Obligation Bonds and is not required by Governmental Accounting Standards Board (GASB). Therefore, ten years of comparison data is not presented.

<sup>1</sup>Improved single family residential parcels. Excludes condominiums and parcels with multiple family units.

Source: California Municipal Statistics, Inc.



**CITY OF PALO ALTO**  
**Ratio of Outstanding Debt by Type**  
**Last Ten Fiscal Years**  
**(Amounts in thousands)**



**Fiscal Year Ended June 30**

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Governmental Activities</b>										
Certificates of Participation	\$ 5,895	\$ 1,685	\$ 1,560	\$ 1,430	\$ 1,285	\$ 1,135	\$ 975	\$ 8,970	\$ 46,305	\$ 45,750
General Obligation Bonds	55,305	54,540	74,235	73,215	71,795	65,210	63,710	62,140	60,500	58,775
2011 Lease-Purchase Agreement	-	2,764	2,400	2,026	1,643	1,248	842	426	-	-
Add: unamortized premium	3,640	3,514	4,400	4,242	4,084	3,926	3,768	3,610	8,331	7,980
<b>Total Governmental Activities</b>	<b>64,840</b>	<b>62,503</b>	<b>82,595</b>	<b>80,913</b>	<b>78,807</b>	<b>71,519</b>	<b>69,295</b>	<b>75,146</b>	<b>115,136</b>	<b>112,505</b>
<b>Business-type Activities</b>										
Utility Revenue Bonds	69,551	65,879	63,104	60,224	57,224	54,095	50,825	47,400	43,815	40,060
Energy Tax Credits	1,100	1,000	900	800	700	600	500	400	300	200
State Water Resources Loan	16,696	15,900	15,109	14,309	13,500	12,681	15,034	17,711	29,589	33,808
Add: unamortized premium (discount), net	(229)	580	543	867	803	737	673	608	544	468
<b>Total Business-type Activities</b>	<b>87,118</b>	<b>83,359</b>	<b>79,656</b>	<b>76,200</b>	<b>72,227</b>	<b>68,113</b>	<b>67,032</b>	<b>66,119</b>	<b>74,248</b>	<b>74,536</b>
<b>Total Primary Government Outstanding Debt</b>	<b>\$ 151,958</b>	<b>\$ 145,862</b>	<b>\$ 162,251</b>	<b>\$ 157,113</b>	<b>\$ 151,034</b>	<b>\$ 139,632</b>	<b>\$ 136,327</b>	<b>\$ 141,265</b>	<b>\$ 189,384</b>	<b>\$ 187,041</b>
Percentage of Personal Income <sup>1</sup>	3.86%	3.36%	3.36%	3.24%	2.94%	2.39%	2.22%	2.17%	2.77%	2.59%
Population	64,417	65,544	66,368	66,861	66,029	66,968	66,478	66,649	67,082	67,019
Debt Per Capita	\$ 2.36	\$ 2.23	\$ 2.44	\$ 2.35	\$ 2.29	\$ 2.09	\$ 2.05	\$ 2.12	\$ 2.82	\$ 2.79

Notes: <sup>1</sup>See the schedule of Demographic and Economic Statistics for personal income data. Per capita personal income is only available for Santa Clara County, therefore personal income is the product of the countywide per capita amount and the City's population.

Sources: County of Santa Clara (assessed valuation)  
 2019 Official City Data Set (population)  
 California Department of Transportation Long-Term Socio-Economic Forecasts (personal income)  
 Annual Financial Statements and Note 7 Long-Term Debt

**CITY OF PALO ALTO**  
**Computation of Direct and Overlapping Debt**  
**As of June 30, 2020**

2019-2020 Assessed Value

\$ 39,285,460,007

	<b>Total Debt</b>	<b>Percentage</b>	<b>Amount</b>
	<b>Outstanding</b>	<b>Applicable</b>	<b>Applicable</b>
		<b>to City of</b>	<b>to City of</b>
<b>Direct and Overlapping Tax and Assessment Debt</b>		<b>Palo Alto<sup>1</sup></b>	<b>Palo Alto</b>
Santa Clara County	\$ 881,455,000	7.62%	\$ 67,175,686
Foothill-DeAnza Community College District	607,960,590	22.00%	133,727,011
Palo Alto Unified School District	273,760,962	90.14%	246,781,819
Fremont Union High School District	520,515,088	0.01%	46,846
Los Gatos-Saratoga Joint Union High School District	88,930,000	0.01%	11,561
Mountain View-Los Altos Union High School District	131,002,659	0.89%	1,169,854
Cupertino Union School District	281,813,303	0.02%	45,090
Los Altos School District	177,350,000	1.16%	2,057,260
Mountain View-Whisman School District	267,970,000	0.66%	1,765,922
Saratoga Union School District	21,227,353	0.03%	5,944
Whisman School District	10,802,557	1.75%	189,261
<b>City of Palo Alto</b>	<b>58,775,000</b>	<b>100.00%</b>	<b>58,775,000</b>
El Camino Hospital District	120,690,000	0.07%	88,104
Midpeninsula Regional Open Space District	88,810,000	12.55%	11,149,207
<b>City of Palo Alto Special Assessment Bonds</b>	<b>19,455,000</b>	<b>100.00%</b>	<b>19,455,000</b>
Santa Clara Valley Water District Benefit Assessment District	65,495,000	7.62%	4,991,374
<b>Total Direct and Overlapping Tax and Assessment Debt</b>			<u><b>547,434,939</b></u>
<b>Direct and Overlapping General Fund Debt</b>			
Santa Clara County General Fund Obligations	966,725,100	7.62%	73,674,120
Santa Clara County Pension Obligations	346,996,639	7.62%	26,444,614
Santa Clara County Board of Education Certificates of Participation	3,480,000	7.62%	265,211
Foothill-DeAnza Community College District Certificates of Participation	24,092,620	22.00%	5,299,413
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	2,634,000	0.01%	342
Mountain View-Los Altos Union High School District Certificates of Participation	2,834,136	0.89%	25,309
Saratoga Union High School District Certificates of Participation	3,150,000	0.03%	882
Los Altos School District Certificates of Participation	2,185,335	1.16%	25,350
<b>City of Palo Alto General Fund Obligations</b>	<b>45,750,000</b>	<b>100%</b>	<b>45,750,000</b>
Santa Clara County Vector Control District Certificates of Participation	2,010,000	7.62%	153,182
Midpeninsula Regional Open Space Park District General Fund Obligation:	111,985,600	12.55%	14,058,672
<b>Total Gross Direct and Overlapping General Fund Debt</b>			<b>\$ 165,697,095</b>
Less: Santa Clara County supported obligations			<u>2,448,732</u>
<b>Total Net Direct and Overlapping General Fund Debt</b>			<b>\$ 163,248,363</b>
<b>Total Combined Debt</b>			<u><b>\$ 710,683,302</b></u>
	<b>Ratio to</b>		
	<b>Assessed Value</b>		
<b>Total Direct Debt</b>	0.29%		\$ 112,505,000 <sup>3</sup>
<b>Total Overlapping Debt</b>	1.54%		<u>606,158,302</u>
<b>Total Direct and Overlapping Debt</b>	1.83%		<u><u>718,663,302</u></u> <sup>2</sup>

Notes: <sup>1</sup>The percentage of overlapping debt applicable to the City is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the City divided by the district's total taxable assessed value.

<sup>2</sup>Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations

<sup>3</sup>Includes unamortized premium of \$7,980,000.

Source: California Municipal Statistics, Inc.

**CITY OF PALO ALTO**  
**Computation of Legal Bonded Debt Margin**  
**As of June 30, 2020**  
**(Amounts in thousands)**

<b>Assessed Valuation:</b>		
Secured property assessed value, net of exempt real property	\$	39,285,460
<b>Bonded Debt Limit (3.75% of Assessed Value)<sup>1</sup></b>		<u>1,473,205</u>
<b>Direct Debt:</b>		
Certificates of Participation	45,750	
General Obligation bonds	58,775	
<b>Total Direct Debt<sup>3</sup></b>		104,525
<b>Less: Amount of Debt Not Subject to Limit<sup>2</sup></b>	45,750	
<b>Total Net Debt Applicable to Limit</b>		<u>58,775</u>
<b>Legal Bonded Debt Margin</b>	\$	1,414,430

Fiscal Year	Total Assessed Value (AV)	Bonded Debt Limit (3.75% of AV)	Total Net Debt Applicable to Limit	Legal Bonded Debt Margin	Population	Total Net Debt Applicable as % of Bonded Debt Limit	Ratio of Net Debt to Assessed Value	General Bonded Debt Per Capita
2011	\$ 21,880,359	\$ 820,513	\$ 55,305	\$ 765,208	64,417	6.74%	0.0025	\$ 0.86
2012	22,486,708	843,252	54,540	788,712	65,544	6.47%	0.0024	0.83
2013	23,693,007	888,488	74,235	814,253	66,368	8.36%	0.0031	1.12
2014	25,536,058	957,602	73,215	884,387	66,861	7.65%	0.0029	1.10
2015	27,198,127	1,019,930	71,795	948,135	66,029	7.04%	0.0026	1.09
2016	29,415,754	1,103,091	65,210	1,037,881	66,968	5.91%	0.0022	0.97
2017	31,954,381	1,198,289	63,710	1,134,579	66,478	5.32%	0.0020	0.96
2018	34,434,739	1,291,303	62,140	1,229,163	66,649	4.81%	0.0018	0.93
2019	36,801,413	1,380,053	60,500	1,319,553	67,082	4.38%	0.0016	0.90
2020	39,285,460	1,473,205	58,775	1,414,430	67,019	3.99%	0.0015	0.88

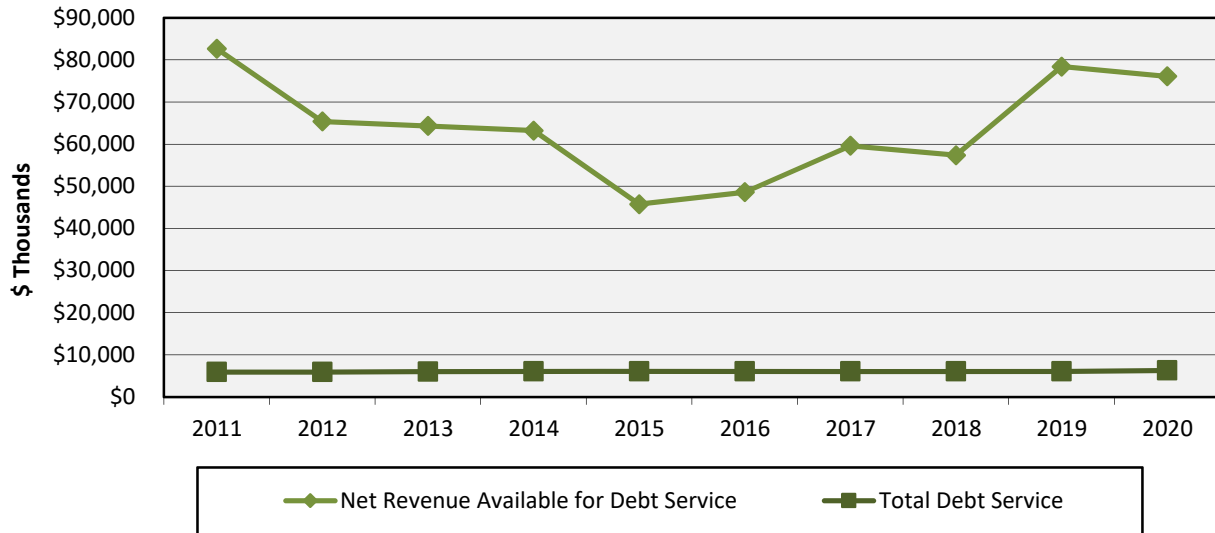
Notes: <sup>1</sup>California Government Code, Section 43605 sets the debt limit at 15% of the assessed value of all real and personal property of the City. Because this Code section was enacted when assessed value was 25% of market value, the limit is calculated at one-fourth, or 3.75%. This legal debt margin applies to General Obligation debt. Prior year limits have been adjusted to conform to the current year methodology.

<sup>2</sup>In accordance with California Government Code Section 43605, only the City's General Obligation bonds are subject to the legal debt limit of 15%. Enterprise Fund debt is not subject to legal debt margin.

<sup>3</sup>Total direct debt excludes any premiums, discounts or other amortization amounts.

Source: Annual Financial Statements, Assessed Value of Taxable Property and Note 7 Long-Term Debt

**CITY OF PALO ALTO**  
**Revenue Bond Coverage**  
**Business-type Activities<sup>1</sup>**  
**Last Ten Fiscal Years**  
**(Amounts in thousands)**



Fiscal Year	Gross Revenue	Less: Direct Operating Expenses <sup>2</sup>	Net Revenue Available for Debt Service	Debt Service			Coverage Ratio
				Principal	Interest <sup>3</sup>	Total	
2011	\$ 234,278	\$ 151,641	\$ 82,637	\$ 2,655	\$ 3,261	\$ 5,916	13.97
2012	235,160	169,777	65,383	2,945	2,959	5,904	11.07
2013	237,842	173,510	64,332	2,875	3,167	6,042	10.65
2014	239,948	176,718	63,230	2,980	3,073	6,053	10.45
2015	234,025	188,276	45,749	3,100	2,954	6,054	7.56
2016	235,386	186,793	48,593	3,230	2,823	6,053	8.03
2017	264,734	205,102	59,632	3,370	2,678	6,048	9.86
2018	288,610	231,255	57,355	3,525	2,524	6,049	9.48
2019	306,237	227,824	78,413	3,685	2,359	6,044	12.97
2020	313,317	237,223	76,094	3,855	2,419	6,274	12.13

Notes: <sup>1</sup>Airport, Refuse and Fiber Optics funds have no debt and are therefore excluded from this schedule.

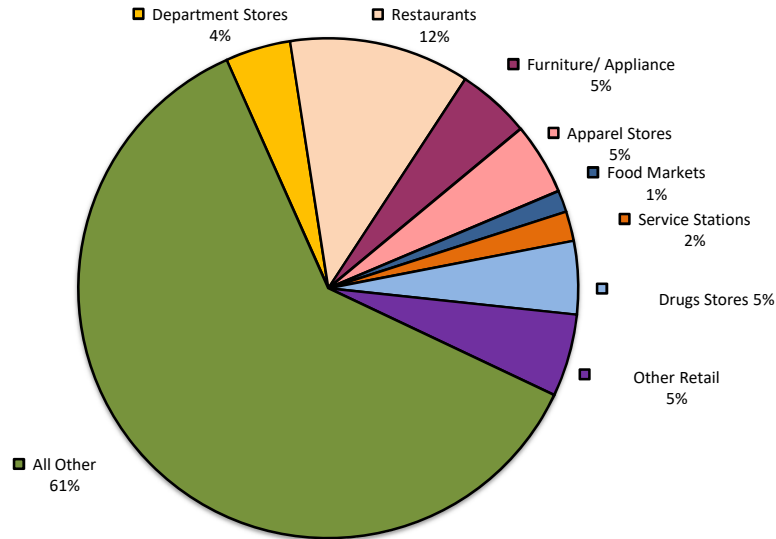
<sup>2</sup>Excludes depreciation and amortization expense.

<sup>3</sup>Excludes joint venture debt service and federal interest subsidy.

Source: City of Palo Alto, Accounting Department

**CITY OF PALO ALTO**  
**Taxable Transactions by Type of Business**  
**Last Ten Fiscal Years**  
**(Amounts in thousands)**

**Fiscal Year 2020**



**ECONOMIC SEGMENT**

Fiscal Year	Department Stores	Restaurants	Furniture/ Appliance	Apparel Stores	Food Markets	Service Stations	Drug Stores	Other Retail	All Other	Total
2011	\$ 2,374	\$ 2,621	\$ 1,564	\$ 1,292	\$ 381	\$ 630	\$ 242	\$ 4,873	\$ 6,322	\$ 20,299
2012	2,445	2,937	1,590	1,492	387	722	257	5,049	7,034	21,913
2013	2,478	3,160	1,465	1,656	424	765	259	4,056	13,729	27,992
2014	2,097	3,541	1,555	2,041	392	772	444	4,845	9,890	25,577
2015	2,398	3,894	1,672	1,708	435	699	265	3,674	11,253	25,998
2016	2,250	4,134	1,410	1,694	448	582	257	4,949	12,423	28,147
2017	2,036	4,079	1,513	1,794	542	502	259	3,810	14,325	28,860
2018	2,001	4,224	1,716	1,647	428	614	243	3,184	15,663	29,720
2019	1,934	4,299	1,795	1,994	409	706	810	2,245	22,254	36,446
2020 <sup>1</sup>	1,260	3,488	1,421	1,391	417	572	1,413	1,597	18,313	29,872

Source: California State Board of Equalization, compiled by MuniServices LLC

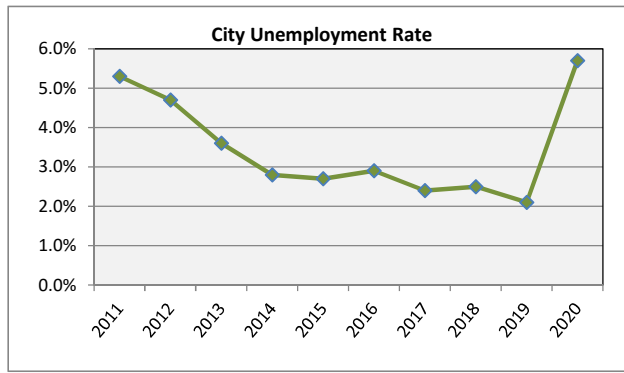
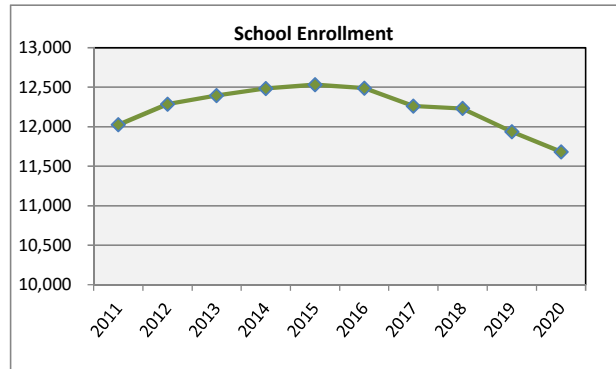
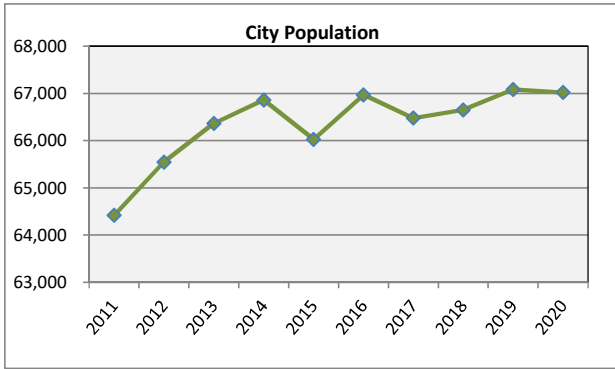
**Sales Tax Rates for the Fiscal Year ended June 30, 2020**

<b>State Rate:</b>	7.25%
<b>Special District Tax Rates:</b>	
Santa Clara County Transit District (SCCT)	0.50%
Santa Clara County Valley Transportation Authority (SCVT)	0.50%
Santa Clara VTA BART Operating and Maintenance Transactions and Use Tax (SVTB)	0.125%
Santa Clara Retail Transactions and Use Tax (SCCR)	0.125%
Santa Clara County Valley Transportation Authority (SCVT)	0.50%
<b>Total Sales and Use Tax Rate:</b>	<b>9.000%</b>

Notes: <sup>1</sup>Decrease due to the adverse impact of coronavirus COVID-19 since March 2020

Source: California State Board of Equalization

**CITY OF PALO ALTO**  
**Demographic and Economic Statistics**  
**Last Ten Fiscal Years**



Fiscal Year	City of Palo Alto Population	City of Palo Alto Unemployment Rate	City of Palo Alto School Enrollment	Santa Clara County Population	City Population as a Percentage of County Population	Santa Clara County Total Personal Income (in thousands)	Santa Clara County Per Capita Personal Income
2011	64,417	5.3%	12,024	1,786,443	3.61%	\$ 109,300,000	\$ 61,183
2012	65,544	4.7%	12,286	1,813,860	3.61%	120,100,000	66,212
2013	66,368	3.6%	12,396	1,840,218	3.61%	134,000,000	72,817
2014	66,861	2.8%	12,483	1,866,208	3.58%	135,200,000	72,446
2015	66,029	2.7%	12,532	1,890,929	3.49%	147,300,000	77,898
2016	66,968	2.9%	12,488	1,919,845	3.49%	167,800,000 *	87,403 *
2017	66,478	2.4%	12,261	1,933,775	3.44%	178,800,000 *	92,462 *
2018	66,649	2.5%	12,230	1,945,911	3.43%	190,000,000 *	97,641 *
2019	67,082	2.1%	11,938	1,956,579	3.43%	199,700,000 *	102,066 *
2020	67,019	5.7%	11,683	1,968,987	3.40%	212,300,000	107,822

Note: Data on personal income and per capita personal income is only available for Santa Clara County.

Source: Beginning in 2015 City population is sourced from the US Census Bureau American Community Survey (via the City of Palo Alto's Official City Data Set)  
 State of California Employment Development Office (unemployment rate)  
 Palo Alto Unified School District (school enrollment)

\* California Department of Transportation Long-Term Socio-Economic Forecasts (personal income). Forecasts from prior years are updated.

**CITY OF PALO ALTO**  
**Principal Employers**  
**Current Year and Nine Years Ago**

<b>Employer</b>	<b>FY 2020<sup>1</sup></b>			<b>FY 2011</b>		
	<b>Number of Employees</b>	<b>Rank</b>	<b>Percentage of Total City Employment</b>	<b>Number of Employees</b>	<b>Rank</b>	<b>Percentage of Total City Employment</b>
Lucile Packard Children's Hospital	6,060	1	4.5%	3,549	3	3.2%
Stanford Health Care <sup>2</sup>	5,500	2	4.1%	5,813	2	5.3%
Hewlett-Packard Company	5,000	3	3.7%	2,001	5	1.8%
Stanford University <sup>2</sup>	4,500	4	3.4%	10,223	1	9.3%
Veteran's Affairs Palo Alto Health Care System	3,900	5	2.9%	3,500	4	3.2%
VMware Inc.	3,500	6	2.6%			
SAP Labs Inc.	3,500	7	2.6%			
Palo Alto Medical Foundation	2,200	8	1.6%	2,000	6	1.8%
Varian Medical Systems	1,400	10	1.0%			
Space Systems/Loral	1,250	9	0.9%	1,700	7	1.5%
Wilson Sonsini Goodrich & Rosati				1,500	8	1.4%
Palo Alto Unified School District				1,318	9	1.2%
City of Palo Alto				1,019	10	0.9%
<b>Total</b>	<b>36,810</b>		<b>22.9%</b>	<b>29,074</b>		<b>26.4%</b>

**Estimated Total City Day Population:**

FY 2020	134,152
FY 2011	110,000

Notes: <sup>1</sup>Available data sources are limited and may be unreliable. The City does not affirm the validity of this data. 2020 numbers are rounded. Figures may include employees not located within City limits.

<sup>2</sup>FY20 data was not available for Stanford Health Care and Stanford University. FY18 data was used.

Source: 2020 Official City Data Set (total City day population); AtoZ databases; Stanford website.

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**CITY OF PALO ALTO**  
**Operating Indicators by Function/Program**  
**Last Ten Fiscal Years<sup>1</sup>**

FUNCTIONS/PROGRAMS	Fiscal Year Ended June 30			
	2010	2011	2012	2013
<b><u>Governmental activities</u></b>				
<b>Community Services</b>				
Number of theater performances	174	175	175	184
Total hours of athletic field usage <sup>2</sup>	41,705	42,687	44,226	-
Number of rounds of golf	69,791	67,381	65,653	60,153
Enrollment in recreation classes (includes summer camps)	12,880	12,310	11,703	11,598
<b>Planning and Community Environment</b>				
Planning applications completed	226	238	204	307
Building permits issued	2,847	3,559	3,320	3,682
Caltrain average weekday boarding <sup>3</sup>	4,359	4,923	5,730	6,763
<b>Police</b>				
Calls for service	55,860	52,159	51,086	54,628
Total arrests	2,451	2,288	2,212	2,274
Parking citations issued	42,591	40,426	41,875	43,877
<b>Animal Services</b>				
Number of service calls	2,692	2,804	3,051	2,909
Number of animals handled	3,147	3,323	3,379	2,675
<b>Fire</b>				
Calls for service	7,468	7,555	7,796	7,904
Number of fire incidents	182	165	186	150
Number of fire inspections <sup>4</sup>	1,526	1,807	1,654	2,069
<b>Library</b>				
Total number of cardholders	51,969	53,246	60,283	51,007
Total number of items in collection	298,667	314,101	306,160	277,749
Total checkouts	1,624,785	1,476,648	1,559,932	1,512,975
<b>Public Works</b>				
Street resurfacing (lane miles)	32	29	40	36
Number of potholes repaired	3,149	2,986	3,047	2,726
Sq. ft. of sidewalk replaced or permanently repaired	54,602	71,174	72,787	82,118
Number of trees planted	201	150	143	245
Tons of materials recycled or composted	48,811	56,586	51,725	47,941
<b><u>Business-type activities</u></b>				
<b>Electric</b>				
Number of customer accounts	29,430	29,708	29,545	29,299
Residential MWH consumed	163,098	160,318	160,604	156,411
<b>Gas</b>				
Number of customer accounts	23,724	23,816	23,915	23,659
Residential therms consumed	11,394,712	11,476,609	11,522,999	10,834,793
<b>Water</b>				
Number of customer accounts	20,134	20,248	20,317	20,043
Residential water consumption (CCF)	2,415,467	2,442,415	2,513,595	2,521,930
<b>Wastewater collection</b>				
Number of customer accounts	22,231	22,320	22,421	22,152
Millions of gallons processed	8,184	8,652	8,130	7,546

Notes: <sup>1</sup>Ten most recent years available.

<sup>2</sup>According to the department, this measure was not accurately tracked during FY13 or FY14 and thus are not presented.

<sup>3</sup>Beginning 2015, data source is Official City Data Set.

<sup>4</sup>The method for calculating the number of fire inspections changed in FY17. The department uses a more detailed feature which categorizes inspections by type and location.

Source: City of Palo Alto Performance Report (formerly the Service Efforts and Accomplishments Report); 2019 Official City Data Set (Caltrain); 2019 data supplied by City of Palo Alto Departments.

**Fiscal Year Ended June 30**

<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
108	172	161	171	160	175
-	47,504	65,723	71,431	65,443	67,608
46,527	42,048	42,573	-	6,790	54,619
11,997	12,586	12,974	11,649	10,652	13,553
310	335	383	365	376	260
3,624	3,844	3,492	2,970	3,105	2,918
7,564	8,294	9,622	9,994	9,977	10,400
58,559	59,795	53,870	53,901	55,480	54,479
2,589	3,273	2,988	2,745	2,678	2,388
36,551	41,412	37,624	33,661	37,441	33,496
2,398	2,013	2,421	1,674	1,737	2,550
2,480	2,143	2,184	2,211	2,077	2,125
7,829	8,548	8,882	9,153	8,981	8,843
150	135	150	155	189	133
1,741	1,964	2,806	5,476	9,581	10,984
46,950	51,792	57,307	54,676	56,159	68,034
361,103	429,460	461,292	427,548	472,895	485,157
1,364,872	1,499,406	1,400,926	1,524,614	1,538,118	1,467,038
36	31	39	39	31	10
3,418	2,487	3,435	3,449	2,835	2,929
74,051	120,776	115,293	17,275	38,557	66,662
148	305	387	319	411	403
49,594	50,546	56,438	60,582	57,744	55,900
29,338	29,065	29,304	29,616	29,475	29,616
153,190	145,284	150,112	148,986	149,526	146,036
23,592	23,461	23,467	23,637	23,395	23,664
10,253,776	8,537,754	9,535,377	10,233,669	10,261,276	9,794,177
20,037	20,061	19,994	20,213	20,000	20,012
2,496,549	2,052,176	1,696,383	1,856,879	2,120,588	2,058,663
22,105	21,990	22,016	22,216	21,979	22,216
7,186	6,512	6,387	7,176	6,464	6,958

**CITY OF PALO ALTO**  
**Capital Asset Statistics by Function/Program**  
**Last Ten Fiscal Years**

FUNCTION/PROGRAM	Fiscal Year Ended June 30				
	2011	2012	2013	2014	2015
<b>Public Safety</b>					
Fire:					
Fire Stations Operated	8	7	7	7	7
Police:					
Police Stations	1	1	1	1	1
Police Patrol Vehicles	30	30	30	30	30
<b>Community Services</b>					
Acres - Downtown/Urban Parks <sup>2</sup>	157	157	157	157	157
Acres - Open Space <sup>2</sup>	3,744	3,744	3,744	3,744	3,752
Acres - Parks and Preserves <sup>2</sup>	-	-	-	-	-
Acres - Open Space <sup>2</sup>	-	-	-	-	-
Acres - Municipal Golf Course <sup>2</sup>	-	-	-	-	-
Parks and Preserves	36	36	36	36	36
Golf Course (see above for acreage)	1	1	1	1	1
Tennis Courts	51	51	51	51	51
Athletic Center	4	4	4	4	4
Community Centers	4	4	4	4	4
Theaters	3	3	3	3	3
Cultural Center/Art Center	1	1	1	1	1
Junior Museum and Zoo	1	1	1	1	1
Swimming Pools	1	1	1	1	1
Nature Center	3	3	3	3	3
<b>Libraries</b>					
Libraries	5	5	5	5	5
<b>Public Works:</b>					
Number of Trees Maintained	31,993	31,890	31,923	31,757	31,652
<b>Electric Utility<sup>1</sup></b>					
Miles of Overhead Lines	193	223	222	223	223
Miles of Underground Lines	253	245	246	249	262
<b>Water Utility</b>					
Miles of Water Mains	214	234	233	236	236
<b>Gas Utility</b>					
Miles of Gas Mains	205	210	210	214	211
<b>Waste Water</b>					
Miles of Sanitary Sewer Lines	207	217	217	217	217

Note: <sup>1</sup>The City of Palo Alto Utilities Department completed the conversion of its electric system maps to a GIS mapping system database. Therefore, the distances reported for FY 11/12 and forward are more accurate than the distances reported in previous years.

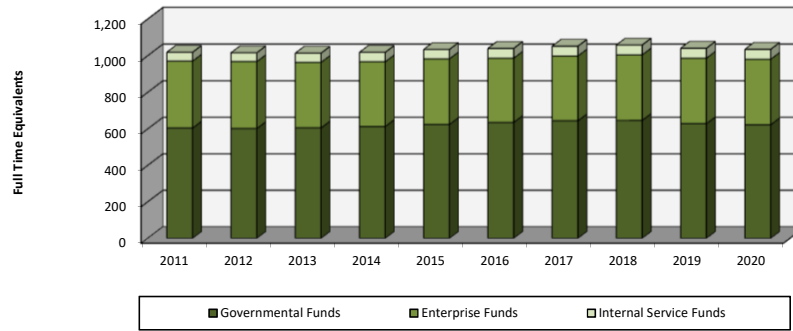
<sup>2</sup>Beginning in 2016 park acreage is sourced from the Official City Data Set. The discrepancy between FY16 and FY17 is because FY16 numbers were derived off GIS parcels identified as parks or zoned in the Open Space Zoning District. For FY17, Council approved Parks Master Plan numbers were used.

Source: City of Palo Alto

Fiscal Year Ended June 30

2016	2017	2018	2019	2020
7	7	7	7	7
1	1	1	1	1
30	30	30	30	29
-	-	-	-	-
-	-	-	-	-
3,921	174	174	174	174
4,489	4,030	4,030	4,030	4,018
-	181	181	181	181
36	36	36	36	37
1	1	1	1	1
51	51	51	51	50
4	4	4	4	4
4	4	4	4	4
3	3	3	3	3
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
3	3	3	3	3
5	5	5	5	5
31,699	31,712	31,849	31,815	31,819
222	223	222	220	220
268	264	272	274	279
235	236	236	236	236
209	210	210	210	210
216	216	216	216	216

**CITY OF PALO ALTO**  
**Full-Time Equivalent City Government Employees by Function**  
**Last Ten Fiscal Years**



**Full Time Equivalent Employees as of June 30**

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
<b>Governmental Funds</b>											
General Fund:											
Administration		83	83	85	83	84	86	87	89	87	86
Community Services		74	74	74	74	76	77	78	79	78	76
Development Services <sup>5</sup>		-	-	-	-	38	38	36	36	36	-
Fire		121	122	119	116	107	107	109	109	98	98
Library		41	41	41	42	44	48	48	48	48	47
Office of Emergency Services <sup>4</sup>		-	-	-	3	3	3	3	3	3	3
Planning and Community Environment <sup>5</sup>		44	43	48	49	28	31	32	30	30	-
Planning and Development Services <sup>5</sup>		-	-	-	-	-	-	-	-	-	62
Office of Transportation <sup>6</sup>		-	-	-	-	-	-	-	-	-	6
Police		157	157	154	155	155	155	155	155	155	149
Public Works <sup>1</sup>		59	56	57	56	53	54	56	55	51	49
<b>Subtotal General Fund</b>		<b>579</b>	<b>576</b>	<b>578</b>	<b>578</b>	<b>588</b>	<b>599</b>	<b>604</b>	<b>604</b>	<b>586</b>	<b>576</b>
All Other Funds:											
Capital Projects Fund		24	24	26	27	27	28	31	34	33	36
Special Revenue Fund		2	2	2	9	10	9	10	9	10	11
<b>Total Governmental Funds</b>		<b>605</b>	<b>602</b>	<b>606</b>	<b>614</b>	<b>625</b>	<b>636</b>	<b>645</b>	<b>647</b>	<b>629</b>	<b>623</b>
<b>Enterprise Funds</b>											
Public Works <sup>2</sup>		115	115	104	99	100	95	99	101	101	101
Utilities <sup>3</sup>		251	251	254	255	258	256	255	257	257	257
<b>Total Enterprise Funds</b>		<b>366</b>	<b>366</b>	<b>358</b>	<b>354</b>	<b>358</b>	<b>351</b>	<b>354</b>	<b>358</b>	<b>358</b>	<b>358</b>
<b>Internal Service Funds</b>											
Printing and Mailing		2	2	2	2	2	2	2	2	2	2
Technology		30	30	31	32	32	34	35	36	36	36
Vehicle Replacement		16	16	17	17	17	17	16	16	16	16
<b>Total Internal Service Funds</b>		<b>48</b>	<b>48</b>	<b>50</b>	<b>51</b>	<b>51</b>	<b>53</b>	<b>53</b>	<b>54</b>	<b>54</b>	<b>54</b>
<b>Total</b>		<b>1,019</b>	<b>1,016</b>	<b>1,014</b>	<b>1,019</b>	<b>1,034</b>	<b>1,040</b>	<b>1,052</b>	<b>1,059</b>	<b>1,041</b>	<b>1,035</b>

Notes: <sup>1</sup>Fleet and Facilities Management  
<sup>2</sup>Refuse, Storm Drainage, Wastewater Treatment  
<sup>3</sup>Electric, Gas, Wastewater Collection, Water  
<sup>4</sup>In 2014, emergency services and disaster preparation activities have been transferred from the Fire Department and are shown in newly created Office of Emergency Services.  
<sup>5</sup>In FY15, staff was moved from Planning and Community Environment (PC&E), Public Works and Fire to create Development Services; In FY20, the Development Services Department was combined with the Planning and Community Environment Department to form the Planning and Development Services Department.  
<sup>6</sup>In FY20, the City established the Office of Transportation was formed. Staffing in prior years was included in the Development Services Department and Planning and Community Environment Department.  
Numbers adjusted for rounding purposes.

# *Americans with Disabilities Act Statement*



IN COMPLIANCE WITH  
AMERICANS WITH DISABILITIES ACT (ADA) OF 1990,  
THIS DOCUMENT MAY BE PROVIDED  
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For information contact:  
ADA Coordinator  
City of Palo Alto  
250 Hamilton Ave  
(650) 329-2550  
[ADA@cityofpaloalto.org](mailto:ADA@cityofpaloalto.org)



# PALO ALTO

Spanish explorers named the area for the tall, twin-trunked redwood tree they camped beneath in 1769. Palo Alto incorporated in 1894 and the State of California granted its first charter in 1909. The City has long been known for its innovative people and its exploration of ideas that have changed the world. In Palo Alto, our history has always been about the future.

**CITY OF PALO ALTO**

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