

# CITY OF PALO ALTO CALIFORNIA



## ANNUAL COMPREHENSIVE FINANCIAL REPORT



**FISCAL YEAR ENDED  
JUNE 30, 2021**







CITY OF  
**PALO  
ALTO**

# Fiscal Year 2021 Annual Comprehensive Financial Report

City of Palo Alto, CA  
Fiscal Year Ended June 30, 2021

## City Council

Tom DuBois, Mayor

Patrick Burt, Vice Mayor

Alison Cormack

Eric Filseth

Lydia Kou

Greer Stone

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, 2021**

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# Transmittal Letter.....



OFFICE OF THE CITY MANAGER

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

November 15, 2021

**THE HONORABLE CITY COUNCIL**

**Palo Alto, California**

**ANNUAL COMPREHENSIVE FINANCIAL REPORT**

YEAR ENDED JUNE 30, 2021

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

I am pleased to present the Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2021 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 ACFR 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, 2021. 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 ACFR. 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 66,573 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 ACFR, 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**

The City declared a state of emergency in March 2020 and the world began to grapple with the impacts of the novel coronavirus (COVID-19), a global pandemic, and the ensuing public health emergency. While the Fiscal Year 2020 Adopted Budget saw the most significant immediate impacts as shelter in place orders were instituted in the County of Santa Clara and State of California, work on Economic Recovery began in Fall 2020, prior to the City Council setting this priority in January 2021. These financials reflect the one full year of the economic impacts of the pandemic – the stark, immediate results stemming from shelter in place orders through promising third calendar quarter results and widespread distribution of the COVID-19 vaccine. Throughout these times, several conversations with the City Council occurred in 2020 and 2021 that resulted in the Community and Economic Recovery workplan. This workplan includes several priority projects that connect the City Council’s Priorities and ensure organization support and capacity to further recovery efforts.

**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 Lucille Packard Children’s Hospital, Stanford Health Care, Stanford University, Veteran’s Affairs Palo Alto Healthcare System, 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. As of June 2021, the City’s unemployment rate was 3.2 percent



compared to the prior year level of 5.7 percent. The County of Santa Clara's unemployment rate was 5.2 percent compared to the prior year level of 10.7 percent. The State of California's unemployment rate was 8.0 percent, compared to the prior year level of 14.9 percent. These levels are lower than FY 2020 but are still significantly higher than recent years as many businesses were forced to adjust their workforce and operations were severely restricted by the COVID-19 shelter in place orders.

**Real Estate Market:** The 2020-2021 County of Santa Clara Assessor's Annual Report noted that the County of Santa Clara's annual assessment roll increased by \$35.5 billion to \$551.5 billion, a 6.87 percent increase over the prior year. Palo Alto's assessment roll represents 7.69 percent of the County of Santa Clara's assessment roll and grew 7.77 percent over the prior year to \$42.4 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 \$4.0 million as of second quarter 2021. According to Newmark, a company that tracks real estate trends throughout the county, the average asking rent in Palo Alto for commercial space during the second quarter of 2021 was \$6.88 per square foot. Based on this report, leasing activities are rebounding, after a sluggish start in calendar year 2021. Despite continuing struggles between executives and employees as it relates to the push to return to offices, the continued focus on distribution of the vaccine, and increase confidence in the second half of calendar year 2021 will influence how quickly leasing activities will recover.

**Local Trends:** Mixed economic opinions and indicators existed at the time the FY 2021 budget was developed. It is important to recall that the actions and leadership of the City Council quickly recognized and worked to address these impacts. On March 16, 2020, the State of California and the County of Santa Clara ordered Shelter in Place directives to slow the spread of COVID-19, which continued into FY 2021. Prior to COVID-19 and after, the Bay Area economy had sustained better performance than the state and the nation. Disruptions caused by COVID-19 are both widespread and significant to Palo Alto, the state and nation's economic environment and community. 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 in FY 2020 and/or FY 2021, such as transient occupancy tax, sales and utility user's taxes have significantly declined while documentary transfer and property taxes have been resilient with a healthy growth, however, future years will be monitored closely.

**General Fund Balancing and Results:** The FY 2021 budget was developed as the world grappled with COVID-19, a global pandemic with unknown financial implications impacting regional, national and global economies in response to shelter in place orders and related social distancing restrictions. The City Council provided direction to build the FY 2021 budget assuming a loss of \$39.0 million in General Fund tax revenues in FY 2021. Overall, the City's General Fund was adopted to collect \$196.4 million in revenues and \$196.9 million in expenditure, a 15 percent reduction compared to the FY 2020 Adopted Operating Budget. In the General Fund, full-time staffing was reduced from 574.43 FTE to 509.91 FTE (a reduction of 64.52 FTE) and part-time staffing was reduced from 81.31 FTE to 55.61 FTE (a reduction of 25.70 FTE). Prioritizing essential services and reducing or eliminating discretionary services was reflected in this budget and achieved through compiling feedback throughout the May and June budget sessions with the City Council. Notwithstanding the service delivery reductions reflected in this budget, the budget balancing strategy ensured that the City continued to proactively pay for long term liabilities, maintained capital investments in its most critical infrastructure, provided resources for the City to successfully adapt from shelter in place to future service delivery models, and established funding to ensure those service delivery transitions.

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. 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 2021. In the General Fund, this resulted in \$3.0 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, 2021, the City’s irrevocable pension trust fund has a total of \$32.3 million in Citywide contributions (excluding earnings from investments), of which \$21.0 million is from the General Fund.

As the community grappled with the various impacts of COVID-19, the City took a hard look at both the operating and capital budgets and prioritized essential services, pared back discretionary items, and continued to monitor impacts the global pandemic had on the City’s major revenue sources and economic sectors. In addition to these challenges, the City remained focused on maintaining high quality services with the resources available, while addressing issues facing the City as well as the state, and nation. These issues were reflected in the setting of Council priorities for 2021:

- Economic Recovery
- Housing for Social and Economic Balance
- Social Justice
- Climate Change - Protection and Adaptation

Progress continues to be made on these priorities, which require long-term strategies. The FY 2021 budget established a number of COVID-19 related reserves to address needs of the City organization and the community during shelter in place, as well as planning for transition to the “new normal” after restrictions were lessened.

In FY 2014, the City Council approved a \$125.8 million Infrastructure Plan (IP), which included projects such as a new Public Safety Building, replacement of two Fire Stations, a Bike and Pedestrian plan, and two parking garages. As part of the development of the 2021-2025 Capital Improvement Plan (CIP), the IP projects were updated for scope increases and cost escalations, resulting in a revised Infrastructure Plan of \$260.5 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 2021-2025 CIP assumed the opening of new Marriott hotels in FY 2021; however, as a result of the public health emergency and its impact on revenues, the annual TOT funding is not estimated to cover the cost of the debt service related to the IP projects for several years. Staff is continually revising these figures and adjusting and planning for these impacts in order to maintain funding for the City’s most critical infrastructure improvements.

Due to the COVID-19 pandemic, the City Council aimed to provide economic relief for residential and commercial customers by directing staff to maintain flat rates without compromising the safety and integrity of the utility systems. Rates increased in 2021 for gas, stormwater, and fiber 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 LRFF was developed prior to the COVID-19 pandemic, at a time when national, state, and local economic indicators were mixed. Unemployment remained low, job growth slowed, and international trade had negative impacts on economic data.

The FY 2021-2030 LRFF was presented to the Finance Committee in December 2019 and approved by the City Council in February 2020. The forecast anticipated a small surplus in FY 2021 followed by annual gaps in FY 2022 through 2025, before the revenues outpaced the expenses in FY 2026 and beyond. Staff identified and recommended a course of action that would structurally balance the General Fund in FY 2021 and largely balance the General Fund on an ongoing basis. The FY 2021 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 compared to the CalPERS estimated 7.0 percent discount rate. Subsequent to the development of the LRFF, revenue and expense numbers were revised based on estimated impacts from the pandemic to recalculate the budget and reflect changes in revenues and expenses to incorporate policy direction from City Council issued after the LRFF to prioritize essential services and pare back discretionary services as discussed in the General Fund Balancing and Results section above.

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:

- Applied for and awarded the Bike Friendly Communities Gold-level Status.
- Received Santa Clara County Supervisor’s Medal for Outstanding Service for staff contributions and efforts in areas of auto theft and community service.
- Received the Reliable Public Power Provider (RP3) award from American Public Power Association (APPA) for industry-recognized leading practices in reliability & safety.

*Introduction*

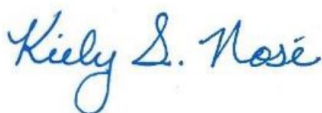
- Received the Smart Energy Provider Award from American Public Power Association (APPA), which recognizes utilities for demonstrating commitment and accomplishment in smart energy program planning; energy efficiency and distributed energy resources; environmental and sustainability programs; and communication and customer experience.
- Launched a robust Race & Equity framework and initiative and partnered with local community organizations and stakeholders.
- Established the Uplift Local program to expand outdoor dining, retail, and more, generally supporting the business community and connecting the broader Palo Alto community together during challenging economic and public health emergencies. Continued to support key business districts such as Downtown Palo Alto, California Avenue, and the Stanford Shopping Center.
- Responded to the COVID-19 pandemic by participating in the City's Emergency Operations Center and quickly developing policies and protocols to protect firefighters and patients by minimizing exposure.
- Opened Foothills Nature Preserve to all visitors and partnered with the Environmental Volunteers and other volunteers to create a welcome video for the Preserve.
- Awarded the construction contract for the Public Safety Building, a 2014 Infrastructure Plan Project, and associated debt financing.
- Substantially completed the Junior Museum and Zoo rebuilding project after 10 years in the making, with all new exhibits designed by JMZ staff, a re-imagined zoo with new animals, and a focus on inclusion, accessibility, and the highest standards in animal care. It is expected to open in Fall 2021.
- Completed construction of the new California Avenue Area Parking Garage project.

**Awards:** During the past year, the City received an award for the prior fiscal year (2020) ACFR from the Government Finance Officers Association (GFOA) for “excellence in financial reporting.” The 2021 ACFR will be submitted to the GFOA award program to be considered for this distinguished financial reporting award.

**Acknowledgments:** This ACFR 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 Annual Comprehensive 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

Tom DuBois, **Mayor**  
Patrick Burt, **Vice-Mayor**  
Alison Cormack  
Eric Filseth  
Lydia Kou  
Greer Stone  
Greg Tanaka

### Finance Committee

Alison Cormack, **Chair**  
Patrick Burt  
Eric Filseth

### Policy and Services Committee

Lydia Kou, **Chair**  
Greer Stone  
Greg Tanaka

### Council-Appointed Officers

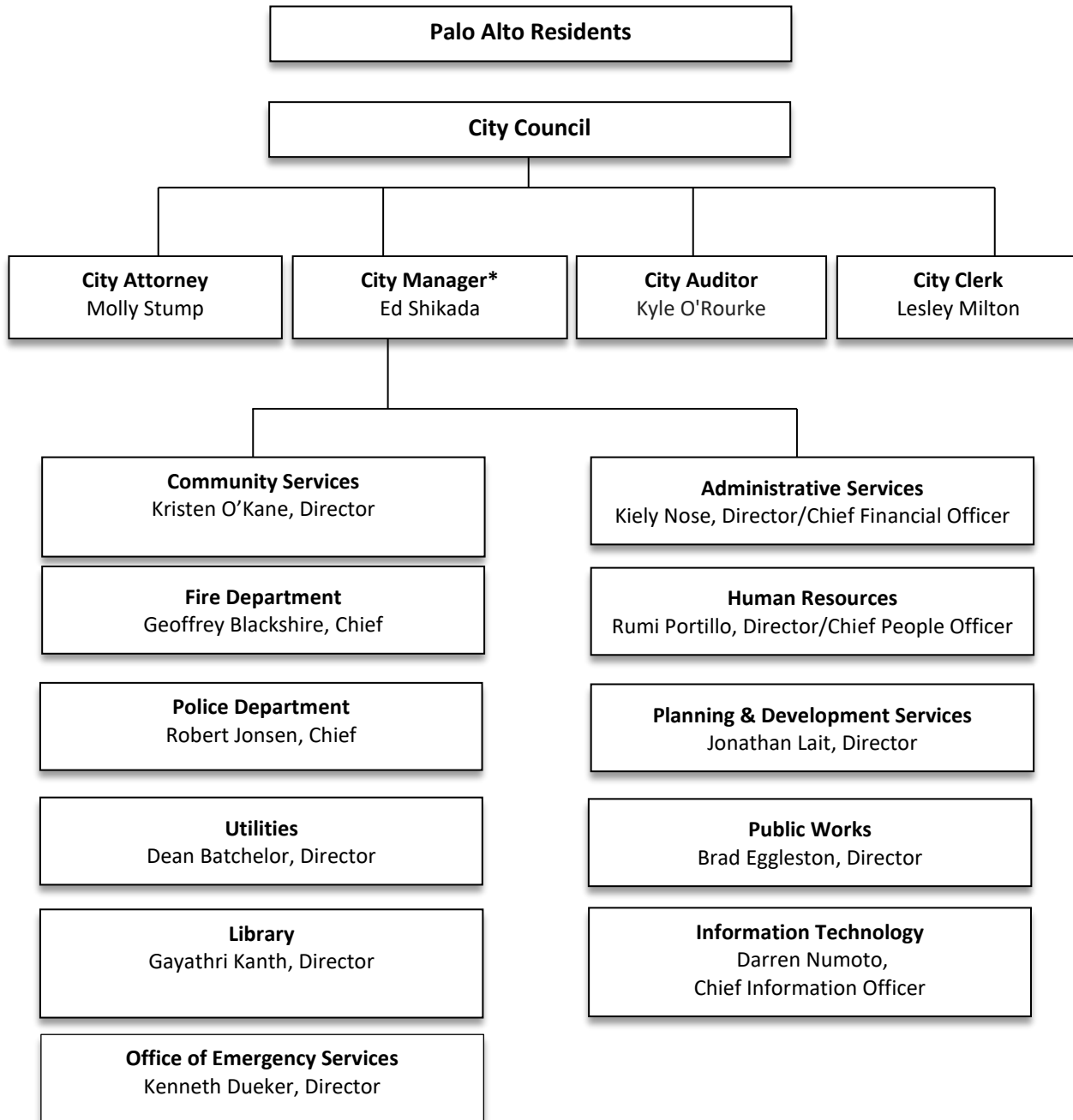
**City Manager**  
Ed Shikada

**City Attorney**  
Molly Stump

**City Clerk**  
Lesley Milton

**City Auditor**  
Kyle O'Rourke

# City of Palo Alto Organization .....

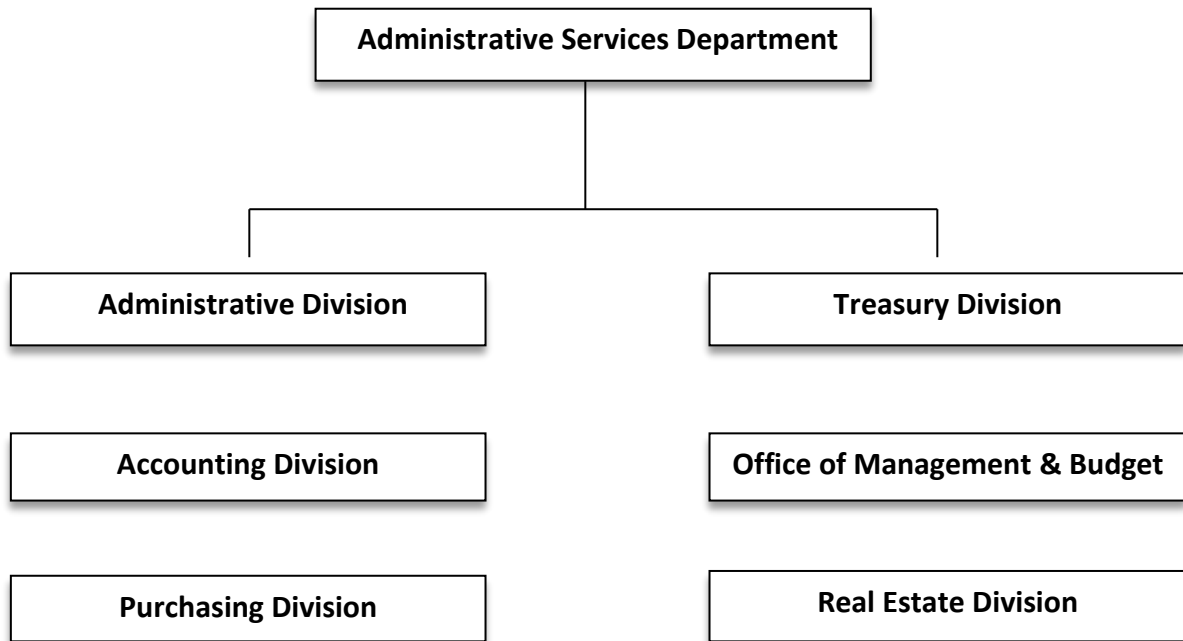


\* The Office of Transportation is situated in the City Manager's Office.





# 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, 2020

*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, 2021, 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, 2021, 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 Matter***

As discussed in Note 1(n) to the financial statements, as of July 1, 2020, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. Our opinions are 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 GASB 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 November 15, 2021 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, flowing style.

Walnut Creek, California  
November 15, 2021

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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, 2021. 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) 2021 by \$1.2 billion. Of this amount, \$24.1 million represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net position is \$1.2 billion, an increase of \$4.8 million, or 0.4 percent over the prior fiscal year. Of this amount, \$22.2 million was generated by business-type activities and offset by a decrease of \$17.4 million by governmental activities.
- The City's total outstanding long-term debt increased by \$99.4 million during the current fiscal year due to the issuance of Certificates of Participation (COPs) amounting to \$101.5 million plus a \$6.5 million premium to finance the construction of a public safety building, offset by the scheduled debt retirements.
- At the close of FY 2021, the City's governmental funds reported total fund balances of \$365.6 million, an increase of \$98.9 million from the prior year. Approximately 13.4 percent of this amount, or \$49.1 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 \$66.3 million, or 38.1 percent of total General Fund expenditures, including transfers.
- In May 2021, the City received the first half of its total \$13.7 million American Rescue Plan Act of 2021 (ARPA) allocation. The first distribution of \$6.9 million was recorded as unearned revenue at June 30, 2021 as the funds are not earned nor spent. The second distribution is expected in May 2022.
- The City implemented the Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, effective fiscal year ended June 30, 2021. The statement establishes criteria for identifying fiduciary activities of all state and local governments. The City evaluated all funds and activities in accordance with the statement and determined that the Cable Joint Powers Authority and the assessment district activities previously reported as agency funds should be reported as custodial funds.

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

The ACFR 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 31-33 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 GASB Statement No. 34. Each major fund is presented individually and all non-major funds are 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. In FY 2021, 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.

Since 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 35-39 of this report.

### ***Proprietary Funds***

Enterprise and Internal Service Fund Financial Statements are prepared on the full accrual basis of accounting, similar to the basis of accounting that is 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 40-45 of this report.

### ***Fiduciary Funds***

Fiduciary funds are used to account for assets held by the City acting in a fiduciary capacity for other entities and individuals. Custodial Funds are fiduciary funds used to report fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private purpose trust funds. These include balances and activities of the Cable Joint Powers Authority and the assessment district. The financial activities of these funds are excluded from the government-wide financial statements, but are presented in separate fiduciary fund financial statements.

The Fiduciary Fund Financial Statement can be found on pages 46 and 47 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 51-108 of this report.

## Required and Other Supplemental Information

The Required Supplementary Information related to the City's pension and Other Post-Employment Benefits (OPEB) plans is included after the Notes to the Basic Financial Statements on pages 109-114. 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 115-139 of this report.

## 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, 2021. 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 \$4.8 million.

### CONDENSED STATEMENT OF NET POSITION

As of June 30  
(in millions)

	Governmental Activities		Business-type Activities		Government-wide Totals	
	2021	2020	2021	2020	2021	2020
Cash and investments	\$ 443.4	\$ 342.8	\$ 285.6	\$ 277.4	\$ 729.0	\$ 620.2
Other assets	76.6	60.5	47.7	52.8	124.3	113.3
Capital assets	602.0	596.3	708.5	693.2	1,310.5	1,289.5
<b>Total Assets</b>	<b>1,122.0</b>	<b>999.6</b>	<b>1,041.8</b>	<b>1,023.4</b>	<b>2,163.8</b>	<b>2,023.0</b>
Unamortized loss from refunding		-	0.1	0.2	0.1	0.2
Pension and OPEB related	60.8	55.8	24.1	20.9	84.9	76.7
<b>Total Deferred Outflows of Resources</b>	<b>60.8</b>	<b>55.8</b>	<b>24.2</b>	<b>21.1</b>	<b>85.0</b>	<b>76.9</b>
Net pension and OPEB liabilities	438.2	416.3	159.7	153.7	597.9	570.0
Long-term debt	217.5	112.5	68.9	74.5	286.4	187.0
Other liabilities	87.6	61.5	23.8	21.7	111.4	83.2
<b>Total Liabilities</b>	<b>743.3</b>	<b>590.3</b>	<b>252.4</b>	<b>249.9</b>	<b>995.7</b>	<b>840.2</b>
Pension and OPEB related	16.3	24.5	6.4	9.6	22.7	34.1
<b>Total Deferred Inflows of Resources</b>	<b>16.3</b>	<b>24.5</b>	<b>6.4</b>	<b>9.6</b>	<b>22.7</b>	<b>34.1</b>
<b>Net Position</b>						
Net investment in capital assets	480.6	497.4	642.0	621.3	1,122.6	1,118.7
Restricted	80.3	73.3	3.4	4.1	83.7	77.4
Unrestricted	(137.7)	(130.1)	161.8	159.6	24.1	29.5
<b>Total Net Position</b>	<b>\$ 423.2</b>	<b>\$ 440.6</b>	<b>\$ 807.2</b>	<b>\$ 785.0</b>	<b>\$ 1,230.4</b>	<b>\$ 1,225.6</b>

The largest portion of the City's net position (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 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 (6.8 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$24.1 million, representing 2.0 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.

Overall, the City has positive unrestricted net positions for the government on a combined basis, considering both governmental activities and business-type activities. 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 \$137.7 million net deficit for governmental activities includes the \$303.8 million net impact of net pension liabilities and its related deferred outflows of resources and \$89.9 million net impact of net OPEB liabilities and its related deferred outflows of resources and deferred inflows of resources. Governmental activities’ unrestricted net position, excluding these impacts, is \$256.0 million.

Components of the \$4.8 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>2021</u>	<u>2020</u>	<u>Increase/ (Decrease)</u>
Cash and investments	\$ 443.4	\$ 342.8	\$ 100.6
Other assets	76.6	60.5	16.1
Capital assets	602.0	596.3	5.7
<b>Total Assets</b>	<b><u>1,122.0</u></b>	<b><u>999.6</u></b>	<b><u>122.4</u></b>
Pension and OPEB related	60.8	55.8	5.0
<b>Total Deferred Outflows of Resources</b>	<b><u>60.8</u></b>	<b><u>55.8</u></b>	<b><u>5.0</u></b>
Net pension and OPEB liabilities	438.2	416.3	21.9
Long-term debt	217.5	112.5	105.0
Other liabilities	87.6	61.5	26.1
<b>Total Liabilities</b>	<b><u>743.3</u></b>	<b><u>590.3</u></b>	<b><u>153.0</u></b>
Pension and OPEB related	16.3	24.5	(8.2)
<b>Total Deferred Inflows of Resources</b>	<b><u>16.3</u></b>	<b><u>24.5</u></b>	<b><u>(8.2)</u></b>
Net investment in capital assets	480.6	497.4	(16.8)
Restricted	80.3	73.3	7.0
Unrestricted	(137.7)	(130.1)	(7.6)
<b>Total Net Position</b>	<b><u>\$ 423.2</u></b>	<b><u>\$ 440.6</u></b>	<b><u>\$ (17.4)</u></b>

The City's Governmental Activities total net position decreased \$17.4 million to \$423.2 million as of June 30, 2021 due to the following:

- Assets and Deferred Outflows of Resources
  - Cash and investments increased \$100.6 million mainly due to the issuance of COPs amounting to \$101.5 million plus \$6.5 million premium to finance the construction of a public safety building and an increase in restricted cash and investments held in the Public Agency Retirement Services Section 115 irrevocable trust (Section 115 Pension Trust).
  - Other assets increased \$16.1 million mainly due to an increase in notes receivable for the predevelopment and construction of multifamily rental housing reserved for occupancy by extremely low, very low and low-income households.
  - Capital assets increased \$5.7 million due to continued construction of the Highway 101 Pedestrian / Bicycle overpass, Public Safety Building, and California Avenue Parking Garage and offset by the retirements and depreciation.
  - Pension and OPEB related deferred outflows of resources increased \$5.0 million due to increase of pension related deferred outflows of resources of \$5.7 million offset by a decrease of OPEB related deferred outflows of resources of \$0.7 million.
  
- Liabilities and Deferred Inflows of Resources
  - Net pension and OPEB liabilities increased \$21.9 million due to increase in net pension liabilities of \$23.5 million offset by the decrease of net OPEB liabilities of \$1.6 million.
  - Long-term debt increased \$105.0 million due to issuance of COPs amounting to \$101.5 million plus \$6.5 premium to finance the construction of a public safety building, offset by the scheduled debt retirements.
  - Other liabilities increased \$26.1 million primarily due to \$6.9 million receipt of City's first of two distributions of the ARPA funding that was recorded as unearned revenue as the funds are not earned nor spent. Another factor driving the increase was the recording of a claim liability of \$12.6 million for a class action lawsuit.
  - Pension and OPEB related deferred inflows of resources decreased \$8.2 million due to decrease of \$5.8 million pension related inflows of resources and decrease of OPEB related deferred inflows of resources of \$2.4 million.
  
- Net position
  - Net investment in capital assets decreased \$16.8 million to \$480.6 million mainly due to current year depreciation for capital assets. Restricted net position increased \$7.0 million to \$80.3 million primarily due to increases of restricted cash and investments held in the Section 115 Pension Trust and debt service. 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 \$198.1 million in FY 2021, a decrease of \$15.2 million from prior year revenues of \$213.3 million.

<b>GOVERNMENTAL ACTIVITIES</b>			
<b><i>Revenues for the Year Ended June 30</i></b>			
<b>(in millions)</b>			
<b>Revenues by Source</b>	<b>2021</b>	<b>2020</b>	<b>Increase/ (Decrease)</b>
<b>Program Revenues:</b>			
Charges for services	\$ 55.5	\$ 57.1	\$ (1.6)
Operating grants and contributions	3.0	2.6	0.4
Capital grants and contributions	11.3	9.0	2.3
<b>Total Program Revenues</b>	<b>69.8</b>	<b>68.7</b>	<b>1.1</b>
<b>General Revenues:</b>			
Property tax	60.9	55.6	5.3
Sales tax	29.1	30.6	(1.5)
Utility user tax	14.6	16.1	(1.5)
Transient occupancy tax	5.2	18.6	(13.4)
Documentary transfer tax	10.6	6.9	3.7
Other tax	2.8	2.9	(0.1)
Investment earnings	4.9	13.8	(8.9)
Miscellaneous	0.2	0.1	0.1
<b>Total General Revenues</b>	<b>128.3</b>	<b>144.6</b>	<b>(16.3)</b>
<b>Total Revenues</b>	<b>\$ 198.1</b>	<b>\$ 213.3</b>	<b>\$ (15.2)</b>

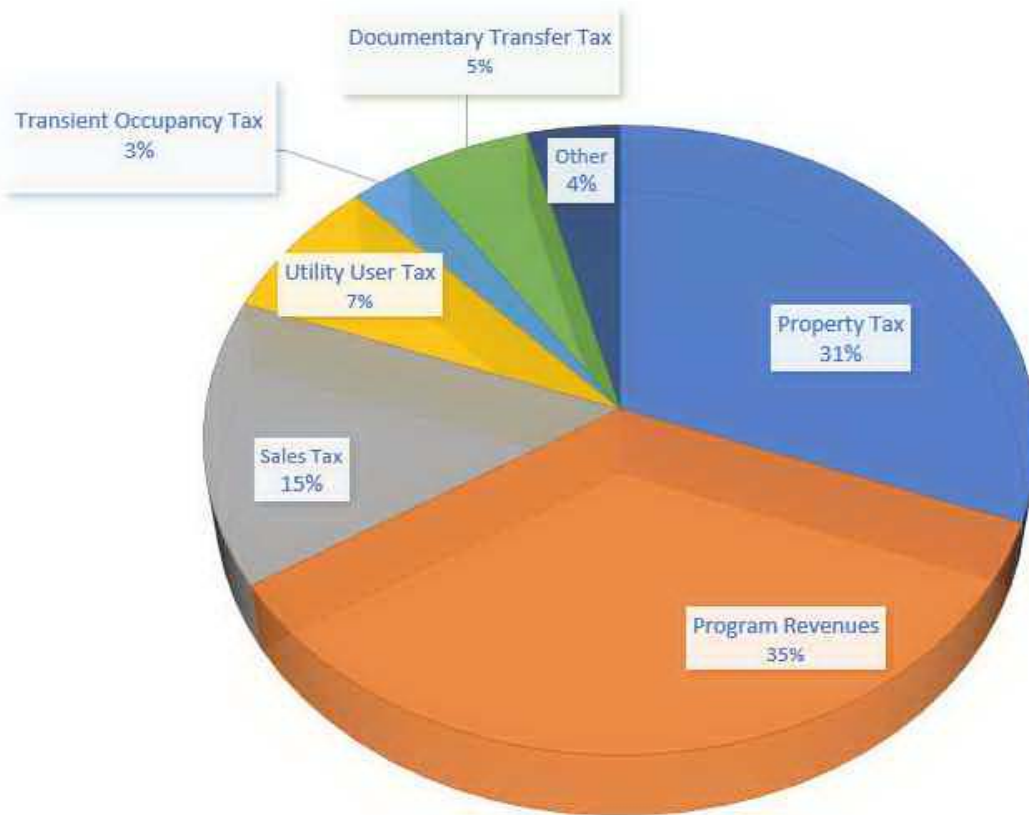
Program Revenues such as charges for services, operating grants and contributions, and capital grants and contributions are generated from or restricted to each activity. Total Program Revenues increased \$1.1 million, or 1.6 percent, from the prior year.

General Revenues decreased \$16.3 million, or 11.3 percent, from the prior year mainly due to decreases in sales tax, utility user tax, transient occupancy tax revenues as a result of the economic impact of the COVID-19 pandemic, and investment earnings due to impact of negative fair market value adjustments.

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 2021 and FY 2020 expenses by function, along with interest and other expenses and transfers. Total Governmental Activities functional expense was \$234.6 million in FY 2021, a decrease of \$8.3 million.

<b>GOVERNMENTAL ACTIVITIES</b>			
<b><i>Expenses and Change in Net Position for the Year Ended June 30</i></b>			
<b>(in millions)</b>			
<b>Activities</b>	<b>2021</b>	<b>2020</b>	<b>Increase/ (Decrease)</b>
City Council	\$ 0.2	\$ 0.2	\$ -
City Manager	2.5	3.6	(1.1)
City Attorney	2.3	2.8	(0.5)
City Clerk	0.7	0.8	(0.1)
City Auditor	0.6	0.6	0.0
Administrative Services	23.0	15.9	7.1
Human Resources	2.5	3.0	(0.5)
Public Works	52.7	45.6	7.1
Planning and Development Services	18.1	21.7	(3.6)
Office of Transportation	3.6	4.7	(1.1)
Police	43.6	50.9	(7.3)
Fire	37.1	41.3	(4.2)
Community Services	30.3	34.2	(3.9)
Library	11.1	13.0	(1.9)
Interest and Other Expense	6.3	4.6	1.7
<b>Total Functional Expense</b>	<b>234.6</b>	<b>242.9</b>	<b>(8.3)</b>
Change in Net Position before Transfers	(36.5)	(29.6)	(6.9)
Transfers	19.1	20.2	(1.1)
Change in Net Position	(17.4)	(9.4)	(8.0)
Net Position, Beginning	440.6	450.0	(9.4)
<b>Net Position, Ending</b>	<b>\$ 423.2</b>	<b>\$ 440.6</b>	<b>\$ (17.4)</b>

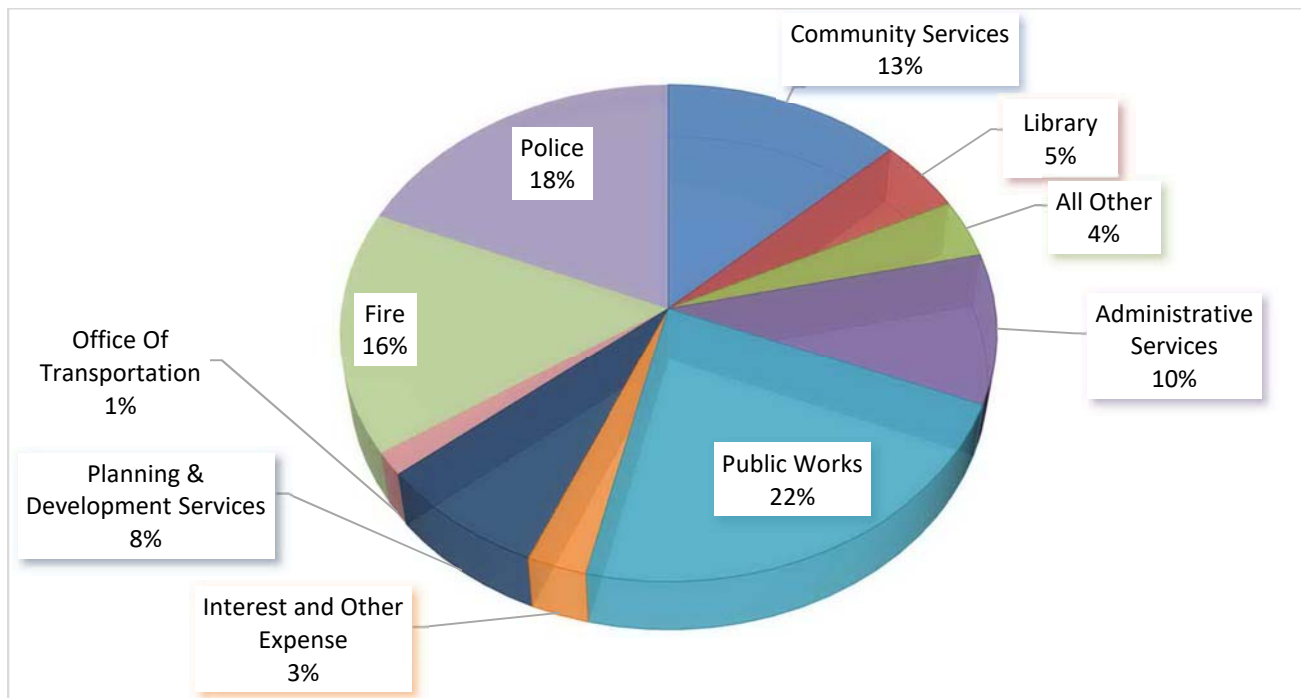
Functional expenses consisted of depreciation, uncapitalized operating expenses from capital project funds, internal service funds allocation, changes in pension and OPEB liabilities due to deferred contributions, and the amortization of pension and OPEB-related outflows and inflows of resources.

Total functional expenses were \$234.6 million in the current fiscal year, a decrease of \$8.3 million from the prior year mainly due to decreases in salaries and benefits and contract services. All department functional expenses decreased except for a) Public Works which increased \$7.1 million due to various repairs and maintenance of capital assets such as streets, sidewalks, facilities, and parks all of which are non-capitalizable; and b) Administrative Services which increased \$7.1 million mainly due to the expenses incurred for claims related to a class action lawsuit of \$12.6 million.

Further variance analysis of functional expenses can be found in the Financial Analysis of Governmental Funds section of the MD&A.

### ***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, and 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>2021</u>	<u>2020</u>	<u>Increase/ (Decrease)</u>
Cash and investments	\$ 285.6	\$ 277.4	\$ 8.2
Other assets	47.7	52.8	(5.1)
Capital assets	708.5	693.2	15.3
<b>Total Assets</b>	<b>1,041.8</b>	<b>1,023.4</b>	<b>18.4</b>
Unamortized loss from refunding	0.1	0.2	(0.1)
Pension and OPEB related	24.1	20.9	3.2
<b>Total Deferred Outflows of Resources</b>	<b>24.2</b>	<b>21.1</b>	<b>3.1</b>
Net pension and OPEB liabilities	159.7	153.7	6.0
Long-term debt	68.9	74.5	(5.6)
Other liabilities	23.8	21.7	2.1
<b>Total Liabilities</b>	<b>252.4</b>	<b>249.9</b>	<b>2.5</b>
Pension and OPEB related	6.4	9.6	(3.2)
<b>Total Deferred Inflows of Resources</b>	<b>6.4</b>	<b>9.6</b>	<b>(3.2)</b>
<b>Net Position</b>			
Net investment in capital assets	642.0	621.3	20.7
Restricted	3.4	4.1	(0.7)
Unrestricted	161.8	159.6	2.2
<b>Total Net Position</b>	<b>\$ 807.2</b>	<b>\$ 785.0</b>	<b>\$ 22.2</b>

The City's Business-type Activities total net position increased \$22.2 million to \$807.2 million as of June 30, 2021 due to the following:

- Assets and Deferred Outflows of Resources
  - Cash and investments increased \$8.2 million mainly due to increases in net position for all enterprise funds except for the Electric Fund.
  - Other assets decreased \$5.1 million mainly due to lower accounts receivable balance in the Electric Fund.

- Capital assets increased \$15.3 million to \$708.5 million primarily due to capital assets addition in the Electric, Wastewater Collection, Wastewater Treatment, Storm Drainage and Airport Funds. These capital assets additions and reduction in related long term debt also contributed to the \$20.7 million increase in net investment in capital assets to \$642.0 million in FY 2021.
- Liabilities and Deferred Inflows of Resources
  - Pension and OPEB related deferred outflows of resources increased \$3.2 million due to increases of pension related deferred outflows of resources of \$3.5 million offset by the decrease of OPEB related deferred outflows of resources of \$0.3 million.
  - Net pension and OPEB liabilities increased \$6.0 million due to a \$6.6 million increase in net pension liabilities offset by a \$0.6 million decrease in net OPEB liabilities.
  - Long term debt decreased \$5.6 million due to scheduled debt retirements.
  - Other liabilities increased \$2.1 million primarily due to higher year-end accruals in the Electric and Airport Funds.
  - Pension and OPEB related deferred inflows of resources decreased \$3.2 million due to a decrease of \$2.3 million related pension inflows of resources and decrease of OPEB related deferred inflows of resources of \$0.9 million.
- Net Position
  - Unrestricted net position of \$161.8 million, an increase of \$2.2 million from the prior year, represents assets available to finance day-to-day operations and other expenses approved by the City Council. This amount includes rate stabilization reserves (RSR) of \$51.3 million and operations reserves of \$69.2 million, along with the electric special projects (Calaveras) reserve of \$46.7 million, the hydro stabilization reserve of \$15.4 million and the CIP reserve of \$18.6 million. The positive balances in these reserves are offset by \$105.7 million net impact of net pension liabilities and its related deferred outflows of resources and \$36.3 million net impact of net OPEB liabilities and its related deferred outflows of resources and deferred inflows of resources.

## 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.

<b>BUSINESS-TYPE ACTIVITIES</b>			
<i>Revenues for the Year Ended June 30</i>			
(in millions)			
<u>Revenues by Source</u>	<u>2021</u>	<u>2020</u>	<u>Increase/ (Decrease)</u>
<b>Program Revenues:</b>			
Charges for services	\$ 346.5	\$ 353.0	\$ (6.5)
Operating grants and contributions	0.5	0.5	-
Capital grants and contributions	6.4	6.4	-
<b>Total Program Revenues</b>	<b>353.4</b>	<b>359.9</b>	<b>(6.5)</b>
<b>General Revenues:</b>			
Investment earnings	2.2	11.5	(9.3)
<b>Total General Revenues</b>	<b>2.2</b>	<b>11.5</b>	<b>(9.3)</b>
<b>Total Revenues</b>	<b>\$ 355.6</b>	<b>\$ 371.4</b>	<b>\$ (15.8)</b>

Business-type Activities revenues totaled \$355.6 million, a decrease of \$15.8 million from the prior year. Program revenues decreased \$6.5 million year over year. Charges for services decreased \$6.5 million from the prior year due to the following:

- Electric fund revenue decreased due to lower demand in the commercial and industrial sectors as a result of continued limited businesses operations and closures.
- Refuse fund revenue decreased due to a reduction of commercial and industrial services due to limited business operations and shelter in place restrictions.
- The decreases mentioned above were partially offset by the increases in Gas Fund revenues due to a 2 percent rate increase and higher residential consumption and in Wastewater Treatment fund as a result of higher billing for capital costs. Storm Drainage and Fiber Optic rates also increased in FY 2021.

Investment earnings decreased \$9.3 million from the prior year mainly due to the impact of negative fair market value adjustments.

## Business-Type Activities – Expenses

The table below presents a comparison of the FY 2021 and FY 2020 expenses for the City’s Business-type Activities.

<b>BUSINESS-TYPE ACTIVITIES</b>			
<i>Expenses and Change in Net Position for the Year Ended June 30</i>			
<b>(in millions)</b>			
<u>Business-type Activities</u>	<u>2021</u>	<u>2020</u>	<u>Increase/ (Decrease)</u>
Water	\$ 43.6	\$ 43.0	\$ 0.6
Electric	156.1	142.4	13.7
Fiber Optics	2.5	2.8	(0.3)
Gas	28.6	27.2	1.4
Wastewater Collection	19.6	18.9	0.7
Wastewater Treatment	28.4	28.8	(0.4)
Refuse	29.1	36.9	(7.8)
Storm Drainage	4.9	5.5	(0.6)
Airport	1.5	2.1	(0.6)
<b>Total Functional Expense</b>	<b><u>314.3</u></b>	<b><u>307.6</u></b>	<b><u>6.7</u></b>
Increase in Net Position before Transfers	41.3	63.7	(22.4)
Transfers	<u>(19.1)</u>	<u>(20.2)</u>	<u>1.1</u>
Change in Net Position	22.2	43.5	(21.3)
Net Position, Beginning	<u>785.0</u>	<u>741.5</u>	<u>43.5</u>
<b>Net Position, Ending</b>	<b><u>\$ 807.2</u></b>	<b><u>\$ 785.0</u></b>	<b><u>\$ 22.2</u></b>

Business-type Activities expenses increased \$6.7 million for a total of \$314.3 million mainly due to the following:

- Electric Fund expenses increased \$13.7 million due to higher energy purchase costs and increases in operations and maintenance. The availability of hydroelectric energy resources is lower than average and requires electricity purchases at market rates which were significantly higher during the spring of 2021.
- Gas Fund expenses increased \$1.4 million due to higher commodity purchases as a result of higher natural gas prices.
- Refuse Fund expenses decreased \$7.8 million due to lower payments to GreenWaste of Palo Alto for reimbursement of new waste collection vehicles, decreases in facility rent and a downward adjustment to landfill post closure maintenance as a result of a maintenance cost update that was approved in FY 2021.

## **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, 2021, the City's Governmental Funds reported combined fund balances of \$365.6 million, an increase of \$98.9 million from the prior year mainly due to issuance of COPs for the construction of a public safety building. Approximately 13.4 percent, or \$49.1 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 (\$11.9 million); 2) restricted for particular purposes (\$136.8 million); 3) committed for particular purposes (\$90.0 million); or 4) assigned for particular purposes (\$77.9 million).

Governmental Fund revenues decreased \$13.8 million, or 6.6 percent, from the prior year to \$194.9 million. General Fund revenues decreased \$13.6 million and Capital Projects Fund revenue increased \$1.8 million. Non-major Governmental Funds revenue decreased \$2.0 million primarily due to suspension of most parking enforcement which decreased the demand for parking permits. The violations were partially offset by an increase in housing in-lieu fees and federal revenue.

Governmental Fund expenditures were \$222.1 million, a decrease of \$38.7 million from the prior year. General Fund expenditures decreased \$21.8 million, Capital Projects Fund expenditures decreased by \$18.2 million, and Non-major Governmental Funds expenditures increased by \$1.3 million. Details of significant changes are discussed in the following sections.

Governmental Fund other financing resources increased \$112.3 million, from the prior year to \$126.1 million mainly due to the issuance of COPs for the construction of a public safety building.

### ***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 \$75.6 million, compared to \$61.8 million in the prior year. The fund balance is classified as follows: \$9.4 million non-spendable, \$4.6 million committed, \$12.5 million assigned, and \$49.1 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 \$166.8 million in FY 2021. This represents a decrease of \$13.6 million, or 7.5 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>2021</u>	<u>2020</u>	<u>Increase/ (Decrease)</u>
Property tax	\$ 56.6	\$ 51.1	\$ 5.5
Sales tax	29.1	30.6	(1.5)
Utility user tax	14.6	16.1	(1.5)
Transient occupancy tax	5.2	18.6	(13.4)
Documentary transfer tax	10.6	6.9	3.7
Charges for services	25.1	24.1	1.0
Permits and license	7.3	7.5	(0.2)
Rental income	13.3	16.0	(2.7)
Other	5.0	9.5	(4.5)
Total Revenues	<u>\$ 166.8</u>	<u>\$ 180.4</u>	<u>\$ (13.6)</u>

Property tax revenue increased \$5.5 million, or 10.8 percent due to pre-pandemic assessed value growth and an increase of \$1.7 million in the Excess Educational Revenue Augmentation Fund (ERAF) distribution. The FY 2021 secured and unsecured property tax assessed values growth rates are 7.6 percent and 12.7 percent, respectively, a weighted average of 7.8 percent. These higher assessed values reflect continued strength in commercial and residential real estate markets. Historically, during economic downturns such as a recession and/or a pandemic, impacts to property tax are delayed a year and then the growth rate typically plateaus.

Over a seven-year period, ERAF distribution has grown from \$0.4 million in FY 2014 to \$5.6 million in FY 2021. Excess ERAF is the fund used to collect and disburse property taxes that are shifted to/from cities, the County, and special districts prior to their reallocation to K-14 school agencies. When the state shifts more local property tax than required to support schools these funds are returned and known as excess ERAF. Due to the uncertainty of whether local agencies will continue to receive excess ERAF funds, it is not considered a permanent local revenue source.

Sales tax receipts were \$1.5 million or 4.9 percent, lower than the prior year. The decrease is lower than expected even though there is a significant decline of high-end goods and dining options at regional destinations, such as the Stanford Shopping Center, which was offset by the strong performance in the business to business segment and online sales. As the nation transitions from a shopping center country to online sales, a surge in online retail sales will partially displace tax revenue from traditional industry segments to state and county pools. Online sales data that cannot be tracked to a specific county jurisdiction are allocated to the Santa Clara County sales tax pool and then distributed to local jurisdictions based on local tax percentages. City's average proportion of the county pool sales tax allocation is approximately 5.6 percent, a 1.5 percent decrease compared to the fourth calendar quarter of 2019 (pre-pandemic). The sales tax growth in the second half of FY 2021 is due to high vaccination rates in the Bay Area resulting in increased employment and economic activity.

Utility user tax (UUT) revenues are \$1.5 million, or 9.3 percent, lower compared to prior year due to lower business consumption of electric and telephone services. The telephone UUT receipts declined by \$1.2 million or 19.3 percent due to business closures and shelter in place restrictions which reduced the workforce present in the City.

Transient occupancy tax (TOT) continues to be the revenue source most significantly impacted by the pandemic and fell to \$5.2 million, a \$13.4 million, or 72.0 percent decrease when compared to the prior year. Six hotels, representing 16.3 percent of available rooms remained closed while two other smaller hotels reopened during the fiscal year. However, two Marriott hotels (with around 293 rooms) are newly opened in the middle and end of the fiscal year. The opened hotels average daily room and occupancy rates significantly declined in the first three quarters and partially recovered in the fourth quarter. In FY 2021, the average occupancy rate was 40.6 percent, a 33.4 percent decrease and the average room rate was \$116.90, a 55.9 percent decrease over the prior year.

Documentary transfer tax increased \$3.7 million, or 53.6 percent when compared to prior year due to six large commercial property transactions that occurred in FY2021. This revenue source is volatile since it is highly dependent on sales volume and the mix of commercial and residential sales.

Charges for services increased \$1.0 million, or 4.1 percent, when compared to prior year due to an increase of golf course revenues by \$2.3 million which due to higher demand to play golf after re-opening during the COVID-19 pandemic. This increase is offset by reduced programs and classes and fewer reviews and inspections due to limited operations caused by COVID-19 restrictions.

Rental income decreased \$2.7 million, or 16.9 percent, when compared to prior year due to lower facility rentals and number of tenants due to limited economic activities and some businesses closures. The City has continued to follow the Santa Clara County Moratorium Order to give protection for small businesses and approved a rent forgiveness program.

Other revenues decreased \$4.5 million, or 47.4 percent, when compared to prior year due to a decrease of investment earnings which resulted from negative fair market value adjustments

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

General Fund expenditures totaled \$160.3 million for FY 2021 compared to \$182.1 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>2021</u>	<u>2020</u>	<u>Increase/ (Decrease)</u>
Administrative Services	\$ 5.2	\$ 6.0	\$ (0.8)
Public Works	13.3	13.6	(0.3)
Planning and Development Services	15.8	19.3	(3.5)
Police	41.3	45.7	(4.4)
Fire	34.9	36.4	(1.5)
Community Services	26.3	29.6	(3.3)
Library	8.5	10.0	(1.5)
Non-Departmental	4.6	9.2	(4.6)
All other	10.4	12.3	(1.9)
<b>Total Expenditures</b>	<b><u>\$ 160.3</u></b>	<b><u>\$ 182.1</u></b>	<b><u>\$ (21.8)</u></b>

General Fund expenditures decreased by \$21.8 million, or 12.0 percent compared to prior year primarily due to the decrease in salaries and benefits and reduced contract services. In response to financial uncertainties caused by the COVID-19 pandemic, the City adopted various strategies to lower expenses such as implementing furloughs to the Management and Professional Group, leaving some vacant positions unfilled, eliminating a few positions, and deferring wage increases to most of the labor unions. The City also reduced service hours and various operating expenditures such as travel and training, program and project consultants, and other contractual services.

Planning and Development expenses decreased \$3.5 million primarily due to reduced contract services due to reorganized building inspection and plan review.

Police expenses decreased \$4.4 million mainly due to decreases in salaries and benefits, including overtime, as a result of eliminated positions including specialized police teams, detectives, dispatchers, records staff, animal control officers, parking enforcement officers and administration.



Fire expenses decreased \$1.5 million mainly due to decreases in indirect charges such as vehicle replacement allocation and IT support.

Community Services expenses decreased \$3.3 million primarily due to decreases in salaries and benefits and contract services. In response to continued governmental restrictions, Community Services Facilities reduced operating hours in community centers, museums, theater and open space preserves. Special events, art exhibits and teen programs were also reduced or eliminated.

Library expenses decreased \$1.5 million which was attributed to a decrease in salaries and benefits and reduced contract services as a result of reduced library hours at all branches.

Non-Departmental expenditures decreased \$4.6 million due to reduced lease payments for the Cubberley facility and a one-time purchase of the current City Manager’s house in FY 2020.

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

Revenues, excluding Charges to Other Funds, were originally budgeted at \$163.1 million. Budget estimates were revised downward by \$3.9 million. The revenue categories that were adjusted are shown in the table below.

<b>GENERAL FUND</b>				
<b><i>Budgeted Revenues for the Year Ended June 30</i></b>				
<b>(in millions)</b>				
<b><u>Budgeted Revenues</u></b>	<b><u>Adopted Budget</u></b>	<b><u>Final Budget</u></b>	<b><u>Increase/ (Decrease)</u></b>	
Property tax	\$ 52.0	\$ 53.2	\$	1.2
Sales tax	20.5	25.0		4.5
Utility user tax	15.1	14.1		(1.0)
Transient occupancy tax	14.9	5.1		(9.8)
Documentary transfer tax	4.7	6.9		2.2
All other	55.9	54.9		(1.0)
	<u>163.1</u>	<u>159.2</u>		<u>(3.9)</u>
Charges to other funds	12.0	12.0		-
Prior year encumbrances and appropriations	-	7.6		7.6
<b>Total Budgeted Revenues</b>	<b><u><u>\$ 175.1</u></u></b>	<b><u><u>\$ 178.8</u></u></b>	<b><u><u>\$</u></u></b>	<b><u><u>3.7</u></u></b>

Adjustments to the original budget were based on the following:

- Property tax was increased by \$1.2 million due to property assessed value growth and change in ownership.
- Sales tax was increased by \$4.5 million due to the higher than expected receipts.
- Utility user tax decreased by \$1.0 million due to the lower consumption of both utility commodity and telephone.
- Transient occupancy tax decreased by \$9.8 million due to continued declines in hotel activities and rates.
- Documentary transfer tax increased by \$2.2 million based on year-to-date receipts tracking higher than anticipated.

Expenditures, excluding Operating Transfers, were originally budgeted at \$179.1 million and were revised upward by \$8.4 million, for a final budgeted amount of \$187.5 million.

<b>GENERAL FUND</b>					
<i>Budgeted Expenditures for the Year Ended June 30</i>					
(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	\$ 28.4	\$ 28.8	\$ 0.4	\$	27.8
Fire	33.6	35.4	1.8		35.4
Police	41.7	42.4	0.7		42.4
Library	8.4	8.7	0.3		8.6
Planning and Development Services	17.4	19.6	2.2		18.8
Public Works	18.4	19.1	0.7		18.6
Non-Departmental	8.2	9.3	1.1		9.3
All Other	23.0	24.2	1.2		22.9
<b>Total Budgeted Expenditures</b>	<b>\$ 179.1</b>	<b>\$ 187.5</b>	<b>\$ 8.4</b>		<b>183.8</b>
Less: Charges to Other Funds and Departments					(11.7)
Less: Encumbrances and Reappropriations					(11.8)
<b>Net General Fund Expenditures</b>				<b>\$</b>	<b>160.3</b>

Adjustments of \$8.4 million to the original budget were primarily due to the \$7.6 million carry-forward of encumbrances from prior year and reappropriations.

Final actual expenditures totaled \$183.8 million, \$3.7 million lower than the final budget totaling \$187.5 million. As mentioned previously, the Final budget includes encumbrances and reappropriations carried forward from prior year, totaling \$7.6 million. In closing FY 2021, \$11.8 million was encumbered and reappropriated in FY 2022. The actual expenditures were lower as compared with the budget primarily due to reduced contract services.

Transfers out were originally budgeted at \$17.8 million, with the final budget number at \$13.6 million, a decrease of \$4.2 million. The decrease was due to a reduction of the transfers to Capital Project Fund because of decreases in TOT revenues.

### ***Capital Projects Fund***

At the end of the current fiscal year, the fund balance of the Capital Project Fund was \$165.7 million, compared to \$83.6 million in the prior year. The fund balance is restricted for the Public Safety Building (\$90.9 million) and library project (\$0.6 million), committed for Roth building rehabilitation (\$5.2 million) and Cubberley improvements (\$4.7 million) and the remaining balance of \$64.3 million is available for all other capital projects.

Capital Projects Fund revenues were \$11.4 million in FY 2021, an increase of \$1.8 million from the prior year due to federal grant reimbursements while other financing sources were \$118.8 million, an increase of \$87.9 million mainly due to issuance of COPs amounting to \$101.5 million plus \$6.5 premium to finance the construction of a public safety building partially offset by the decrease of operating transfers in from General Fund due to significant decreases in revenues, including TOT.

Capital Project Fund expenditures were \$48.1 million in FY 2021, a decrease of \$18.2 million. To manage resources with funding needs and balance for the City's severe decrease in TOT revenues resulting from the pandemic, the most critical capital investments were prioritized and project budget for other projects were deferred into later years or beyond the five-year capital plan.

### ***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, 2021, the City's Enterprise Funds reported total net position of \$807.2 million, an increase of \$22.2 million or 2.8 percent from the prior year. All Enterprise funds contributed to this increase except Electric Fund.

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

<b>ENTERPRISE FUNDS</b>			
<b><i>Change in Net Position for the Year Ended June 30</i></b>			
<b>(in millions)</b>			
<b>Fund Name</b>	<b>2021</b>	<b>2020</b>	<b>Increase/ (Decrease)</b>
Water	\$ 6.6	\$ 8.0	\$ (1.4)
Electric	(4.8)	18.6	(23.4)
Fiber Optics	1.5	2.9	(1.4)
Gas	3.5	3.0	0.5
Wastewater Collection	0.7	2.1	(1.4)
Wastewater Treatment	3.1	0.3	2.8
Refuse	1.9	(3.1)	5.0
Storm Drainage	3.0	2.2	0.8
Airport	6.7	5.6	1.1
<b>Total Change in Net Position</b>	<b>\$ 22.2</b>	<b>\$ 39.6</b>	<b>\$ (17.4)</b>

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

- The Water and Fiber Optic Funds operating income has no significant change, however, the change in net position for both funds decreased \$1.4 million from prior year due to decline in other revenues specifically interest earnings due to the impact of negative fair market value adjustments.
- The change in net position for Electric Fund decreased \$23.4 million from prior year due to decrease in commercial retail revenues as a result of lower consumption, a decrease in investment earnings due to the impact of negative fair market value adjustments, an increase in purchases of electricity due to low hydroelectric supply, and an increase in operations and maintenance expenses.
- The change in net position for Wastewater Collection Fund decreased \$1.4 million due to lower non-residential sewer charges, lower non-operating revenue including interest earnings and an increase in operating expenses
- The change in net position for Wastewater Treatment Fund increased \$2.8 million due to higher billing to partners for capital costs and decreases in operations and maintenance expenses.
- The change in net position of Refuse Fund increased \$5.0 million due to a decrease in operating expenses as a result of lower payment to GreenWaste of Palo Alto for reimbursements of new waste collections and vehicles, a decrease in facility rent and downward adjustment to landfill post closure maintenance. The decrease of operating expenses was partially offset by lower revenues including investment earnings.

## 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>2021</u>	<u>2020</u>	<u>Increase/ (Decrease)</u>
<b>Governmental activities</b>			
<b>Capital Assets</b>			
Land and improvements	\$ 82.1	\$ 82.2	(0.1)
Street trees	14.8	14.8	-
Construction in progress	137.8	139.4	(1.6)
Building and improvements	272.1	251.1	21.0
Intangible assets	3.8	3.8	-
Equipment	17.2	15.7	1.5
Roadway network	335.3	335.2	0.1
Recreation and open space network	35.2	35.2	-
Less accumulated depreciation	(319.3)	(302.5)	(16.8)
<b>Internal Service funds</b>			
Construction in progress	5.6	2.7	2.9
Equipment	63.1	63.5	(0.4)
Less accumulated depreciation	(45.7)	(44.8)	(0.9)
<b>Total Governmental Activities</b>	<b><u>\$ 602.0</u></b>	<b><u>\$ 596.3</u></b>	<b><u>\$ 5.7</u></b>
<b>Business-Type Activities</b>			
Land	\$ 5.0	\$ 5.0	\$ -
Construction in progress	129.0	121.1	7.9
Buildings and improvements	74.5	74.5	-
Infrastructure	0.6	0.6	-
Transmission, distribution and treatment systems	914.8	884.8	30.0
Less accumulated depreciation	(415.4)	(392.8)	(22.6)
<b>Total Business-type Activities</b>	<b><u>\$ 708.5</u></b>	<b><u>\$ 693.2</u></b>	<b><u>\$ 15.3</u></b>

Governmental Activities' capital assets net of depreciation increased by \$5.7 million from the prior year. The increase was primarily due to activity in various projects such as the Highway 101 Pedestrian / Bicycle overpass, the Public Safety Building and California Avenue Parking Garage offset with retirements.

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 2021-2025 Capital Improvement Plan (CIP), the IP projects were updated resulting in a revised Infrastructure Plan of \$260.5 million. These projects will be funded partially by debt to be repaid with voter-approved increases of 3.5 percent in the TOT rate and from other sources such as impact fees and Stanford University Medical Center development agreement monies. Staff is continually assessing the COVID-19 impact to maintain funding for these projects.

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

- Public Safety Building - \$97.1 million
- Charleston Arastradero Corridor – \$7.4 million
- Municipal Service Center Improvements – \$6.0 million
- Churchill Ave/Alma – \$4.2 million
- Railroad Grade Separation – \$4.0 million
- Highway 101 Pedestrian/Bicycle Overpass – \$3.7 million
- Vehicle Replacements – \$3.3 million

Business-type Activities' capital assets net of depreciation increased by \$15.3 million from the prior year. The increase is primarily due to, Electric, Wastewater Collection, Wastewater Treatment, Storm Drain 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 System Upgrade – \$5.3 million
- Gas Main Replacement Project 23 – \$6.9 million
- Primary Sedimentation Tank Rehabilitation – \$11.8 million
- Airport Apron Reconstruction Phase 1 – \$23.3 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, 2021 is shown in the following table.

<b>LONG-TERM DEBT AT JUNE 30</b>			
(in millions)			
	<u>2021</u>	<u>2020</u>	<u>Increase/ (Decrease)</u>
<b>Governmental Activities</b>			
<b>General Long-Term Obligations</b>			
General Obligation Bonds			
2010	\$ 42.0	\$ 43.3	\$ (1.3)
Add: unamortized premium	2.3	2.5	(0.2)
2013A	15.0	15.5	(0.5)
Add: unamortized premium	0.7	0.8	(0.1)
Certificates of Participation			
2018 Capital Improvement Projects	8.6	8.7	(0.1)
2019 California Ave Parking Garage			
Series A & B	36.4	37.0	(0.6)
Add: unamortized premium	4.5	4.7	(0.2)
2021 Public Safety Building	101.5	-	101.5
Add: unamortized premium	6.5	-	6.5
<b>Total Governmental Activities</b>	<b><u>\$ 217.5</u></b>	<b><u>\$ 112.5</u></b>	<b><u>\$ 105.0</u></b>
<b>Business-type Activities</b>			
<b>Enterprise Long-Term Obligations</b>			
Utility Revenue Bonds			
1999 Refunding	\$ 5.1	\$ 6.7	\$ (1.6)
2009 Series A	24.3	25.5	(1.2)
2011 Refunding	6.7	7.9	(1.2)
Add: unamortized premium	0.4	0.5	(0.1)
Energy Tax Credit Bonds			
2007 Series A	0.1	0.2	(0.1)
Less: unamortized discount	-	(0.1)	0.1
State Water Resources Loan			
2007	3.6	4.0	(0.4)
2009	4.8	5.3	(0.5)
2017	23.9	24.5	(0.6)
<b>Total Business-type Activities</b>	<b><u>\$ 68.9</u></b>	<b><u>\$ 74.5</u></b>	<b><u>\$ (5.6)</u></b>

City-wide long-term debt increased by a total of \$99.4 million mainly due the issuance of COPs for the construction of the public safety building in the amount of \$101.5 million plus \$6.5 million premium which was offset by the scheduled debt retirement.

## ***ECONOMIC OUTLOOK***

The COVID-19 pandemic came with the strict orders for the safety of the public which resulted in a drastic drop in revenues. In FY2021, the City took swift, decisive, and difficult action to balance the budget by prioritizing essential services and reducing or eliminating discretionary services, while continue to address its long-term liabilities such as pension and OPEB obligations. The fiscal challenges remain constant as the COVID-19 pandemic continues. The City will maintain services at the same levels in previous year for the upcoming fiscal year, but these service levels are not sustainable for the fiscal health of the City in the long term. The FY 2022 adopted Operating and Capital reflects current fiscal reality, however, as hopeful signs for recovery continue, the City will respond quickly and adapt should more moderate growth occur than forecasted.

More information about the economy of the City is discussed in the accompanying Transmittal Letter.

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

The ACFR 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: [adminsucs@cityofpaloalto.org](mailto:adminsucs@cityofpaloalto.org). This report and other financial reports can be viewed on the City of Palo Alto website at: [www.cityofpaloalto.org](http://www.cityofpaloalto.org). On the home page, select Departments, select Administrative Services, and select Financial Reporting <https://www.cityofpaloalto.org/Departments/Administrative-Services/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, 2021**  
**(Amounts in thousands)**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS:</b>			
Cash and investments available for operations (Note 3)	\$ 310,091	\$ 282,271	\$ 592,362
Receivables, net:			
Accounts and intergovernmental	16,099	43,321	59,420
Interest receivable	1,544	1,405	2,949
Notes and loans receivable (Note 5)	53,677	-	53,677
Internal balances (Note 4)	(298)	298	-
Deposits	15	-	15
Due from other government agencies	-	2,400	2,400
Inventory of materials and supplies, prepaids and deposits	5,615	244	5,859
Restricted cash and investments with fiscal agents and trustees (Note 3)	133,264	3,340	136,604
Capital assets (Note 6):			
Nondepreciable	243,923	133,909	377,832
Depreciable, net of accumulated depreciation	358,056	574,600	932,656
Total assets	<u>1,121,986</u>	<u>1,041,788</u>	<u>2,163,774</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Unamortized loss from refunding	-	149	149
Pension related (Note 11)	45,531	18,119	63,650
OPEB related (Note 12)	15,271	6,012	21,283
Total deferred outflows of resources	<u>60,802</u>	<u>24,280</u>	<u>85,082</u>
<b>LIABILITIES:</b>			
Accounts payable and accruals	14,812	16,432	31,244
Accrued salaries and benefits	2,679	1,224	3,903
Unearned revenue	9,400	-	9,400
Accrued compensated absences (Note 1):			
Due in one year	6,327	-	6,327
Due in more than one year	9,320	-	9,320
Claims payable (Notes 14 and 16):			
Due in one year	6,811	-	6,811
Due in more than one year	38,339	-	38,339
Landfill post-closure liability (Note 9):			
Due in more than one year	-	6,179	6,179
Net pension liabilities (Note 11):			
Due in more than one year	349,296	123,787	473,083
Net OPEB liabilities (Note 12):			
Due in more than one year	88,883	35,915	124,798
Long-term debt (Note 7):			
Due in one year	3,264	5,757	9,021
Due in more than one year	214,270	63,153	277,423
Total liabilities	<u>743,401</u>	<u>252,447</u>	<u>995,848</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
OPEB related (Note 12)	16,250	6,402	22,652
<b>NET POSITION (Note 10):</b>			
Net Investment in capital assets	480,620	642,018	1,122,638
Restricted for:			
Transportation mitigation	12,512	-	12,512
Public benefit	18,282	-	18,282
Supplemental pension	37,089	-	37,089
Others	6,077	-	6,077
Debt service	3,749	3,340	7,089
Nonexpendable - Eyerly Family	2,556	-	2,556
Total restricted net position	<u>80,265</u>	<u>3,340</u>	<u>83,605</u>
Unrestricted	<u>(137,748)</u>	<u>161,861</u>	<u>24,113</u>
Total net position	<u>\$ 423,137</u>	<u>\$ 807,219</u>	<u>\$ 1,230,356</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, 2021**  
**(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	\$ 178	\$ -	\$ -	\$ -	\$ (178)	\$ -	\$ (178)
City Manager	2,466	-	-	-	(2,466)	-	(2,466)
City Attorney	2,292	-	-	-	(2,292)	-	(2,292)
City Clerk	702	-	-	-	(702)	-	(702)
City Auditor	641	-	-	-	(641)	-	(641)
Administrative Services	22,985	1,150	457	-	(21,378)	-	(21,378)
Human Resources	2,518	-	-	-	(2,518)	-	(2,518)
Public Works	52,727	937	-	9,748	(42,042)	-	(42,042)
Planning and Development Services	18,141	21,228	1,191	-	4,278	-	4,278
Office of Transportation	3,636	80	-	118	(3,438)	-	(3,438)
Police	43,627	2,008	414	-	(41,205)	-	(41,205)
Fire	37,131	9,127	888	51	(27,065)	-	(27,065)
Community Services	30,289	20,893	49	1,409	(7,938)	-	(7,938)
Library	11,145	47	34	-	(11,064)	-	(11,064)
Interest on long-term debt	6,317	-	-	-	(6,317)	-	(6,317)
<b>Total Governmental Activities</b>	<b>234,795</b>	<b>55,470</b>	<b>3,033</b>	<b>11,326</b>	<b>(164,966)</b>	<b>-</b>	<b>(164,966)</b>
<b>Business-Type Activities:</b>							
Water	43,556	48,812	462	533	-	6,251	6,251
Electric	156,105	162,240	-	-	-	6,135	6,135
Fiber Optics	2,529	3,936	-	-	-	1,407	1,407
Gas	28,556	39,520	-	-	-	10,964	10,964
Wastewater Collection	19,577	20,484	-	239	-	1,146	1,146
Wastewater Treatment	28,403	30,522	-	-	-	2,119	2,119
Refuse	29,138	30,636	-	-	-	1,498	1,498
Storm Drainage	4,897	7,785	-	-	-	2,888	2,888
Airport	1,499	2,585	-	5,619	-	6,705	6,705
<b>Total Business-Type Activities</b>	<b>314,260</b>	<b>346,520</b>	<b>462</b>	<b>6,391</b>	<b>-</b>	<b>39,113</b>	<b>39,113</b>
<b>Total</b>	<b>\$ 549,055</b>	<b>\$ 401,990</b>	<b>\$ 3,495</b>	<b>\$ 17,717</b>	<b>(164,966)</b>	<b>39,113</b>	<b>(125,853)</b>
<b>General Revenues:</b>							
<b>Taxes:</b>							
Property tax					60,901	-	60,901
Sales tax					29,127	-	29,127
Utility user tax					14,642	-	14,642
Transient occupancy tax					5,179	-	5,179
Documentary transfer tax					10,627	-	10,627
Other taxes					2,844	-	2,844
Investment earnings					4,939	2,187	7,126
Miscellaneous					183	-	183
Transfers (Note 4)					19,087	(19,087)	-
<b>Total general revenues and transfers</b>					<b>147,529</b>	<b>(16,900)</b>	<b>130,629</b>
Change in net position					(17,437)	22,213	4,776
Net position, beginning of year					440,574	785,006	1,225,580
Net position, end of year					<b>\$ 423,137</b>	<b>\$ 807,219</b>	<b>\$ 1,230,356</b>

See accompanying notes to the basic financial statements.

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**CITY OF PALO ALTO**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2021**  
**(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)	\$ 67,397	\$ 79,130	\$ 66,758	\$ 213,285
Receivables, net:				
Accounts and intergovernmental	14,053	1,429	519	16,001
Interest receivable	645	26	389	1,060
Notes and loans receivable (Note 5)	826	-	52,851	53,677
Deposits	15	-	-	15
Prepaid items	291	-	-	291
Due from other fund (Note 4)	943	-	-	943
Advances to other funds (Note 4)	3,036	-	-	3,036
Inventory of materials and supplies	5,208	-	-	5,208
Restricted cash and investments with fiscal agents (Note 3)	-	91,520	4,655	96,175
Total assets	<u>\$ 92,414</u>	<u>\$ 172,105</u>	<u>\$ 125,172</u>	<u>\$ 389,691</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:</b>				
<b>Liabilities:</b>				
Accounts payable and accruals	\$ 5,115	\$ 5,350	\$ 495	\$ 10,960
Accrued salaries and benefits	2,254	141	34	2,429
Unearned revenue	9,400	-	-	9,400
Due to other funds (Note 4)	-	-	341	341
Total liabilities	<u>16,769</u>	<u>5,491</u>	<u>870</u>	<u>23,130</u>
<b>Deferred inflows of resources</b>				
Deferred inflows of resources - Unavailable revenue	9	910	-	919
Total liabilities and deferred inflows of resources	<u>16,778</u>	<u>6,401</u>	<u>870</u>	<u>24,049</u>
<b>Fund balances (Note 10):</b>				
<b>Nonspendable:</b>				
Deposits	15	-	-	15
Prepaid items	291	-	-	291
Inventories	5,208	-	-	5,208
Advances to other funds	3,036	-	-	3,036
Notes and loans receivable	826	-	-	826
Eyerly family	-	-	2,556	2,556
<b>Restricted for:</b>				
Transportation mitigation	-	-	12,512	12,512
Federal revenue	-	-	5,293	5,293
Street improvement	-	-	28	28
Local law enforcement	-	-	756	756
Public safety building	-	90,922	-	90,922
Library bond project	-	598	-	598
Public benefit	-	-	18,282	18,282
Debt service	-	-	8,404	8,404
<b>Committed for:</b>				
Development services	3,950	-	-	3,950
Roth building rehabilitation	-	5,179	-	5,179
Cubberley improvements	-	4,726	-	4,726
Developer impact fees	-	-	13,300	13,300
Housing in-lieu	-	-	58,883	58,883
Special districts	-	-	3,186	3,186
Edgewood Plaza	701	-	-	701
Downtown business	-	-	50	50
<b>Assigned for:</b>				
Unrealized gains on investments	1,891	-	1,052	2,943
Capital projects	-	64,279	-	64,279
Other general government purposes	5,912	-	-	5,912
Electric charger	30	-	-	30
Reappropriations	4,687	-	-	4,687
<b>Unassigned for:</b>				
Budget Stabilization	49,089	-	-	49,089
Total fund balances	<u>75,636</u>	<u>165,704</u>	<u>124,302</u>	<u>365,642</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 92,414</u>	<u>\$ 172,105</u>	<u>\$ 125,172</u>	<u>\$ 389,691</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, 2021**  
**(Amounts in thousands)**

Total fund balances reported on the governmental funds balance sheet	\$ 365,642
<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	60,802
Deferred inflows of resources	(16,250)
<p>Certain receivables are not available to pay for current period expenditures and therefore are deferred in the governmental funds.</p>	
	919
<p>Capital assets used in governmental activities are not current assets or financial resources and therefore are not reported in the governmental funds.</p>	
	601,979
<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>	
	80,520
<p>Some liabilities, including bonds payable and claims payable, are not due and payable in the current period and therefore are not reported in the governmental funds:</p>	
Interest payable	(2,143)
Net pension liabilities (Note 11)	(349,296)
Net OPEB liabilities (Note 12)	(88,883)
Claims payable (Note 14 and 16)	(12,619)
Long-term debt (Note 7)	(217,534)
	(668,475)
Net position of governmental activities	\$ 423,137

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, 2021**  
**(Amounts in thousands)**

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Property tax	\$ 56,572	\$ -	\$ 4,329	\$ 60,901
Special assessments	-	-	5	5
Sales tax	29,127	-	-	29,127
Utility user tax	14,642	-	-	14,642
Transient occupancy tax	5,179	-	-	5,179
Documentary transfer tax	10,627	-	-	10,627
Other taxes and fines	683	-	2,816	3,499
Charges for services	25,105	1	-	25,106
Intergovernmental	3,828	10,087	1,337	15,252
Licenses, permits and fees	7,261	-	2,161	9,422
Investment earnings	(161)	1,034	175	1,048
Rental income	13,293	-	-	13,293
Housing In-Lieu - residential	-	-	5,804	5,804
Other revenue	632	247	154	1,033
Total revenues	<u>166,788</u>	<u>11,369</u>	<u>16,781</u>	<u>194,938</u>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
City Council	224	-	-	224
City Manager	2,304	-	-	2,304
City Attorney	2,149	-	-	2,149
City Clerk	748	-	-	748
City Auditor	645	-	-	645
Administrative Services	5,202	-	261	5,463
Human Resources	2,421	-	-	2,421
Public Works	13,265	-	1,427	14,692
Planning and Development Services	15,830	-	1,285	17,115
Office of Transportation	1,936	-	1,437	3,373
Police	41,328	-	36	41,364
Fire	34,918	-	-	34,918
Community Services	26,254	-	236	26,490
Library	8,528	-	-	8,528
Non-Departmental	4,599	-	255	4,854
Capital outlay	-	48,114	-	48,114
Debt service:				
Principal	-	-	2,595	2,595
Interest and fiscal charges	-	-	6,147	6,147
Total expenditures	<u>160,351</u>	<u>48,114</u>	<u>13,679</u>	<u>222,144</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>6,437</u>	<u>(36,745)</u>	<u>3,102</u>	<u>(27,206)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Issuance of debt	-	95,476	6,029	101,505
Original debt premium	-	6,524	-	6,524
Proceeds from sale of capital assets	100	-	-	100
Transfers in (Note 4)	20,880	19,198	3,480	43,558
Transfers out (Note 4)	(13,620)	(2,380)	(9,564)	(25,564)
Total other financing sources (uses)	<u>7,360</u>	<u>118,818</u>	<u>(55)</u>	<u>126,123</u>
Change in fund balances	13,797	82,073	3,047	98,917
FUND BALANCES, BEGINNING OF YEAR	<u>61,839</u>	<u>83,631</u>	<u>121,255</u>	<u>266,725</u>
FUND BALANCES, END OF YEAR	<u>\$ 75,636</u>	<u>\$ 165,704</u>	<u>\$ 124,302</u>	<u>\$ 365,642</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, 2021**  
**(Amounts in thousands)**

Net change in fund balances - total governmental funds \$ 98,917

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	33,525
Depreciation expense is deducted from fund balance (depreciation expense is net of internal service fund depreciation of \$3,153) (Note 6), which has already been allocated through the internal service fund activities below	(17,136)
Disposal of capital assets	(12,291)

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	41,324
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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	(50,170)
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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, amortization of premium, and changes in claims payable do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Therefore, the activities associated with these balances are as follows:

Principal paid during the year	2,595
Proceeds from debt issuance	(101,505)
Original debt premium	(6,524)
Change in interest payable	(575)
Amortization of bond premium	405
Change in claims payable	(12,619)

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	(563)
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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.	<u>7,180</u>
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Change in net position of governmental activities	<u><u>\$ (17,437)</u></u>
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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, 2021**  
**(Amounts in thousands)**

	Budgeted Amounts		Actual, Budgetary Basis	Variance with Final Budget
	Adopted	Final		
<b>REVENUES:</b>				
Property tax	\$ 52,000	\$ 53,173	\$ 56,572	\$ 3,399
Sales tax	20,500	25,030	29,127	4,097
Utility user tax	15,100	14,080	14,642	562
Transient occupancy tax	14,900	5,123	5,179	56
Documentary transfer tax	4,700	6,875	10,627	3,752
Other taxes and fines	1,925	392	683	291
Charges for services	25,984	24,414	25,105	691
Intergovernmental	2,448	4,580	4,222	(358)
Licenses, permits and fees	7,770	8,366	7,708	(658)
Investment earnings	1,145	1,145	1,062	(83)
Rental income	15,949	15,331	13,293	(2,038)
Other revenues	674	666	732	66
	163,095	159,175	168,952	9,777
Charges to other funds and departments	11,992	11,992	11,661	(331)
Prior year encumbrances	-	7,570	7,570	-
Total revenues	175,087	178,737	188,183	9,446
<b>EXPENDITURES:</b>				
Current:				
City Council	419	509	366	143
City Manager	3,161	3,562	3,492	70
City Attorney	3,485	3,744	3,589	155
City Clerk	1,245	1,293	1,147	146
City Auditor	828	981	962	19
Administrative Services	8,362	8,338	7,897	441
Human Resources	3,554	3,622	3,545	77
Public Works	18,397	19,089	18,553	536
Planning and Development Services	17,386	19,611	18,782	829
Office of Transportation	1,904	2,139	2,010	129
Police	41,733	42,441	42,441	-
Fire	33,607	35,354	35,354	-
Community Services	28,379	28,839	27,769	1,070
Library	8,421	8,655	8,636	19
Non-Departmental	8,237	9,332	9,259	73
Total expenditures	179,118	187,509	183,802	3,707
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	(4,031)	(8,772)	4,381	13,153
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	21,359	21,154	21,154	-
Transfers out	(17,801)	(13,620)	(13,620)	-
Total other financing sources (uses)	3,558	7,534	7,534	-
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, BUDGETARY BASIS</b>	\$ (473)	\$ (1,238)	11,915	\$ 13,153
<b>Adjustment to Budgetary Basis:</b>				
Unrealized gain/loss on investments			(1,297)	
Changes in interfund balances			(197)	
Current year encumbrances and reappropriations			10,946	
Prior year encumbrances and reappropriations			(7,570)	
<b>CHANGE IN FUND BALANCE, GAAP BASIS</b>			13,797	
<b>FUND BALANCE AT BEGINNING OF YEAR, GAAP BASIS</b>			61,839	
<b>FUND BALANCE AT END OF YEAR, GAAP BASIS</b>			\$ 75,636	

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Proprietary Funds**  
**Statement of Net Position**  
**June 30, 2021**  
**(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)	\$ 46,602	\$ 107,044	\$ 35,983	\$ 30,484
Accounts receivable, net of allowance of \$1,551	6,636	19,244	864	2,996
Interest receivable	228	540	178	149
Due from other government agencies	-	-	-	-
Inventory of materials and supplies	-	-	-	-
Restricted cash and investments with fiscal agents and trustees (Note 3)	2,906	-	-	434
Total current assets	<u>56,372</u>	<u>126,828</u>	<u>37,025</u>	<u>34,063</u>
Noncurrent assets:				
Due from other government agencies	-	-	-	-
Deposits	-	44	-	-
Prepaid expense	67	-	-	-
Capital assets (Note 6):				
Nondepreciable	17,926	35,248	2,236	17,925
Depreciable, net	115,588	174,828	7,075	93,347
Total noncurrent assets	<u>133,581</u>	<u>210,120</u>	<u>9,311</u>	<u>111,272</u>
Total assets	<u>189,953</u>	<u>336,948</u>	<u>46,336</u>	<u>145,335</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
Unamortized loss from refunding	65	-	-	84
Pension related (Note 11)	2,660	6,164	349	2,740
OPEB related (Note 12)	757	2,284	83	961
Total deferred outflows of resources	<u>3,482</u>	<u>8,448</u>	<u>432</u>	<u>3,785</u>
<b>LIABILITIES:</b>				
Current liabilities:				
Accounts payable and accruals	2,175	4,663	275	1,185
Accrued salaries and benefits	176	413	19	182
Due to other funds	-	-	-	-
Accrued compensated absences (Note 1)	-	-	-	-
Current portion of long term debt (Note 7)	1,852	100	-	693
Accrued claims payable (Note 14)	-	-	-	-
Total current liabilities	<u>4,203</u>	<u>5,176</u>	<u>294</u>	<u>2,060</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)	16,803	40,376	2,587	17,532
Net OPEB liabilities (Note 12)	4,009	13,022	67	5,786
Long term debt, net of unamortized discounts/premiums (Note 7)	26,051	(5)	-	3,223
Total noncurrent liabilities	<u>46,863</u>	<u>53,393</u>	<u>2,654</u>	<u>26,541</u>
Total liabilities	<u>51,066</u>	<u>58,569</u>	<u>2,948</u>	<u>28,601</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
OPEB related (Note 12)	802	2,495	17	1,024
<b>NET POSITION (Note 10):</b>				
Net Investment in capital assets	105,676	209,851	9,311	107,440
Restricted for:				
Debt service	2,906	-	-	434
Supplemental pension	-	-	-	-
Unrestricted (deficit)	32,985	74,481	34,492	11,621
Total net position	<u>\$ 141,567</u>	<u>\$ 284,332</u>	<u>\$ 43,803</u>	<u>\$ 119,495</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	
\$ 9,358	\$ 16,076	\$ 28,363	\$ 8,361	\$ -	\$ 282,271	\$ 96,806
2,709	2,601	3,297	890	4,084	43,321	98
46	83	139	42	-	1,405	484
-	300	-	-	-	300	-
-	-	-	-	-	-	116
-	-	-	-	-	3,340	37,089
<u>12,113</u>	<u>19,060</u>	<u>31,799</u>	<u>9,293</u>	<u>4,084</u>	<u>330,637</u>	<u>134,593</u>
-	2,100	-	-	-	2,100	-
-	-	-	-	-	44	-
-	133	-	-	-	200	-
4,784	11,152	1,952	12,121	30,565	133,909	5,587
<u>88,204</u>	<u>58,783</u>	<u>3,076</u>	<u>30,801</u>	<u>2,898</u>	<u>574,600</u>	<u>17,354</u>
<u>92,988</u>	<u>72,168</u>	<u>5,028</u>	<u>42,922</u>	<u>33,463</u>	<u>710,853</u>	<u>22,941</u>
<u>105,101</u>	<u>91,228</u>	<u>36,827</u>	<u>52,215</u>	<u>37,547</u>	<u>1,041,490</u>	<u>157,534</u>
-	-	-	-	-	149	-
1,256	3,355	765	695	135	18,119	2,578
368	930	422	152	55	6,012	844
<u>1,624</u>	<u>4,285</u>	<u>1,187</u>	<u>847</u>	<u>190</u>	<u>24,280</u>	<u>3,422</u>
667	1,248	3,127	127	2,965	16,432	1,709
91	242	46	37	18	1,224	250
-	-	-	-	602	602	-
-	-	-	-	-	-	6,327
110	2,187	-	815	-	5,757	-
-	-	-	-	-	-	6,811
<u>868</u>	<u>3,677</u>	<u>3,173</u>	<u>979</u>	<u>3,585</u>	<u>24,015</u>	<u>15,097</u>
-	-	-	-	-	-	9,320
-	-	-	-	-	-	25,720
-	-	-	-	3,036	3,036	-
-	-	6,179	-	-	6,179	-
9,624	24,633	6,661	4,682	889	123,787	17,548
2,212	6,874	2,458	1,083	404	35,915	4,800
<u>238</u>	<u>31,896</u>	<u>-</u>	<u>1,750</u>	<u>-</u>	<u>63,153</u>	<u>-</u>
<u>12,074</u>	<u>63,403</u>	<u>15,298</u>	<u>7,515</u>	<u>4,329</u>	<u>232,070</u>	<u>57,388</u>
<u>12,942</u>	<u>67,080</u>	<u>18,471</u>	<u>8,494</u>	<u>7,914</u>	<u>256,085</u>	<u>72,485</u>
392	1,001	449	163	59	6,402	897
92,640	38,252	5,028	40,357	33,463	642,018	22,941
-	-	-	-	-	3,340	-
-	-	-	-	-	-	37,089
751	(10,820)	14,066	4,048	(3,699)	157,925	27,544
<u>\$ 93,391</u>	<u>\$ 27,432</u>	<u>\$ 19,094</u>	<u>\$ 44,405</u>	<u>\$ 29,764</u>	<u>803,283</u>	<u>\$ 87,574</u>
					3,936	
					<u>\$ 807,219</u>	

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, 2021**  
**(Amounts in thousands)**

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
<b>OPERATING REVENUES:</b>				
Sales to:				
Customers	\$ 44,154	\$ 124,153	\$ 2,878	\$ 36,583
City departments	2,532	4,167	1,045	542
Surplus energy	-	9,286	-	-
Service connection charges and miscellaneous	1,239	942	12	845
Charges for services	-	-	-	-
Other	887	23,692	1	1,550
Total operating revenues	<u>48,812</u>	<u>162,240</u>	<u>3,936</u>	<u>39,520</u>
<b>OPERATING EXPENSES:</b>				
Purchase of utilities:				
Retail purchase of utilities	21,935	92,088	-	12,750
Surplus energy	-	6,373	-	-
Administrative and general	5,771	9,605	873	4,285
Engineering (operating)	663	2,409	-	571
Resource management and energy efficiency	1,216	6,597	-	968
Operations and maintenance	7,401	17,191	1,249	6,225
Rent	2,225	5,950	52	471
Depreciation	3,127	8,637	420	3,409
Claims payments and changes in estimated self-insurance liability	-	-	-	-
Refund of charges for services	-	-	-	-
Employment benefits	-	-	-	-
Total operating expenses	<u>42,338</u>	<u>148,850</u>	<u>2,594</u>	<u>28,679</u>
Operating income	<u>6,474</u>	<u>13,390</u>	<u>1,342</u>	<u>10,841</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Investment earnings	366	941	268	205
Interest expense	(1,476)	(7,760)	-	(104)
Gain on disposal of capital assets	-	-	-	-
Loss on disposal of capital assets	(8)	(70)	-	(49)
Other nonoperating revenues	462	-	-	-
Total nonoperating revenues (expenses)	<u>(656)</u>	<u>(6,889)</u>	<u>268</u>	<u>52</u>
Income before transfers and capital contributions	5,818	6,501	1,610	10,893
Capital contributions	533	-	-	-
Transfers in (Note 4)	557	2,582	-	-
Transfers out (Note 4)	(268)	(13,945)	(118)	(7,369)
Change in net position	6,640	(4,862)	1,492	3,524
NET POSITION, BEGINNING OF YEAR	<u>134,927</u>	<u>289,194</u>	<u>42,311</u>	<u>115,971</u>
NET POSITION, END OF YEAR	<u>\$ 141,567</u>	<u>\$ 284,332</u>	<u>\$ 43,803</u>	<u>\$ 119,495</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	
\$ 19,654	\$ 18,883	\$ 27,374	\$ 7,275	\$ 1,815	\$ 282,769	\$ -
162	10,587	860	434	-	20,329	-
-	-	-	-	-	9,286	-
263	-	-	-	-	3,301	-
-	-	-	-	-	-	115,429
405	1,052	2,402	76	770	30,835	200
<u>20,484</u>	<u>30,522</u>	<u>30,636</u>	<u>7,785</u>	<u>2,585</u>	<u>346,520</u>	<u>115,629</u>
10,542	-	17,474	-	-	154,789	-
-	-	-	-	-	6,373	-
2,264	-	1,342	1,135	698	25,973	13,212
351	2,359	260	253	-	6,866	-
-	-	-	1,127	-	9,908	-
3,413	20,387	8,529	1,168	632	66,195	12,765
252	-	981	19	-	9,950	-
2,849	4,143	81	871	69	23,606	3,153
-	-	-	-	-	-	8,745
-	-	-	-	-	-	115
-	-	-	-	-	-	75,775
<u>19,671</u>	<u>26,889</u>	<u>28,667</u>	<u>4,573</u>	<u>1,399</u>	<u>303,660</u>	<u>113,765</u>
<u>813</u>	<u>3,633</u>	<u>1,969</u>	<u>3,212</u>	<u>1,186</u>	<u>42,860</u>	<u>1,864</u>
42	159	148	77	(19)	2,187	3,891
(24)	(721)	(197)	(174)	(74)	(10,530)	-
-	-	-	-	-	-	385
(1)	-	-	-	-	(128)	-
-	-	-	-	-	462	5
<u>17</u>	<u>(562)</u>	<u>(49)</u>	<u>(97)</u>	<u>(93)</u>	<u>(8,009)</u>	<u>4,281</u>
830	3,071	1,920	3,115	1,093	34,851	6,145
239	-	-	-	5,619	6,391	-
-	-	-	-	-	3,139	3,797
(342)	-	(30)	(154)	-	(22,226)	(2,704)
727	3,071	1,890	2,961	6,712	22,155	7,238
92,664	24,361	17,204	41,444	23,052		80,336
<u>\$ 93,391</u>	<u>\$ 27,432</u>	<u>\$ 19,094</u>	<u>\$ 44,405</u>	<u>\$ 29,764</u>		<u>\$ 87,574</u>

58  
\$ 22,213

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2021**  
**(Amounts in thousands)**

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
Cash flows from operating activities:				
Cash received from customers	\$ 45,811	\$ 141,628	\$ 3,130	\$ 36,977
Cash payments to suppliers for goods and services	(30,814)	(115,045)	(992)	(16,679)
Cash payments to employees	(10,576)	(23,010)	(1,246)	(9,123)
Internal activity- receipts (payments) from (to) other funds	2,532	4,167	1,045	542
Other receipts	887	23,692	1	1,550
Net cash provided by operating activities	<u>7,840</u>	<u>31,432</u>	<u>1,938</u>	<u>13,267</u>
Cash flows from noncapital financing activities:				
Repayment of loans from other funds	-	-	-	-
Interest subsidy received from Build America Bonds	462	-	-	-
Transfers in	557	2,582	-	-
Transfers out	(268)	(13,945)	(118)	(7,369)
Net cash provided by (used in) noncapital financing activities	<u>751</u>	<u>(11,363)</u>	<u>(118)</u>	<u>(7,369)</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(3,549)	(12,741)	(398)	(3,543)
Proceeds from sale of capital assets	-	-	-	-
Capital grants and contributions	533	-	-	-
Principal paid on long-term debt	(1,774)	(99)	-	(667)
Interest paid on long-term debt	(1,501)	(7,755)	-	(134)
Net cash used in capital and related financing activities	<u>(6,291)</u>	<u>(20,595)</u>	<u>(398)</u>	<u>(4,344)</u>
Cash flows from investing activities:				
Investment interest received (expenses paid)	379	975	278	211
Net cash provided by investing activities	<u>379</u>	<u>975</u>	<u>278</u>	<u>211</u>
Net change in cash and cash equivalents	2,679	449	1,700	1,765
Cash and cash equivalents, beginning of year	46,829	106,595	34,283	29,153
Cash and cash equivalents, end of year	<u>\$ 49,508</u>	<u>\$ 107,044</u>	<u>\$ 35,983</u>	<u>\$ 30,918</u>
Financial statement presentation:				
Cash and investments available for operations	\$ 46,602	\$ 107,044	\$ 35,983	\$ 30,484
Restricted cash and investments with fiscal agents and trustees	2,906	-	-	434
Cash and cash equivalents, end of year	<u>\$ 49,508</u>	<u>\$ 107,044</u>	<u>\$ 35,983</u>	<u>\$ 30,918</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:				
Operating income	\$ 6,474	\$ 13,390	\$ 1,342	\$ 10,841
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	3,127	8,637	420	3,409
Other	-	-	-	-
Change in assets and liabilities:				
Accounts receivable	418	7,247	240	(451)
Inventory of materials and supplies	-	-	-	-
Deposit	8	-	-	-
Deferred outflow of resources - pension plans	(686)	(1,389)	17	(679)
Deferred outflow of resources - OPEB	31	183	(83)	45
Accounts payable and accruals	(2,070)	2,172	(144)	(287)
Accrued salaries and benefits	15	29	(5)	23
Accrued compensated absences	-	-	-	-
Landfill closure and post-closure care	-	-	-	-
Accrued claims payable	-	-	-	-
Net pension liability	980	2,579	129	894
Net OPEB liability	(79)	(314)	67	(101)
Deferred inflow of resources - pension plans	(266)	(725)	(62)	(274)
Deferred inflow of resources - OPEB	(112)	(377)	17	(153)
Net cash provided by operating activities	<u>\$ 7,840</u>	<u>\$ 31,432</u>	<u>\$ 1,938</u>	<u>\$ 13,267</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	
\$ 20,091	\$ 19,259	\$ 27,385	\$ 7,231	\$ (40)	\$ 301,472	\$ 115,400
(11,507)	(9,786)	(24,905)	(1,153)	2,120	(208,761)	(14,110)
(5,103)	(13,195)	(2,963)	(2,422)	(972)	(68,610)	(86,418)
162	10,587	860	434	-	20,329	(5,765)
405	1,052	1,480	76	770	29,913	5
4,048	7,917	1,857	4,166	1,878	74,343	9,112
-	-	-	-	(1,354)	(1,354)	-
-	-	-	-	-	462	-
-	-	-	-	-	3,139	3,797
(342)	-	(30)	(154)	-	(22,226)	(2,704)
(342)	-	(30)	(154)	(1,354)	(19,979)	1,093
(3,976)	(5,682)	-	(3,053)	(6,050)	(38,992)	(4,828)
-	-	-	-	-	-	484
239	300	-	-	5,619	6,691	-
(104)	(2,131)	-	(775)	-	(5,550)	-
(24)	(719)	(197)	(172)	(74)	(10,576)	-
(3,865)	(8,232)	(197)	(4,000)	(505)	(48,427)	(4,344)
49	158	168	77	(19)	2,276	3,914
49	158	168	77	(19)	2,276	3,914
(110)	(157)	1,798	89	-	8,213	9,775
9,468	16,233	26,565	8,272	-	277,398	124,120
\$ 9,358	\$ 16,076	\$ 28,363	\$ 8,361	\$ -	\$ 285,611	\$ 133,895
\$ 9,358	\$ 16,076	\$ 28,363	\$ 8,361	\$ -	\$ 282,271	\$ 96,806
-	-	-	-	-	3,340	\$ 37,089
\$ 9,358	\$ 16,076	\$ 28,363	\$ 8,361	\$ -	\$ 285,611	\$ 133,895
\$ 813	\$ 3,633	\$ 1,969	\$ 3,212	\$ 1,186	\$ 42,860	\$ 1,864
2,849	4,143	81	871	69	23,606	3,153
-	-	-	-	-	-	5
174	376	11	(44)	(1,855)	6,116	(67)
-	-	-	-	-	-	(14)
-	17	-	-	-	25	-
(145)	(494)	(150)	(75)	77	(3,524)	(275)
17	53	19	8	3	276	37
236	(226)	686	11	2,632	3,010	141
6	34	1	(7)	(1)	95	47
-	-	-	-	-	-	1,403
-	-	(922)	-	-	(922)	-
-	-	-	-	-	-	2,818
373	1,098	375	370	(158)	6,640	681
(38)	(99)	(44)	(16)	(5)	(629)	(89)
(179)	(451)	(104)	(137)	(60)	(2,258)	(462)
(58)	(167)	(65)	(27)	(10)	(952)	(130)
\$ 4,048	\$ 7,917	\$ 1,857	\$ 4,166	\$ 1,878	\$ 74,343	\$ 9,112

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Statement of Fiduciary Net Position**  
**June 30, 2021**  
**(Amounts in thousands)**

	Custodial Funds
<b>ASSETS:</b>	
Cash and investments available for operations (Note 3)	\$ 3,276
Accounts receivable	491
Interest receivable	16
Restricted cash and investments with fiscal agents (Note 3)	2,705
Total assets	6,488
 <b>LIABILITIES:</b>	
Accounts payable and accruals	411
 <b>NET POSITION:</b>	
Restricted for:	
Governmental entities	1,260
Bondholders of special assessment bonds	4,817
Total net position	\$ 6,077

See accompanying notes to the basic financial statements.



**CITY OF PALO ALTO**  
**Statement of Changes in Fiduciary Net Position**  
**For the Year Ended June 30, 2021**  
**(Amounts in thousands)**

	Custodial Funds
<b>ADDITIONS:</b>	
Franchise and other fees collected	\$ 1,821
Special assessments collected	2,407
Investment earnings	9
Other	5
Total additions	4,242
<b>DEDUCTIONS:</b>	
Administrative and general	39
Distribution to governmental entities	1,538
Debt services payments	2,409
Total deductions	3,986
Changes in net position	256
 NET POSITION, BEGINNING OF YEAR	 5,821
NET POSITION, END OF YEAR	\$ 6,077

See accompanying notes to the basic financial statements.

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**CITY OF PALO ALTO**  
**Index to the Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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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, 2021**

**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 are described below.

**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 Corporation is a blended component unit of the City. The financial activities of the Corporation are included in the non-major Debt Service Funds.

The **University Avenue Area Off-Street Parking Assessment District** (the District) provides financing for the construction of public vehicle off-street parking improvements. The City is responsible for the governance of the District. The City can impose its will on the District but does not have a financial benefit or burden from the District. The assets associated with the District are for the benefit of the District and are not derived from the City's provision of goods or services to the District. The District is a fiduciary component unit of the City. The financial activities of the District are included in the University Avenue Area Off-Street Parking Assessment District Custodial 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.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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.

**(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.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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.

**(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.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

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.

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.

**Custodial Funds** – These funds are fiduciary funds used to report fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private purpose trust funds. These include balances and activities of the Cable Joint



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

Powers Authority and the assessment district. The financial activities of these funds are excluded from the government-wide financial statements, but are presented in separate fiduciary fund financial statements.

*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, proprietary fund, and fiduciary fund financial statements are reported using the *economic resources* measurement focus and the *full 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 from 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, 2021**

**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, 2021, changes to the compensated absences liabilities were as follows (in thousands):

Beginning balance	\$ 14,244
Additions	8,751
Payments	<u>(7,348)</u>
Ending balance	<u>\$ 15,647</u>
Current portion	<u>\$ 6,327</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

**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, 2021**

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

**(n) Effects of New Pronouncements**

As of July 1, 2020, the City implemented the following GASB Statement:

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 City evaluated all funds and activities in accordance with the statement and determine that the Cable Joint Powers Authority and the District's activities previously reported as agency funds should be reported as custodial funds.

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. Implementation of this statement did not have a significant impact on the City's financial statements for the fiscal year ended June 30, 2021.

In October 2021, the GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*. This statement establishes the term annual comprehensive financial report and its acronym ACFR and eliminates the prior name and acronym in generally accepted accounting principles for state and local governments. No changes were made to the report's structure or content. Implementation of this statement did not have a significant impact on the City's financial statements for the fiscal year ended June 30, 2021.

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

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.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

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.

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, 2021**

**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 Custodial 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, 2021**

**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	\$ 310,091	\$ 282,271	\$ 3,276	\$ 595,638
With fiscal agents and trustees	133,264	3,340	2,705	139,309
Total cash and investments	<u>\$ 443,355</u>	<u>\$ 285,611</u>	<u>\$ 5,981</u>	<u>\$ 734,947</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, 2021**

**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	\$75 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, 2021**

**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, 2021 (in thousands):

Type of Investment	June 30, 2021	Level 2
Investments by fair value hierarchy		
U.S. Federal Agency Securities	\$ 243,526	\$ 243,526
U.S. Treasury Notes	13,680	13,680
Local Government Bonds	172,085	172,085
Negotiable Certificates of Deposit	36,271	36,271
Corporate Bonds	24,491	24,491
Supranational Bonds	31,792	31,792
Total investments by fair value hierarchy	521,845	\$ 521,845
Investment not subject to fair value hierarchy		
Money Market Mutual Funds	103,428	
Equity Mutual Funds (Irrevocable for Pension)	37,089	
California Asset Management Program	3,304	
Local Agency Investment Fund	67,394	
Total investments not subject to fair value hierarchy	211,215	
Total investments measured at fair value	\$ 733,060	

**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, 2021**

**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 \$193.3 billion as of June 30, 2021. Of that amount, 97.7 percent was invested in nonderivative financial products and 2.3 percent in structured notes and asset backed securities. At June 30, 2021, LAIF had a weighted average maturity of 291 days.

**Money Market Mutual Funds**

Money market mutual funds are available for withdrawal on demand and at June 30, 2021, had a weighted average maturity of approximately 1 month.

**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, 2021, the fair value approximated the City's cost. CAMP had a weighted average maturity of 52 days at June 30, 2021.

**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, 2021, 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	\$ 23,669	\$ 50,617	\$ 75,136	\$ 94,104	\$ 243,526
U.S. Treasury Notes	1,517	9,215	2,948	-	13,680
Local Government Bonds	24,545	27,492	47,841	72,207	172,085
Corporate Bonds	860	7,547	16,084	-	24,491
Money Market Mutual Funds	103,428	-	-	-	103,428
Equity Mutual Funds					
(Irrevocable for Pension)	37,089	-	-	-	37,089
Negotiable Certificates of Deposit	10,287	12,527	9,801	3,656	36,271
California Asset Management Program	3,304	-	-	-	3,304
Supranational Bonds	-	4,257	27,535	-	31,792
Local Agency Investment Fund	67,394	-	-	-	67,394
<b>Total Investments</b>	<b>\$ 272,093</b>	<b>\$ 111,655</b>	<b>\$ 179,345</b>	<b>\$ 169,967</b>	<b>733,060</b>
Cash in bank and on hand					1,887
<b>Total Cash and Investments</b>					<b>\$ 734,947</b>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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

At June 30, 2021, the City’s investments (including investments held by bond trustees) include U.S. Federal Agency Callable Securities totaling \$137.0 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, 2021, for each investment type (in thousands):

<u>Type of Investment</u>	<u>Rating</u>	<u>Total</u>
U.S. Federal Agency Securities	AA+	\$ 243,526
Corporate Bonds	AAA	19,076
	AA+	5,415
Total Corporate Bonds		<u>24,491</u>
Local Government Bonds	AAA	52,338
	AA+	50,433
	AA	41,241
	N/A	28,073
Total Government Bonds		<u>172,085</u>
Supranational Bonds	AAA	<u>31,792</u>
Money Market Mutual Funds	AAA	<u>103,428</u>
Subtotal rated investments		<u>575,322</u>
Not Applicable:		
U.S. Treasury Notes		13,680
Not Rated:		
California Asset Management Program		3,304
Local Agency Investment Fund		67,394
Negotiable Certificates of Deposit		36,271
Equity Mutual Funds (Irrevocable for Pension)		37,089
Cash in bank and on hand		1,887
Total Cash and Investments		<u>\$ 734,947</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

**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, 2021 (in thousands):

Investments	Reporting Type	Fair Value at Year-End
Federal Agricultural Mortgage Corporation	U.S. Federal Agency Securities	\$ 88,423
Federal Home Loan Mortgage Corporation	U.S. Federal Agency Securities	45,987
Federal Home Loan Bank	U.S. Federal Agency Securities	43,991
Federal Farm Credit Bank	U.S. Federal Agency Securities	39,439

**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, 2021**

**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 2021 were as follows on the following page (in thousands):

Fund Receiving Transfer	Fund Making Transfer	Amount Transferred
General Fund	Nonmajor Governmental Funds	\$ 394 A
	Electric Services Fund	13,639 B
	Gas Services Fund	6,847 B
		<u>20,880</u>
Capital Projects Fund	General Fund	9,294 C
	Nonmajor Governmental Funds	9,170 C
	Water Services Fund	84 C
	Electric Services Fund	165 C
	Fiber Optics Fund	10 C
	Gas Services Fund	69 C
	Wastewater Collection Fund	41 C
	Refuse Fund	10 C
	Storm Drainage Fund	150 C
Internal Service Funds	<u>205 C</u>	
	<u>19,198</u>	
Nonmajor Governmental Funds	General Fund	1,019 A
	Capital Projects Fund	2,380 A
	Water Services Fund	13 A
	Electric Services Fund	24 A
	Fiber Optics Fund	1 A
	Gas Services Fund	10 A
	Wastewater Collection Fund	6 A
	Internal Service Funds	<u>27 A</u>
	<u>3,480</u>	
Water Services Fund	Gas Services Fund	279 C
	Wastewater Collection Fund	<u>278 C</u>
	<u>557</u>	
Electric Services Fund	General Fund	2,082 D
	Water Services Fund	137 C
	Gas Services Fund	136 C
	Fiber Optics Fund	102 C
	Internal Service Funds	<u>125 C</u>
	<u>2,582</u>	
Internal Service Funds	General Fund	1,225 E
	Water Services Fund	34 E
	Electric Services Fund	117 E
	Fiber Optics Fund	5 E
	Gas Services Fund	28 E
	Wastewater Collection Fund	17 E
	Refuse Fund	20 E
	Storm Drainage Services Fund	4 E
Internal Service Funds	<u>2,347 F</u>	
	<u>3,797</u>	
Total		<u>\$ 50,494</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

**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 replacement and maintenance of critical desktop, software, infrastructure, vehicles and equipment.
- (F) Transfer to fund 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, 2021, 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 \$206,000, \$135,000, and \$602,000, 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, 2021, the outstanding advances was \$3.0 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, 2021**

**NOTE 5 – NOTES AND LOANS RECEIVABLE**

At June 30, 2021, 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	826
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, LP	901
MP Palo Alto Garden, LLC	672
Colorado Park Housing Corporation	204
Buena Vista Mobile Home Park – Santa Clara County	14,500
Wilton Court Apartments	18,752
	<hr/>
Total Notes and Loans Receivable	49,537
Less: Valuation Allowance	(14,612)
	<hr/>
Total Notes and Loans Receivable, Net	<u>\$ 53,677</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, 2021**

**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, 2021**

**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, 2021, 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, 2021, 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, 2021 was \$945,000.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

**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. During the year ended June 30, 2021, the City Manager paid \$21,000 for capital improvements and \$100,000 to the City to exercise a one-time option to purchase a portion of the City's equity share which decreased to 71.43 percent. As of June 30, 2021, the outstanding balance was \$826,000.

**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, 2021**

**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, 2021, the outstanding amount is \$6.4 million.

**Palo Alto Senior Housing Project – Stevenson House, LP**

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, 2021, 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, 2021**

**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.

**Wilton Court Apartments**

In October 2020, the City entered into a predevelopment and construction loan agreement with Wilton ECR L.P. to construct approximately fifty-nine (59) residential rental units on property located at 3703-3709 El Camino Real with the City. Fifty-eight (58) would be affordable to low, very low, and extremely low-income households earning between thirty percent to sixty percent of area median income as determined by the United States Department of Housing and Urban Development, of which twenty-one (21) of the units will be designated for persons with developmental disabilities. The City entered into a loan agreement with Wilton ECR L.P. in the amount of \$18.8 million. The loan bear interest rate of 0% until the date of the permanent closing and 3% commencing the date of the permanent closing. The loan matures on December 31, 2077. During the year, \$18.8 million was drawn. As of June 30, 2021, the outstanding balance was \$18.8 million.

**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. All capital assets with limited useful lives are depreciated over their estimated useful lives. 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.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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.

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, 2021**

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

**Governmental Activities**

Changes in the capital assets for governmental activities during the year ended June 30, 2021 were (in thousands):

	Balance July 1, 2020	Additions	Retirements	Transfers	Balance June 30, 2021
<i>Governmental activities</i>					
Nondepreciable capital assets:					
Land and improvements	\$ 82,206	\$ -	\$ (75)	\$ -	\$ 82,131
Street trees	14,787	165	(127)	-	14,825
Intangible assets - Easement	3,567	-	-	-	3,567
Construction in progress	139,365	33,143	(11,934)	(22,761)	137,813
Total nondepreciable capital assets	<u>239,925</u>	<u>33,308</u>	<u>(12,136)</u>	<u>(22,761)</u>	<u>238,336</u>
Depreciable capital assets:					
Buildings and structures	251,119	-	(25)	21,003	272,097
Intangible assets - Software	279	-	-	-	279
Equipment	15,737	217	(520)	1,758	17,192
Roadway network	335,202	-	-	-	335,202
Recreation and open space network	35,186	-	-	-	35,186
Total depreciable capital assets	<u>637,523</u>	<u>217</u>	<u>(545)</u>	<u>22,761</u>	<u>659,956</u>
Less accumulated depreciation:					
Buildings and structures	(105,984)	(7,728)	1	-	(113,711)
Intangible assets - Software	(279)	-	-	-	(279)
Equipment	(8,856)	(460)	389	-	(8,927)
Roadway network	(171,522)	(7,694)	-	-	(179,216)
Recreation and open space network	(15,867)	(1,254)	-	-	(17,121)
Total accumulated depreciation	<u>(302,508)</u>	<u>(17,136)</u>	<u>390</u>	<u>-</u>	<u>(319,254)</u>
Depreciable capital assets, net	<u>335,015</u>	<u>(16,919)</u>	<u>(155)</u>	<u>22,761</u>	<u>340,702</u>
Internal service fund capital assets					
Construction in progress	2,723	2,864	-	-	5,587
Equipment	63,476	1,964	(2,415)	-	63,025
Less accumulated depreciation	(44,834)	(3,153)	2,316	-	(45,671)
Net internal service fund capital assets	<u>21,365</u>	<u>1,675</u>	<u>(99)</u>	<u>-</u>	<u>22,941</u>
Governmental activities capital assets, net	<u>\$ 596,305</u>	<u>\$ 18,064</u>	<u>\$ (12,390)</u>	<u>\$ -</u>	<u>\$ 601,979</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

**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, 2021 were (in thousands):

	Balance July 1, 2020	Additions	Retirements	Transfers	Balance June 30, 2021
<i>Business-type activities</i>					
Nondepreciable capital assets:					
Land and improvements	\$ 4,973	\$ -	\$ -	\$ -	\$ 4,973
Construction in progress	121,096	38,420	-	(30,580)	128,936
Total nondepreciable capital assets	<u>126,069</u>	<u>38,420</u>	<u>-</u>	<u>(30,580)</u>	<u>133,909</u>
Depreciable capital assets:					
Buildings and structures	74,568	-	-	-	74,568
Infrastructure	633	-	-	-	633
Transmission, distribution and treatment systems	884,791	572	(1,154)	30,580	914,789
Total depreciable capital assets	<u>959,992</u>	<u>572</u>	<u>(1,154)</u>	<u>30,580</u>	<u>989,990</u>
Less accumulated depreciation:					
Buildings and structures	(16,141)	(1,393)	-	-	(17,534)
Infrastructure	(65)	(21)	-	-	(86)
Transmission, distribution and treatment systems	(376,604)	(22,192)	1,026	-	(397,770)
Total accumulated depreciation	<u>(392,810)</u>	<u>(23,606)</u>	<u>1,026</u>	<u>-</u>	<u>(415,390)</u>
Depreciable capital assets, net	<u>567,182</u>	<u>(23,034)</u>	<u>(128)</u>	<u>30,580</u>	<u>574,600</u>
Business-type activities capital assets, net	<u>\$ 693,251</u>	<u>\$ 15,386</u>	<u>\$ (128)</u>	<u>\$ -</u>	<u>\$ 708,509</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	\$ 22	Water	\$ 3,127
City Attorney	1	Electric	8,637
City Clerk	4	Fiber Optics	420
City Auditor	1	Gas	3,409
Administrative Services	4	Wastewater Collection	2,849
Public Works	10,530	Wastewater Treatment	4,143
Planning and Development Services	419	Refuse	81
Office of Transportation	9	Storm Drainage	871
Police	89	Airport	69
Fire	392		<u>\$ 23,606</u>
Community Services	3,297		
Library	2,368		
Internal Service Funds	3,153		
	<u>\$ 20,289</u>		

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

**Construction In Progress**

Construction in progress as of June 30, 2021 is comprised of the following (in thousands):

<u>Governmental Activities</u>	<u>Expended to June 30, 2021</u>
California Avenue Parking Garage	\$ 48,522
Highway 101 Pedestrian/Bicycle Overpass	19,617
New Public Safety Building	17,163
Charleston/Arastradero Corridor	13,136
Bicycle Boulevards Implementation Project	9,163
Traffic Signal Upgrades	4,875
Railroad Grade Separation	3,772
Technology Fund	3,748
JMZ Renovation	2,928
Animal Shelter Renovation	2,739
Rinconada Park Improvements	2,508
Vehicle Fund	1,839
Newell Road Bridge/SFC Bridge Replacement	1,829
Cubberley Track and Field Replacement	1,808
New Downtown Parking Garage	1,440
Quarry Road	1,282
Art in Public Places	1,027
Tennis & Basketball Court Resurfacing	908
Municipal Service Center Improvements	571
Emerg Vehicle Traffic Signal Preempt Sys	486
Park Wayfinding Design	475
Civic Center Electrical Upgrade	416
Other construction in progress	3,148
Total Governmental Activities	<u>\$ 143,400</u>
<u>Business-type Activities</u>	<u>Expended to June 30, 2021</u>
Airport's Apron Reconstruction	\$ 30,464
Electric distribution system improvements	22,752
Gas system extension replacements and improvements	17,800
Storm drainage structural and water quality improvements	11,779
Water quality control plant equipment replacement and lab facilities	7,528
Sewer system rehabilitation and extensions	4,241
Water system extension replacements and improvements	2,958
Other electrical improvements projects	2,148
Other construction in progress	29,266
Total Business-type Activities	<u>\$ 128,936</u>



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

**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:

- New Public Safety Building - \$97.1 million
- Charleston Arastradero Corridor – \$7.4 million
- Municipal Service Center Improvements - \$6.0 million
- Churchill Ave/Alma - \$4.2 million
- Railroad Grade Separation - \$4.0 million
- Highway 101 Pedestrian/Bicycle Overpass - \$3.7 million
- Vehicle Replacements - \$3.3 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 - \$5.3 million
- Gas Main Replacement Project 23 - \$6.9 million
- Primary Sedimentation Tank Rehabilitation - \$11.8 million
- Airport Apron Reconstruction Phase 1 - \$23.3 million

**Vehicle Registration Fees (VRF)**

In fiscal year 2021, 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, 2020	\$	-
VRF revenue		444
VRF interest earned		2
VRF expense		(446)
Ending VRF balance June 30, 2021	<u>\$</u>	<u>-</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

**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, 2020	Additions	Retirements	Balance June 30, 2021	Current Portion
<b>Governmental Activities Debt:</b>						
2010 General Obligation Bonds, 3.25% - 5%, due 08/01/2040	\$ 55,305	\$ 43,295	\$ -	\$ 1,330	\$ 41,965	\$ 1,395
2013A General Obligation Bonds, 2 - 5%, due 08/01/2041	20,695	15,480	-	450	15,030	465
2018 Capital Improvement Project and Refinancing Certificates of Participation, 2.2%- 4.22%, due 11/1/2047	8,970	8,755	-	185	8,570	190
2019 California Ave Parking Garage Certificates of Participation, Series A & B 2.5%-5%, due 11/1/2048	37,370	36,995	-	630	36,365	645
2021 Public Safety Building Certificates of Participation, 2%-5%, due 11/1/2050	101,505	-	101,505	-	101,505	-
Add: Unamortized Premium	-	7,980	6,524	405	14,099	569
<b>Total Governmental Activities Debt</b>	<b>\$ 223,845</b>	<b>\$ 112,505</b>	<b>\$ 108,029</b>	<b>\$ 3,000</b>	<b>\$ 217,534</b>	<b>\$ 3,264</b>
<b>Business-type Activities Debt:</b>						
	Original Issue Amount	Balance July 1, 2020	Additions	Retirements	Balance June 30, 2021	Current Portion
<b>Utility Revenue Bonds</b>						
1999 Refunding, 5.125-5.25%, due 06/01/2024	\$ 17,735	\$ 6,660	\$ -	\$ 1,540	\$ 5,120	\$ 1,620
2009 Series A, 1.80-5.95%, due 06/01/2035	35,015	25,510	-	1,180	24,330	1,235
2011 Refunding, 3-4%, due 06/01/2035	17,225	7,890	-	1,210	6,680	1,260
Add: Unamortized Premium	-	479	-	81	398	-
<b>Energy Tax Credit Bonds</b>						
2007 Series A, 0%, Due 12/15/2021	1,500	200	-	100	100	100
Less: Unamortized Discount	-	(11)	-	(5)	(6)	-
<b>Total Bonds</b>	<b>71,475</b>	<b>40,728</b>	<b>-</b>	<b>4,106</b>	<b>36,622</b>	<b>4,215</b>
<b>State Water Resources Loans</b>						
Direct Borrowings:						
2007, 1.02%, due 06/30/2029	9,000	4,050	-	450	3,600	450
2009, 2.6%, due 11/30/2030	8,500	5,258	-	419	4,839	430
2017, 1.8%, due 5/31/2049	29,684	24,500	-	651	23,849	662
<b>Total Direct Borrowings</b>	<b>47,184</b>	<b>33,808</b>	<b>-</b>	<b>1,520</b>	<b>32,288</b>	<b>1,542</b>
<b>Total Business-type Activities Debt</b>	<b>\$ 118,659</b>	<b>\$ 74,536</b>	<b>\$ -</b>	<b>\$ 5,626</b>	<b>\$ 68,910</b>	<b>\$ 5,757</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, 2021**

**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.

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 defeased amount was paid off 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.

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, 2021, the City received \$4.3 million in ad valorem property taxes for principal of \$1.8 million and interest of \$2.6 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, 2021**

**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 for the 2019A COPs and 2019B COPs are November 1, 2044 and November 1, 2048, respectively. The reserve account requirement was waived due to the City being a highly rated bond issuer.

**2021 Public Safety Building Certificates of Participation (2021 COPs)** – On March 24, 2021, the City issued taxable COPs of \$101.5 million for the construction of the City’s new public safety building. 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 City’s Civic Center and after construction and the substantial readiness of the Public Safety Building project, the new public safety building will become the leased property. The maturity date for the 2021 COPs is November 1, 2050. The reserve account requirement was waived due to the City being a highly rated bond issuer.

**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. The bonds have a final maturity date of the June 1, 2024.

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, 2021**

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

The pledge of future Net Revenues for the above bonds ends upon repayment of the \$5.1 million principal and \$0.5 million interest as the remaining debt service on the bonds, which is scheduled to occur in fiscal year 2024. For fiscal year 2021, 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 \$43.3 million. Net Revenues available for debt service amounted to \$15.8 million, which represents coverage of 8.4 times over the \$1.9 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 \$462,000, which represents 30.8 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 \$24.3 million principal and \$11.6 million interest as the remaining debt service on the bonds, which is scheduled to occur in fiscal year 2035. For fiscal year 2021, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$49.2 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$39.2 million. Net Revenues available for debt service amounted to \$10.0 million, which represented coverage of 3.9 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 pledge of future Net Revenues of the above bonds ends upon repayment of the \$6.7 million principal and \$0.6 million interest as remaining debt service on the bonds, which is scheduled to occur in fiscal year 2026. For fiscal year 2021, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$88.9 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$64.5 million. Net Revenues available for debt service amounted to \$24.4 million, which represented coverage of 16.7 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, 2021**

**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 \$0.1 million remaining debt service on the bonds, which is scheduled to occur in fiscal year 2022. For fiscal year 2021, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$163.2 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$140.2 million. Net Revenues available for debt service amounted to \$23.0 million, which represented coverage of 229.7 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, 2021 was \$2.4 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, 2021**

**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
2022	\$ 2,695	\$ 7,762	\$ 10,457	\$ 4,215	\$ 1,797	\$ 6,012	\$ 1,542	\$ 317	\$ 1,859
2023	2,795	7,462	10,257	4,300	1,616	5,916	1,566	300	1,866
2024	5,045	7,286	12,331	4,485	1,427	5,912	1,589	283	1,872
2025	5,280	7,062	12,342	2,790	1,229	4,019	1,613	266	1,879
2026	5,545	6,802	12,347	2,900	1,121	4,021	1,638	248	1,886
2027-2031	32,115	29,450	61,565	8,645	4,178	12,823	7,679	962	8,641
2032-2036	39,895	21,590	61,485	8,895	1,361	10,256	4,105	602	4,707
2037-2041	45,720	13,356	59,076	-	-	-	4,488	432	4,920
2042-2046	33,080	6,842	39,922	-	-	-	4,907	246	5,153
2047-2051	31,265	1,836	33,101	-	-	-	3,161	51	3,212
Total	<u>\$ 203,435</u>	<u>\$ 109,448</u>	<u>\$ 312,883</u>	<u>\$ 36,230</u>	<u>\$ 12,729</u>	<u>\$ 48,959</u>	<u>\$ 32,288</u>	<u>\$ 3,707</u>	<u>\$ 35,995</u>

**Debt Call Provisions**

Long-term debt as of June 30, 2021 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, 2021**

**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 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. The City is in no way for the repayment of the Bonds, but is only acting as an agent for the property owners in collecting the assessments, forwarding the collections to bondholders, and initiating foreclosure proceedings, when appropriate. Therefore, this debt is not included in Governmental Activities long-term debt of the City. At June 30, 2021, the District's outstanding debt amounted to \$17.9 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. Reserve and redemption funds held by the District are reported within the University Avenue Area Off-Street Parking Assessment District Custodial Fund.

**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 maintenance related activities



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

**NOTE 9 – LANDFILL POST-CLOSURE MAINTENANCE (Continued)**

and corrective action costs was approved by State and local regulatory agencies in 2014. As required by the State, an updated five-year post-closure maintenance plan and cost estimate was submitted and approved in FY 2021. This cost estimate is adjusted annually for inflation at a percentage provided by the State. Landfill post-closure liabilities as of June 30, 2021 are \$6.2 million, a decrease of \$0.9 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.

**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**

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.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

*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.

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, 2021, total outstanding encumbrances and reappropriations related to governmental funds were \$10.9 million for the General Fund, \$148.0 million for the Capital Projects Fund, and \$3.2 million for the Special Revenue Funds.

**Enterprise Funds**

At June 30, 2021, enterprise funds’ unrestricted net position (in thousands) were as follows:

	Water	Electric	Fiber Optics	Gas	Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Airport	Total
<b>Unrestricted</b>										
Rate stabilization										
Supply	\$ -	\$ -	\$ -	\$ 2,766	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,766
Distribution	9,070	-	33,343	-	342	(4,988)	20,014	4,745	(14,006)	48,520
	<u>9,070</u>	<u>-</u>	<u>33,343</u>	<u>2,766</u>	<u>342</u>	<u>(4,988)</u>	<u>20,014</u>	<u>4,745</u>	<u>(14,006)</u>	<u>51,286</u>
Operations										
Supply	-	19,875	-	-	-	-	-	-	-	19,875
Distribution	20,773	10,026	-	11,982	6,578	-	-	-	-	49,359
	<u>20,773</u>	<u>29,901</u>	<u>-</u>	<u>11,982</u>	<u>6,578</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,234</u>
Emergency plant replacement	-	-	1,000	-	-	1,980	-	-	-	2,980
Electric special projects	-	46,665	-	-	-	-	-	-	-	46,665
Reappropriations	4,451	10,050	202	443	716	-	-	3,553	-	19,415
Commitments	6,181	7,142	2,186	8,709	541	18,760	1,484	831	11,469	57,303
Underground loan	-	727	-	-	-	-	-	-	-	727
Notes and loans	-	-	-	-	-	1,651	-	-	-	1,651
Landfill corrective action	-	-	-	-	-	-	681	-	-	681
Hydro stabilization reserve	-	15,400	-	-	-	-	-	-	-	15,400
Public benefit program	-	3,028	-	-	-	-	-	-	-	3,028
Reserve for LCFS	-	6,944	-	-	-	-	-	-	-	6,944
CIP reserve	10,707	880	-	3,820	3,178	-	-	-	-	18,585
Geng Road reserve	-	-	-	-	-	-	268	-	-	268
Cap & Trade	-	1,189	-	4,542	-	-	-	-	-	5,731
GASB 68 Pension	(14,143)	(34,212)	(2,238)	(14,792)	(8,368)	(21,278)	(5,896)	(3,987)	(754)	(105,668)
GASB 75 OPEB	(4,054)	(13,233)	(1)	(5,849)	(2,236)	(6,945)	(2,485)	(1,094)	(408)	(36,305)
<b>Total</b>	<u>\$ 32,985</u>	<u>\$ 74,481</u>	<u>\$ 34,492</u>	<u>\$ 11,621</u>	<u>\$ 751</u>	<u>\$ (10,820)</u>	<u>\$ 14,066</u>	<u>\$ 4,048</u>	<u>\$ (3,699)</u>	<u>\$ 157,925</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

**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, 2021, 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	\$ 4,608	\$ 3,236	\$ 40	\$ 325	\$ 178	\$ 11	\$ -	\$ 8,398
Future catastrophic losses	-	-	-	-	-	3,670	-	3,670
Retiree health care	-	-	-	-	-	-	2,694	2,694
GASB 68 pension	(3,235)	(11,509)	(263)	-	37	-	-	(14,970)
GASB 75 OPEB	(1,549)	(3,162)	(142)	-	-	-	-	(4,853)
Available	7,065	18,557	85	5,572	1,326	-	-	32,605
Total	\$ 6,889	\$ 7,122	\$ (280)	\$ 5,897	\$ 1,541	\$ 3,681	\$ 2,694	\$ 27,544

- **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** represents the net impact of net pension liability and related deferred outflows/inflows of resources balances.
- **GASB 75 OPEB** represents the net impact of net OPEB liability and related deferred outflows/inflows of resources balances.

**Deficit Fund Balance and Net Position:**

At June 30, 2021, the City's Printing and Mailing Services internal service fund had a deficit net position of \$254,000. 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, 2021**

**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 at [www.calpers.ca.gov](http://www.calpers.ca.gov).

**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, 2021, are summarized in the following table. Contribution rates are based on the Actuarial Valuation Report as of June 30, 2018.

	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, 2012	On or after June 8, 2012	On or after Dec. 8, 2012	On or after Jan 1, 2013
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	65.332%	65.332%	65.332%	65.332%

	Miscellaneous Plan		
	On or after July 17, 2010	On or after July 17, 2010	On or after Jan 1, 2013
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	38.367%	38.367%	38.367%

<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, 2021**

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

**Employees Covered** – Based on the Actuarial Valuation Report as of June 30, 2020, 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	1,223	435
Inactive employees entitled to but not yet receiving benefits	835	104
Active employees	777	174
Total	2,835	713

**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 \$5.0 million to the PARS Trust. As of June 30, 2021, the City reported the account balance of \$37.1 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, 2020 (measurement date), using the Actuarial Valuation Report as of June 30, 2019 rolled forward to June 30, 2020 using standard update procedures.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

**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, 2019
Measurement Date	June 30, 2020
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, 2019 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, 2021**

**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, 2019, 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, 2021**

**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, 2020	\$ 849,004	\$ 573,840	\$ 275,164
Changes for the year:			
Service cost	14,267	-	14,267
Interest on total pension liability	59,995	-	59,995
Differences between expected and actual experiences	4,850	-	4,850
Contributions from employer	-	28,889	(28,889)
Contributions from employees	-	7,189	(7,189)
Net investment income	-	28,735	(28,735)
Benefit payments, including refunds of employee contributions	(43,781)	(43,781)	-
Administrative expense	-	(809)	809
Net changes	<u>35,331</u>	<u>20,223</u>	<u>15,108</u>
Balances reported at June 30, 2021	<u>884,335</u>	<u>594,063</u>	<u>290,272</u>
<b><u>Safety Plan:</u></b>			
Balances calculated at July 1, 2020	\$ 456,817	\$ 289,028	\$ 167,789
Changes for the year:			
Service cost	7,898	-	7,898
Interest on total pension liability	32,469	-	32,469
Differences between expected and actual experiences	6,314	-	6,314
Contributions from employer	-	14,297	(14,297)
Contributions from employees	-	3,459	(3,459)
Net investment income	-	14,310	(14,310)
Benefit payments, including refunds of employee contributions	(25,948)	(25,948)	-
Administrative expense	-	(407)	407
Net changes	<u>20,733</u>	<u>5,711</u>	<u>15,022</u>
Balances reported at June 30, 2021	<u>477,550</u>	<u>294,739</u>	<u>182,811</u>
Total	<u>\$ 1,361,885</u>	<u>\$ 888,802</u>	<u>\$ 473,083</u>



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

**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	\$ 401,532	\$ 290,272	\$ 197,747
<b>Safety Plan:</b>			
Plan's Net Pension Liability	\$ 244,169	\$ 182,811	\$ 132,093

**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, 2021, the City recognized a pension expense of \$34.7 million and \$25.7 million for the Miscellaneous and Safety Plan, respectively, for a total of \$60.4 million. At June 30, 2021, the City reported pension related deferred outflows of resources for the Miscellaneous and Safety Plans from the following sources (in thousands):

	Deferred Outflows of Resources
<b><u>Miscellaneous Plan:</u></b>	
Pension contributions subsequent to measurement date	\$ 32,782
Difference between expected and actual experience	5,051
Net difference between projected and actual earnings on plan investments	<u>3,887</u>
Balance reported at June 30, 2021	<u>41,720</u>
<b><u>Safety Plan:</u></b>	
Pension contributions subsequent to measurement date	14,796
Difference between expected and actual experience	5,157
Net difference between projected and actual earnings on plan investments	<u>1,977</u>
Balance reported at June 30, 2021	<u>21,930</u>
Total, Miscellaneous and Safety Plans	<u>\$ 63,650</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

The \$47.6 million reported as deferred outflows of resources relates to contributions paid by the City from July 1, 2020 through June 30, 2021 which is subsequent to the City’s measurement date of June 30, 2020 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, 2022.

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
2022	\$ 975	\$ 1,931	\$ 2,906
2023	2,732	2,505	5,237
2024	2,849	1,494	4,343
2025	2,382	1,204	3,586
	\$ 8,938	\$ 7,134	\$ 16,072

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

**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, 2021, City pays \$840-\$871 for employee, \$1,680-1,742 for employee +1, and \$2,180-\$2,260 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, 2021**

**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, 2020, the most recent information available, are as follows:

Inactive employees or beneficiaries currently receiving benefits	1,011
Inactive employees entitled to but not yet receiving benefits	75
Active employees	897
Total	1,983

**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, 2021, the City’s contributions totaled \$14.6 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, 2020, using an annual actuarial valuation as of June 30, 2019 rolled forward to June 30, 2020 using standard update procedures. 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, 2020
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 None

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

**Change of Assumptions** – During measurement period 2020, actuarial assumptions for ACA Exercise Tax was changed from 2% load on cash subsidy to none.

**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, 2020	\$ 245,509	\$ 118,479	\$ 127,030
Changes during the measurement period:			
Service cost	6,366	-	6,366
Interest on the total OPEB liability	16,572	-	16,572
Changes in assumptions	(4,426)	-	(4,426)
Contributions - employer	-	16,475	(16,475)
Investment income	-	4,327	(4,327)
Administrative expenses	-	(58)	58
Benefit payments	(12,728)	(12,728)	-
Net changes	5,784	8,016	(2,232)
Balance at June 30, 2021	\$ 251,293	\$ 126,495	\$ 124,798

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

**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%)
\$ 157,131	\$ 124,798	\$ 98,126

**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%
\$ 94,719	\$ 124,798	\$ 161,763

**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, 2021, the City recognized an OPEB expense of \$10.0 million for the OPEB plan. At June 30, 2021, 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	\$ 14,592	\$ -
Differences between expected and actual experience	-	19,031
Changes in assumptions	4,491	3,621
Net differences between projected and actual earnings on plan investments	2,200	-
Total	\$ 21,283	\$ 22,652

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

The \$14.6 million reported as deferred outflows of resources relates to contributions made by the City from July 1, 2020 through June 30, 2021, which is subsequent to the City’s measurement date of June 30, 2020. This amount will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2022.

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>	
2022	\$ (4,964)
2023	(4,336)
2024	(4,125)
2025	(2,135)
2026	<u>(401)</u>
Total	<u>\$ (15,961)</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.

**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.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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, 2021, the City paid \$2.1 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.

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):

	<u>Year Ended June 30</u>	
	<u>2021</u>	<u>2020</u>
Beginning balance	\$ 29,713	\$ 28,365
Claims expense, including claims incurred but not reported (IBNR)	11,197	6,914
Claims paid	<u>(8,379)</u>	<u>(5,566)</u>
Ending balance	<u>\$ 32,531</u>	<u>\$ 29,713</u>
Current portion	<u>\$ 6,811</u>	<u>\$ 6,198</u>



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

The City also recorded claims payable of \$12.6 million on its governmental activities' financial statements for a class action lawsuit filed against the City that challenged the City's gas and electric rates. See Note 16.

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.

During the year ended June 30, 2021, the City incurred expenses totaling \$92.1 million for purchased power and assessments earned by NCPA.

The City's interest in NCPA projects and reserves, as computed by NCPA, was \$8.1 million at June 30, 2021. 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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

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

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.

NCPA's financial statements can be obtained from NCPA, 651 Commerce Drive, Roseville, CA 95678.

**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, 2021, the book value of this Project's plant, equipment and other assets was \$303.8 million, while its long-term debt totaled \$255.8 million and other liabilities totaled \$44.5 million. The City's share of the Project's long-term debt amounted to \$58.6 million at that date.

**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, 2021**

**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 leased 27 acres of the former Cubberley School site and twelve extended day care sites from Palo Alto Unified School District (PAUSD) through December 31, 2019. The City and the PAUSD reached new agreements for the Cubberley School site through December 31, 2024, and the twelve extended day care sites through June 30, 2022. Under the new Cubberley lease, the City leases approximately 65,046 rentable square feet of building area and 15.94 acres of outdoor recreational area. The City has the right to reduce the leased premises by surrendering the Junior Museum and Zoo (JMZ) Building and/or the Building S. The City intends to surrender the JMZ Building after the completion of the new museum building that is not located on the property.

The total lease expenditures for the year ended June 30, 2021 amounted to \$4.1 million. Future minimum annual lease payments are as follows (in thousands):

Year Ending	Payment
June 30	<u>          </u>
2022	\$ 3,406
2023	2,568
2024	2,568
2025	<u>1,284</u>
	<u><u>\$ 9,826</u></u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

**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 2021 payments to GreenWaste were \$11.0 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 will terminate on December 31, 2060, but may be terminated by any partner upon ten years’ written 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.

**Sunnyvale Materials Recovery and Transfer Station (SMaRT Station)** – On September 30, 1991, as amended on June 9, 1992, the City, the City of Sunnyvale, and the City of Mountain View, entered into a Memorandum of Understanding (MOU) 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 capital share of 21.3 percent of this facility and reimburses its proportionate capital 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. During the year ended June 30, 2021, the City made the last debt service payment of \$0.2 million and the City’s obligation to pay related debt service payments is completed. The MOU is expiring on December 31, 2021.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2021**

**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, 2021, the approximate minimum obligations for the contracts, assuming the energy is delivered over the next four years, are as follows:

Fiscal Year	Projected Obligation
2022	\$63.66 million
2023	\$57.61 million
2024	\$55.60 million
2025	\$52.02 million
2026	\$52.63 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 gas transmission and local transportation rates increased by 26% and 8%, respectively, from fiscal year 2020 to fiscal year 2021. The gas transmission and local transportation rates are expected to increase by 4% and 3%, respectively, 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, 2021**

**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 was filed against the City in October 2016 that challenged the City's gas and electric rates under Proposition 26. On June 24, 2021, a trial court entered judgment partially against the City and ordered the City to pay \$12.6 million to a common fund to refund gas rate payers and for payment of incurred litigation costs. The City and the plaintiffs have appealed the trial court's judgment. Payment of refunds due to gas rate payers under the trial court judgment are stayed pending a decision by the Court of appeal (expected in late 2022/early 2023) on the parties' respective appeals. While the ultimate outcome of the claim is uncertain, the City has recorded a claims payable equal to the trial court judgment. This liability is not due and payable at June 30, 2021 and the City recorded a non-current claims payable of \$12.6 million on its governmental activities' financial statements for this lawsuit. In 2022, the City has set aside funding in the General Fund for the potential financial impacts.

A personal injury lawsuit was filed against the City in August 2018. Plaintiff, a bicyclist, alleges that the City created a dangerous condition of public property that caused him to suffer catastrophic injuries. The City Attorney is of the opinion that a 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.

**Uncertainties**

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak and any related adverse public health developments have adversely affected workforces, customers, economies, and financial markets globally. It has also disrupted the normal operations of many governments, including the City. The City expects this outbreak to impact the City's 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's operations.

**Note 17 – SUBSEQUENT EVENT**

On July 12, 2021, the SWRCB and the City executed a direct loan agreement for an award up to \$17.5 million to finance the rehabilitate and upgrade the RWQCP primary sedimentation tanks and ancillary systems. The loan interest rate is 0.9% and has a final maturity on February 15, 2053.

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

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

Fiscal year	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15
Measurement Period	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14
<b>Total pension liability</b>							
Service cost	\$ 14,267	\$ 15,045	\$ 14,724	\$ 14,423	\$ 12,582	\$ 12,183	\$ 12,442
Interest	59,995	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	4,850	6,230	4,271	(6,378)	757	3,507	-
Benefit payments, including refunds of employee contributions	(43,781)	(41,124)	(37,624)	(36,405)	(34,825)	(32,980)	(31,781)
<b>Net change in total pension liability</b>	<b>35,331</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>849,004</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>\$ 884,335</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	\$ 28,889	\$ 25,423	\$ 23,342	\$ 20,638	\$ 18,840	\$ 18,610	\$ 17,400
Contributions - employee	7,189	6,939	6,654	6,314	5,812	5,730	6,345
Net investment income	28,735	36,322	43,690	53,259	2,464	10,597	70,989
Benefit payments, including refunds of employee contributions	(43,781)	(41,124)	(37,624)	(36,405)	(34,825)	(32,980)	(31,781)
Administrative expense	(809)	(390)	(799)	(694)	(291)	(538)	-
Other non-investment income (expenses)	-	1	(1,518)	30	-	-	-
<b>Net change in fiduciary net position</b>	<b>20,223</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>573,840</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>\$ 594,063</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>\$ 290,272</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>67.18%</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>\$ 81,017</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>358.29%</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, 2019 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 are no change in assumptions during measurement periods 2019 and 2020.

\* 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 8 Fiscal Years\***

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

Fiscal Year	<u>2020-21</u>	<u>2019-20</u>	<u>2018-19</u>	<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14</u>
Contractually required contribution (actuarially determined)	\$ 32,782	\$ 28,889	\$ 25,423	\$ 23,342	\$ 20,638	\$ 18,840	\$ 18,610	\$ 17,400
Actual contribution	<u>(32,782)</u>	<u>(28,889)</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>	<u>\$ -</u>
Covered payroll	\$ 87,177	\$ 81,017	\$ 82,573	\$ 80,634	\$ 77,606	\$ 73,722	\$ 69,837	\$ 66,373
Contributions as percentage of covered payroll	37.60%	35.66%	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 2021 contribution rates are as follows:

ADC for fiscal year	June 30, 2021
Actuarial valuation date	June 30, 2018
Actuarial cost method	Entry-Age Normal Cost Method
Asset valuation method	Actuarial value of assets
Inflation	2.50%
Salary increases	Varies by entry age and services
Payroll growth	2.75%
Investment rate of return	7.00%, 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 eight years of information is shown.



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

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

Fiscal year	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15
Measurement Period	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14
<b>Total pension liability</b>							
Service cost	\$ 7,898	\$ 7,259	\$ 7,168	\$ 6,584	\$ 5,916	\$ 5,959	\$ 6,221
Interest	32,469	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	6,314	3,841	11,604	(2,790)	(1,516)	75	-
Benefit payments, including refunds of employee contributions	(25,948)	(24,757)	(23,636)	(22,413)	(21,669)	(21,148)	(19,985)
<b>Net change in total pension liability</b>	<b>20,733</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>456,817</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>\$ 477,550</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	\$ 14,297	\$ 12,370	\$ 11,030	\$ 10,220	\$ 9,403	\$ 8,617	\$ 7,616
Contributions - employee	3,459	3,225	2,799	2,475	2,059	2,047	2,762
Net investment income	14,310	18,217	22,724	28,112	1,259	5,774	40,033
Benefit payments, including refunds of employee contributions	(25,948)	(24,757)	(23,636)	(22,413)	(21,669)	(21,148)	(19,985)
Administrative expense	(407)	(201)	(418)	(370)	(157)	(290)	-
Other non-investment income (expenses)	-	1	(794)	(30)	-	-	-
<b>Net change in fiduciary net position</b>	<b>5,711</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>289,028</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>\$ 294,739</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>\$ 182,811</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>61.72%</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>\$ 26,189</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>698.04%</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, 2019 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 are no change in assumptions during measurement periods 2019 and 2020.

\* 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 8 Fiscal Years\***

**IV. SCHEDULE OF PENSION CONTRIBUTIONS – SAFETY PLAN**  
**(In thousands)**

Fiscal Year	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14
Contractually required contribution (actuarially determined)	\$ 14,796	\$ 14,297	\$ 12,370	\$ 11,030	\$ 10,220	\$ 9,403	\$ 8,617	\$ 7,616
Actual contribution	(14,796)	(14,297)	(12,370)	(11,030)	(10,220)	(9,403)	(8,617)	(7,616)
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 25,615	\$ 26,189	\$ 24,263	\$ 24,131	\$ 21,906	\$ 21,822	\$ 21,912	\$ 21,896
Contributions as percentage of covered payroll	57.76%	54.59%	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 2021 contribution rates are as follows:

ADC for fiscal year	June 30, 2021
Actuarial valuation date	June 30, 2018
Actuarial cost method	Entry-Age Normal Cost Method
Asset valuation method	Actuarial value of assets
Inflation	2.50%
Salary increases	Varies by entry age and services
Payroll growth	2.75%
Investment rate of return	7.00%, 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 eight years of information is shown.

**CITY OF PALO ALTO**  
**Required Supplementary Information (Unaudited)**  
**Last 4 Fiscal Years\***

**V. SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS**  
**(In thousands)**

Fiscal year	<u>2020-21</u>	<u>2019-20</u>	<u>2018-19</u>	<u>2017-18</u>
Measurement Period	2019-20	2018-19	2017-18	2016-17
<b>Total OPEB liability</b>				
Service cost	\$ 6,366	\$ 6,622	\$ 6,429	\$ 6,242
Interest	16,572	17,292	16,546	15,853
Changes in benefit terms	-	972	-	-
Changes of assumptions	(4,426)	7,057	-	-
Difference between expected and actual experience	-	(29,907)	-	-
Benefit payments, including refunds of employee contributions	(12,728)	(12,157)	(12,104)	(11,916)
<b>Net change in total OPEB liability</b>	<b>5,784</b>	<b>(10,121)</b>	<b>10,871</b>	<b>10,179</b>
<b>Total OPEB liability - beginning</b>	<b>245,509</b>	<b>255,630</b>	<b>244,759</b>	<b>234,580</b>
<b>Total OPEB liability - ending (a)</b>	<b>\$ 251,293</b>	<b>\$ 245,509</b>	<b>\$ 255,630</b>	<b>\$ 244,759</b>
<b>Plan fiduciary net position</b>				
Contributions - employer	\$ 16,475	\$ 15,997	\$ 21,349	\$ 14,739
Net investment income	4,327	6,852	7,519	8,628
Benefit payments, including refunds of employee contributions	(12,728)	(12,157)	(12,104)	(11,916)
Administrative expense	(58)	(23)	(204)	(44)
<b>Net change in fiduciary net position</b>	<b>8,016</b>	<b>10,669</b>	<b>16,560</b>	<b>11,407</b>
<b>Plan fiduciary net position - beginning</b>	<b>118,479</b>	<b>107,810</b>	<b>91,250</b>	<b>79,843</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 126,495</b>	<b>\$ 118,479</b>	<b>\$ 107,810</b>	<b>\$ 91,250</b>
<b>Plan net OPEB liability/(asset) - Ending (a) - (b)</b>	<b>\$ 124,798</b>	<b>\$ 127,030</b>	<b>\$ 147,820</b>	<b>\$ 153,509</b>
<b>Plan fiduciary net position as a percentage of total OPEB liability</b>	<b>50.34%</b>	<b>48.26%</b>	<b>42.17%</b>	<b>37.28%</b>
<b>Covered employee payroll</b>	<b>\$ 125,676</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>99.30%</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 2020, 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 four years of information is shown.

**CITY OF PALO ALTO**  
**Required Supplementary Information (Unaudited)**  
**Last 5 Fiscal Years\***

**VI. SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS**  
**(In thousands)**

Fiscal Year	2020-21	2019-20	2018-19	2017-18	2016-17
Contractually required contribution (actuarially determined)	\$ 14,566	\$ 16,482	\$ 15,997	\$ 16,938	\$ 16,365
Actual contribution	<u>(14,592)</u>	<u>(16,475)</u>	<u>(15,997)</u>	<u>(21,349)</u>	<u>(14,739)</u>
Contribution deficiency/(excess)	<u>\$ (26)</u>	<u>\$ 7</u>	<u>\$ -</u>	<u>\$ (4,411)</u>	<u>\$ 1,626</u>
Covered employee payroll	\$ 120,869	\$ 125,676	\$ 118,014	\$ 119,090	\$ 118,774
Contributions as percentage of covered employee payroll	12.07%	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 2021 contribution rates are as follows:

ADC for fiscal year	June 30, 2021
Actuarial valuation date	June 30, 2019
Actuarial cost method	Entry-Age, level percentage of payroll
Amortization method	Level percent of pay
Amortization period	24-year fixed period for 2020/21
Asset valuation method	Market value, no smoothing
Inflation	2.75%
Payroll growth	3.00%
Investment rate of return	6.75%
Medical trend	Non-Medicare - 7.25% 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
Mortality	CalPERS 1997-2015 Experience Study
Mortality Improvement	Post-retirement mortality projected fully generational with Society of Actuaries Scale MP-2019

\* Fiscal year ended June 30, 2018 was the first year of implementation of GASB Statement No. 75, therefore only five years of information is shown.

**CITY OF PALO ALTO**  
**Non-major Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2021**  
**(Amounts in thousands)**

	Special Revenue Funds	Debt Service Funds	Permanent Fund	Total Other Governmental Funds
<b>ASSETS:</b>				
Cash and investments available for operations	\$ 60,487	\$ 3,728	\$ 2,543	\$ 66,758
Receivables, net:				
Accounts and intergovernmental	517	2	-	519
Interest	357	19	13	389
Notes and loan receivable	52,851	-	-	52,851
Restricted cash and investments with fiscal agents	-	4,655	-	4,655
Total assets	<u>\$ 114,212</u>	<u>\$ 8,404</u>	<u>\$ 2,556</u>	<u>\$ 125,172</u>
<b>LIABILITIES AND FUND BALANCES:</b>				
<b>Liabilities:</b>				
Accounts payable and accruals	\$ 495	\$ -	\$ -	\$ 495
Accrued salaries and benefits	34	-	-	34
Due to other funds	341	-	-	341
Total liabilities	<u>870</u>	<u>-</u>	<u>-</u>	<u>870</u>
<b>Fund balances:</b>				
<b>Nonspendable</b>				
Eyerly family	-	-	2,556	2,556
<b>Restricted for:</b>				
Transportation mitigation	12,512	-	-	12,512
Federal revenue	5,293	-	-	5,293
Street improvement	28	-	-	28
Local law enforcement	756	-	-	756
Public benefit	18,282	-	-	18,282
Debt service	-	8,404	-	8,404
<b>Committed for:</b>				
Developer impact fee	13,300	-	-	13,300
Housing In-Lieu	58,883	-	-	58,883
Special districts	3,186	-	-	3,186
Downtown business	50	-	-	50
<b>Assigned for:</b>				
Unrealized gain on investment	1,052	-	-	1,052
Total fund balances	<u>113,342</u>	<u>8,404</u>	<u>2,556</u>	<u>124,302</u>
Total liabilities and fund balances	<u>\$ 114,212</u>	<u>\$ 8,404</u>	<u>\$ 2,556</u>	<u>\$ 125,172</u>

**CITY OF PALO ALTO**  
**Non-major Governmental Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2021**  
**(Amounts in thousands)**

	Special Revenue Funds	Debt Service Funds	Permanent Fund	Total Other Governmental Funds
<b>REVENUES:</b>				
Property tax	\$ -	\$ 4,329	\$ -	\$ 4,329
Special assessments	5	-	-	5
Other taxes and fines	2,816	-	-	2,816
Intergovernmental	1,337	-	-	1,337
Licenses, permits and fees:				
University Avenue Parking	83	-	-	83
California Avenue Parking	22	-	-	22
Other licenses, permits and fees	2,056	-	-	2,056
Investment earnings	169	(10)	16	175
Housing In-Lieu - residential	5,804	-	-	5,804
Other revenue	154	-	-	154
Total revenues	<u>12,446</u>	<u>4,319</u>	<u>16</u>	<u>16,781</u>
<b>EXPENDITURES:</b>				
Current:				
Administrative Services	261	-	-	261
Public Works	1,427	-	-	1,427
Planning and Development Services	1,285	-	-	1,285
Office of Transportation	1,437	-	-	1,437
Police	36	-	-	36
Community Services	236	-	-	236
Non-Departmental	255	-	-	255
Debt service:				
Principal retirement	-	2,595	-	2,595
Interest and fiscal charges	-	6,147	-	6,147
Total expenditures	<u>4,937</u>	<u>8,742</u>	<u>-</u>	<u>13,679</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>7,509</u>	<u>(4,423)</u>	<u>16</u>	<u>3,102</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	570	2,910	-	3,480
Transfers out	(9,564)	-	-	(9,564)
Total other financing sources (uses)	<u>(8,994)</u>	<u>8,939</u>	<u>-</u>	<u>(55)</u>
Change in fund balances	(1,485)	4,516	16	3,047
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>114,827</u>	<u>3,888</u>	<u>2,540</u>	<u>121,255</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 113,342</u>	<u>\$ 8,404</u>	<u>\$ 2,556</u>	<u>\$ 124,302</u>

## **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, 2021**  
**(Amounts in thousands)**

	Street Improvement	Federal Revenue	Housing In-Lieu	Special Districts
<b>ASSETS:</b>				
Cash and investments available for operations	\$ -	\$ -	\$ 11,573	\$ 3,546
Receivables, net:				
Accounts and intergovernmental	234	283	-	-
Interest	-	-	92	27
Notes and loan receivable	-	5,351	47,500	-
Total assets	<u>\$ 234</u>	<u>\$ 5,634</u>	<u>\$ 59,165</u>	<u>\$ 3,573</u>
<b>LIABILITIES AND FUND BALANCES:</b>				
Liabilities:				
Accounts payable and accruals	\$ -	\$ 203	\$ 10	\$ 282
Accrued salaries and benefits	-	3	1	26
Due to other funds	206	135	-	-
Total liabilities	<u>206</u>	<u>341</u>	<u>11</u>	<u>308</u>
Fund balances:				
Restricted				
Transportation mitigation	-	-	-	-
Federal revenue	-	5,293	-	-
Street improvement	28	-	-	-
Local law enforcement	-	-	-	-
Public benefit	-	-	-	-
Committed				
Developer impact fee	-	-	-	-
Housing In-Lieu	-	-	58,883	-
Special districts	-	-	-	3,186
Downtown business	-	-	-	-
Assigned				
Unrealized gains on investments	-	-	271	79
Total fund balances	<u>28</u>	<u>5,293</u>	<u>59,154</u>	<u>3,265</u>
Total liabilities and fund balances	<u>\$ 234</u>	<u>\$ 5,634</u>	<u>\$ 59,165</u>	<u>\$ 3,573</u>



Transportation Mitigation	Local Law Enforcement	Asset Seizure	Developer Impact Fee	Downtown Business Development District	Public Benefit	Total Special Revenue Funds
\$ 12,635	\$ 760	\$ 3	\$ 13,446	\$ 51	\$ 18,473	\$ 60,487
-	-	-	-	-	-	517
64	3	-	73	-	98	357
-	-	-	-	-	-	52,851
<u>\$ 12,699</u>	<u>\$ 763</u>	<u>\$ 3</u>	<u>\$ 13,519</u>	<u>\$ 51</u>	<u>\$ 18,571</u>	<u>\$ 114,212</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 495
-	-	-	4	-	-	34
-	-	-	-	-	-	341
-	-	-	4	-	-	870
12,512	-	-	-	-	-	12,512
-	-	-	-	-	-	5,293
-	-	-	-	-	-	28
-	753	3	-	-	-	756
-	-	-	-	-	18,282	18,282
-	-	-	13,300	-	-	13,300
-	-	-	-	-	-	58,883
-	-	-	-	-	-	3,186
-	-	-	-	50	-	50
187	10	-	215	1	289	1,052
<u>12,699</u>	<u>763</u>	<u>3</u>	<u>13,515</u>	<u>51</u>	<u>18,571</u>	<u>113,342</u>
<u>\$ 12,699</u>	<u>\$ 763</u>	<u>\$ 3</u>	<u>\$ 13,519</u>	<u>\$ 51</u>	<u>\$ 18,571</u>	<u>\$ 114,212</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, 2021**  
**(Amounts in thousands)**

	Street Improvement	Federal Revenue	Housing In-Lieu	Special Districts
<b>REVENUES:</b>				
Special assessments	\$ -	\$ -	\$ -	\$ -
Other taxes and fines	2,793	-	-	23
Intergovernmental	-	1,172	-	-
Licenses, permits and fees:				
University Avenue Parking	-	-	-	83
California Avenue Parking	-	-	-	22
Other licenses, permits and fees	-	-	-	49
Investment earnings	(3)	-	9	1
Housing In-Lieu - residential	-	-	5,804	-
Other revenue	-	-	85	29
<b>Total revenues</b>	<b>2,790</b>	<b>1,172</b>	<b>5,898</b>	<b>207</b>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
Administrative Services	-	-	-	261
Public Works	-	-	-	1,427
Planning and Development Services	-	1,100	179	6
Office of Transportation	-	-	-	1,437
Police	-	-	-	-
Community Services	-	-	-	32
Non-Departmental	-	-	75	160
<b>Total expenditures</b>	<b>-</b>	<b>1,100</b>	<b>254</b>	<b>3,323</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>2,790</b>	<b>72</b>	<b>5,644</b>	<b>(3,116)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	-	400
Transfers out	(2,837)	-	-	(838)
<b>Total other financing sources (uses)</b>	<b>(2,837)</b>	<b>-</b>	<b>-</b>	<b>(438)</b>
<b>Change in fund balances</b>	<b>(47)</b>	<b>72</b>	<b>5,644</b>	<b>(3,554)</b>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<b>75</b>	<b>5,221</b>	<b>53,510</b>	<b>6,819</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 28</b>	<b>\$ 5,293</b>	<b>\$ 59,154</b>	<b>\$ 3,265</b>

Transportation Mitigation	Local Law Enforcement	Asset Seizure	Developer Impact Fee	Downtown Business Development District	Public Benefit	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ 5	\$ -	\$ 5
-	-	-	-	-	-	2,816
-	165	-	-	-	-	1,337
-	-	-	-	-	-	83
-	-	-	-	-	-	22
429	-	-	1,578	-	-	2,056
66	7	-	14	-	75	169
-	-	-	-	-	-	5,804
-	-	-	40	-	-	154
<u>495</u>	<u>172</u>	<u>-</u>	<u>1,632</u>	<u>5</u>	<u>75</u>	<u>12,446</u>
-	-	-	-	-	-	261
-	-	-	-	-	-	1,427
-	-	-	-	-	-	1,285
-	-	-	-	-	-	1,437
-	36	-	-	-	-	36
-	-	-	204	-	-	236
-	-	-	-	20	-	255
<u>-</u>	<u>36</u>	<u>-</u>	<u>204</u>	<u>20</u>	<u>-</u>	<u>4,937</u>
<u>495</u>	<u>136</u>	<u>-</u>	<u>1,428</u>	<u>(15)</u>	<u>75</u>	<u>7,509</u>
-	-	-	170	-	-	570
(400)	-	-	(3,539)	-	(1,950)	(9,564)
<u>(400)</u>	<u>-</u>	<u>-</u>	<u>(3,369)</u>	<u>-</u>	<u>(1,950)</u>	<u>(8,994)</u>
95	136	-	(1,941)	(15)	(1,875)	(1,485)
<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>\$ 12,699</u>	<u>\$ 763</u>	<u>\$ 3</u>	<u>\$ 13,515</u>	<u>\$ 51</u>	<u>\$ 18,571</u>	<u>113,342</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	Budget	Actual, Budgetary Basis	Variance
<b>REVENUES:</b>						
Special assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes and fines	2,793	2,793	-	-	-	-
Intergovernmental	-	-	-	1,384	1,172	(212)
Licenses, permits and fees						
University Avenue Parking	-	-	-	-	-	-
California Avenue Parking	-	-	-	-	-	-
Other licenses, permits and fees	-	-	-	-	-	-
Investment earnings	9	(1)	(10)	-	-	-
Rental income	-	-	-	-	-	-
Housing In-Lieu - residential	-	-	-	-	-	-
Other:						
Loan payoffs	-	-	-	-	-	-
Other revenue	-	-	-	-	-	-
Total revenues	<u>2,802</u>	<u>2,792</u>	<u>(10)</u>	<u>1,384</u>	<u>1,172</u>	<u>(212)</u>
<b>EXPENDITURES:</b>						
Current:						
Administrative Services	-	-	-	-	-	-
Public Works	-	-	-	-	-	-
Planning and Development Services	-	-	-	1,886	1,462	424
Office of Transportation	-	-	-	-	-	-
Police	-	-	-	-	-	-
Community Services	-	-	-	-	-	-
Non-Departmental	-	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,886</u>	<u>1,462</u>	<u>424</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,802</u>	<u>2,792</u>	<u>(10)</u>	<u>(502)</u>	<u>(290)</u>	<u>212</u>
<b>OTHER FINANCING SOURCES (USES):</b>						
Transfers in	-	-	-	-	-	-
Transfers out	<u>(2,837)</u>	<u>(2,837)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(2,837)</u>	<u>(2,837)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in fund balances, budgetary basis	<u>\$ (35)</u>	<u>(45)</u>	<u>\$ (10)</u>	<u>\$ (502)</u>	<u>(290)</u>	<u>\$ 212</u>
<b>Adjustment to Budgetary Basis:</b>						
Unrealized gain (loss) on investments		(2)			-	
Changes in notes receivable		-			-	
Current year encumbrances/reappropriations		-			362	
CHANGE IN FUND BALANCE, GAAP BASIS		<u>(47)</u>			<u>72</u>	
FUND BALANCES, BEGINNING OF YEAR, GAAP BASIS		<u>75</u>			<u>5,221</u>	
FUND BALANCES, END OF YEAR, GAAP BASIS		<u>\$ 28</u>			<u>\$ 5,293</u>	

Housing In-Lieu			Special Districts			Transportation Mitigation		
Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	52	23	(29)	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	2,464	83	(2,381)	-	-	-
-	-	-	880	22	(858)	-	-	-
-	-	-	1,198	49	(1,149)	276	429	153
463	366	(97)	109	92	(17)	260	217	(43)
9	-	(9)	-	-	-	-	-	-
2,150	5,804	3,654	-	-	-	-	-	-
25	-	(25)	-	-	-	-	-	-
170	85	(85)	-	29	29	-	-	-
<u>2,817</u>	<u>6,255</u>	<u>3,438</u>	<u>4,703</u>	<u>298</u>	<u>(4,405)</u>	<u>536</u>	<u>646</u>	<u>110</u>
-	-	-	330	261	69	-	-	-
-	-	-	1,697	1,634	63	-	-	-
20,462	20,720	(258)	1	7	(6)	-	-	-
-	-	-	3,539	2,005	1,534	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	43	42	1	-	-	-
695	75	620	206	410	(204)	-	-	-
<u>21,157</u>	<u>20,795</u>	<u>362</u>	<u>5,816</u>	<u>4,359</u>	<u>1,457</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(18,340)</u>	<u>(14,540)</u>	<u>3,800</u>	<u>(1,113)</u>	<u>(4,061)</u>	<u>(2,948)</u>	<u>536</u>	<u>646</u>	<u>110</u>
-	-	-	400	400	-	-	-	-
-	-	-	(838)	(838)	-	(400)	(400)	-
-	-	-	(438)	(438)	-	(400)	(400)	-
<u>\$ (18,340)</u>	<u>(14,540)</u>	<u>\$ 3,800</u>	<u>\$ (1,551)</u>	<u>(4,499)</u>	<u>\$ (2,948)</u>	<u>\$ 136</u>	<u>246</u>	<u>\$ 110</u>
	(357)			(91)			(151)	
	18,752			-			-	
	1,789			1,036			-	
	5,644			(3,554)			95	
	53,510			6,819			12,604	
	<u>\$ 59,154</u>			<u>\$ 3,265</u>			<u>\$ 12,699</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, 2021**  
**(Amounts in Thousands)**

	Local Law Enforcement			Asset Seizure		
	Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance
<b>REVENUES:</b>						
Special assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes and fines	-	-	-	-	-	-
Intergovernmental	105	165	60	-	-	-
Licenses, permits and fees						
University Avenue Parking	-	-	-	-	-	-
California Avenue Parking	-	-	-	-	-	-
Other licenses, permits and fees	-	-	-	-	-	-
Investment earnings	7	11	4	-	-	-
Rental income	-	-	-	-	-	-
Housing In-Lieu - residential	-	-	-	-	-	-
Other:						
Loan payoffs	-	-	-	-	-	-
Other revenue	-	-	-	-	-	-
Total revenues	<u>112</u>	<u>176</u>	<u>64</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>EXPENDITURES:</b>						
Current:						
Administrative Services	-	-	-	-	-	-
Public Works	-	-	-	-	-	-
Planning and Development Services	-	-	-	-	-	-
Office of Transportation	-	-	-	-	-	-
Police	105	36	69	-	-	-
Community Services	-	-	-	-	-	-
Non-Departmental	-	-	-	-	-	-
Total expenditures	<u>105</u>	<u>36</u>	<u>69</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>7</u>	<u>140</u>	<u>133</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>\$ 7</u>	<u>140</u>	<u>\$ 133</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
<b>Adjustment to Budgetary Basis:</b>						
Unrealized gain (loss) on investments		(4)			-	
Changes in notes receivable		-			-	
Current year encumbrances/reappropriations		-			-	
CHANGE IN FUND BALANCE, GAAP BASIS		<u>136</u>			<u>-</u>	
FUND BALANCES, BEGINNING OF YEAR, GAAP BASIS		<u>627</u>			<u>3</u>	
FUND BALANCES, END OF YEAR, GAAP BASIS		<u>\$ 763</u>			<u>\$ 3</u>	

Developer Impact Fee			Downtown Business Improvement District			Public Benefit		
Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance
\$ -	\$ -	\$ -	\$ 140	\$ 5	\$ (135)	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
875	1,578	703	-	-	-	-	-	-
352	227	(125)	-	-	-	370	324	(46)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	40	40	-	-	-	-	-	-
<u>1,227</u>	<u>1,845</u>	<u>618</u>	<u>140</u>	<u>5</u>	<u>(135)</u>	<u>370</u>	<u>324</u>	<u>(46)</u>
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
203	204	(1)	-	-	-	-	-	-
-	-	-	203	20	183	-	-	-
<u>203</u>	<u>204</u>	<u>(1)</u>	<u>203</u>	<u>20</u>	<u>183</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>1,024</u>	<u>1,641</u>	<u>617</u>	<u>(63)</u>	<u>(15)</u>	<u>48</u>	<u>370</u>	<u>324</u>	<u>(46)</u>
170	170	-	-	-	-	-	-	-
(3,539)	(3,539)	-	-	-	-	(1,950)	(1,950)	-
<u>(3,369)</u>	<u>(3,369)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,950)</u>	<u>(1,950)</u>	<u>-</u>
<u>\$ (2,345)</u>	<u>(1,728)</u>	<u>\$ 617</u>	<u>\$ (63)</u>	<u>(15)</u>	<u>\$ 48</u>	<u>\$ (1,580)</u>	<u>(1,626)</u>	<u>\$ (46)</u>
	(213)			-			(249)	
	-			-			-	
	-			-			-	
	(1,941)			(15)			(1,875)	
	15,456			66			20,446	
	<u>\$ 13,515</u>			<u>\$ 51</u>			<u>\$ 18,571</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.

#### **Public Safety Building**

This fund accounts for revenues received from the General Fund to provide payment of principal and interest associated with the 2021 Public Safety Building Certificates of Participation as they become due.

**CITY OF PALO ALTO**  
**Non-major Debt Service Funds**  
**Combining Balance Sheet**  
**June 30, 2021**  
**(Amounts in thousands)**

	2018 Golf Course Capital Improvement	2019 California Avenue Parking Garage COPS	Library Projects	Public Safety Building	Total Debt Service Funds
ASSETS:					
Cash and investments available for operations	\$ 1	\$ 5	\$ 3,722	\$ -	\$ 3,728
Receivables:					
Accounts and intergovernmental	-	-	2	-	2
Interest	-	-	19	-	19
Restricted cash and investments with fiscal agents	18	16	-	4,621	4,655
Total assets	<u>\$ 19</u>	<u>\$ 21</u>	<u>\$ 3,743</u>	<u>\$ 4,621</u>	<u>\$ 8,404</u>
FUND BALANCES:					
Restricted:					
Debt service	<u>\$ 19</u>	<u>\$ 21</u>	<u>\$ 3,743</u>	<u>\$ 4,621</u>	<u>\$ 8,404</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, 2021**  
**(Amounts in thousands)**

	2018 Golf Course Capital Improvement	2019 California Avenue Parking Garage COPs	Library Projects	Public Safety Building	Total Debt Service Funds
<b>REVENUES:</b>					
Property tax	\$ -	\$ -	\$ 4,329	\$ -	\$ 4,329
Investment earnings	-	-	(10)	-	(10)
Total revenues	<u>-</u>	<u>-</u>	<u>4,319</u>	<u>-</u>	<u>4,319</u>
<b>EXPENDITURES:</b>					
Debt service:					
Principal retirement	185	630	1,780	-	2,595
Interest and fiscal charges	345	1,748	2,646	1,408	6,147
Total expenditures	<u>530</u>	<u>2,378</u>	<u>4,426</u>	<u>1,408</u>	<u>8,742</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(530)</u>	<u>(2,378)</u>	<u>(107)</u>	<u>(1,408)</u>	<u>(4,423)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Issuance of debt	-	-	-	6,029	6,029
Transfers in	530	2,380	-	-	2,910
Total other financing sources (uses)	<u>530</u>	<u>2,380</u>	<u>-</u>	<u>6,029</u>	<u>8,939</u>
Change in fund balances	-	2	(107)	4,621	4,516
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>19</u>	<u>19</u>	<u>3,850</u>	<u>-</u>	<u>3,888</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 19</u>	<u>\$ 21</u>	<u>\$ 3,743</u>	<u>\$ 4,621</u>	<u>\$ 8,404</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, 2021**  
**(Amounts in thousands)**

	2018 Golf Course Capital Improvement			2019 California Avenue Parking Garage COPs			Library Projects			Public Safety Building		
	Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance
<b>REVENUES:</b>												
Property tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,559	\$ 4,329	\$ (230)	\$ -	\$ -	\$ -
Investment earnings	-	-	-	-	-	-	29	32	3	-	-	-
Total revenues	-	-	-	-	-	-	4,588	4,361	(227)	-	-	-
<b>EXPENDITURES:</b>												
Debt service:												
Principal retirement	185	185	-	630	630	-	1,780	1,780	-	-	-	-
Interest and fiscal charges	345	345	-	1,750	1,748	2	2,646	2,646	-	1,408	1,408	-
Total expenditures	530	530	-	2,380	2,378	2	4,426	4,426	-	1,408	1,408	-
Excess (deficiency) of revenues over (under) expenditures	(530)	(530)	-	(2,380)	(2,378)	2	162	(65)	(227)	(1,408)	(1,408)	-
<b>OTHER FINANCING SOURCES (USES):</b>												
Issuance of debt	-	-	-	-	-	-	-	-	-	6,029	6,029	-
Transfers in	530	530	-	2,380	2,380	-	-	-	-	-	-	-
Total other financing sources (uses)	530	530	-	2,380	2,380	-	-	-	-	6,029	6,029	-
Change in fund balances, budgetary basis	\$ -	\$ -	\$ -	\$ -	\$ 2	\$ 2	\$ 162	(65)	\$ (227)	\$ 4,621	4,621	\$ -
Adjustment to Budgetary Basis:												
Unrealized gain (loss) on investments		-			-			(42)			-	
CHANGE IN FUND BALANCE, GAAP BASIS		-			2			(107)			4,621	
FUND BALANCES, BEGINNING OF YEAR		19			19			3,850			-	
FUND BALANCES, END OF YEAR		\$ 19			\$ 21			\$ 3,743			\$ 4,621	

**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, 2021**  
**(Amounts in thousands)**

	Eyerly Family Permanent Fund		
	Budget	Actual, Budgetary Basis	Variance Positive (Negative)
REVENUES:			
Investment earnings	\$ 42	\$ 44	\$ 2
Change in fund balance	\$ 42	44	\$ 2
Adjustment to Budgetary Basis:			
Unrealized gain (loss) on investments		(28)	
CHANGE IN FUND BALANCE, GAAP BASIS		16	
FUND BALANCE, BEGINNING OF YEAR		2,540	
FUND BALANCE, END OF YEAR		\$ 2,556	

## **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, 2021**  
**(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	\$ 11,524	\$ 22,009	\$ 231	\$ 22,833	\$ 27,555	\$ 9,970	\$ 2,684	\$ 96,806
Accounts receivable, net	70	-	-	16	12	-	-	98
Interest receivable	62	119	1	108	134	50	10	484
Inventory of materials and supplies	116	-	-	-	-	-	-	116
Restricted cash and investments with fiscal agents and trustees	-	-	-	37,089	-	-	-	37,089
<b>Total current assets</b>	<b>11,772</b>	<b>22,128</b>	<b>232</b>	<b>60,046</b>	<b>27,701</b>	<b>10,020</b>	<b>2,694</b>	<b>134,593</b>
<b>Noncurrent Assets:</b>								
<b>Capital assets:</b>								
Nondepreciable	1,839	3,748	-	-	-	-	-	5,587
Depreciable, net	15,419	1,909	26	-	-	-	-	17,354
<b>Total noncurrent assets</b>	<b>17,258</b>	<b>5,657</b>	<b>26</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>22,941</b>
<b>Total assets</b>	<b>29,030</b>	<b>27,785</b>	<b>258</b>	<b>60,046</b>	<b>27,701</b>	<b>10,020</b>	<b>2,694</b>	<b>157,534</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>								
Pension related	469	2,058	10	-	41	-	-	2,578
OPEB related	271	552	10	-	11	-	-	844
<b>Total deferred outflows of resources</b>	<b>740</b>	<b>2,610</b>	<b>20</b>	<b>-</b>	<b>52</b>	<b>-</b>	<b>-</b>	<b>3,422</b>
<b>LIABILITIES:</b>								
<b>Current Liabilities:</b>								
Accounts payable and accruals	62	195	105	1,253	94	-	-	1,709
Accrued salaries and benefits	37	140	2	-	71	-	-	250
Accrued compensated absences	-	-	-	6,327	-	-	-	6,327
Accrued claims payable - current	-	-	-	160	4,240	2,411	-	6,811
<b>Total current liabilities</b>	<b>99</b>	<b>335</b>	<b>107</b>	<b>7,740</b>	<b>4,405</b>	<b>2,411</b>	<b>-</b>	<b>15,097</b>
<b>Noncurrent liabilities:</b>								
Accrued compensated absences	-	-	-	9,320	-	-	-	9,320
Accrued claims payable	-	-	-	-	21,792	3,928	-	25,720
Net pension liabilities	3,704	13,567	273	-	4	-	-	17,548
Net OPEB liabilities	1,532	3,127	141	-	-	-	-	4,800
<b>Total noncurrent liabilities</b>	<b>5,236</b>	<b>16,694</b>	<b>414</b>	<b>9,320</b>	<b>21,796</b>	<b>3,928</b>	<b>-</b>	<b>57,388</b>
<b>Total liabilities</b>	<b>5,335</b>	<b>17,029</b>	<b>521</b>	<b>17,060</b>	<b>26,201</b>	<b>6,339</b>	<b>-</b>	<b>72,485</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>								
OPEB related	288	587	11	-	11	-	-	897
<b>NET POSITION:</b>								
Net Investment in capital assets	17,258	5,657	26	-	-	-	-	22,941
Restricted for supplemental pension	-	-	-	37,089	-	-	-	37,089
Unrestricted	6,889	7,122	(280)	5,897	1,541	3,681	2,694	27,544
<b>Total net position</b>	<b>\$ 24,147</b>	<b>\$ 12,779</b>	<b>\$ (254)</b>	<b>\$ 42,986</b>	<b>\$ 1,541</b>	<b>\$ 3,681</b>	<b>\$ 2,694</b>	<b>\$ 87,574</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, 2021**  
**(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	\$ 6,522	\$ 12,322	\$ 1,314	\$ 72,224	\$ 6,578	\$ 2,892	\$ 13,577	\$ 115,429
Other	-	27	-	-	162	11	-	200
Total operating revenues	6,522	12,349	1,314	72,224	6,740	2,903	13,577	115,629
<b>OPERATING EXPENSES:</b>								
Administrative and general	1,478	7,801	948	137	613	2,208	27	13,212
Operations and maintenance	3,269	7,463	253	1,577	203	-	-	12,765
Depreciation	2,751	395	7	-	-	-	-	3,153
Claim payments and change in estimated self-insured liability	-	-	-	1,524	6,075	1,146	-	8,745
Refund of charges for services	105	10	-	-	-	-	-	115
Employment benefits	-	-	-	61,205	-	-	14,570	75,775
Total operating expenses	7,603	15,669	1,208	64,443	6,891	3,354	14,597	113,765
Operating income (loss)	(1,081)	(3,320)	106	7,781	(151)	(451)	(1,020)	1,864
<b>NONOPERATING REVENUES (EXPENSES):</b>								
Investment earnings	83	83	(1)	3,380	224	65	57	3,891
Gain on disposal of capital assets	385	-	-	-	-	-	-	385
Other nonoperating revenues	5	-	-	-	-	-	-	5
Total nonoperating revenues (expenses)	473	83	(1)	3,380	224	65	57	4,281
Income (loss) before transfers	(608)	(3,237)	105	11,161	73	(386)	(963)	6,145
Transfers in	105	1,340	-	-	-	5	2,347	3,797
Transfers out	(326)	(31)	-	(2,347)	-	-	-	(2,704)
Change in net position	(829)	(1,928)	105	8,814	73	(381)	1,384	7,238
NET POSITION, BEGINNING OF YEAR	24,976	14,707	(359)	34,172	1,468	4,062	1,310	80,336
NET POSITION, END OF YEAR	\$ 24,147	\$ 12,779	\$ (254)	\$ 42,986	\$ 1,541	\$ 3,681	\$ 2,694	\$ 87,574

**CITY OF PALO ALTO**  
**Internal Service Funds**  
**Combining Statement of Cash Flows**  
**For the Year Ended June 30, 2021**  
**(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	\$ 6,455	\$ 12,354	\$ 1,314	\$ 72,225	\$ 6,572	\$ 2,903	\$ 13,577	\$ 115,400
Cash payments to suppliers for goods and services	(2,895)	(7,615)	(1,011)	59	(430)	(2,218)	-	(14,110)
Cash payments to employees	(2,191)	(7,694)	(146)	(61,422)	(368)	-	(14,597)	(86,418)
Cash payments for judgments and claims	-	-	-	(1,524)	(3,814)	(427)	-	(5,765)
Other cash receipts	5	-	-	-	-	-	-	5
Net cash flows provided by (used in) operating activities	1,374	(2,955)	157	9,338	1,960	258	(1,020)	9,112
<b>Cash flows from noncapital financing activities:</b>								
Transfers in	105	1,340	-	-	-	5	2,347	3,797
Transfers out	(326)	(31)	-	(2,347)	-	-	-	(2,704)
Net cash flows provided by (used in) noncapital financing activities	(221)	1,309	-	(2,347)	-	5	2,347	1,093
<b>Cash flows from capital and related financing activities:</b>								
Acquisition of capital assets	(3,317)	(1,511)	-	-	-	-	-	(4,828)
Proceeds from sale of capital assets	484	-	-	-	-	-	-	484
Net cash flows (used in) capital and related financing activities	(2,833)	(1,511)	-	-	-	-	-	(4,344)
<b>Cash flows from investing activities:</b>								
Investment interest received (expenses paid)	88	110	(1)	3,377	223	66	51	3,914
Net change in cash and cash equivalents	(1,592)	(3,047)	156	10,368	2,183	329	1,378	9,775
Cash and cash equivalents, beginning of year	13,116	25,056	75	49,554	25,372	9,641	1,306	124,120
Cash and cash equivalents, end of year	\$ 11,524	\$ 22,009	\$ 231	\$ 59,922	\$ 27,555	\$ 9,970	\$ 2,684	\$ 133,895
<b>Financial statement presentation:</b>								
Cash and investments available for operations	\$ 11,524	\$ 22,009	\$ 231	\$ 22,833	\$ 27,555	\$ 9,970	\$ 2,684	\$ 96,806
Restricted cash and investments with fiscal agents and trustees	-	-	-	37,089	-	-	-	37,089
Cash and cash equivalents, end of year	\$ 11,524	\$ 22,009	\$ 231	\$ 59,922	\$ 27,555	\$ 9,970	\$ 2,684	\$ 133,895
<b>Reconciliation of operating income (loss) to net cash flows provided by (used in) operating activities:</b>								
Operating income (loss)	\$ (1,081)	\$ (3,320)	\$ 106	\$ 7,781	\$ (151)	\$ (451)	\$ (1,020)	\$ 1,864
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:</b>								
Depreciation	2,751	395	7	-	-	-	-	3,153
Other	5	-	-	-	-	-	-	5
<b>Change in assets and liabilities:</b>								
Accounts receivable	(67)	5	-	1	(6)	-	-	(67)
Inventory of materials and supplies	(14)	-	-	-	-	-	-	(14)
Deferred outflows of resources - pension plans	32	(330)	23	-	-	-	-	(275)
Deferred outflows of resources - OPEB	12	24	1	-	-	-	-	37
Accounts payable and accruals	(74)	(16)	63	153	25	(10)	-	141
Accrued salaries and benefits	3	9	(2)	-	37	-	-	47
Accrued compensated absences	-	-	-	1,403	-	-	-	1,403
Accrued claims payable	-	-	-	-	2,099	719	-	2,818
Net pension liability	8	747	(33)	-	(41)	-	-	681
Net OPEB liability	(29)	(58)	(2)	-	-	-	-	(89)
Deferred inflows of resources - pension plans	(131)	(326)	(3)	-	(2)	-	-	(462)
Deferred inflows of resources - OPEB	(41)	(85)	(3)	-	(1)	-	-	(130)
Net cash flows provided by (used in) operating activities	\$ 1,374	\$ (2,955)	\$ 157	\$ 9,338	\$ 1,960	\$ 258	\$ (1,020)	\$ 9,112

## **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.

Custodial Funds are fiduciary funds used to report fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private purpose trust funds. The City maintains two agency custodial 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**  
**Custodial Funds**  
**Combining Statement of Fiduciary Net Position**  
**June 30, 2021**  
**(Amounts in thousands)**

	Cable Joint Powers Authority	University Avenue Area Off-Street Parking Assessment District	Total
<b>ASSETS:</b>			
Cash and investments available for operations (Note 3)	\$ 1,207	\$ 2,069	\$ 3,276
Accounts receivable	459	32	491
Interest receivable	5	11	16
Restricted cash and investments with fiscal agents (Note 3)	-	2,705	2,705
Total assets	<u>1,671</u>	<u>4,817</u>	<u>6,488</u>
<b>LIABILITIES:</b>			
Accounts payable and accruals	<u>411</u>	<u>-</u>	<u>411</u>
<b>NET POSITION:</b>			
Restricted for:			
Governmental entities	1,260	-	1,260
Bondholders of special assessment bonds	-	4,817	4,817
Total net position	<u>\$ 1,260</u>	<u>\$ 4,817</u>	<u>\$ 6,077</u>

**CITY OF PALO ALTO**  
**Custodial Funds**  
**Combining Statement of Changes in Fiduciary Net Position**  
**For the Year Ended June 30, 2021**  
**(Amounts in thousands)**

	Cable Joint Powers Authority	University Avenue Area Off-Street Parking Assessment District	Total
<b>ADDITIONS:</b>			
Franchise and other fees collected	\$ 1,821	\$ -	\$ 1,821
Special assessments collected	-	2,407	2,407
Investment earnings	14	(5)	9
Other	-	5	5
Total additions	<u>1,835</u>	<u>2,407</u>	<u>4,242</u>
<b>DEDUCTIONS:</b>			
Administrative and general	34	5	39
Distribution to governmental entities	1,538	-	1,538
Debt services payments	-	2,409	2,409
Total deductions	<u>1,572</u>	<u>2,414</u>	<u>3,986</u>
Changes in net position	263	(7)	256
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>997</u>	<u>4,824</u>	<u>5,821</u>
<b>NET POSITION, END OF YEAR</b>	<u><u>\$ 1,260</u></u>	<u><u>\$ 4,817</u></u>	<u><u>\$ 6,077</u></u>

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## **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
- Power Supply Resources
- 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:

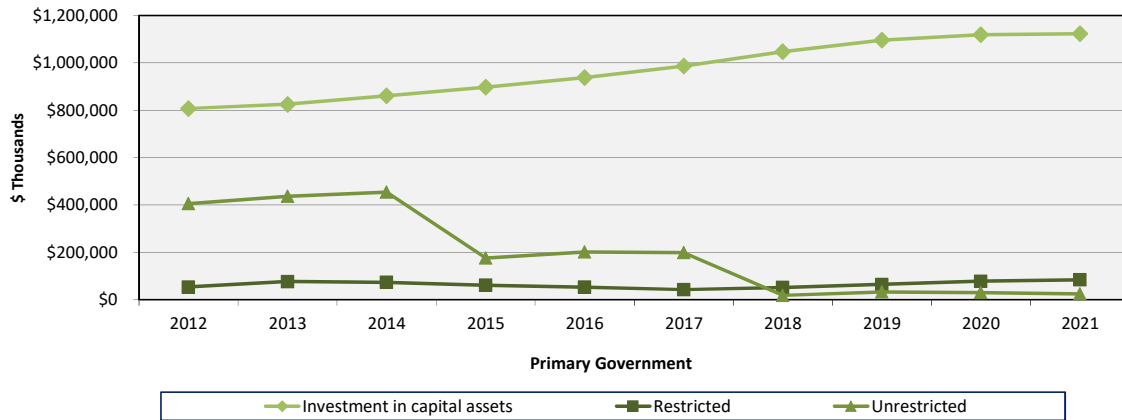
- Operating Indicators by Function/Program
- Capital Asset Statistics by Function/Program
- Full-Time Equivalent City Government Employees by Function

### **Sources**

Unless otherwise noted, the information in these schedules is derived from the Annual Comprehensive 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									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Governmental Activities</b>										
Investment in capital assets	\$ 370,111	\$ 378,047	\$ 386,696	\$ 405,921	\$ 425,179	\$ 453,878	\$ 473,233	\$ 493,706	\$ 497,378	\$ 480,620
Restricted	52,934	71,717	68,331	55,963	47,907	38,138	46,724	59,669	73,274	80,265
Unrestricted	142,102	165,810	187,386	1,972	37,905	35,273	(92,587)	(103,392)	(130,078)	(137,748)
<b>Total Governmental Activities Net Position</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>\$ 423,137</b>
<b>Business-type Activities</b>										
Investment in capital assets	\$ 437,151	\$ 446,597	\$ 473,795	\$ 490,874	\$ 512,918	\$ 532,063	\$ 573,688	\$ 602,136	\$ 621,354	\$ 642,018
Restricted	-	4,060	4,166	4,142	4,115	4,073	4,014	4,016	4,060	3,340
Unrestricted	262,602	269,926	266,794	172,802	162,806	163,158	110,429	135,391	159,592	161,861
<b>Total Business-type Activities Net Position</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>\$ 807,219</b>
<b>Primary Government</b>										
Investment in capital assets	\$ 807,262	\$ 824,644	\$ 860,491	\$ 896,795	\$ 938,097	\$ 985,941	\$ 1,046,921	\$ 1,095,842	\$ 1,118,732	\$ 1,122,638
Restricted	52,934	75,777	72,497	60,105	52,022	42,211	50,738	63,685	77,334	83,605
Unrestricted	404,704	435,736	454,180	174,774	200,711	198,431	17,842	31,999	29,514	24,113
<b>Total Primary Government Net Position</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>	<b>\$ 1,230,356</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									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>PROGRAM REVENUES</b>										
<b>Governmental Activities</b>										
Charges for services										
Administrative Services	\$ 1,647	\$ 15,629	\$ 4,055	\$ 5,460	\$ 9,444	\$ 5,242	\$ 6,536	\$ 6,413	\$ 5,758	\$ 1,150
Public Works	1,008	1,314	1,093	1,209	599	878	781	1,478	990	937
Planning & Community Environment	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>3</sup>	-	-	-	-	-	-	-	-	16,173	21,228
Office of Transportation <sup>3</sup>	-	-	-	-	-	-	-	-	1,161	80
Public Safety	15,658	16,139	14,902	15,726	13,945	12,670	13,507	14,179	12,101	11,135
Community Services	11,365	13,808	20,882	20,912	21,551	20,472	21,285	22,805	20,808	20,893
Library	1,600	187	166	137	198	139	145	134	94	47
Operating grants and contributions	3,441	5,038	5,360	5,300	2,164	1,990	14,054	2,100	2,619	3,033
Capital grants and contributions	1,064	515	917	619	344	1,929	1,534	8,247	9,021	11,326
<b>Total Governmental Activities</b>										
<b>Program Revenues</b>	<u>67,274</u>	<u>81,398</u>	<u>60,271</u>	<u>69,472</u>	<u>69,886</u>	<u>61,155</u>	<u>78,961</u>	<u>81,257</u>	<u>68,725</u>	<u>69,829</u>
<b>Business-type Activities</b>										
Charges for services										
Water	31,467	37,746	40,291	35,847	37,588	42,678	45,087	45,571	48,740	48,812
Electric	118,886	121,805	121,916	120,842	120,743	137,543	154,142	163,514	169,389	162,240
Fiber Optics	3,662	4,382	4,485	4,627	4,505	4,553	4,529	4,657	4,576	3,936
Gas	41,774	34,633	35,737	30,751	30,212	36,431	37,044	42,113	37,402	39,520
Wastewater Collection	14,942	16,077	15,599	16,182	16,496	17,748	17,990	20,219	20,933	20,484
Wastewater Treatment	22,200	21,528	18,460	24,120	23,825	23,649	27,382	27,573	29,310	30,522
Refuse	30,645	30,583	30,297	31,576	32,169	33,918	34,647	33,996	32,695	30,636
Storm Drainage	5,892	6,053	6,183	6,281	6,520	6,693	6,964	7,249	7,543	7,785
Airport	-	-	-	683	826	1,286	2,382	2,483	2,362	2,585
Operating grants and contributions	605	572	549	534	744	512	501	488	473	462
Capital grants and contributions	1,526	2,224	2,005	2,080	1,061	4,265	14,194	6,677	6,449	6,391
<b>Total Business-type Activities</b>										
<b>Program Revenues</b>	<u>271,599</u>	<u>275,603</u>	<u>275,522</u>	<u>273,523</u>	<u>274,689</u>	<u>309,276</u>	<u>344,862</u>	<u>354,540</u>	<u>359,872</u>	<u>353,373</u>
<b>Total Primary Government</b>										
<b>Program Revenues</b>	<u>\$ 338,873</u>	<u>\$ 357,001</u>	<u>\$ 335,793</u>	<u>\$ 342,995</u>	<u>\$ 344,575</u>	<u>\$ 370,431</u>	<u>\$ 423,823</u>	<u>\$ 435,797</u>	<u>\$ 428,597</u>	<u>\$ 423,202</u>
<b>EXPENSES</b>										
<b>Governmental Activities</b>										
City Council	\$ 345	\$ 94	\$ 387	\$ 271	\$ 352	\$ 329	\$ 345	\$ 270	\$ 172	\$ 178
City Manager	1,960	1,237	2,180	2,155	2,662	1,975	2,757	3,336	3,616	2,466
City Attorney	1,656	1,642	1,797	1,759	2,472	2,140	2,511	3,086	2,845	2,292
City Clerk	908	330	641	680	582	762	931	822	748	702
City Auditor	235	464	489	362	414	847	994	1,081	645	641
Administrative Services	10,100	7,614	11,388	9,980	10,637	11,887	13,949	19,169	15,919	22,985
Human Resources	1,071	1,420	1,346	1,464	2,224	2,272	2,674	3,021	3,060	2,518
Public Works	14,568	20,816	24,577	21,075	24,613	25,539	30,349	36,617	45,609	52,727
Planning & Community Environment <sup>2</sup>	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	18,141
Office of Transportation <sup>3</sup>	-	-	-	-	-	-	-	-	4,693	3,636
Public Safety (Police and Fire)	62,817	59,452	62,883	58,660	56,653	73,320	83,923	89,189	92,187	80,758
Community Services	21,915	22,705	23,822	24,688	28,547	27,866	33,709	36,815	34,147	30,289
Library	7,323	7,319	7,758	7,721	10,825	11,437	12,208	12,557	12,971	11,145
Interest on long term debt	2,575	2,562	3,367	3,658	3,552	2,846	2,761	3,653	4,576	6,317
<b>Total Governmental</b>										
<b>Activities Expenses</b>	<u>137,547</u>	<u>139,204</u>	<u>155,561</u>	<u>151,345</u>	<u>164,899</u>	<u>183,240</u>	<u>211,132</u>	<u>234,407</u>	<u>242,913</u>	<u>234,795</u>
<b>Business-type Activities</b>										
Water	29,093	30,707	31,593	33,205	35,120	37,535	40,836	40,606	43,034	43,556
Electric	102,030	106,438	113,004	122,499	120,319	128,603	146,033	139,605	142,426	156,105
Fiber Optics	1,489	1,437	1,661	1,891	2,107	2,159	2,653	2,476	2,761	2,529
Gas	28,878	26,749	26,869	23,525	20,879	26,783	27,930	30,915	27,212	28,556
Wastewater Collection	14,825	14,313	13,235	14,595	15,199	16,405	16,801	17,324	18,877	19,577
Wastewater Treatment	20,712	20,635	21,018	21,553	22,546	23,498	27,518	27,070	28,755	28,403
Refuse	31,900	28,542	28,413	27,974	30,370	30,665	28,808	30,391	36,947	29,138
Storm Drainage	3,103	3,703	3,644	3,721	3,735	4,106	5,059	4,951	5,514	4,897
Airport	153	246	466	1,004	970	1,274	1,656	1,790	2,131	1,499
<b>Total Business-type</b>										
<b>Activities Expenses</b>	<u>232,183</u>	<u>232,770</u>	<u>239,903</u>	<u>249,967</u>	<u>251,245</u>	<u>271,028</u>	<u>297,294</u>	<u>295,128</u>	<u>307,657</u>	<u>314,260</u>
<b>Total Primary</b>										
<b>Government Expenses</b>	<u>\$ 369,730</u>	<u>\$ 371,974</u>	<u>\$ 395,464</u>	<u>\$ 401,312</u>	<u>\$ 416,144</u>	<u>\$ 454,268</u>	<u>\$ 508,426</u>	<u>\$ 529,535</u>	<u>\$ 550,570</u>	<u>\$ 549,055</u>

**Fiscal Year Ended June 30**

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>NET (EXPENSE)/REVENUE</b>										
Governmental Activities	\$ (70,273)	\$ (57,806)	\$ (95,290)	\$ (81,873)	\$ (95,013)	\$ (122,085)	\$ (132,171)	\$ (153,150)	\$ (174,188)	\$ (164,966)
Business-type Activities	39,416	42,833	35,619	23,556	23,444	38,248	47,568	59,412	52,215	39,113
<b>Total Primary Government</b>										
<b>Net (Expense)/Revenue</b>	<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>	<u>\$ (125,853)</u>

**GENERAL REVENUES AND OTHER CHANGES IN NET POSITION**

**Governmental Activities**

<b>Taxes</b>										
Property tax	\$ 30,104	\$ 31,929	\$ 35,299	\$ 38,750	\$ 41,189	\$ 43,953	\$ 47,170	\$ 51,718	\$ 55,604	\$ 60,901
Sales tax	22,132	25,606	29,424	29,675	30,018	29,923	31,091	36,508	30,563	29,127
Utility user tax	10,834	10,861	11,008	10,861	12,469	14,240	15,414	16,402	16,140	14,642
Transient occupancy tax	9,664	10,794	12,255	16,699	22,366	23,477	24,937	25,649	18,553	5,179
Other taxes	8,173	10,504	9,660	11,867	7,868	8,989	11,337	9,525	9,775	13,471
Investment earnings	6,238	(1,228)	5,859	5,010	8,639	(711)	420	15,375	13,850	4,939
Miscellaneous	14,943	518	2,575	3,428	894	168	1,973	1,906	60	183
Transfers	17,426	19,249	17,103	16,405	18,705	18,344	19,077	18,680	20,234	19,087
<b>Total Governmental Activities</b>	<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>	<u>147,529</u>

**Business-type Activities**

Investment earnings	7,605	(2,754)	6,379	4,857	7,282	(449)	596	12,680	11,482	2,187
Transfers	(17,426)	(19,249)	(17,103)	(16,405)	(18,705)	(18,344)	(19,077)	(18,680)	(20,234)	(19,087)
<b>Total Business-type Activities</b>	<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>	<u>(16,900)</u>

<b>Total Primary Government</b>	<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>	<u>\$ 130,629</u>
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**CHANGE IN NET POSITION**

Governmental Activities	\$ 49,241	\$ 50,427	\$ 27,893	\$ 50,822	\$ 47,135	\$ 16,298	\$ 19,248	\$ 22,613	\$ (9,409)	\$ (17,437)
Business-type Activities	29,595	20,830	24,895	12,008	12,021	19,455	29,087	53,412	43,463	22,213
<b>Total Primary Government</b>										
<b>Change in Net Position</b>	<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>	<u>\$ 4,776</u>

Notes:

<sup>1</sup>The Development Services Department was formed in FY15.

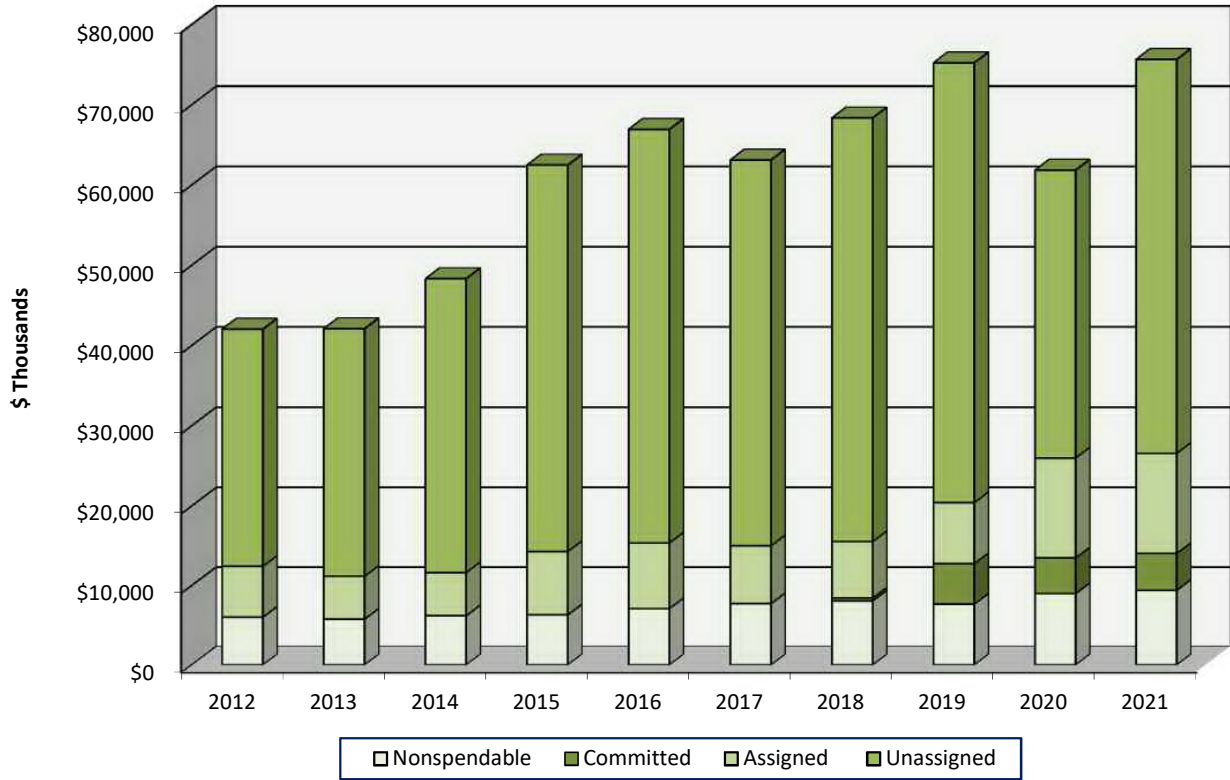
<sup>2</sup>In FY20, the Development Services Department was combined with the Planning and Community Environment Department to form the Planning and Development Services Department.

<sup>3</sup>In FY20, the City established the Office of Transportation.

Source:

Annual Financial Statements, Statement of Activities

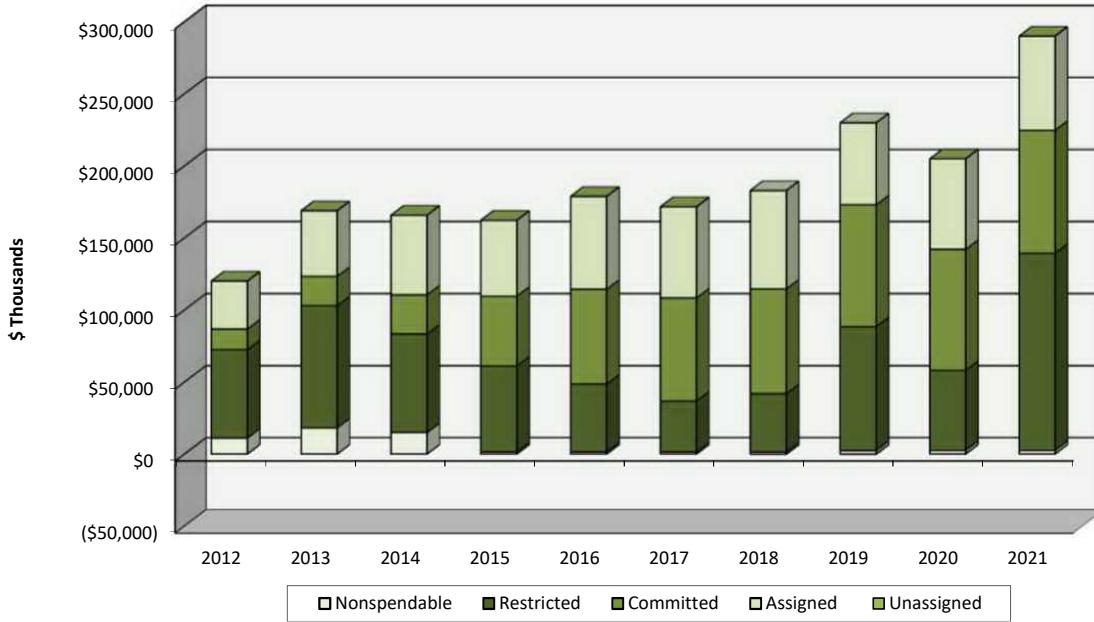
**CITY OF PALO ALTO**  
**Fund Balances of Governmental Funds (General Fund)**  
**Last Ten Fiscal Years**  
**(Modified accrual basis of accounting)**  
**(Amounts in thousands)**



	<b>Fiscal Year Ended June 30</b>									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>General Fund</b>										
Nonspendable	\$ 6,007	\$ 5,749	\$ 6,188	\$ 6,296	\$ 7,088	\$ 7,709	\$ 8,049	\$ 7,647	\$ 8,967	\$ 9,376
Committed	-	-	-	-	-	-	373	5,100	4,505	4,651
Assigned	6,400	5,415	5,432	7,976	8,261	7,280	7,098	7,657	12,496	12,520
Unassigned	29,616	30,913	36,690	48,198	51,582	48,118	52,826	54,811	35,871	49,089
<b>Total General Fund</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>	<b>\$ 75,636</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)**



	<b>Fiscal Year Ended June 30</b>									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>All Other Governmental Funds</b>										
Nonspendable	\$ 11,112	\$ 18,189	\$ 14,869	\$ 1,468	\$ 1,505	\$ 1,499	\$ 1,498	\$ 2,438	\$ 2,540	\$ 2,556
Restricted	61,324	84,688	68,468	59,650	47,113	35,298	40,317	85,940	55,548	136,795
Committed	14,284	20,400	27,145	48,434	65,745	71,566	72,781	84,616	83,973	85,324
Assigned	33,264	45,514	55,211	52,627	64,411	63,225	68,261	56,842	62,825	65,331
Unassigned	-	-	-	-	-	-	(32)	(32)	-	-
<b>Total All Other Governmental Funds</b>	<u>\$ 119,984</u>	<u>\$ 168,791</u>	<u>\$ 165,693</u>	<u>\$ 162,179</u>	<u>\$ 178,774</u>	<u>\$ 171,588</u>	<u>\$ 182,825</u>	<u>\$ 229,804</u>	<u>\$ 204,886</u>	<u>\$ 290,006</u>

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									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenues</b>										
Property tax	\$ 30,216	\$ 32,040	\$ 35,393	\$ 38,836	\$ 41,289	\$ 44,050	\$ 47,242	\$ 51,776	\$ 55,628	\$ 60,906
Sales tax	22,132	25,606	29,424	29,675	30,018	29,923	31,091	36,508	30,563	29,127
Other taxes and fines	29,231	32,141	35,305	41,576	44,909	48,875	53,837	53,525	45,729	33,947
Contributions <sup>5</sup>	-	-	-	-	-	-	11,733	-	-	-
Charges for services	46,273	38,976	23,962	25,973	23,910	22,267	26,835	27,346	24,127	25,106
From other agencies	1,116	4,109	5,700	7,727	4,417	5,443	5,392	4,689	12,315	15,252
Permits and licenses	7,136	8,218	8,990	9,179	11,228	10,523	12,786	17,759	13,144	9,422
Interest and rentals	18,583	12,136	18,445	18,658	22,269	15,348	16,288	32,905	26,123	20,145
Other revenue	12,739	17,570	7,471	12,837	13,827	4,985	6,067	7,955	1,091	1,033
<b>Total Revenues</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>194,938</b>
<b>Expenditures</b>										
Administration <sup>1</sup>	9,412	8,291	9,961	10,806	11,501	13,192	14,721	15,799	16,527	13,954
Public Works	11,304	11,489	12,439	12,276	13,112	14,485	15,426	14,764	14,793	14,692
Planning and Community Environment <sup>3</sup>	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	17,115
Office of Transportation <sup>4</sup>	-	-	-	-	-	-	-	-	4,175	3,373
Public Safety (Police and Fire)	62,418	59,537	62,028	61,447	63,784	71,164	73,916	76,344	82,173	76,282
Community Services	20,860	21,661	22,644	23,553	25,511	25,408	29,831	31,619	29,868	26,490
Library	7,072	6,902	7,340	7,980	7,960	8,953	9,120	9,288	9,988	8,528
Non-departmental	6,819	4,567	8,135	6,180	8,068	6,566	7,579	12,231	9,498	4,854
Capital Outlay	29,154	29,542	37,035	41,754	24,457	39,643	40,971	46,914	66,362	48,114
Debt service - principal payments	1,743	1,489	1,524	1,948	7,130	2,066	2,961	2,101	2,280	2,595
Debt service - interest and fiscal fees	2,757	2,659	3,196	3,404	4,266	3,032	2,956	3,398	5,025	6,147
Payment to bond refunding escrow	586	540	-	-	-	-	-	-	-	-
<b>Total Expenditures</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>222,144</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</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>(27,206)</b>
<b>Other Financing Sources (Uses)</b>										
Issuance of Debt	-	-	-	-	-	-	8,970	42,297	-	101,505
Original debt premium	-	-	-	-	-	-	-	-	-	6,524
Proceeds from sale of capital assets	-	-	-	-	-	-	-	2,442	-	100
Transfers in	47,200	50,343	41,683	45,137	61,835	58,331	56,882	54,711	58,397	43,558
Transfers out	(29,782)	(33,833)	(24,175)	(29,824)	(46,492)	(44,770)	(41,085)	(43,147)	(44,552)	(25,564)
Proceeds from long term debt	3,222	21,706	-	-	-	-	-	-	-	-
Payments to refund bond escrow	(3,104)	-	-	-	-	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</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>126,123</b>
<b>Net Change in Fund Balances</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>\$ 98,917</b>
<b>Debt Service as a Percentage of Non-Capital Expenditures</b>	3.3%	2.6%	2.6%	2.8%	6.1%	2.5%	2.7%	2.3%	2.8%	4.6%

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>
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
2021	26,719	98,582	4,167	129,468

\* 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>
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
Tesla, Inc.	Manufacturing
Varian Medical Systems, Inc.	Manufacturing
Veterans Administration Hospital	Hospital
VMware, Inc.	Computer

<sup>1</sup>The top ten customers accounted for approximately 38.1% of total kWh consumption (309,840,850 kWh) and 33.9% of revenue (\$45,815,976). The largest top ten customer accounted for 9.4% of total kWh consumption and 8.1% of revenue. The smallest top ten customer accounted for 2% of total kWh consumption and 1.9% 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>Average Installations Billed<sup>1</sup></b>	<b>Kilowatt-hour Sales (kWh)</b>	<b>Revenue</b>
Residential	25,074	165,102,659	\$ 26,719
Commercial	3,599	501,635,237	81,235
Industrial	62	122,154,960	17,347
City of Palo Alto	143	24,991,825	4,167
<b>Total</b>	<b>28,878</b>	<b>813,884,681</b>	<b>\$ 129,468</b>

<sup>1</sup>Values provided are in terms of average number of meters (installations) billed per month. Individual customers may utilize multiple meters or facilities within Palo Alto which encompass one or more designations (commercial, industrial and/or residential), thus aggregation on the basis of 'number of customers' does not hold for this type of breakdown. The number of active meters in any given month may vary due to patterns of move in, move outs, as well as meter reading cycles.

Source: City of Palo Alto, Utilities and Accounting Departments

**CITY OF PALO ALTO**  
**Department of Utilities**  
**Power Supply Resources**  
**For the Fiscal Year Ended June 30, 2021**

<b>Source</b>	<b>Capacity Available (MW)</b>	<b>Actual Energy (GWh)</b>	<b>Percent of Total Energy</b>
<b>Purchased Power:</b>			
Solar	130	311	38%
Wind	21	120	15%
Landfill Gas	14	104	13%
Hydro (NCPA)	58	49	6%
Hydro (Western)	182	246	30%
Net Forward Market Sales/Purchases	60	(30)	-4%
Net Spot Market Sales/Purchases	-	27	3%
<b>Total</b>	<b>N/A <sup>1</sup></b>	<b>827</b>	<b>100%</b>

Notes: <sup>1</sup>Capacity availability varies by season and is not necessarily additive at any given time.

In the fiscal year ended June 30, 2021, Palo Alto's average cost of power delivered to the Palo Alto electric system was approximately \$0.10 per kWh.

Source: City of Palo Alto, Utilities Department



**CITY OF PALO ALTO**  
**Supplemental Disclosure for Water Utilities**  
**For the Fiscal Year Ended June 30, 2021**

**Top Ten Largest Water Utility Customers (alphabetical order)**

City of Palo Alto  
Palo Alto Hills Golf & Country Club  
Lucille Packard Children's Hospital  
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 866,031 CCF with revenue of \$8,293,613. This amount accounts for approximately 18.2% of total consumption and 16.6% of total revenue. The largest top ten customer (other than the City of Palo Alto) accounted for 2.1% of consumption and 2.1% of revenue. The smallest top ten customer accounted for 0.7% of consumption and 0.6% 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**  
**For the Fiscal Year Ended June 30, 2021**

**Top Ten Largest Gas Utility Customers (alphabetical order)**

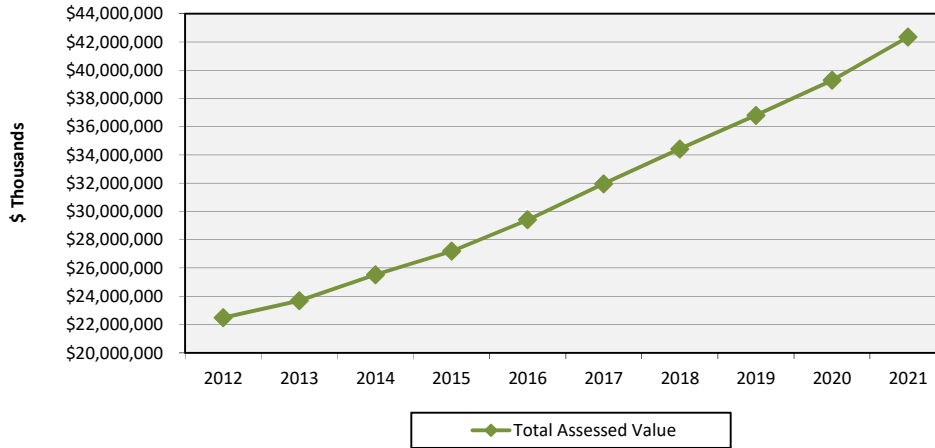
City of Palo Alto  
Genencor International  
Lucille Packard Children's Hospital  
Palo Alto Unified School District  
Space Systems/Loral, LLC  
Stanford Health Care  
Stanford Hospital & Clinics  
Stanford University  
Veterans Administration Hospital  
VMWare, Inc.

The top ten customers total consumption is 5,993,550 THM with revenue of \$7,292,737. This amount accounts for approximately 23.4% of total consumption and 18.9% of total revenue. The largest top ten customer (other than the City of Palo Alto) accounted for 8.1% of consumption and 6.3% of revenue. The smallest top ten customer accounted for 0.9% of consumption and 0.8% 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)**

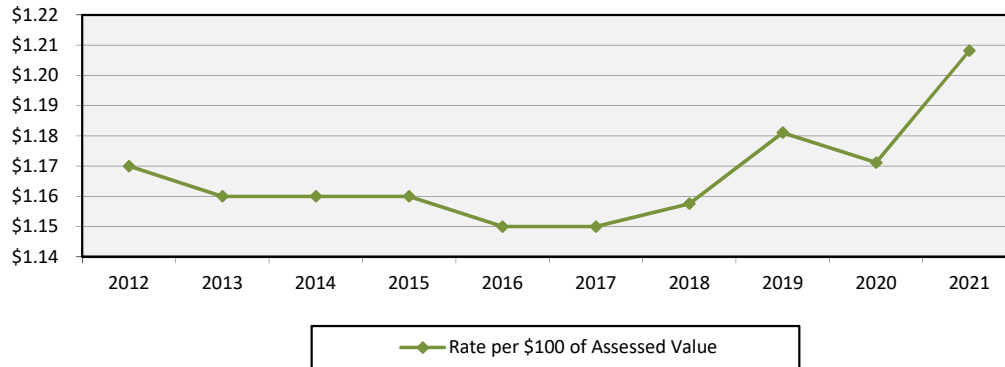


	Fiscal Year Ended June 30									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Net Local Secured Roll</b>										
Land	\$ 11,352,993	\$ 12,255,515	\$ 13,357,851	\$ 14,409,837	\$ 15,718,665	\$ 17,333,969	\$ 18,770,642	\$ 20,386,904	\$ 22,186,582	\$ 24,028,178
Improvements	11,703,597	12,381,306	12,984,735	13,633,986	14,998,502	16,752,295	18,642,970	19,845,666	21,183,768	22,706,856
Personal property	257,436	287,296	307,499	290,590	310,929	306,576	300,352	181,381	194,646	198,396
	<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>	<u>46,933,430</u>
<b>Less:</b>										
Exemptions net of state aid	<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>	<u>(6,781,123)</u>
<b>Total Net Local Secured Roll</b>	<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>	<u>40,152,307</u>
Public utilities	2,573	2,573	2,573	2,573	2,573	2,573	2,573	7,004	7,004	7,004
Unsecured property	<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>	<u>2,194,615</u>
<b>Total Assessed Value</b>	<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>	<u>\$ 42,353,926</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
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
2021	1.00	0.0388	0.0069	0.0096	0.0037	0.1113	0.0364	0.0015	-	1.21

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		Collections in Subsequent Years <sup>2</sup>	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
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%
2021	56,572	56,572	100%	-	56,572	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 2021			Fiscal Year 2012		
	Taxable Assessed	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed	Rank	Percentage of Total Taxable Assessed Value
	Value			Value		
Leland Stanford Jr. University	\$ 6,529,897	1	15.4%	\$ 3,035,075	1	13.5%
Google Inc.	303,697	2	0.7%			
ARE-San Francisco 80 LLC	291,000	3	0.7%			
SVF Sherman Palo Alto Corporation	143,575	4	0.3%			
ARE-San Francisco 69 LLC	141,494	5	0.3%			
395 Page Mill LLC	123,083	6	0.3%			
530 Lytton Owner LLC	119,850	7	0.3%			
Hohbach Realty Co. LP	110,392	8	0.3%			
SI 45 LLC	84,423	9	0.2%			
PA Hotel Holdings LLC	82,600	10	0.2%			
Space Systems/Loral, Inc.				226,246	2	1.0%
Arden Realty Limited Partnership				112,472	3	0.5%
Whisman Ventures, LLC				105,066	4	0.5%
ECI 2 Bayshore LLC/ECI Hamilton LLC				73,901	5	0.3%
Ronald & Ann Williams Charitable Foundation				58,804	6	0.3%
Blackhawk Parent LLC				50,196	7	0.2%
300 / 400 Hamilton Associates				41,433	8	0.2%
Thoit Bros., Inc.				31,740	9	0.1%
529 Bryant St.				31,737	10	0.1%
<b>Total</b>	<u>\$ 7,930,011</u>		<u>18.7%</u>	<u>\$ 3,766,670</u>		<u>16.7%</u>

**Total City Taxable Assessed Value:**

FY 2021	\$ 42,353,926
FY 2012	\$ 22,486,708

Source: California Municipal Statistics, Inc.

**CITY OF PALO ALTO**  
**Assessed Valuation and Parcels by Land Use**  
**As of June 30, 2021**

	<b>2020-2021</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>Non-Residential:</b>						
Agricultural/forest	\$ 37,697,860	0.09 %	49	0.23 %	31	0.15 %
Commercial	2,192,486,496	5.46	459	2.20	457	2.23
Professional/office	6,506,771,625	16.21	560	2.68	540	2.64
Industrial/research & development	2,295,767,267	5.72	230	1.10	229	1.12
Recreational	77,145,645	0.19	16	0.08	14	0.07
Government/social/institutional	44,228,709	0.11	115	0.55	50	0.24
Miscellaneous	<u>11,435,206</u>	<u>0.03</u>	<u>18</u>	<u>0.09</u>	<u>17</u>	<u>0.08</u>
Subtotal Non-Residential	11,165,532,808	27.81	1,447	6.92	1,338	6.53
<b>Residential:</b>						
Single family residence	23,266,022,527	57.94	15,096	72.20	15,024	73.31
Condominium/townhouse	2,863,724,800	7.13	3,151	15.07	3,146	15.35
Mobile Home	114,938	0.00	8	0.04	8	0.04
2-4 Residential units	534,551,067	1.33	497	2.38	497	2.43
5+ Residential units	<u>1,944,144,849</u>	<u>4.84</u>	<u>345</u>	<u>1.65</u>	<u>329</u>	<u>1.61</u>
Subtotal Residential	28,608,558,181	71.25	19,097	91.33	19,004	92.73
<b>Vacant Parcels</b>	<u>378,215,314</u>	<u>0.94</u>	<u>365</u>	<u>1.75</u>	<u>151</u>	<u>0.74</u>
<b>Total</b>	<u>\$ 40,152,306,303</u>	<u>100 %</u>	<u>20,909</u>	<u>100 %</u>	<u>20,493</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, 2021**

	<b>No. of Taxable Parcels<sup>1</sup></b>	<b>2020-2021 Assessed Valuation</b>	<b>Average Assessed Valuation</b>	<b>Median Assessed Valuation</b>
Single Family Residential	15,024	\$23,266,022,527	\$1,548,590	\$1,096,758

<b>2020-2021 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	774	5.15 %	5.15 %	\$ 62,751,790	0.27 %	0.27 %
\$100,000-199,999	1,627	10.83	15.98	226,741,966	0.97	1.24
\$200,000-299,999	736	4.90	20.88	181,708,519	0.78	2.03
\$300,000-399,999	636	4.23	25.11	221,115,384	0.95	2.98
\$400,000-499,999	552	3.67	28.79	248,397,391	1.07	4.04
\$500,000-599,999	565	3.76	32.55	311,648,230	1.34	5.38
\$600,000-699,999	604	4.02	36.57	392,667,685	1.69	7.07
\$700,000-799,999	534	3.55	40.12	401,042,038	1.72	8.79
\$800,000-899,999	445	2.96	43.08	377,885,136	1.62	10.42
\$900,000-999,999	517	3.44	46.53	492,018,891	2.11	12.53
\$1,000,000-1,099,999	517	3.44	49.97	542,105,280	2.33	14.86
\$1,100,000-1,199,999	484	3.22	53.19	557,127,718	2.39	17.26
\$1,200,000-1,299,999	432	2.88	56.06	539,458,161	2.32	19.58
\$1,300,000-1,399,999	361	2.40	58.47	487,217,064	2.09	21.67
\$1,400,000-1,499,999	392	2.61	61.08	566,176,362	2.43	24.10
\$1,500,000-1,599,999	369	2.46	63.53	571,850,964	2.46	26.56
\$1,600,000-1,699,999	353	2.35	65.88	582,441,439	2.50	29.07
\$1,700,000-1,799,999	325	2.16	68.04	567,977,334	2.44	31.51
\$1,800,000-1,899,999	297	1.98	70.02	548,853,685	2.36	33.87
\$1,900,000-1,999,999	283	1.88	71.90	551,751,152	2.37	36.24
\$2,000,000 and greater	4,221	28.10	100.00	14,835,086,338	63.76	100.00
Total	<u>15,024</u>	<u>100.00</u> %		<u>\$ 23,266,022,527</u>	<u>100.00</u> %	

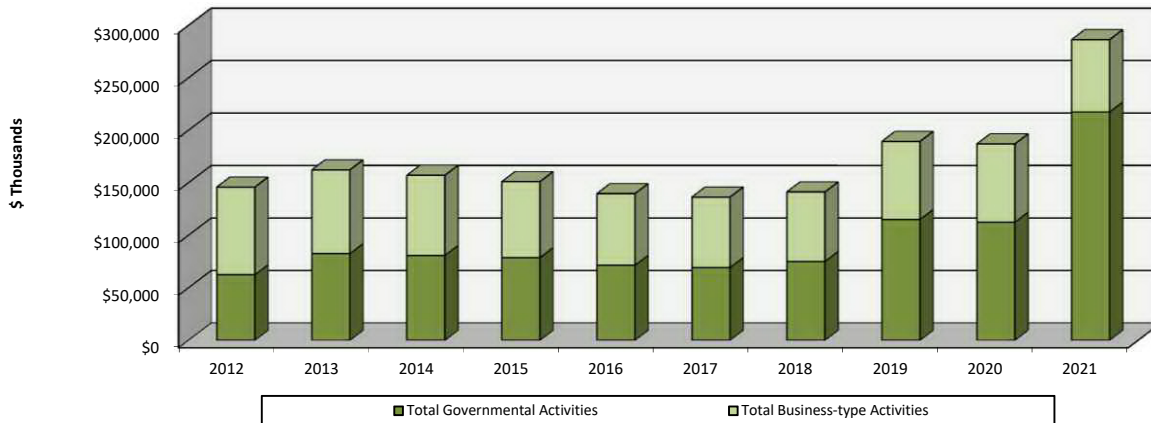
Notes: This schedule is provided as required by the Continuing Disclosure Agreement for the City's 2010 and 2013A General Obligation Bonds and is not required by Governmental Accounting Standards Board (GASB). Therefore, ten years of comparison data is not presented.

<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**

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Governmental Activities</b>										
Certificates of Participation	\$ 1,685	\$ 1,560	\$ 1,430	\$ 1,285	\$ 1,135	\$ 975	\$ 8,970	\$ 46,305	\$ 45,750	\$ 146,440
General Obligation Bonds	54,540	74,235	73,215	71,795	65,210	63,710	62,140	60,500	58,775	56,995
2011 Lease-Purchase Agreement	2,764	2,400	2,026	1,643	1,248	842	426	-	-	-
Add: unamortized premium	<u>3,514</u>	<u>4,400</u>	<u>4,242</u>	<u>4,084</u>	<u>3,926</u>	<u>3,768</u>	<u>3,610</u>	<u>8,331</u>	<u>7,980</u>	<u>14,099</u>
<b>Total Governmental Activities</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>217,534</b>
<b>Business-type Activities</b>										
Utility Revenue Bonds	65,879	63,104	60,224	57,224	54,095	50,825	47,400	43,815	40,060	36,130
Energy Tax Credits	1,000	900	800	700	600	500	400	300	200	100
State Water Resources Loan	15,900	15,109	14,309	13,500	12,681	15,034	17,711	29,589	33,808	32,288
Add: unamortized premium (discount), net	<u>580</u>	<u>543</u>	<u>867</u>	<u>803</u>	<u>737</u>	<u>673</u>	<u>608</u>	<u>544</u>	<u>468</u>	<u>392</u>
<b>Total Business-type Activities</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>68,910</b>
<b>Total Primary Government Outstanding Debt</b>	<b><u>\$ 145,862</u></b>	<b><u>\$ 162,251</u></b>	<b><u>\$ 157,113</u></b>	<b><u>\$ 151,034</u></b>	<b><u>\$ 139,632</u></b>	<b><u>\$ 136,327</u></b>	<b><u>\$ 141,265</u></b>	<b><u>\$ 189,384</u></b>	<b><u>\$ 187,041</u></b>	<b><u>\$ 286,444</u></b>
Percentage of Personal Income <sup>1</sup>	3.36%	3.36%	3.24%	2.94%	2.42%	2.22%	2.13%	2.64%	2.48%	3.81%
Population	65,544	66,368	66,861	66,029	66,968	66,478	66,649	67,082	67,019	66,573
Debt Per Capita	\$ 2.23	\$ 2.44	\$ 2.35	\$ 2.29	\$ 2.09	\$ 2.05	\$ 2.12	\$ 2.82	\$ 2.79	\$ 4.30

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)  
2020 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, 2021**

2020-2021 Assessed Value

\$ 42,353,925,962

	<b>Total Debt</b>	<b>Percentage</b>	<b>Amount</b>
	<b>Outstanding</b>	<b>Applicable</b>	<b>Applicable</b>
<b><u>Direct and Overlapping Tax and Assessment Debt</u></b>		<b>to City of</b>	<b>to City of</b>
		<b>Palo Alto<sup>1</sup></b>	<b>Palo Alto</b>
Santa Clara County	\$ 812,685,000	7.69%	\$ 62,471,096
Foothill-DeAnza Community College District	707,932,142	21.92%	155,214,122
Palo Alto Unified School District	241,738,172	90.39%	218,499,882
Fremont Union High School District	617,160,088	0.01%	55,544
Los Gatos-Saratoga Joint Union High School District	86,585,000	0.01%	11,256
Mountain View-Los Altos Union High School District	207,011,101	0.85%	1,755,454
Cupertino Union School District	284,223,303	0.02%	48,318
Los Altos School District	164,070,000	1.13%	1,860,554
Mountain View-Whisman School District	279,115,000	0.61%	1,691,437
Saratoga Union School District	19,249,458	0.03%	5,775
Whisman School District	8,380,054	1.62%	135,505
City of Palo Alto	56,995,000	100%	56,995,000
El Camino Hospital District	116,290,000	0.07%	82,566
Midpeninsula Regional Open Space District	86,400,000	12.58%	10,872,576
City of Palo Alto Special Assessment Bonds	17,915,000	100%	17,915,000
Santa Clara Valley Water District Benefit Assessment District	57,010,000	7.69%	4,382,359
<b>Total Direct and Overlapping Tax and Assessment Debt</b>			<u>531,996,444</u>
<b><u>Direct and Overlapping General Fund Debt</u></b>			
Santa Clara County General Fund Obligations	914,957,860	7.69%	70,332,811
Santa Clara County Pension Obligations	341,399,194	7.69%	26,243,356
Santa Clara County Board of Education Certificates of Participation	2,670,000	7.69%	205,243
Foothill-DeAnza Community College District Certificates of Participation	22,085,000	21.92%	4,842,136
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	1,709,000	0.01%	222
Mountain View-Los Altos Union High School District Certificates of Participation	2,489,970	0.85%	21,115
Saratoga Union High School District Certificates of Participation	2,750,000	0.03%	825
Los Altos School District Certificates of Participation	1,954,070	1.13%	22,159
City of Palo Alto General Fund Obligations	146,440,000	100%	146,440,000
Santa Clara County Vector Control District Certificates of Participation	1,765,000	7.69%	135,676
Midpeninsula Regional Open Space Park District General Fund Obligation:	106,000,600	12.58%	13,339,116
<b>Total Gross Direct and Overlapping General Fund Debt</b>			<u>\$ 261,582,659</u>
Less: Santa Clara County supported obligations			<u>1,943,066</u>
<b>Total Net Direct and Overlapping General Fund Debt</b>			<u>\$ 259,639,593</u>
<b>Total Combined Debt</b>			<u>\$ 791,636,037</u>
	<b>Ratio to</b>		
	<b>Assessed Value</b>		
<b>Total Direct Debt</b>	0.51%		\$ 217,534,000 <sup>3</sup>
<b>Total Overlapping Debt</b>	1.39%		<u>588,201,037</u>
<b>Total Direct and Overlapping Debt</b>	1.90%		<u>805,735,037</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 \$14,099,000.

Source: California Municipal Statistics, Inc.

**CITY OF PALO ALTO**  
**Computation of Legal Bonded Debt Margin**  
**As of June 30, 2021**  
**(Amounts in thousands)**

<b>Assessed Valuation:</b>		
Secured property assessed value, net of exempt real property	\$	42,353,926
<b>Bonded Debt Limit (3.75% of Assessed Value)<sup>1</sup></b>		1,588,272
<b>Direct Debt:</b>		
Certificates of Participation	146,440	
General Obligation bonds	56,995	
<b>Total Direct Debt<sup>3</sup></b>	203,435	
<b>Less: Amount of Debt Not Subject to Limit<sup>2</sup></b>	146,440	
<b>Total Net Debt Applicable to Limit</b>		56,995
<b>Legal Bonded Debt Margin</b>	\$	1,531,277

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
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
2021	42,353,926	1,588,272	56,995	1,531,277	66,573	3.59%	0.0013	0.86

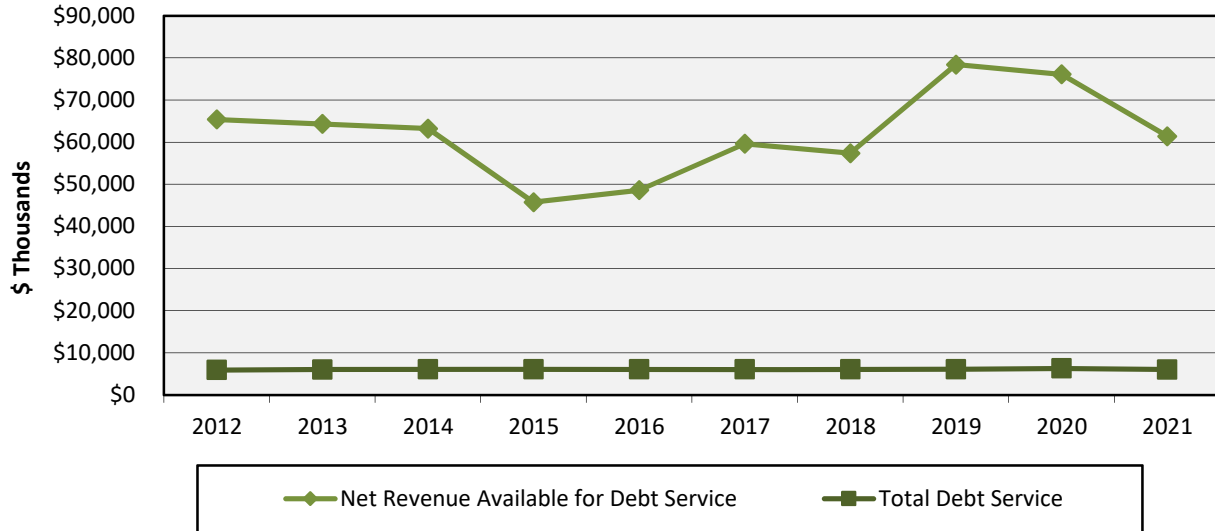
Notes: <sup>1</sup>California Government Code, Section 43605 sets the debt limit at 15% of the assessed value of all real and personal property of the City. Because this Code section was enacted when assessed value was 25% of market value, the limit is calculated at one-fourth, or 3.75%. This legal debt 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	
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
2021	309,363	247,962	61,401	4,030	2,008	6,038	10.17

Notes: <sup>1</sup>Airport, Refuse and Fiber Optics funds have no debt and are therefore excluded from this schedule.

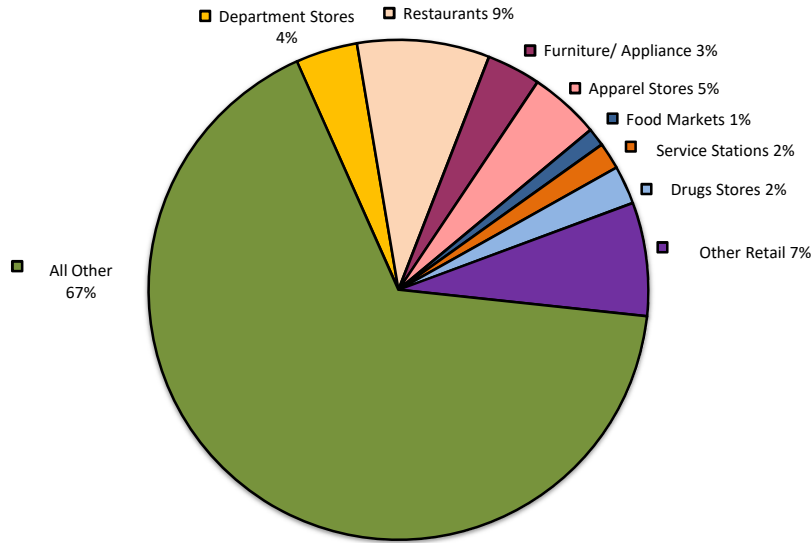
<sup>2</sup>Excludes depreciation and amortization expense.

<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 2021**



**ECONOMIC SEGMENT**

Fiscal Year	Department Stores	Restaurants	Furniture/ Appliance	Apparel Stores	Food Markets	Service Stations	Drug Stores	Other Retail	All Other	Total
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
2021 <sup>1</sup>	1,125	2,410	980	1,283	332	489	700	2,062	18,744	28,125

Source: California State Board of Equalization, compiled by MuniServices LLC

**Sales Tax Rates for the Fiscal Year Ended June 30, 2021**

**State Rate:** 7.25%

**Special District Tax Rates:**

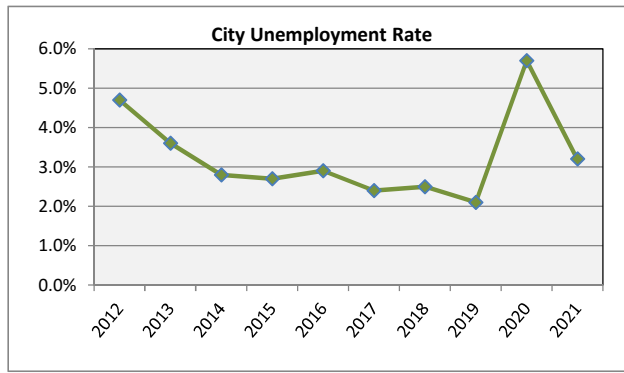
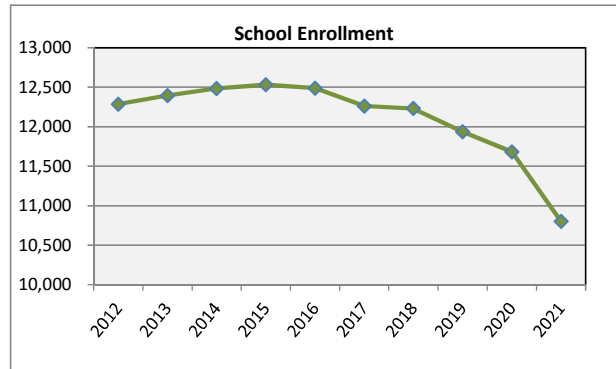
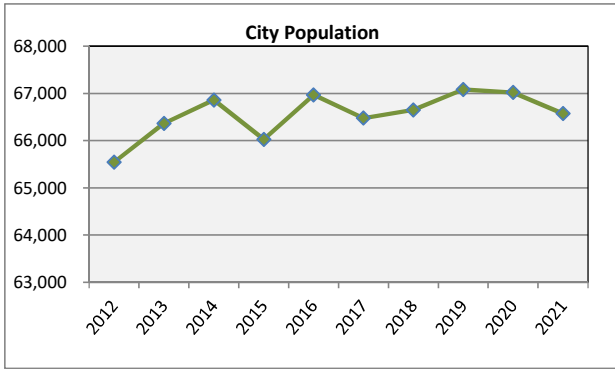
Santa Clara County Transit District (SCCT) 0.50%  
 Santa Clara County Valley Transportation Authority (SCVT) 0.50%  
 Santa Clara VTA BART Operating and Maintenance Transactions and Use Tax (SVTB) 0.125%  
 Santa Clara Retail Transactions and Use Tax (SCCR) 0.125%  
 Silicon Valley Transportation Solutions Tax (SVTS) 0.50%

**Total Sales and Use Tax Rate:** 9.000%

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
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	1,919,736	3.49%	165,300,000 *	86,106 *
2017	66,478	2.4%	12,261	1,933,839	3.44%	178,500,000 *	92,303 *
2018	66,649	2.5%	12,230	1,945,829	3.43%	193,700,000 *	99,546 *
2019	67,082	2.1%	11,938	1,955,946	3.43%	209,000,000 *	106,854 *
2020	67,019	5.7%	11,683	1,961,117	3.42%	220,400,000 *	112,385 *
2021	66,573	3.2%	10,801	1,967,525	3.38%	222,200,000	112,934

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 2021<sup>1</sup></b>			<b>FY 2012</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>
Stanford Health Care <sup>2</sup>	5,500	1	4.1%	5,059	2	4.6%
Hewlett-Packard Company <sup>2</sup>	5,000	2	3.7%	2,201	5	2.0%
Stanford University <sup>2</sup>	4,060	3	3.0%	10,680	1	9.7%
Veteran's Affairs Palo Alto Health Care System	3,900	4	2.9%	3,500	4	3.2%
Stanford Children's Health/Lucile Packard Children's H	3,500	5	2.6%	4,750	3	4.3%
VMware Inc.	3,500	6	2.6%			
SAP Labs Inc.	3,500	7	2.6%			
Varian Medical Systems	3,300	8	2.5%			
Tesla Inc.	2,650	9	2.0%			
Palo Alto Medical Foundation <sup>2</sup>	2,200	10	1.6%	2,200	6	2.0%
Space Systems/Loral				1,870	7	1.7%
Wilson Sonsini Goodrich & Rosati				1,650	8	1.5%
Palo Alto Unified School District				1,362	9	1.2%
City of Palo Alto				1,017	10	0.9%
<b>Total</b>	<b>37,110</b>		<b>27.6%</b>	<b>34,289</b>		<b>31.2%</b>

**Estimated Total City Day Population:**

FY 2021	134,582
FY 2012	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. 2021 numbers are rounded. Figures may include employees not located within City limits.  
<sup>2</sup>FY21 data was not available. Prior years data was used.

Source: 2020 Official City Data Set (total City day population); AtoZ databases; Stanford Comprehensive Plan Economic Impact Report, Stanford University Land Use Planning, "Stanford Facts 2021."

**CITY OF PALO ALTO**  
**Operating Indicators by Function/Program**  
**Last Ten Fiscal Years<sup>1</sup>**

FUNCTIONS/PROGRAMS	Fiscal Year Ended June 30			
	2011	2012	2013	2014
<b><u>Governmental activities</u></b>				
<b>Community Services</b>				
Number of theater performances	175	175	184	108
Total hours of athletic field usage <sup>2</sup>	42,687	44,226	-	-
Number of rounds of golf	67,381	65,653	60,153	46,527
Enrollment in recreation classes (includes summer camps)	12,310	11,703	11,598	11,997
<b>Planning and Community Environment</b>				
Planning applications completed	238	204	307	310
Building permits issued	3,559	3,320	3,682	3,624
Caltrain average weekday boarding <sup>3</sup>	4,923	5,730	6,763	7,564
<b>Police</b>				
Calls for service	52,159	51,086	54,628	58,559
Total arrests	2,288	2,212	2,274	2,589
Parking citations issued	40,426	41,875	43,877	36,551
<b>Animal Services</b>				
Number of service calls	2,804	3,051	2,909	2,398
Number of animals handled	3,323	3,379	2,675	2,480
<b>Fire</b>				
Calls for service	7,555	7,796	7,904	7,829
Number of fire incidents	165	186	150	150
Number of fire inspections <sup>4</sup>	1,807	1,654	2,069	1,741
<b>Library</b>				
Total number of cardholders	53,246	60,283	51,007	46,950
Total number of items in collection	314,101	306,160	277,749	361,103
Total checkouts	1,476,648	1,559,932	1,512,975	1,364,872
<b>Public Works</b>				
Street resurfacing (lane miles)	29	40	36	36
Number of potholes repaired	2,986	3,047	2,726	3,418
Sq. ft. of sidewalk replaced or permanently repaired	71,174	72,787	82,118	74,051
Number of trees planted	150	143	245	148
Tons of materials recycled or composted	56,586	51,725	47,941	49,594
<b><u>Business-type activities</u></b>				
<b>Electric</b>				
Number of customer accounts	29,708	29,545	29,299	29,338
Residential MWH consumed	160,318	160,604	156,411	153,190
<b>Gas</b>				
Number of customer accounts	23,816	23,915	23,659	23,592
Residential therms consumed	11,476,609	11,522,999	10,834,793	10,253,776
<b>Water</b>				
Number of customer accounts	20,248	20,317	20,043	20,037
Residential water consumption (CCF)	2,442,415	2,513,595	2,521,930	2,496,549
<b>Wastewater collection</b>				
Number of customer accounts	22,320	22,421	22,152	22,105
Millions of gallons processed	8,652	8,130	7,546	7,186

Notes: <sup>1</sup>Ten most recent years available.

<sup>2</sup>According to the department, this measure was not accurately tracked during FY13, FY14 and FY20 and thus are not presented.

<sup>3</sup>Beginning 2015, data source is Official City Data Set. In FY20 the count was not provided due to COVID-19.

<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); Official City Data Set (Caltrain); 2019 and 2020 data supplied by City of Palo Alto Departments.



**Fiscal Year Ended June 30**

<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
172	161	171	160	175	191
47,504	65,723	71,431	65,443	67,608	-
42,048	42,573	-	6,790	54,619	42,429
12,586	12,974	11,649	10,652	13,553	12,997
335	383	365	376	327	262
3,844	3,492	2,970	3,105	2,918	2,476
8,294	9,622	9,994	9,977	10,400	-
59,795	53,870	53,901	55,480	54,479	48,394
3,273	2,988	2,745	2,678	2,388	1,568
41,412	37,624	33,661	37,441	33,496	20,261
2,013	2,421	1,674	1,737	2,550	3,081
2,143	2,184	2,211	2,077	2,125	2,361
8,548	8,882	9,153	8,981	8,843	8,102
135	150	155	189	133	140
1,964	2,806	5,476	9,581	10,984	9,602
51,792	57,307	54,676	56,159	68,034	66,530
429,460	461,292	427,548	472,895	485,157	515,032
1,499,406	1,400,926	1,524,614	1,538,118	1,467,038	1,048,676
31	39	39	31	10	7
2,487	3,435	3,449	2,835	2,929	1,761
120,776	115,293	17,275	38,557	66,662	48,847
305	387	319	411	403	346
50,546	56,438	60,582	57,744	55,900	51,852
29,065	29,304	29,616	29,475	29,616	29,849
145,284	150,112	148,986	149,526	146,036	153,976
23,461	23,467	23,637	23,395	23,664	23,770
8,537,754	9,535,377	10,233,669	10,261,276	9,794,177	10,382,762
20,061	19,994	20,213	20,000	20,012	20,608
2,052,176	1,696,383	1,856,879	2,120,588	2,058,663	2,241,461
21,990	22,016	22,216	21,979	22,216	22,410
6,512	6,387	7,176	6,464	6,958	6,294

**CITY OF PALO ALTO**  
**Capital Asset Statistics by Function/Program**  
**Last Ten Fiscal Years**

FUNCTION/PROGRAM	Fiscal Year Ended June 30				
	2012	2013	2014	2015	2016
<b>Public Safety</b>					
Fire:					
Fire Stations Operated	7	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	-
Acres - Open Space <sup>2</sup>	3,744	3,744	3,744	3,752	-
Acres - Parks and Preserves <sup>2</sup>	-	-	-	-	3,921
Acres - Open Space <sup>2</sup>	-	-	-	-	4,489
Acres - Municipal Golf Course <sup>2</sup>	-	-	-	-	-
Parks and Preserves <sup>3</sup>	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	31,890	31,923	31,757	31,652	31,699
<b>Electric Utility<sup>1</sup></b>					
Miles of Overhead Lines	223	222	223	223	222
Miles of Underground Lines	245	246	249	262	268
<b>Water Utility</b>					
Miles of Water Mains	234	233	236	236	235
<b>Gas Utility</b>					
Miles of Gas Mains	210	210	214	211	209
<b>Waste Water</b>					
Miles of Sanitary Sewer Lines	217	217	217	217	216

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.

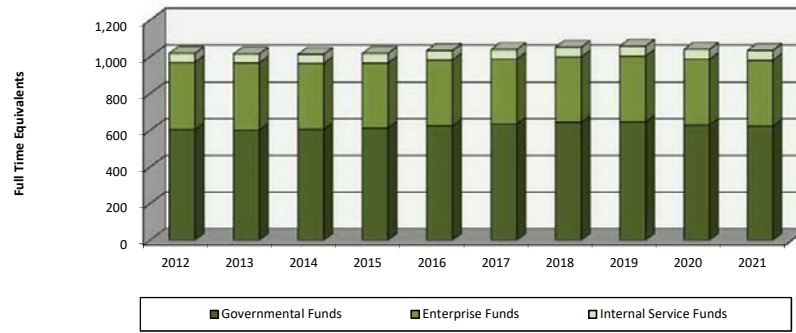
<sup>3</sup>Williams Park is excluded from the list as the City does not operate it as a park. Located near downtown and across from Heritage Park, the land is leased to a non-profit that operates it as the Museum of American Heritage.

Source: City of Palo Alto

Fiscal Year Ended June 30

<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
7	7	7	7	7
1	1	1	1	1
30	30	30	29	29
-	-	-	-	-
-	-	-	-	-
174	174	174	174	174
4,030	4,030	4,030	4,018	4,018
181	181	181	181	181
36	36	36	36	36
1	1	1	1	1
51	51	51	50	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
31,712	31,849	31,815	31,819	31,716
223	222	220	220	221
264	272	274	279	287
236	236	236	236	236
210	210	210	210	211
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**

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	
<b>Governmental Funds</b>											
General Fund:											
Administration		83	85	83	84	86	87	89	87	86	85
Community Services		74	74	74	76	77	78	79	78	76	75
Development Services <sup>5</sup>		-	-	-	38	38	36	36	36	-	-
Fire		122	119	116	107	107	109	109	98	98	98
Library		41	41	42	44	48	48	48	48	47	47
Office of Emergency Services <sup>4</sup>		-	-	3	3	3	3	3	3	3	3
Planning and Community Environment <sup>5</sup>		43	48	49	28	31	32	30	30	-	-
Planning and Development Services <sup>5</sup>		-	-	-	-	-	-	-	-	62	62
Office of Transportation <sup>6</sup>		-	-	-	-	-	-	-	-	6	6
Police		157	154	155	155	155	155	155	155	149	149
Public Works <sup>1</sup>		56	57	56	53	54	56	55	51	49	51
<b>Subtotal General Fund</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>	<b>576</b>
All Other Funds:											
Capital Projects Fund		24	26	27	27	28	31	34	33	36	36
Special Revenue Fund		2	2	9	10	9	10	9	10	11	11
<b>Total Governmental Funds</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>623</b>
<b>Enterprise Funds</b>											
Public Works <sup>2</sup>		115	104	99	100	95	99	101	101	101	101
Utilities <sup>3</sup>		251	254	255	258	256	255	257	257	257	257
<b>Total Enterprise Funds</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>358</b>
<b>Internal Service Funds</b>											
Printing and Mailing		2	2	2	2	2	2	2	2	2	2
Technology		30	31	32	32	34	35	36	36	36	36
Vehicle Replacement		16	17	17	17	17	16	16	16	16	16
<b>Total Internal Service Funds</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>54</b>
<b>Total</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>	<b>1,035</b>

Notes: <sup>1</sup>Fleet and Facilities Management  
<sup>2</sup>Refuse, Storm Drainage, Wastewater Treatment  
<sup>3</sup>Electric, Fiber Optics, Gas, Wastewater Collection, Water Fund  
<sup>4</sup>In FY14, emergency services and disaster preparation activities were 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. Staffing in prior years was included in the Development Services Department and Planning and Community Environment Department.  
Numbers adjusted for rounding purposes.

Source: City of Palo Alto - Fiscal Year 2021 Adopted Operating Budget

# *Americans with Disabilities Act Statement*



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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)



CITY OF  
**PALO  
ALTO**

# 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**

250 HAMILTON AVENUE,

PALO ALTO, CA 94301

**P** 650.329.2100

**W** [CITYOFPALOALTO.ORG](http://CITYOFPALOALTO.ORG)