



CITY OF
**PALO
ALTO**

Annual Comprehensive Financial Report

City of Palo Alto, California
Fiscal Year Ended
June 30, 2023

COMMUNITY
HEALTH AND
SAFETY

CLIMATE
CHANGE:
PROTECTION &
ADAPTATION



ECONOMIC
RECOVERY &
TRANSITION



HOUSING
FOR SOCIAL
AND ECONOMIC
BALANCE





CITY OF
**PALO
ALTO**

Fiscal Year 2023 Annual Comprehensive Financial Report

City Council

Lydia Kou, Mayor

Greer Stone, Vice Mayor

Patrick Burt

Ed Lauing

Julie Lythcott-Haims

Greg Tanaka

Vicki Veenker

Ed Shikada, City Manager

Kiely Nose, Assistant City Manager/Chief Financial Officer

Prepared by: Administrative Services Department

CITY OF PALO ALTO
For the Year Ended June 30, 2023

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OFFICE OF THE CITY MANAGER

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Palo Alto, CA 94301
650.329.2692

November 9, 2023

The Honorable City Council
City of Palo Alto, California

Transmittal of the Annual Comprehensive Financial Report for
Fiscal Year Ended June 30, 2023

Members of the Council and Citizens of Palo Alto:

We are pleased to present the Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2023, 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 the 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 accordance with U.S. generally accepted accounting principles in the United States of America (U.S. GAAP). MGO has issued unmodified opinions for the fiscal year ended June 30, 2023. Their independent auditor's report is presented as the first component of the Financial Section of this report.

In addition, MGO conducted the federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing the Single Audit require the independent auditor to report the fair presentation of the financial statements, government internal controls and compliance with legal requirements. These reports are included in the Single Audit section of the ACFR.

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. The MD&A complements this transmittal letter and should be read in conjunction with it.

Introduction

This report is divided into three sections:

- **Introductory Section:** includes this letter of transmittal, an organizational overview of the City, and prior awards received.
- **Financial Section:** consists of the independent auditor's report, MD&A, Basic Financial Statements, Notes to Basic Financial Statements, Required Supplementary Information, and Other Supplemental Information.
- **Statistical Section:** contains comprehensive statistical data which relates to physical, social, and political characteristics of the City.

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 68,624 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 of the City Council are elected at-large for four-year staggered terms. At the first meeting of each calendar year, the 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 the 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. Staff provides the subcommittees and Council with reports such as the ACFR, the Long-Range Financial Forecast (LRFF), and various planning reports, all of which are utilized in their review of the City's financial position. The Policy and Services Committee considers and makes recommendations on matters referred to it by the Council relating to policy matters on intergovernmental relations, personnel policies, planning and zoning traffic and parking, public works, audits and community and human services. Each subcommittee is comprised of three Council members.

Fiscal/Economic Conditions and Outlook

The City declared a state of emergency in March 2020 due to a global pandemic (aka COVID-19) which had significant negative impacts to the budgets in FY 2020 and FY 2021. Economic recovery began in earnest in FY 2022 and accelerated in FY 2023, with the expectation of full recovery in the next two years. The Federal Reserve's continued highly restrictive policy, to bring down overall inflation to the 2% target level, is expected to be the primary catalyst to economic slowdown though slowing global growth, continuing state net out-migration, and tightening state budget will be also important contributors. As of June 30, 2023, California has added 397,400 in private sector and government agencies; this accounts for 5.9% of the national job gain. While the State has added jobs in the past year, increased participation in the job market is a factor that increased unemployment from 3.9% in June 2022 to 4.6% in June 2023.

During FY 2023, the budget reflected continued cautious optimism and outlined a two-year budget balancing strategy in the wake of the pandemic to transition into an endemic state. The FY 2024 budget is built on restoring services, addressing both immediate needs and medium to long term fiscal sustainability through community engagement and appropriation of revenue from the voter approved ballot measures in November 2022.

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. Palo Alto has enjoyed diverse employment and revenue bases 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, SAP labs Inc. and VMware. As of June 2023, the City's unemployment rate was 3.1% compared to the prior year level of 1.8%. Unemployment for Santa Clara County was 3.7% compared to the prior year level of 2.2%.

Real Estate Market

The 2022-2023 County of Santa Clara (County) Assessor's Annual Report noted that the County annual assessment roll increased by \$43.1 billion to \$620.0 billion, a 7.5% increase over the prior fiscal year. Palo Alto's assessment roll represents 7.5% of the County's assessment roll and grew 5.82% over the prior year to \$46.6 billion. Per the Santa Clara County Association of Realtors, home prices in Palo Alto remain well above the County's average at \$4.0 million as of second quarter 2023. According to Colliers, a company that tracks real estate trends throughout the County, Silicon Valley and Palo Alto average rent for office space was reported at \$5.42 and \$9.13 per square foot, respectively, while research and development space was noted at \$2.94 and \$6.67 per square foot, respectively.

Introduction

Based on the Colliers report, Silicon Valley's commercial real estate markets continue to be impacted by a moderate return-to-office, continued tech layoffs, and declining office demand, although the industrial market remains a bright spot.

Local Trends

Development of the FY 2023 Budget continued to reflect a recovery period in the wake of the pandemic and built upon the reinvestment of services that started in FY 2022 with the restoration of over 20 positions. In November 2022, voters approved Measure K (Business License Tax) to provide additional funding for critical public safety needs, transportation safety improvements and grade separations, and affordable housing and unhoused services. Measure L was also approved to affirm the ongoing Gas Utility Equity Transfer to the General Fund and provide ongoing funding for services approved in FY 2023 on a temporary two-year basis. The community has adapted to the pandemic, high inflation, and unprecedented weather events. Staff continues to monitor several unknowns that factor into the medium to long-term fiscal health of the City, including economic uncertainty, supply chain impacts, and progress on addressing workforce attraction and retention challenges that impact service capacity and institutional knowledge. Rather than simply bouncing back to pre-pandemic services, the investments in service delivery for a sustainable future started in FY 2023 and continued in FY 2024 reflect the City's ability to bounce forward.

General Fund Balancing and Results

The FY 2023 budget was developed as a transitional budget providing a bridge as Council contemplated major changes for funding of programs and services; it bridged a period of significant reductions in the pandemic to a new phase as the City rebuilt. Staff was challenged to re-imagine how services might be delivered most effectively based on learning from the past two years and reinvesting where possible in new adjusted service models. In other areas, the budget simply reinvested to return to prior levels where needed for safety or basic services. The City of Palo Alto took swift, decisive, and difficult action to balance an approximately \$40 million decline in FY 2021 revenues. As the community continued to be challenged by 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. Even into 2023 these issues continued to be reflected in the setting of Council 2023 priorities:

- Economic Recovery and Transition
- Climate Change & Natural Environment - Protection and Adaptation
- Housing for Social and Economic Balance
- Community Health and Safety

Introduction

These priorities were the same priorities continued from 2022 as the Council recognized longer-term strategies were needed to affect change in these areas. Council and staff worked together to identify actionable goals and workplans within each of the priority areas, and a working group has been established for each priority area to report progress on a routine basis.

The FY 2023 Budget reflected a balancing strategy that used one-time resources such as the General Fund Budget Stabilization Reserve (BSR) and American Rescue Plan Act (ARPA) funds to prioritize essential services, maintain investments in the City's most critical infrastructure, and continue to proactively fund long term obligations with resources that continued to be impacted from the COVID-19 pandemic. The economy was showing signs of recovery, but it was estimated that full recovery for most major tax revenues would not return to pre-pandemic levels until FY 2025 at the earliest. Overall, the City's General Fund was adopted to collect \$237.9 million in revenues against \$247.4 million in expenses. These funding levels reflected a \$31.4 million, or 15.2%, increase compared to the FY 2022 Adopted Budget. In the General Fund, full-time staffing increased from 506.80 FTE to 552.81 FTE (an increase of 46.01 FTE) and part-time staffing increased from 56.58 FTE to 63.07 FTE (an increase of 6.49 FTE). In FY 2023, salaries, including overtime, were budgeted to increase by \$10.2 million in the General Fund, representing a 15.5% increase compared to the prior year. This year over year change included City Council approved amendments during FY 2022 to begin to reinvest in services following budget reductions in FY 2021 and FY 2022. In total, 20.00 full-time and three part-time (0.94 FTE) positions were added as part of the FY 2022 quarterly financial reports, Mid-Year Budget Review, and the Staffing for Adequate Fire and Emergency Response (SAFER) Grant. These actions are included in the FY 2023 Adopted staffing numbers listed above.

The FY 2023 Budget took advantage of the cautiously optimistic economic recovery in order to fund a number of actions across the City to reinvest in services that were reduced as a result of the COVID-19 pandemic, while also looking at new ways of providing services to the community. The increase in expenditures was done while ensuring that the City continued to proactively pay for long-term liabilities, continued capital investments in its most critical infrastructure, and provided resources for the City to successfully adapt to future service delivery models. In addition, \$5.5 million in ARPA funds were appropriated in the General Fund to support one-time focus areas that advance the City's long-term and strategic goals. As a balanced budget, the assumptions continued to follow conservative proactive fiscal management and set aside resources that enabled the City to continue to adapt and respond to service needs and the continued economic recovery. Significant progress towards ongoing cost containment over the past several years and the reductions that were made across the organization provided the foundation through which the City was able to effectively respond to the financial impacts of COVID-19. This strategic planning put the organization in a position to take advantage of the recovering economy and reinvest resources while rethinking how to provide services that were reduced.

Introduction

This FY 2023 Budget continued efforts to proactively fund long-term liabilities and included approximately \$8.1 million (\$4.5 million in the General Fund) in supplemental contributions to the City's Section 115 Pension Trust ("Pension Trust") and \$1.7 million in additional payments to the City's Other Post Employment Benefit (OPEB) Trust. Contributions to the Pension Trust included a one-time action to add a \$550,000 "catch-up" contribution from Other Funds, consistent with actions in FY 2022 to contribute an additional \$1.0 million above adopted budget levels from the General Fund Budget Stabilization Reserve (BSR) (CMR 13801). Additionally, the FY 2023 Adopted Budget began a two-year plan to transition from a 6.2% discount rate to a 5.3% rate for supplemental contributions to the Pension Trust. Through FY 2023, a total of \$54.4 million in principal contributions have been made to the Pension Trust (approximately 68% from the General Fund).

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 2023-2027 Capital Improvement Plan (CIP), the IP projects were updated for scope increases and cost escalations, resulting in a revised Infrastructure Plan of \$261.8 million. These projects are funded partially by debt to be repaid with voter-approved increases of 3.5% in the transient occupancy tax (TOT) rate and from other sources such as impact fees and Stanford University Medical Center development agreement monies. TOT funding was one of the revenue sources most severely impacted by the COVID-19 pandemic; staff continually revises these figures to adjust and plan for these impacts, while maintaining 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 utility customers by directing staff to maintain flat rates in FY 2021 and FY 2022 without compromising the safety and integrity of the utility systems. Rates were approved to increase in FY 2023 for all utility services except refuse resulting in a \$16.16, or 4.86%, increase for the average residential bill. In general, the size and timing of rate adjustments consider 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 financial issues for the City Council so that the Council and staff can work proactively to address the City's fiscal health and necessary policy updates as part of the annual budget process that follows the LRFF. Moreover, it is a tool that allows policymakers an opportunity to prioritize funding needs over time, sets the tone for the annual budget process, and is one of the many tools and reports that Council uses for future financial planning. The FY 2023-2032 LRFF was presented to the Finance Committee in December 2021 and approved by the

City Council in January 2022. The FY 2023-2032 LRFF continued City Council direction from the prior year to assume a moderately paced economic recovery over three to five years. At the time of the development of the FY 2023-2032 LRFF, the local economy was showing positive signs of recovery from the COVID-19 pandemic, and these trends were expected to continue. Vaccinations were rising, and hospitalizations were declining, indicating progress in managing the pandemic. However, the resumption and/or expansion of City services remained impacted due to a resurgence of cases, emergence of new variants, and changes in public health orders. Unemployment levels decreased from record highs but remained higher than pre-pandemic levels. Issues with labor shortages, supply chain challenges, and rising inflationary pressures also introduced potential impediments to growth.

Additionally, the forecast reflected several budgetary and staffing adjustments recognized in the first quarter (Q1) of FY 2022 to realign estimates with positive economic trends experienced at that time, including the addition of 4.00 Full-Time Equivalent (FTE) positions (CMR 13439). The LRFF assumed that major tax revenues continued to rebound from prior year levels, reserves for economically sensitive revenues were phased out as modified or canceled programs returned, and investments in Capital projects were restored to pre-pandemic levels. The LRFF also recognized the use of one-time federal funding, such as the Coronavirus Aid, Relief, and Economic Securities Act (CARES Act) and the American Rescue Plan Act (ARPA). These resources were expected to be fully exhausted by FY 2024. The LRFF Base Case reflected service levels approved by the City Council at that time, including investments approved by the City Council in Q1 FY 2022. At these levels, the LRFF Base Case projected a \$2.4 million surplus in FY 2023, a \$1.0 million shortfall in FY 2024, and small but increasing surpluses thereafter. Alternative scenarios were provided to model a full restoration of services to pre-pandemic levels and potential market-based compensation adjustments. These scenarios resulted in lower to no surplus and larger shortfalls throughout the ten-year forecast. Though scenarios were reported separately, staff anticipated that a partial implementation of one or both scenarios would be considered in the development of the FY 2023 budget.

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. 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:

- Supported businesses by continuing 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.

Introduction

- Facilitated a transparent and inclusive election in November 2022 with nine (9) Council Candidates and two (2) Ballot Measures. Both Ballot Measures, the local business tax (Measure K) and the natural gas utility General Fund transfer (Measure L), were passed by voters.
- Awarded and received \$26.6 million for Project Homekey; moved forward on the project in partnership with LifeMoves to provide transitional housing and services for unhoused residents.
- Continued implementation of the 2014 Council Infrastructure Plan:
 - Charleston/Arastradero Corridor project: completed 95% construction
 - Public Safety Building: completed 75% construction
 - Fire Station #4: started design
 - Downtown Automated Parking Guidance projects: awarded a design/build construction contract
- Completed the Sustainability and Climate Action Plan (S/CAP) update, including the California Environmental Quality Act (CEQA) review and the 3-year work plan for implementation, consistent with Council’s adoption of “Climate Change and the Natural Environment: Protection and Adaptation” as one of the top four Council priorities for 2023, to help the City meet its sustainability goals, including reducing greenhouse gas (GHG) emissions 80% below 1990 levels by 2030.
- Entered into a 40-year lease agreement with the Palo Alto History Museum to restore, preserve, and improve the Roth Building at 300 Homer Avenue as a historic asset to deliver displays, exhibits, interactive demonstrations, workshops, classes, and lectures to the Palo Alto community. A portion of the building for storage and/or display of the City’s official archives and records.
- Maintained the City’s AAA credit rating, which results in the lowest possible borrowing costs; confirmed in the most recent rating by Standard and Poor’s and Moody’s in May 2022 and November 2022, respectively.
- Requested and awarded \$2 million in Federal Community Project Funding (earmark) to augment and support a pilot program providing an alternative to law enforcement for lower acuity mental health calls.
- Activated the Emergency Operations Center for the response to the severe storms of 2022/2023. Coordinated the implementation of recovery operations. This also involved the implementation of the San Francisquito Creek Multi Agency Coordination group.

Introduction

- Awarded \$3.4 million from the Local Housing Trust Fund (LHTF) to support affordable housing projects. The LHTF program provides matching funds to local and regional housing trust funds dedicated to the creation, rehabilitation, or preservation of affordable housing, transitional housing and emergency shelters.
- Completed the Airport Apron Reconstruction Project, which brings the Airport apron into current Federal Aviation Administration (FAA) standards. The project was completed in two design phases and three construction phases over the previous eight years, at a total project cost of approximately \$36 million.
- Partnered with CALFIRE to implement portions of the Foothills Fire Master Plan, which helps reduce fire risk and ensure that evacuation routes are clear.
- Continued to conduct wildland fire inspections of every home in the foothills, and rigorous training exercises to prepare for the increased risk of a longer and more intense California fire season.
- Rated as a 5-star Library by the Library Journal Index. Palo Alto City Library (PACL) is one of only 12 California libraries receiving any star rating and one of only five libraries receiving a 5-star rating. PACL had been ranked as 3-star and 4-star in past years.
- Launched new outreach campaign on Zero Waste Living to meet Zero Waste Plan initiative to promote waste prevention and reduction to the residential and business communities.
- Launched a new Advanced Metering Infrastructure (AMI) “smart” metering system to a subset of customers as part of a plan to deploy AMI to all utilities customers by the end of calendar year 2025. The AMI program is currently in the beta phase, with a slow rollout so staff can test and validate the technology, hardware, and software integrations with City of Palo Alto Utilities (CPAU’s) Customer Information System (CIS) and billing systems.
- Continued to promote water use efficiency, education, and resources, and the need to meet State and regional water use reduction targets during a mega drought. Palo Alto customers conserved 11.2% from July to December 2022 compared to July – December in 2019.

Awards

During the past year, the City received an award for the FY 2022 ACFR from the Government Finance Officers Association (GFOA) for “excellence in financial reporting.” The FY 2023 ACFR will be submitted to the GFOA award program to be considered for this distinguished financial reporting award.

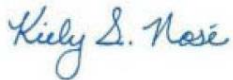
Introduction

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. We wish to acknowledge the support of the entire accounting staff for their high level of professionalism and dedication. We would also like to express 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 the 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

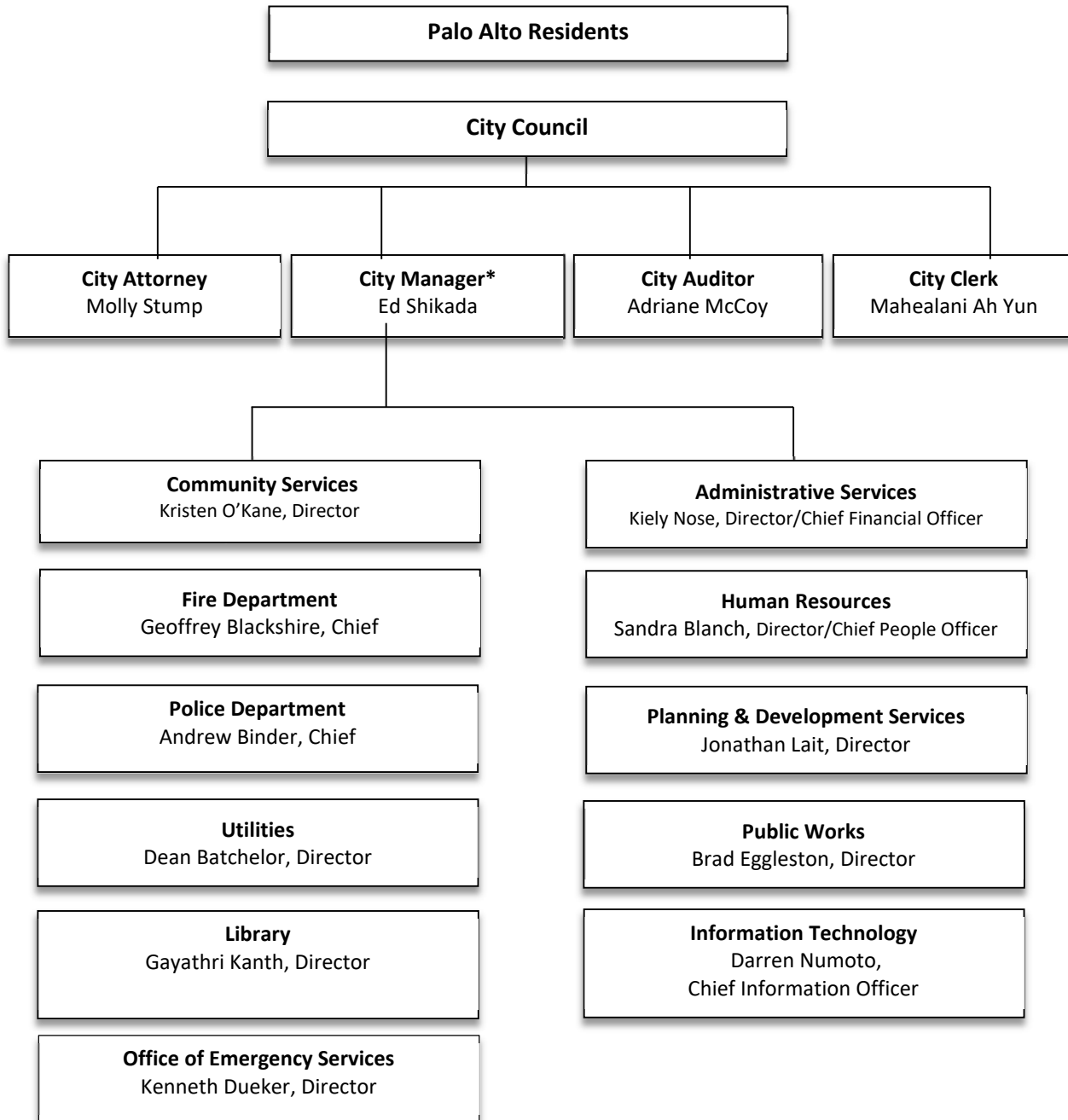
City Council
Lydia Kou, **Mayor**
Greer Stone, **Vice-Mayor**
Patrick Burt
Julie Lythcott-Haims
Ed Lauing
Greg Tanaka
Vicki Veenker

Finance Committee
Patrick Burt, **Chair**
Julie Lythcott-Haims
Greer Stone

Policy and Services Committee
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Vicki Veenker

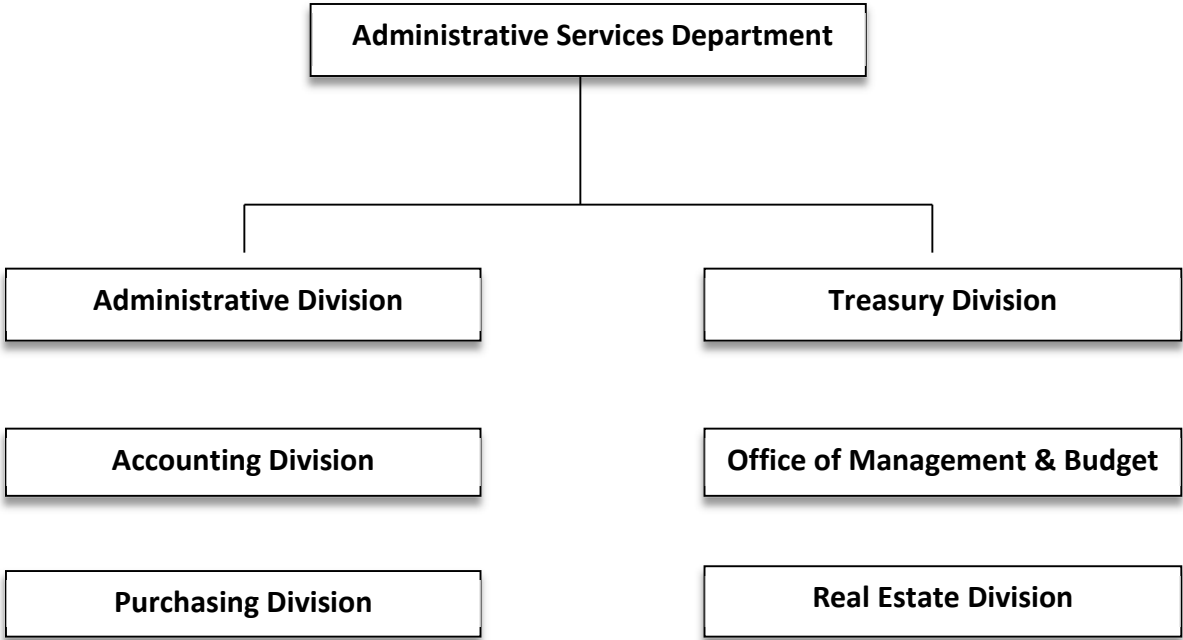
Council-Appointed Officers
City Manager
Ed Shikada
City Attorney
Molly Stump
City Clerk
Mahealani Ah Yun
City Auditor
Adriane McCoy

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 Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2022

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the 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, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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, 2023, 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.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1 to the financial statements, as of July 1, 2022, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The City's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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 GAAS, 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.

Supplemental 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 combining and individual fund financial statements and schedules and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 GAAS. In our opinion, the individual and combining fund financial statements and schedules and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual comprehensive financial report. The other information comprises the introductory section and statistical section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2023, 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.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 9, 2023

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City of Palo Alto

Management's Discussion and Analysis (Unaudited)

Management's Discussion and Analysis (MD&A) provides an overview of the City of Palo Alto's (City) Annual Comprehensive Financial Report (ACFR), the document which reports on the City's financial performance for the Fiscal Year (FY) ended June 30, 2023. 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 the prior fiscal year are reclassified to conform with current fiscal year presentation.

FINANCIAL HIGHLIGHTS

Financial highlights for FY 2023 are outlined below. Details can be found in the Government-Wide and Fund Financial Statement analysis of this MD&A.

- Assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of FY 2023 by \$1.4 billion. Of this amount, \$48.9 million represents unrestricted Net Position, which may be used to meet the City's ongoing obligations.
- The City's total Net Position increased \$83.3 million, or 6.6% over the prior fiscal year. Of this amount, \$42.4 million was generated by Governmental Activities and \$40.9 million by Business-Type Activities.
- The City's total outstanding long-term debt increased by \$4.0 million due to receipt of \$12.0 million in loan proceeds from the State Water Resource Control Board, offset by scheduled debt service payments.
- The City's Net Pension Liabilities and Net Other Post-Employment Benefit (OPEB) Liabilities increased by \$172.8 million or 50.1%, and \$25.4 million, or 31.2%, respectively. The increase in the liabilities was driven primarily due to negative investment earnings that decreased the plan's fiduciary net position.
- The City's governmental funds reported total fund balances of \$321.1 million, a decrease of \$6.0 million from the prior fiscal year. Approximately \$46.3 million of this amount, or 14.4%, is unassigned fund balance and available for spending at the City's discretion.
- Total fund balance of General Fund was \$105.8 million, or 52.9% of total General Fund expenditures. Unrestricted General Fund balance (the total of the committed, assigned, and unassigned components of fund balance) was \$95.1 million, or 47.6% of total General Fund expenditures.

- The City implemented Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)*, effective fiscal year ended June 30, 2023. See Note 6 in the Notes to the Basic Financial Statements for details.

OVERVIEW OF THE ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR)

The ACFR consists of a series of financial statements and notes to those statements and is presented in five sections:

- Introductory section: includes the Transmittal Letter and general information
- Management’s Discussion and Analysis
- Basic Financial Statements: includes the Government-Wide and Fund Financial Statements, and accompanying Notes to the Basic Financial Statements
- Required Supplementary Information (RSI) and Supplemental Information
- Statistical Information

Government-Wide Financial Statements

The Government-Wide Financial Statements provide a longer-term, wholistic view of the City’s activities. The Government-Wide Financial Statements include the Statement of Net Position and the Statement of Activities, which are both presented using the full accrual basis of accounting, similar to the basis used by companies in the private sector.

The Statement of Net Position presents the City’s capital assets and long-term liabilities. Over time, increases or decreases in Net Position may serve as a useful indicator of the City’s overall financial position and health.

The Statement of Activities presents the City’s revenues and expenses, with an emphasis on measuring net revenues or expenses for each of the City’s programs. The Statement of Activities details the change in Net Position for the fiscal 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.

In addition, to provide a snapshot of the two primary types of activities that the City operates, both Statements categorize activity as either Governmental or Business-Type. 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.

The Government-Wide Financial Statements can be found on pages 25-27 of this report.

Governmental Activities

The City’s basic services are Governmental Activities. Examples of these 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 Departments. 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

The City's enterprise activities are reported as Business-Type Activities and are intended to recover all or a significant portion of their costs through user fees and charges. These services include Water, Electric, Fiber Optics, Gas, Wastewater Collection, Wastewater Treatment, Refuse, Storm Drainage, and the Airport.

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 individually presented, 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 fiscal year to fiscal 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 using the modified accrual basis of accounting, which measures current financial resources and uses. Capital assets, other long-term assets, and long-term liabilities are presented only in the Government-Wide Financial Statements. In FY 2023, the City had two major governmental funds: the General Fund and the Capital Projects Fund. Details for non-major funds can be found 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 29-33 of this report.

Proprietary Funds

Enterprise and Internal Service Fund Financial Statements are prepared on the full accrual basis of accounting, the same basis of accounting that is used in the Government-wide Financial Statements. These statements include 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 and reported in the Supplemental Information section. 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. Internal Service Funds cannot be considered major funds because their revenues are derived from other City funds.

The Proprietary Fund Financial Statements can be found on pages 34-39 of this report.

Fiduciary Funds

The financial activities of Fiduciary Funds are excluded from the Government-Wide Financial Statements and are presented separately. Fiduciary Funds are used to account for assets held by the City as a trustee or agent on behalf of other entities and/or individuals. Fiduciary Funds are also used to report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. These include balances and activities of the Cable Joint Powers Authority and the assessment district.

The Fiduciary Fund Financial Statements can be found on pages 40-41 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 Basic Financial Statements can be found on pages 45-106 of this report.

Required Supplementary (RSI) and Supplemental Information

The Required Supplementary Information related to the City's pension and OPEB plans are included after the Notes to the Basic Financial Statements on pages 107-112. The combining statements and individual fund statements and schedules referred to earlier in connection with non-major Governmental Funds and Internal Service Funds are presented immediately following the Required Supplementary Information for pension and OPEB and can be found on pages 113-137 of this report.

GOVERNMENT-WIDE FINANCIAL STATEMENTS ANALYSIS

Citywide 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, 2023. As noted previously, the City's total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$1.4 billion, an increase in Net Position of \$83.3 million.

Table 1:
Condensed Statement of Net Position
As of June 30
(in millions)

	Governmental Activities		Business-type Activities		Government-Wide Totals		Increase/ (Decrease)
	2023	2022	2023	2022	2023	2022	
Cash and investments	\$ 413.9	\$ 400.7	\$ 230.3	\$ 241.3	\$ 644.2	\$ 642.0	\$ 2.2
Other assets	81.2	82.4	72.8	50.7	154.0	133.1	20.9
Capital assets	704.3	674.2	782.1	735.2	1,486.4	1,409.4	77.0
Total Assets	1,199.4	1,157.3	1,085.2	1,027.2	2,284.6	2,184.5	100.1
Unamortized loss from refunding	-	-	0.1	0.1	0.1	0.1	0.0
Pension and OPEB related	119.7	59.2	47.3	24.6	167.0	83.8	83.2
Total Deferred Outflows of Resources	119.7	59.2	47.4	24.7	167.1	83.9	83.2
Other liabilities	95.5	95.2	34.4	30.8	129.9	126.0	3.9
Net pension and OPEB liabilities	457.9	316.5	166.3	109.5	624.2	426.0	198.2
Lease and SBITA liabilities	13.4	7.7	5.7	2.3	19.1	10.0	9.1
Long-term debt	208.2	210.2	70.3	64.3	278.5	274.5	4.0
Total Liabilities	775.0	629.6	276.7	206.9	1,051.7	836.5	215.2
Pension and OPEB related	22.4	107.7	8.4	45.3	30.8	153.0	(122.2)
Lease related	3.0	2.7	9.8	2.9	12.8	5.6	7.2
Unamortized gain from refunding	2.2	2.4	-	-	2.2	2.4	(0.2)
Total Deferred Inflows of Resources	27.6	112.8	18.2	48.2	45.8	161.0	(115.2)
Net Position							
Net investment in capital assets	493.0	503.9	707.9	670.8	1,200.9	1,174.7	26.2
Restricted	101.1	72.9	3.2	3.3	104.3	76.2	28.1
Unrestricted	(77.6)	(102.7)	126.6	122.7	49.0	20.0	29.0
Total Net Position	\$ 516.5	\$ 474.1	\$ 837.7	\$ 796.8	\$ 1,354.2	\$ 1,270.9	\$ 83.3

Capital assets increased \$77.0 million due to continued construction of various capital projects including Public Safety Building for governmental activities and Water Quality Control Plant for business-type activities.

Net pension and OPEB liabilities increased \$198.2 million, related deferred outflows of resources increased by \$832.2 million, and related deferred outflows of resources decreased by \$122.2 million mainly due to impact of investment losses during the measurement period.

The largest portion of the City's Net Position is its net investment in capital assets, making up \$1.2 billion, or 88.7%, of the total. This category of Net Position includes land, buildings, infrastructure, vehicles, and intangible assets, less any related outstanding debt that was used to acquire or construct those assets. The City uses these capital assets to provide a variety of services to its residents and community members. 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, \$104.3 million or 7.7% of the total, represents resources that are subject to external restrictions on how they may be used. The remaining portion of Net Position, \$48.9 million 3.6% of the City's Net Position, is unrestricted and may be used to meet the City's ongoing obligations.

Overall, the City's Unrestricted Net Position is positive on a combined basis for Governmental Activities and Business-Type Activities. The Unrestricted Net Position for Governmental Activities is negative \$77.6 million due to recognition of net pension liabilities, as required by GASB Statement No. 68, and net OPEB liabilities, as required by GASB Statement No. 75. Governmental Unrestricted Net Position includes the net impact of net pension and net OPEB liabilities and its related deferred outflows and inflows of resources, \$290.8 million and \$69.8 million, respectively. Excluding these impacts, the Unrestricted Net Position for Governmental Activities is \$283.0 million.

Pension and OPEB liabilities and its related deferred outflows and inflows of resources detailed disclosure as required by GASB Statement No. 68 and 75 are in Notes 12 and 13 of the Notes to the Basic Financial Statements. The related trend information is included in RSI section.

The City implemented GASB Statement No. 96 in FY 2023, which requires that SBITA be reported in the financial statements. The following categories were added to the financial statements: intangible (right-to-use asset) SBITA assets, and SBITA liabilities. Additional information and discussion of SBITA can be found in Note 6 of the Notes to the Basic Financial Statements.

Components of the \$83.3 million increase in total Net Position, outlined in Table 2, are discussed in the following sections for Governmental Activities and Business-Type Activities.

Table 2:
Condensed Statement of Activities
For the Year Ended June 30
(in millions)

	Governmental Activities		Business-Type Activities		Total		Increase/ (Decrease)
	2023	2022	2023	2022	2023	2022	
Revenues							
Program Revenues							
Charges for services	\$ 72.8	\$ 59.7	\$ 417.7	\$ 353.7	\$ 490.5	\$ 413.4	\$ 77.1
Operating grants and contributions	8.0	9.9	24.4	0.7	32.4	10.6	21.8
Capital grants and contributions	7.2	30.4	2.7	7.3	9.9	37.7	(27.8)
General Revenues							
Property Tax	67.3	63.6	-	-	67.3	63.6	3.7
Sales Tax	36.9	32.7	-	-	36.9	32.7	4.2
Utility User Tax	18.8	15.6	-	-	18.8	15.6	3.2
Transient Occupancy Tax	25.5	16.9	-	-	25.5	16.9	8.6
Documentary Transfer Tax	5.8	12.0	-	-	5.8	12.0	(6.2)
Other	5.9	(21.0)	1.7	(16.0)	7.6	(37.0)	44.6
Total revenues	248.2	219.8	446.5	345.7	694.7	565.5	129.2
Expenses							
Administrative Services	9.6	14.9	-	-	9.6	14.9	(5.3)
All Other	8.3	6.0	-	-	8.3	6.0	2.3
Public Works	37.4	31.2	-	-	37.4	31.2	6.2
Planning and Development Services	24.5	15.7	-	-	24.5	15.7	8.8
Office of Transportation	6.4	4.4	-	-	6.4	4.4	2.0
Police	45.8	35.1	-	-	45.8	35.1	10.7
Fire	39.4	31.2	-	-	39.4	31.2	8.2
Community Services	37.0	31.9	-	-	37.0	31.9	5.1
Library	11.0	9.5	-	-	11.0	9.5	1.5
Interest on long-term debt	6.7	9.2	-	-	6.7	9.2	(2.5)
Water	-	-	43.8	41.9	43.8	41.9	1.9
Electric	-	-	182.2	169.1	182.2	169.1	13.1
Fiber Optics	-	-	2.6	2.2	2.6	2.2	0.4
Gas	-	-	63.4	40.7	63.4	40.7	22.7
Wastewater Collection	-	-	20.5	18.3	20.5	18.3	2.2
Wastewater Treatment	-	-	31.7	27.1	31.7	27.1	4.6
Refuse	-	-	32.6	30.0	32.6	30.0	2.6
Storm Drainage	-	-	6.1	4.6	6.1	4.6	1.5
Airport	-	-	2.4	1.9	2.4	1.9	0.5
Total expenses	226.1	189.1	385.3	335.8	611.4	524.9	86.5
Change in net position before transfers	22.1	30.7	61.2	9.9	83.3	40.6	42.7
Transfers	20.3	20.3	(20.3)	(20.3)	-	-	-
Change in Net Position	42.4	51.0	40.9	(10.4)	83.3	40.6	42.7
Net position, beginning of year	474.1	423.1	796.8	807.2	1,270.9	1,230.3	40.6
Net position, end of year	\$ 516.5	\$ 474.1	\$ 837.7	\$ 796.8	\$ 1,354.2	\$ 1,270.9	\$ 83.3

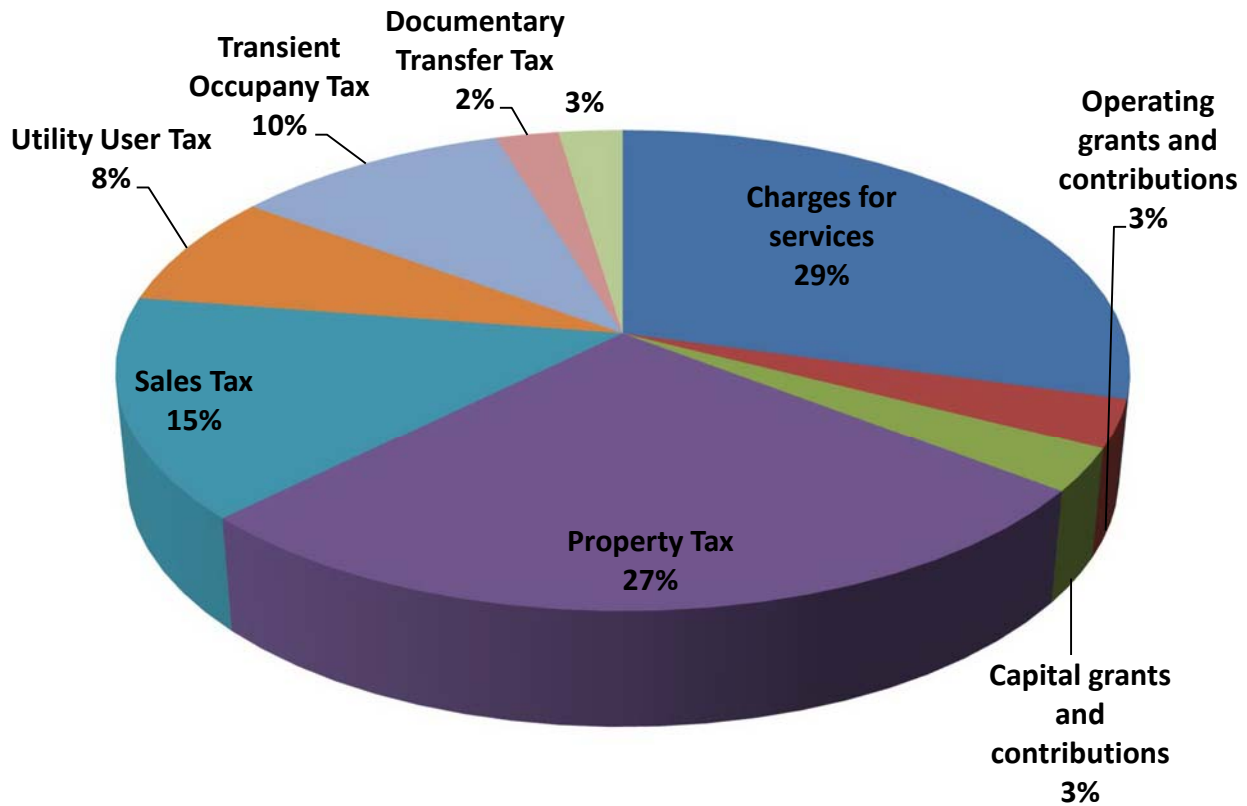
Governmental Activities – Revenues and Expenses

Overall, Governmental Activities Net Position increased \$42.4 million, totaling \$516.5 million. The significant key factor of this increase is driven by increase in general taxes and investment earnings.

Revenues by Source

The chart below presents revenues by source for Governmental Activities. Approximately two-thirds of Government Revenue are comprised of Program Revenues and property tax. Program Revenues such as charges for services, operating grants and contributions, and capital grants and contributions are generated from or restricted to each activity. 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.

Chart 1: Governmental Revenue



Revenue Highlights

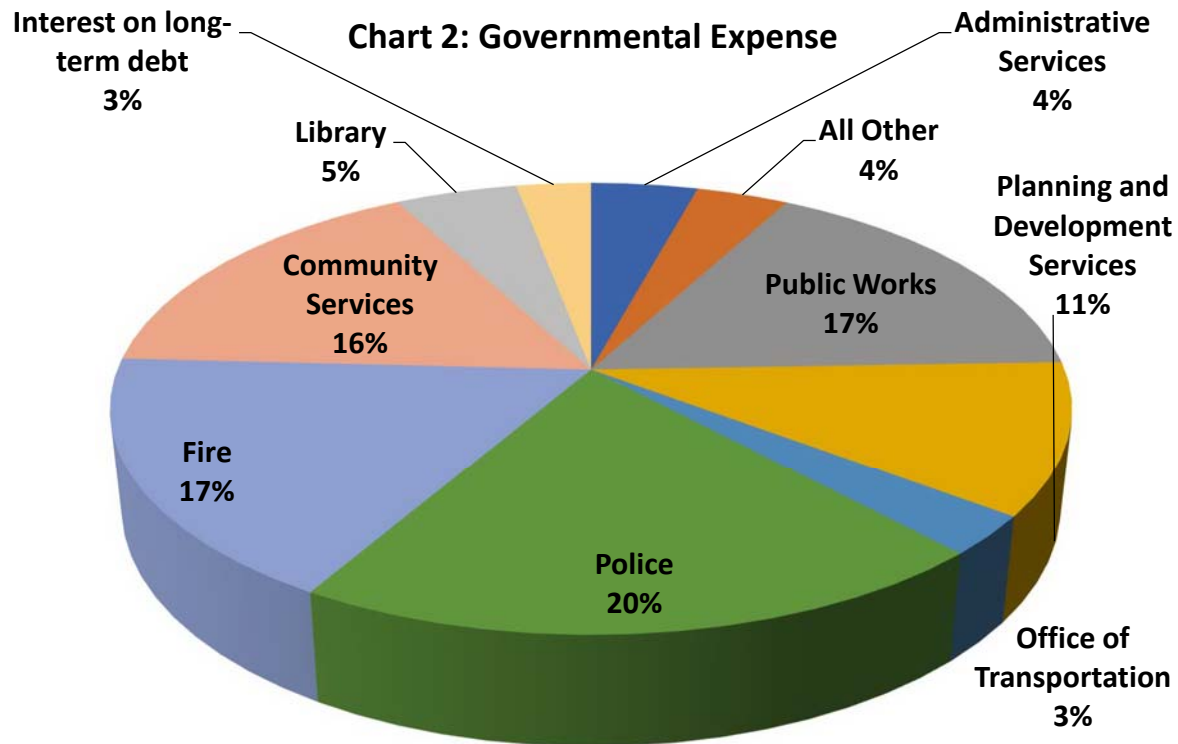
Total Governmental Revenues before transfers is \$248.2 million, a \$28.4 million increase when compared to the prior fiscal year. This increase is primarily due to a \$13.4 million increase in the City’s major tax revenues, driven by a \$8.6 million increase in transient occupancy tax and a \$26.7 million increase in investment earnings. In prior year, investment earnings were negative \$24.0 million due to a significant unrealized investment loss resulting from market fluctuations.

- Program Revenue - charges for services increased by \$13.1 million from the prior fiscal year, mainly due to increases in reimbursements for fire services, program and classes fees due to higher demand for several programs, plan check fees driven by higher commercial activities, and receipt of \$10.1 million parking in lieu fees.

- Program Revenue - operating contributions and grants decreased by \$1.9 million, primarily due to the decrease of remaining American Rescue Plan Act (ARPA) revenue by \$2.7 million, offset by the increase of Staffing for Adequate Fire and Emergency Responses (SAFER) grant of \$1.1 million to hire new firefighters.
- Program Revenue - capital grants and contributions decreased by \$23.2 million from the prior fiscal year, mainly due to decreases in donation. In the prior fiscal year, the City received \$25.7 million in a donation from Friends of the JMZ for the newly renovated JMZ.
- Property taxes increased by \$3.7 million over the prior fiscal year due to higher assessed values mainly driven by changes in ownership.
- Sales tax increased by \$4.2 million over the prior fiscal year, due to a combination of continued pandemic recovery and inflation.
- Utility user tax (UUT) increased by \$3.2 million over the prior fiscal year, due to commodity price increases which resulted in higher UUT revenue.
- Transient occupancy tax (TOT) increased by \$8.6 million over the prior fiscal year, due to continued resiliency and growth in travel and tourism.
- Documentary transfer tax decreased by \$6.2 million due to the lower number of transactions in FY 2023 compared to the prior fiscal year. This revenue source is volatile since it is highly dependent on sales volume and the mix of commercial and residential sales.
- Other increased by \$26.9 million mainly due to increase in investment earnings of \$26.7 million. The increase was due to the prior fiscal year's significant unrealized loss adjustment as a result of investment market fluctuations.

Expenses

Chart 2 displays governmental functional expenses, which includes only the current fiscal year expenses and does not include capital outlays, as those are added to the City's capital assets. Functions which comprise less than 2% of total expenses are combined into the "All Other" category in the chart below. All Other category includes City Council, City Manager, City Attorney, City Clerk, City Auditor, and Human Resources. Over one-third of Governmental Expense is comprised of Police and Fire costs.



Expense Highlights

Total functional expenses are \$226.1 million in FY 2023, a \$37.0 million increase compared to prior fiscal year. The increase is mainly due to the increases in salaries and benefits that include pension and OPEB expenses related to adjustments required by GASB Statements Nos. 68 and 75. The salaries and benefits are higher in FY 2023 because of more filled positions, various Council approved general and market salary rate adjustments, and merit and step increases for employees. As reported to the Council this fall, the increase in pension expenses is primarily due to lower investment returns from pension plans, resulting in higher pension expenses for the FY 2023. Additionally, in FY 2023, the City initiated a two-year plan to increase contributions to the City's 115 Pension Trust, transitioning the discount rate used to calculate contributions from 6.2% to 5.3%.

- Administrative Services expenses decreased by \$5.5 million, mainly due to \$4.9 million additional claims related to the class action lawsuit involving the City's gas and electric rates, *Green v. City of Palo Alto* (Santa Clara Superior Court, Case No. 1-16-CV-300760) recorded in FY 2022.
- Public Works expenses increased by \$6.2 million due to salaries and benefits, including pension and OPEB expenses.
- Planning and Development Services expenses increased by \$8.8 million, primarily due to non-capitalizable related project expenses of railroad grade separation and an increase in salaries and benefits, including pension and OPEB expenses.

- Police and Fire expenses increased by \$10.7 and \$8.2 million, respectively, mainly due to salaries and benefits, including, pension and OPEB expenses, and allocated charges. The Police overtime expenses are higher primarily due to backfilling vacancies and leave benefits or industrial injuries.
- Community Services expenses increased by \$5.1 million, mainly due to salaries and benefits, including, pension and OPEB expenses and an increase in contract services such as facility maintenance and services.

Business-Type Activities – Revenues and Expenses

Business-Type activities increased the City’s net position by \$40.9 million compared to decrease of \$10.4 million from the prior fiscal year. The significant key factors are as follows:

Revenues

Business-Type Activities revenues before transfers were \$446.5 million, a \$100.8 million increase compared to the prior fiscal year. The increase is mainly from the Electric and Gas Funds. Charges for Services increased by \$64.0 million, while Operating Grants and Contributions increased by \$23.7 million and Capital Grants and Contributions decreased by \$4.6 million. Across all Proprietary Funds, General Revenues increased by \$17.7 million due to the prior fiscal year’s significant unrealized loss adjustment as a result of investment market fluctuations. Table 3 compares FY 2023 and FY 2022 Business-Type Activity Revenues.

Table 3:
Business-Type Activities - Revenues
For the Year Ended June 30
(in millions)

	<u>2023</u>	<u>2022</u>	<u>Increase/ (Decrease)</u>
Program Revenue			
Water	\$ 44.3	\$ 45.7	\$ (1.4)
Electric	224.5	163.7	60.8
Fiber Optics	2.7	2.5	0.2
Gas	75.3	50.0	25.3
Wastewater Collection	21.3	20.4	0.9
Wastewater Treatment	31.3	30.0	1.3
Refuse	32.0	31.7	0.3
Storm Drainage	8.9	7.9	1.0
Airport	4.5	9.8	(5.3)
Total Program Revenues	444.8	361.7	83.1
General Revenues	1.7	(16.0)	17.7
Total Revenues Before Transfers	\$ 446.5	\$ 345.7	\$ 100.8

- Water revenue decreased \$1.4 million or 3.1% from the prior fiscal year, despite of an 8.9% rate increase effective July 1, 2022, due to a voluntary water use reduction caused by drought conditions even with the heavy rains in December 2022 and January 2023.
- Electric revenue increased \$60.8 million or 37.1% from the prior fiscal year, due to a 5.0% rate increase effective July 1, 2022, and an increase of Electric Hydro Rate Adjuster effective January 1, 2023. The increase was necessary to reflect hydrological conditions and market purchase costs impacted by ongoing drought conditions. Activation of the E-HRA surcharge creates a temporary rate increase which is approximately a 20% or \$17.15 monthly increase for a median electric residential customer. Additionally, the increase was due to a \$23.9 million refund from the Bureau of Reclamation for an overcharge associated with the Central Valley Project, where the City gets most of its hydroelectric power. The refund is as a result of successful litigation the City participated in against the Bureau of Reclamation.
- Gas Fund revenue increased \$25.3 million or 50.6%, due to an increase in customers sales as a result of a 4.0% rate increase effective July 1, 2022, pass-through of portion of a commodity price to the customers, and an increase in overall consumption.
- Wastewater Collection revenue increased \$0.9 million, or 4.4%, from the prior fiscal year due to an increase in residential and commercial sales from the 3.0% rate increase effective July 1, 2022.
- Wastewater Treatment revenue increased \$1.3 million, or 4.3% from prior the fiscal year due to higher billings to partners for operating and capital costs.
- Storm Drainage revenue increased \$1.0 million, or 12.7% from prior the prior fiscal year due to 4.2% increase, based on the CPI rate increase effective July 1, 2022, and receipt of \$0.6 million grants for the construction of a large capture device to treat stormwater runoff.
- Airport revenue decreased \$5.3 million, or 54.1% from prior fiscal year due to higher federal grants received from the Federal Aviation Administration in the prior fiscal year.

Expenses

Business-Type Activities expenses totaled \$385.3 million, an increase of \$49.5 million, or 14.7%, from the prior fiscal year. Business-type activities expenses increases are mainly due to higher salaries and benefits, including pension, OPEB expenses and contributions to the City's Section 115 Pension Trust, and higher commodity prices. Please refer to Table 2 for Business-Type Activity expense information.

- Water expenses increased by \$1.9 million or 4.6%, from the prior fiscal year due to increase in operating costs. The increases in operating costs are primarily from commodity purchases, salaries and benefits and vehicle replacement allocation. The San

Francisco Public Utilities Commission (SFPUC) commodity rate increased from \$4.10 to \$4.75, a 15.9% increase due to drought conditions.

- Electric expenses increased by \$13.1 million, or 7.7%, from the prior fiscal year due to increases in operating expenses. The majority of the costs are related to energy purchases, mainly due to rising transmission cost and low levels of water supply that lead to lower-than-normal generation from hydroelectric plants, despite the heavy rains in December 2022 and January 2023. Additionally, there are increases in salaries and benefits, contract services and allocated charges.
- Gas expenses increased by \$22.7 million, or 55.8%, mostly due to extraordinarily high gas prices, national weather, gas production, as well as national and international trade and demand.
- Wastewater Collection expenses increased by \$2.2 million, or 12.0%, due to the increase of City's share of operating cost to maintain the Regional Water Quality Control Plant and higher salaries and benefits.
- Wastewater Treatment expenses increased by \$4.6 million, or 17.1%, due to increases in operating expenses. The largest increase in operating expenses is the salaries and benefits resulting from new hires and overtime for both routine and emergency coverages and interdepartmental utility charges.
- Refuse Fund expenses increased by \$2.6 million, or 8.7%, due to increases of waste collection, transportation and processing services payments to GreenWaste of Palo Alto and GreenWaste Recovery which are adjusted based on CPI indicators. In addition, there is an increase in salaries and benefits.

FUND FINANCIAL STATEMENTS

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, 2023, the City's Governmental Funds reported a combined fund balances of \$321.1 million, a decrease of \$6.0 million from the prior fiscal year. The decrease is mainly from the Capital Project Fund. Approximately \$46.3 million, or 14.4%, 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) non-spendable (\$13.1 million); 2) restricted (\$52.9 million); 3) committed (\$84.8 million); or 4) assigned for particular purposes (\$124.0 million).

Governmental Fund revenues increased by \$39.9 million, or 19.4%, from the prior fiscal year to \$245.2 million. General Fund revenues increased by \$24.1 million, Capital Projects Fund increased by \$3.1 million and Non-major Governmental Fund increased by \$12.7 million. Details of significant changes are discussed in the following sections.

Governmental Fund expenditures were \$273.6 million, an increase of \$12.2 million from the prior fiscal year. General Fund expenditures increased by \$30.1 million, Capital Projects Fund expenditures decreased by \$11.4 million, and Non-major Governmental Funds expenditures decreased by \$6.5 million. Details of significant changes are discussed in the following sections.

General Fund

The General Fund is the primary operating fund of the City. At the end of the FY 2023, the fund balance of the General Fund is \$105.8 million, compared to \$100.1 million in the prior fiscal year. The fund balance is classified as follows: \$10.7 million non-spendable, \$3.9 million committed, \$44.9 million assigned, and \$46.3 million unassigned. The unassigned amount is designated by the City Council for spending at the City's discretion and other purposes.

The General Fund's fund balance increased by \$5.7 million at the end the FY 2023. Revenues exceeded expenditures by \$14.7 million. Lease and SBITA financing of \$8.3 million are other financing sources for intangible asset – right to use leased and SBITA required by GASB Statements Nos. 87 and 96. Transfers of \$21.7 million received from other funds, compared to transfers to other funds are \$39.0 million.

Total General Fund revenues increased by \$24.1 million during the FY 2023. The increase is mainly due to increases in property taxes (\$3.7 million), sales taxes (\$4.2 million), UUT (\$3.2 million), TOT (\$8.6 million), charges for services (\$5.8 million), and investment earnings (\$7.9 million). The increase in investment earning is due to the decrease of unrealized loss as a result of investment market fluctuations. The revenue increases were offset with a decrease in documentary transfer tax of \$6.2 million. Additional details can be found in the Government-Wide Revenue Highlights section of this MD&A.

General Fund expenses increased by \$30.1 million, or 17.8% compared to the prior fiscal year primarily due to the increases in salaries and benefits costs, indirect charges, and capital outlay. The increase in salaries and benefits is due to positions added in FY 2023, general, merit and market salary rate adjustments, and pension contributions. The indirect charges are higher in FY 2023 primarily due to liability insurance charges, and vehicle and equipment maintenance services and replacements. The capital outlay of \$8.3 million is for the intangible asset – right to

use leased and SBITA required by GASB Statement Nos. 87 and 96. Additional details can be found in the Government-Wide Expense Highlights section of this MD&A.

Capital Projects Fund

At the end of the FY 2023, the fund balance of the Capital Projects Fund was \$102.7 million, compared to \$117.9 million in the prior fiscal year, a decrease of \$15.2 million. The fund balance is restricted for the public safety building (\$12.6 million), committed for Roth building rehabilitation (\$5.3 million) and Cubberley improvements (\$5.7 million). The remaining balance of \$79.1 million is available for all other planned capital projects.

Capital Projects Fund revenues are \$8.7 million in FY 2023, an increase of \$3.1 million from the prior fiscal year, and is mainly comprised of \$5.2 million grant reimbursements for Fire Station 4 Replacement. Net other financing sources were \$36.7 million, an increase of \$18.0 million when compared to prior fiscal year mainly due to increase in operating transfers from other funds for various capital projects.

Capital Projects Fund expenditures are \$60.6 million in FY 2023, a decrease of \$11.5 million from the prior fiscal year. These funds are expended on capital projects such as Public Safety Building, Charleston/Arastradero Corridor Improvements, and Newell Road/San Francisquito Creek Bridge Replacement. This level of expenditure is consistent with the City's effort to rehabilitate and maintain its existing infrastructure.

Non-Major Governmental Funds

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

At the end of FY 2023, the fund balance of the Non-Major Governmental Funds is \$112.7 million, compared to \$109.1 million in the prior fiscal year, an increase of \$3.6 million. The fund balance is classified as follows: \$2.4 million non-spendable, \$40.4 million restricted, and \$69.9 million committed.

Non-major Governmental Funds revenues are \$22.0 million in FY 2023, an increase of \$12.7 million from the prior fiscal year primarily due to receipt of \$10.1 million parking in-lieu revenue and an increase in investment earnings offset by a decrease in housing in-lieu fees.

Non-major Governmental Funds expenditures are \$13.1 million in FY 2023, decrease of \$6.5 million from the prior fiscal year primarily due to a decrease in debt service payments.

Financial Analysis of Proprietary Funds

The City's Proprietary Funds statements provide the same type of information found in the Government-Wide financial statements but in greater detail.

At the end of fiscal year, the City's Enterprise Funds reported total Net Position of \$827.2 million, an increase of \$36.6 million, or 4.6%. The increase is primarily from to Electric and Gas Funds.

- Electric Fund net position increased by \$28.2 million, mainly due to operating income of \$25.1 million, net nonoperating revenue of \$15.9 million offset by net transfers out of \$12.8 million. The increase in operating income is mainly due to the 5% rate increase effective July 1, 2022, and an increase of Electric Hydro Rate Adjuster effective January 1, 2023, partially offset by an increase of other operating expenses. The nonoperating revenue is mainly comprised of a \$23.9 million refund from the Bureau of Reclamation. The net transfers out is mainly comprised of equity transfers to the General Fund offset by \$2.8 million for the transfer from General Fund for winter electric rebate program.
- Gas Fund net position increased by \$5.6 million, mainly due to operating income of \$11.2 million offset by \$5.6 million operating transfers out. The net transfers out is comprised of equity transfers to General Fund offset by \$1.7 million for the transfer from General Fund for the winter gas rebate program.

At the end of fiscal year, the City's Internal Service Funds reported total Net Position of \$108.7 million, an increase of \$22.7 million, or 26.4%. The net position of investment in capital assets is \$21.5 million, restricted for supplemental pension is \$58.4 million, and unrestricted \$28.8 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual is presented as part of Financial Statements on page 41.

Revenues, excluding operating transfers and prior year encumbrances, were originally budgeted at \$215.2 million and were revised upward by \$13.9 million. During the FY 2023 budget process, revenues are analyzed and amended to reflect the year-to date receipts. As a result, significant budget adjustments were made to sales tax, TOT, and intergovernmental revenues. Sales tax increased by \$1.5 million due to continued pandemic recovery and inflation while TOT increased by \$6.0 million due to increased hotel room rates and activities. Intergovernmental increased by \$4.3 million based on grants that were awarded during FY 2023. Actual revenues, budgetary basis (including reappropriations) are \$9.8 million higher than the adjusted budget.

Expenditures, excluding operating transfers, were originally budgeted at \$222.0 million and were revised upward by \$40.1 million. This increase reflects the \$25.7 million carry-forward of encumbrances and reappropriations from the prior fiscal year and various adjustments that were approved during FY 2023 by the City Council. The budget for operating transfer out increased by \$13.8 million due to an increase of \$6.3 million transfers to the Capital Projects Fund, driven by increased TOT revenues committed to Capital Projects; \$5.0 million transfers to General Benefit Fund for additional pension contributions; and the \$2.5 million transfers to the Electric and Gas Funds for winter rebate program. Actual expenditures, including encumbrances and reappropriations, are \$7.9 million lower than the adjusted budget which are realized across the departments. The largest variances were experienced in Planning and Development Services, Community Services, and Non-Departmental, \$2.0 million, \$1.3 million, and \$1.2 million,

respectively. The effect of the higher revenue and lower expenditures resulted in the \$17.8 million positive net change in fund balance compared to budget for the fiscal year.

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 Table 4 (below) and Note 7 to the financial statements.

	<u>2023</u>	<u>2022 *</u>	<u>Increase/ (Decrease)</u>
Governmental activities			
Capital Assets			
Land and improvements	\$ 82.1	\$ 82.1	\$ -
Street trees	14.8	15.0	(0.2)
Construction in progress	156.2	117.4	38.8
Building and improvements	355.8	350.6	5.2
Intangible assets	3.8	3.8	-
Equipment	19.0	18.1	0.9
Roadway network	359.1	359.1	-
Recreation and open space network	37.0	37.0	-
Less accumulated depreciation	(358.1)	(337.3)	(20.8)
Internal Service Funds			
Construction in progress	6.9	4.5	2.4
Equipment	60.4	64.8	(4.4)
Less accumulated depreciation	(45.8)	(47.9)	2.1
Amortized Assets			
Intangible assets-right to use leased assets	17.4	9.8	7.6
Intangible assets-right to use SBITA assets	3.9	3.3	0.6
Less accumulated amortization	(8.2)	(2.8)	(5.4)
Total Governmental Activities	<u>\$ 704.3</u>	<u>\$ 677.5</u>	<u>\$ 26.8</u>
Business-Type Activities			
Land	\$ 5.0	\$ 5.0	\$ -
Construction in progress	186.1	136.9	49.2
Buildings and improvements	83.8	80.5	3.3
Infrastructure	0.6	0.6	-
Transmission, distribution and treatment system	963.2	948.9	14.3
Less accumulated depreciation	(462.5)	(438.8)	(23.7)
Amortized intangible leased and SBITA assets	8.1	6.8	1.3
Less accumulated amortization	(2.3)	(0.8)	(1.5)
Total Business-type Activities	<u>\$ 782.0</u>	<u>\$ 739.1</u>	<u>\$ 42.9</u>

*Beginning balances are restated due to the implementation of GASB Statement No. 96

The City Council approved a \$125.8 million, Infrastructure Plan (IP) in June 2014. Through the development of the 2022-2026 Capital Improvement Plan (CIP), the IP projects were updated resulting in a revised IP of \$259.8 million. These projects will be funded partially by debt to be repaid by the voter-approved increases of 3.5% in the TOT rate, TOT funding from new hotels built after January 2015 and from other sources such as impact fees, grants, Senate Bill 1 gas tax and Stanford University Medical Center development agreement monies.

Governmental Activities' capital assets net of depreciation increased by \$26.8 million from the prior fiscal year. The increase in construction in progress is due to activity in various projects such as the Public Safety Building and the Charleston Arastradero Corridor.

As of June 30, 2023, major Governmental Activities capital projects that were in progress, including the remaining capital commitment are listed below:

- New Public Safety Building - \$16.2 million
- Roth Building Rehabilitation Phase 1 - \$6.2 million
- Municipal Service Center Improvements - \$5.9 million
- Parking Guidance System - \$4.8 million
- Boulware Park Improvement - \$4.8 million

Business-Type Activities' capital assets net of depreciation increased by \$42.9 million from the prior fiscal year. The increase is primarily due to Primary Sedimentation Tank Rehabilitation and Secondary Treatment Upgrades of the Regional Water Quality Control Plant and Airport Reconstruct Phase 1 of the Airport Fund.

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

- Secondary Treatment Upgrades - \$171.0 million
- Smart Grid Technology Installation - \$9.4 million
- Gas Mains Replacement – Project 24 - \$8.6 million
- WC Rehabilitation/Augmentation Project 31 - \$8.4 million
- Seismic Water System Upgrade - \$7.2 million
- Primary Sedimentation Tank Rehabilitation - \$5.6 million

The City depreciates its capital assets over their estimated useful lives. 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 amortized intangible leased and SBITA assets and capital assets are in Note 6 and Note 7, respectively.

DEBT ADMINISTRATION

Each of the City's debt issues is discussed in detail in Note 8 to the financial statements. The City's debt as of June 30, 2023, is shown in the following table.

Table 5:
Long-Term Debt as of June 30
(in millions)

	<u>2023</u>	<u>2022</u>	<u>Increase/ (Decrease)</u>
Governmental Activities			
General Long-Term Obligations			
2013A	\$ 11.7	\$ 12.2	\$ (0.5)
2022 Series A	34.4	34.4	-
2022 Series B	2.1	2.1	-
Certificate of Participation			-
2018 Capital Improvement Projects	8.2	8.4	(0.2)
2019 California Ave Parking Garage			-
Series A & B	35.1	35.7	(0.6)
2021 Public Safety Building	101.5	101.5	-
Add: Unamortized Premium	15.2	15.9	(0.7)
Total Governmental Activities	<u>208.2</u>	<u>210.2</u>	<u>(2.0)</u>
Business-type Activities			
Enterprise Long-Term Obligations			
Utility Revenue Bonds			
1999 Refunding	1.8	3.5	(1.7)
2009 Series A	21.8	23.1	(1.3)
2011 Refunding	4.1	5.4	(1.3)
Add: Unamortized Premium	0.2	0.3	(0.1)
State Water Resources Loan			-
2007	2.7	3.2	(0.5)
2009	4.0	4.4	(0.4)
2017	22.5	23.2	(0.7)
2021	9.6	1.2	8.4
2022	3.6	-	3.6
Total Business-type Activities	<u>\$ 70.3</u>	<u>\$ 64.3</u>	<u>\$ 6.0</u>

City-wide long-term debt increased by \$4.0 million mainly due to a \$12.0 million addition of State Water Resource loan offset by scheduled debt retirement.

ECONOMIC OUTLOOK

The economic outlook for 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, 4th Floor, Palo Alto, California. The Department can also be contacted by email at: adminsvcs@cityofpaloalto.org. This report and other financial reports can be viewed on the City of Palo Alto website at: www.cityofpaloalto.org. On the home page, select Departments, select Administrative Services, and select Financial Reports [Financial Reporting – City of Palo Alto, CA](#). Within Financial Reporting, there are links to reports by title and reporting date.

CITY OF PALO ALTO
Statement of Net Position
June 30, 2023
(Amounts in thousands)

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and investments available for operations (Note 3)	\$ 343,026	\$ 227,129	\$ 570,155
Receivables, net:			
Accounts and intergovernmental	21,857	52,598	74,455
Interest receivable	2,080	1,475	3,555
Notes and loans receivable (Note 5)	53,574	-	53,574
Lease receivables (Note 6)	3,180	9,828	13,008
Internal balances (Note 4)	(6,968)	6,968	-
Deposits	15	-	15
Due from other government agencies	-	1,800	1,800
Inventory of materials and supplies, prepaids and deposits	7,440	187	7,627
Restricted cash and investments with fiscal agents and trustees (Note 3)	70,932	3,193	74,125
Capital assets (Note 7):			
Nondepreciable	263,523	191,115	454,638
Depreciable, net of accumulated depreciation	440,808	590,938	1,031,746
Total assets	<u>1,199,467</u>	<u>1,085,231</u>	<u>2,284,698</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Unamortized loss from refunding	-	90	90
Pension related (Note 12)	97,423	37,766	135,189
OPEB related (Note 13)	22,254	9,501	31,755
Total deferred outflows of resources	<u>119,677</u>	<u>47,357</u>	<u>167,034</u>
LIABILITIES:			
Accounts payable and accruals	22,421	25,062	47,483
Accrued salaries and benefits	3,840	1,860	5,700
Unearned revenue	3,191	595	3,786
Accrued compensated absences (Note 1):			
Due in one year	7,565	-	7,565
Due in more than one year	8,732	-	8,732
Claims payable (Notes 15 and 17):			
Due in one year	12,441	-	12,441
Due in more than one year	37,298	-	37,298
Landfill post-closure liability (Note 10):			
Due in more than one year	-	6,883	6,883
Net pension liabilities (Note 12):			
Due in more than one year	381,875	135,505	517,380
Net OPEB liabilities (Note 13):			
Due in more than one year	76,032	30,762	106,794
Lease liabilities (Note 6):			
Due in one year	3,874	1,079	4,953
Due in more than one year	6,716	900	7,616
SBITA liabilities (Note 6):			
Due in one year	1,160	319	1,479
Due in more than one year	1,693	3,418	5,111
Long-term debt (Note 8):			
Due in one year	5,345	6,075	11,420
Due in more than one year	202,846	64,212	267,058
Total liabilities	<u>775,029</u>	<u>276,670</u>	<u>1,051,699</u>
DEFERRED INFLOWS OF RESOURCES:			
Pension related (Note 12)	6,308	1,782	8,090
OPEB related (Note 13)	16,045	6,649	22,694
Lease related (Note 6)	3,027	9,741	12,768
Unamortized gain from refunding	2,246	-	2,246
Total deferred inflows of resources	<u>27,626</u>	<u>18,172</u>	<u>45,798</u>
NET POSITION (Note 11):			
Net Investment in capital assets	493,029	707,940	1,200,969
Restricted for:			
Transportation mitigation	18,918	-	18,918
Public benefit	12,677	-	12,677
Supplemental pension	58,354	-	58,354
Others	5,965	-	5,965
Debt service	2,818	3,193	6,011
Nonexpendable - Eyerly Family	2,394	-	2,394
Total restricted net position	<u>101,126</u>	<u>3,193</u>	<u>104,319</u>
Unrestricted	(77,666)	126,613	48,947
Total net position	<u>\$ 516,489</u>	<u>\$ 837,746</u>	<u>\$ 1,354,235</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, 2023
(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	
Governmental Activities:							
City Council	\$ 124	\$ -	\$ -	\$ -	\$ (124)	\$ -	\$ (124)
City Manager	2,525	-	-	-	(2,525)	-	(2,525)
City Attorney	2,634	-	-	-	(2,634)	-	(2,634)
City Clerk	692	-	-	-	(692)	-	(692)
City Auditor	268	-	-	-	(268)	-	(268)
Administrative Services	9,487	14,332	5,624	-	10,469	-	10,469
Human Resources	2,121	-	-	-	(2,121)	-	(2,121)
Public Works	37,406	1,200	-	6,563	(29,643)	-	(29,643)
Planning and Development Services	24,497	16,914	429	-	(7,154)	-	(7,154)
Office of Transportation	6,357	657	-	62	(5,638)	-	(5,638)
Police	45,785	2,325	341	-	(43,119)	-	(43,119)
Fire	39,402	12,209	1,557	-	(25,636)	-	(25,636)
Community Services	36,985	25,144	30	579	(11,232)	-	(11,232)
Library	11,046	43	-	-	(11,003)	-	(11,003)
Interest on long-term debt	6,730	-	-	-	(6,730)	-	(6,730)
Total Governmental Activities	226,059	72,824	7,981	7,204	(138,050)	-	(138,050)
Business-Type Activities:							
Water	43,838	43,722	421	131	-	436	436
Electric	182,194	200,474	23,996	-	-	42,276	42,276
Fiber Optics	2,617	2,679	-	-	-	62	62
Gas	63,383	75,345	-	-	-	11,962	11,962
Wastewater Collection	20,473	21,300	-	-	-	827	827
Wastewater Treatment	31,747	31,283	-	-	-	(464)	(464)
Refuse	32,551	32,022	-	-	-	(529)	(529)
Storm Drainage	6,093	8,257	-	613	-	2,777	2,777
Airport	2,415	2,614	-	1,915	-	2,114	2,114
Total Business-Type Activities	385,311	417,696	24,417	2,659	-	59,461	59,461
Total	\$ 611,370	\$ 490,520	\$ 32,398	\$ 9,863	(138,050)	59,461	(78,589)
General Revenues:							
Taxes:							
Property tax					67,282	-	67,282
Sales tax					36,926	-	36,926
Utility user tax					18,763	-	18,763
Transient occupancy tax					25,485	-	25,485
Documentary transfer tax					5,751	-	5,751
Other taxes					3,319	-	3,319
Investment earnings					2,243	1,761	4,004
Miscellaneous					372	-	372
Transfers (Note 4)					20,292	(20,292)	-
Total general revenues and transfers					180,433	(18,531)	161,902
Change in net position					42,383	40,930	83,313
Net position, beginning of year					474,106	796,816	1,270,922
Net position, end of year					\$ 516,489	\$ 837,746	\$ 1,354,235

See accompanying notes to the basic financial statements.

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CITY OF PALO ALTO
Governmental Funds
Balance Sheet
June 30, 2023
(Amounts in thousands)

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and investments available for operations (Note 3)	\$ 85,475	\$ 100,807	\$ 60,033	\$ 246,315
Receivables, net:				
Accounts and intergovernmental	20,781	254	632	21,667
Interest receivable	1,090	32	362	1,484
Notes and loans receivable (Note 5)	782	-	52,792	53,574
Lease receivable (Note 6)	3,180	-	-	3,180
Deposits	15	-	-	15
Prepaid items	28	-	-	28
Due from other fund (Note 4)	1,322	-	-	1,322
Advances to other funds (Note 4)	2,629	-	-	2,629
Inventory of materials and supplies	7,249	-	-	7,249
Restricted cash and investments with fiscal agents (Note 3)	-	12,569	9	12,578
Total assets	<u>\$ 122,551</u>	<u>\$ 113,662</u>	<u>\$ 113,828</u>	<u>\$ 350,041</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:				
Liabilities:				
Accounts payable and accruals	7,062	10,698	\$ 591	\$ 18,351
Accrued salaries and benefits	3,333	199	40	3,572
Unearned revenue	3,191	-	-	3,191
Due to other funds (Note 4)	-	-	413	413
Total liabilities	<u>13,586</u>	<u>10,897</u>	<u>1,044</u>	<u>25,527</u>
Deferred inflows of resources				
Unavailable revenue	180	98	67	345
Lease related (Note 6)	3,027	-	-	3,027
Total deferred inflows of resources	<u>3,207</u>	<u>98</u>	<u>67</u>	<u>3,372</u>
Total liabilities and deferred inflows of resources	<u>16,793</u>	<u>10,995</u>	<u>1,111</u>	<u>28,899</u>
Fund balances (Note 11):				
Nonspendable:				
Deposits	15	-	-	15
Prepaid items	28	-	-	28
Inventories	7,249	-	-	7,249
Advances to other funds	2,629	-	-	2,629
Notes and loans receivable	782	-	-	782
Eyerly family	-	-	2,394	2,394
Restricted for:				
Transportation mitigation	-	-	18,918	18,918
Federal revenue	-	-	5,293	5,293
Street improvement	-	-	13	13
Local law enforcement	-	-	659	659
Public safety building	-	12,569	-	12,569
Public benefit	-	-	12,677	12,677
Debt service	-	-	2,827	2,827
Committed for:				
Development services	3,920	-	-	3,920
Roth building rehabilitation	-	5,294	-	5,294
Cubberley improvements	-	5,661	-	5,661
Developer impact fees	-	-	7,935	7,935
Housing in-lieu	-	-	60,089	60,089
Special districts	-	-	1,864	1,864
Downtown business	-	-	48	48
Assigned for:				
Capital projects	-	79,143	-	79,143
Other general government purposes	13,558	-	-	13,558
Electric charger	65	-	-	65
Reappropriations	31,200	-	-	31,200
Unassigned	46,312	-	-	46,312
Total fund balances	<u>105,758</u>	<u>102,667</u>	<u>112,717</u>	<u>321,142</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 122,551</u>	<u>\$ 113,662</u>	<u>\$ 113,828</u>	<u>\$ 350,041</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, 2023
(Amounts in thousands)

Total fund balances reported on the governmental funds balance sheet \$ 321,142

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:

Deferred outflows and inflows of resources in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.

Deferred outflows of resources	119,677
Deferred inflows of resources	(24,599)

Certain receivables are not available to pay for current period expenditures and therefore are deferred in the governmental funds.	345
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Capital assets, including leased assets, used in governmental activities are not current assets or financial resources and therefore are not reported in the governmental funds.	704,331
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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 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, net OPEB and SBITA liabilities reported herein)	94,247
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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:

Interest payable	(1,774)
Net pension liabilities (Note 12)	(381,875)
Net OPEB liabilities (Note 13)	(76,032)
Claims payable (Note 15 and 17)	(17,339)
Lease liabilities (Note 6)	(10,590)
SBITA liabilities (Note 6)	(2,853)
Long-term debt (Note 8)	(208,191)

Net position of governmental activities	\$ 516,489
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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, 2023
(Amounts in thousands)

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Property tax	\$ 63,129	\$ -	\$ 4,153	\$ 67,282
Sales tax	36,926	-	-	36,926
Utility user tax	18,763	-	-	18,763
Transient occupancy tax	25,485	-	-	25,485
Documentary transfer tax	5,751	-	-	5,751
Other taxes and fines	630	-	3,394	4,024
Charges for services	35,042	23	-	35,065
Intergovernmental	8,554	6,753	465	15,772
Licenses, permits and fees	7,453	-	3,338	10,791
Investment earnings	(2,545)	1,785	272	(488)
Rental income	14,267	-	-	14,267
Housing In-Lieu - residential	-	-	49	49
Other revenue	1,062	98	10,377	11,537
Total revenues	<u>214,517</u>	<u>8,659</u>	<u>22,048</u>	<u>245,224</u>
EXPENDITURES:				
Current:				
City Council	253	-	-	253
City Manager	2,745	-	-	2,745
City Attorney	2,855	-	-	2,855
City Clerk	829	-	-	829
City Auditor	277	-	-	277
Administrative Services	6,312	-	307	6,619
Human Resources	2,376	-	-	2,376
Public Works	16,121	-	1,583	17,704
Planning and Development Services	19,834	-	658	20,492
Office of Transportation	2,380	-	1,301	3,681
Police	48,678	-	414	49,092
Fire	41,974	-	-	41,974
Community Services	32,419	-	307	32,726
Library	9,227	-	-	9,227
Non-Departmental	280	-	348	628
Capital outlay	8,344	60,630	-	68,974
Debt service:				
Principal	4,676	-	1,587	6,263
Interest and fiscal charges	270	-	6,621	6,891
Total expenditures	<u>199,850</u>	<u>60,630</u>	<u>13,126</u>	<u>273,606</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>14,667</u>	<u>(51,971)</u>	<u>8,922</u>	<u>(28,382)</u>
OTHER FINANCING SOURCES (USES):				
Lease and SBITA financing	8,344	-	-	8,344
Transfers in (Note 4)	21,677	40,612	5,463	67,552
Transfers out (Note 4)	(39,030)	(3,912)	(10,769)	(53,711)
Total other financing sources (uses)	<u>(9,009)</u>	<u>36,700</u>	<u>(5,306)</u>	<u>22,385</u>
Change in fund balances	5,658	(15,271)	3,616	(5,997)
FUND BALANCES, BEGINNING OF YEAR	<u>100,100</u>	<u>117,938</u>	<u>109,101</u>	<u>327,139</u>
FUND BALANCES, END OF YEAR	<u>\$ 105,758</u>	<u>\$ 102,667</u>	<u>\$ 112,717</u>	<u>\$ 321,142</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, 2023
(Amounts in thousands)

Net change in fund balances - total governmental funds \$ (5,997)

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 assets additions	48,904
Lease and SBITA assets additions	8,344
Depreciation and amortization expense is deducted from fund balance (Amount is net of internal service fund depreciation and amortization of \$4,044), which has already been allocated through the internal service fund activities below	(25,221)
Disposal of capital assets	(4,207)

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	49,319
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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	(45,552)
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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 gain from refunding, 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:

Lease and SBITA liabilities addition	(8,344)
Principal payment for bonds during the year	1,345
Principal payment for leases during the year	4,842
Principal payment for SBITA during the year	76
Change in interest payable	(614)
Amortization of bond premium	709
Amortization of deferred inflows of resources - gain from refunding	132
Change in claims payable	161

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	94
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Internal service funds are used by management to charge the costs of activities, such as insurance, equipment acquisition and maintenance, and employees benefits to individual funds. The portion of the net expense of these internal service funds arising out of their transactions with governmental funds is reported with governmental activities.

Change in net position of governmental activities	<u>18,392</u>
See accompanying notes to the basic financial statements.	<u>\$ 42,383</u>

CITY OF PALO ALTO
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2023
(Amounts in thousands)

	Budgeted Amounts		Actual, Budgetary Basis	Variance with Final Budget
	Adopted	Final		
REVENUES:				
Property tax	\$ 59,770	\$ 60,270	\$ 63,129	\$ 2,859
Sales tax	32,580	34,080	36,926	2,846
Utility user tax	15,579	15,579	18,763	3,184
Transient occupancy tax	18,199	24,187	25,485	1,298
Documentary transfer tax	7,217	7,217	5,751	(1,466)
Other taxes and fines	1,784	1,784	630	(1,154)
Charges for services	30,786	30,624	35,042	4,418
Intergovernmental	9,179	13,493	13,354	(139)
Licenses, permits and fees	9,249	9,828	7,558	(2,270)
Investment earnings	1,101	1,101	2,575	1,474
Rental income	15,499	15,499	14,298	(1,201)
Other revenues	548	1,717	2,139	422
	201,491	215,379	225,650	10,271
Charges to other funds and departments	13,690	13,690	13,227	(463)
Prior year encumbrances	159	25,661	25,661	-
Total revenues	215,340	254,730	264,538	9,808
EXPENDITURES:				
Current:				
City Council	436	504	459	45
City Manager	4,094	4,341	4,282	59
City Attorney	4,234	5,168	4,973	195
City Clerk	1,429	1,525	1,371	154
City Auditor	979	1,174	1,120	54
Administrative Services	9,745	9,992	9,779	213
Human Resources	4,742	4,872	4,144	728
Public Works	20,104	22,892	21,901	991
Planning and Development Services	22,615	26,879	24,863	2,016
Office of Transportation	1,718	4,884	4,884	-
Police	48,743	50,129	50,129	-
Fire	40,981	43,092	42,840	252
Community Services	32,866	35,619	34,330	1,289
Library	10,211	10,321	9,688	633
Non-Departmental	19,092	40,667	39,422	1,245
Total expenditures	221,989	262,059	254,185	7,874
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES:	(6,649)	(7,329)	10,353	17,682
OTHER FINANCING SOURCES (USES):				
Transfers in	22,532	21,949	21,949	-
Transfers out	(25,362)	(39,119)	(39,030)	89
Total other financing sources (uses)	(2,830)	(17,170)	(17,081)	89
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, BUDGETARY BASIS	\$ (9,479)	\$ (24,499)	(6,728)	\$ 17,771
Adjustment to Budgetary Basis:				
Unrealized gain/loss on investments			(5,279)	
Changes in interfund balances			(208)	
Leases and SBITA impact			63	
Current year encumbrances and reappropriations			43,471	
Prior year encumbrances and reappropriations			(25,661)	
CHANGE IN FUND BALANCE, GAAP BASIS			5,658	
FUND BALANCE AT BEGINNING OF YEAR, GAAP BASIS			100,100	
FUND BALANCE AT END OF YEAR, GAAP BASIS			\$ 105,758	

See accompanying notes to the basic financial statements.

CITY OF PALO ALTO
Proprietary Funds
Statement of Net Position
June 30, 2023
(Amounts in thousands)

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
ASSETS:				
Current assets:				
Cash and investments available for operations (Note 3)	\$ 34,369	\$ 83,810	\$ 33,687	\$ 26,200
Accounts receivable, net of allowance of \$2,491	6,178	31,511	190	3,754
Interest receivable	247	509	214	159
Lease receivables (Note 6)	-	16	1,257	-
Due from other government agencies	-	-	-	-
Prepaid expense	50	-	-	-
Inventory of materials and supplies	-	-	-	-
Restricted cash and investments with fiscal agents and trustees (Note 3)	2,813	-	-	378
Total current assets	<u>43,657</u>	<u>115,846</u>	<u>35,348</u>	<u>30,491</u>
Noncurrent assets:				
Due from other government agencies	-	-	-	-
Deposits	-	3	-	-
Lease receivables (Note 6)	-	125	6,412	-
Capital assets (Note 7):				
Nondepreciable	24,400	54,324	4,238	8,995
Depreciable, net	118,378	169,344	6,497	106,727
Total noncurrent assets	<u>142,778</u>	<u>223,796</u>	<u>17,147</u>	<u>115,722</u>
Total assets	<u>186,435</u>	<u>339,642</u>	<u>52,495</u>	<u>146,213</u>
DEFERRED OUTFLOWS OF RESOURCES:				
Unamortized loss from refunding	39	-	-	51
Pension related (Note 12)	4,178	13,690	842	5,064
OPEB related (Note 13)	1,248	3,577	7	1,500
Total deferred outflows of resources	<u>5,465</u>	<u>17,267</u>	<u>849</u>	<u>6,615</u>
LIABILITIES:				
Current liabilities:				
Accounts payable and accruals	4,306	4,224	192	1,029
Accrued salaries and benefits	230	653	44	276
Unearned revenue	-	-	-	-
Due to other funds (Note 4)	-	-	-	-
Accrued compensated absences (Note 1)	-	-	-	-
Current portion of lease liabilities (Note 6)	158	312	-	129
Current portion of SBITA liabilities (Note 6)	37	244	-	11
Current portion of long term debt (Note 8)	2,008	-	-	734
Accrued claims payable (Note 15)	-	-	-	-
Total current liabilities	<u>6,739</u>	<u>5,433</u>	<u>236</u>	<u>2,179</u>
Noncurrent liabilities:				
Accrued compensated absences (Note 1)	-	-	-	-
Advance from other fund (Note 4)	-	-	-	-
Landfill post-closure liability (Note 10)	-	-	-	-
Net pension liabilities (Note 12)	16,962	45,448	3,024	18,248
Net OPEB liabilities (Note 13)	3,357	11,086	-	4,964
Lease liabilities (Note 6)	56	53	-	22
SBITA liabilities (Note 6)	-	3,252	-	24
Long term debt, net of unamortized discounts/premiums (Note 8)	22,038	-	-	1,677
Accrued claims payable (Note 15)	-	-	-	-
Total noncurrent liabilities	<u>42,413</u>	<u>59,839</u>	<u>3,024</u>	<u>24,935</u>
Total liabilities	<u>49,152</u>	<u>65,272</u>	<u>3,260</u>	<u>27,114</u>
DEFERRED INFLOWS OF RESOURCES:				
Pension related (Note 12)	207	622	41	249
OPEB related (Note 13)	859	2,535	9	1,055
Lease related (Note 6)	-	137	7,634	-
Total deferred inflows of resources	<u>1,066</u>	<u>3,294</u>	<u>7,684</u>	<u>1,304</u>
NET POSITION (Note 11):				
Net investment in capital assets	118,520	219,807	10,735	113,176
Restricted for:				
Debt service	2,813	-	-	378
Supplemental pension	-	-	-	-
Unrestricted (deficit)	20,349	68,536	31,665	10,856
Total net position	<u>\$ 141,682</u>	<u>\$ 288,343</u>	<u>\$ 42,400</u>	<u>\$ 124,410</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	
\$ 6,600	\$ 3,496	\$ 27,953	\$ 11,014	\$ -	\$ 227,129	\$ 96,711
2,640	2,867	3,671	960	827	52,598	190
52	52	177	65	-	1,475	596
-	-	-	-	976	2,249	-
-	300	-	-	-	300	-
-	100	-	-	-	150	30
-	1	-	-	-	1	133
-	2	-	-	-	3,193	58,354
<u>9,292</u>	<u>6,818</u>	<u>31,801</u>	<u>12,039</u>	<u>1,803</u>	<u>287,095</u>	<u>156,014</u>
-	1,500	-	-	-	1,500	-
-	33	-	-	-	36	-
-	-	-	-	1,042	7,579	-
7,782	44,587	1,952	3,272	41,565	191,115	6,919
<u>88,396</u>	<u>55,628</u>	<u>2,918</u>	<u>40,137</u>	<u>2,913</u>	<u>590,938</u>	<u>16,719</u>
96,178	101,748	4,870	43,409	45,520	791,168	23,638
<u>105,470</u>	<u>108,566</u>	<u>36,671</u>	<u>55,448</u>	<u>47,323</u>	<u>1,078,263</u>	<u>179,652</u>
-	-	-	-	-	90	-
2,712	7,192	1,682	1,686	720	37,766	4,807
575	1,658	603	265	68	9,501	1,210
<u>3,287</u>	<u>8,850</u>	<u>2,285</u>	<u>1,951</u>	<u>788</u>	<u>47,357</u>	<u>6,017</u>
978	9,265	3,910	184	974	25,062	2,296
142	349	66	68	32	1,860	268
-	595	-	-	-	595	-
-	-	-	-	909	909	-
-	-	-	-	-	-	7,565
95	385	-	-	-	1,079	-
-	24	-	-	3	319	1,027
123	2,312	-	898	-	6,075	-
-	-	-	-	-	-	6,661
<u>1,338</u>	<u>12,930</u>	<u>3,976</u>	<u>1,150</u>	<u>1,918</u>	<u>35,899</u>	<u>17,817</u>
-	-	-	-	-	-	8,732
-	-	-	-	2,629	2,629	-
-	-	6,883	-	-	6,883	-
10,463	26,902	7,395	5,575	1,488	135,505	18,326
1,897	6,047	2,104	949	358	30,762	4,102
16	753	-	-	-	900	-
-	139	-	-	3	3,418	1,149
-	40,497	-	-	-	64,212	-
-	-	-	-	-	-	25,739
<u>12,376</u>	<u>74,338</u>	<u>16,382</u>	<u>6,524</u>	<u>4,478</u>	<u>244,309</u>	<u>58,048</u>
<u>13,714</u>	<u>87,268</u>	<u>20,358</u>	<u>7,674</u>	<u>6,396</u>	<u>280,208</u>	<u>75,865</u>
124	332	83	83	41	1,782	207
404	1,116	438	180	53	6,649	877
-	-	-	-	1,970	9,741	-
<u>528</u>	<u>1,448</u>	<u>521</u>	<u>263</u>	<u>2,064</u>	<u>18,172</u>	<u>1,084</u>
95,944	57,905	4,870	42,511	44,472	707,940	21,462
-	2	-	-	-	3,193	-
-	-	-	-	-	-	58,354
<u>(1,429)</u>	<u>(29,207)</u>	<u>13,207</u>	<u>6,951</u>	<u>(4,821)</u>	<u>116,107</u>	<u>28,904</u>
<u>\$ 94,515</u>	<u>\$ 28,700</u>	<u>\$ 18,077</u>	<u>\$ 49,462</u>	<u>\$ 39,651</u>	<u>827,240</u>	<u>\$ 108,720</u>
					10,506	
					<u>\$ 837,746</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, 2023
(Amounts in thousands)

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
OPERATING REVENUES:				
Sales to:				
Customers	\$ 39,823	\$ 156,980	\$ 1,588	\$ 71,287
City departments	1,979	5,761	1,041	1,187
Surplus energy	-	8,864	-	-
Service connection charges and miscellaneous	1,005	978	50	414
Charges for services	-	-	-	-
Other	915	27,891	-	2,403
Total operating revenues	<u>43,722</u>	<u>200,474</u>	<u>2,679</u>	<u>75,291</u>
OPERATING EXPENSES:				
Purchase of utilities:				
Retail purchase of utilities	21,744	114,375	-	45,926
Surplus energy	-	5,629	-	-
Administrative and general	5,779	10,453	992	4,677
Engineering (operating)	468	1,934	-	479
Resource management and energy efficiency	1,591	6,742	-	1,179
Operations and maintenance	7,531	20,927	1,257	7,314
Rent	2,364	6,324	55	501
Depreciation and amortization	3,753	8,970	423	3,976
Claims payments and changes in estimated self-insurance liability	-	-	-	-
Refund of charges for services	-	-	-	-
Employment benefits	-	-	-	-
Total operating expenses	<u>43,230</u>	<u>175,354</u>	<u>2,727</u>	<u>64,052</u>
Operating income (loss)	<u>492</u>	<u>25,120</u>	<u>(48)</u>	<u>11,239</u>
NONOPERATING REVENUES (EXPENSES):				
Investment earnings	435	501	188	74
Interest expense	(1,332)	(8,522)	-	(62)
Gain on disposal of capital assets	-	-	-	-
Loss on disposal of capital assets	(43)	(32)	-	(88)
Other nonoperating revenues	421	23,996	-	54
Total nonoperating revenues (expenses)	<u>(519)</u>	<u>15,943</u>	<u>188</u>	<u>(22)</u>
Income before transfers and capital contributions	(27)	41,063	140	11,217
Capital contributions	131	-	-	-
Transfers in (Note 4)	-	3,119	-	1,717
Transfers out (Note 4)	(722)	(15,952)	(327)	(7,373)
Change in net position	(618)	28,230	(187)	5,561
NET POSITION, BEGINNING OF YEAR	<u>142,300</u>	<u>260,113</u>	<u>42,587</u>	<u>118,849</u>
NET POSITION, END OF YEAR	<u>\$ 141,682</u>	<u>\$ 288,343</u>	<u>\$ 42,400</u>	<u>\$ 124,410</u>

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

Change in net position reported in Business-type Activities

See accompanying notes to the basic financial statements.

Business-Type Activities-Enterprise Funds						Governmental
Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Non-Major		Governmental Activities- Internal Service Funds
				Airport	Totals	
\$ 20,553	\$ 19,170	\$ 28,647	\$ 7,721	\$ 1,780	\$ 347,549	\$ -
141	10,830	895	461	-	22,295	-
-	-	-	-	-	8,864	-
219	-	-	-	-	2,666	-
-	-	-	-	-	-	139,017
387	1,283	2,480	75	834	36,268	80
<u>21,300</u>	<u>31,283</u>	<u>32,022</u>	<u>8,257</u>	<u>2,614</u>	<u>417,642</u>	<u>139,097</u>
10,784	-	20,839	-	-	213,668	-
-	-	-	-	-	5,629	-
2,285	-	1,408	1,240	1,242	28,076	15,829
247	2,552	255	374	-	6,309	-
-	-	-	1,176	-	10,688	-
4,054	23,888	10,009	2,020	1,055	78,055	12,032
268	-	107	20	-	9,639	-
3,204	4,853	78	1,273	97	26,627	4,044
-	-	-	-	-	-	5,708
-	-	-	-	-	-	265
-	-	-	-	-	-	87,575
<u>20,842</u>	<u>31,293</u>	<u>32,696</u>	<u>6,103</u>	<u>2,394</u>	<u>378,691</u>	<u>125,453</u>
<u>458</u>	<u>(10)</u>	<u>(674)</u>	<u>2,154</u>	<u>220</u>	<u>38,951</u>	<u>13,644</u>
19	579	(27)	(104)	96	1,761	2,821
(16)	(657)	-	(90)	(65)	(10,744)	(66)
-	-	-	-	-	-	71
(53)	-	-	-	-	(216)	-
-	-	-	-	-	24,471	11
<u>(50)</u>	<u>(78)</u>	<u>(27)</u>	<u>(194)</u>	<u>31</u>	<u>15,272</u>	<u>2,837</u>
408	(88)	(701)	1,960	251	54,223	16,481
-	-	-	613	1,915	2,659	-
-	-	-	-	-	4,836	9,853
<u>(526)</u>	<u>(27)</u>	<u>(70)</u>	<u>(130)</u>	<u>(1)</u>	<u>(25,128)</u>	<u>(3,602)</u>
(118)	(115)	(771)	2,443	2,165	36,590	22,732
<u>94,633</u>	<u>28,815</u>	<u>18,848</u>	<u>47,019</u>	<u>37,486</u>		<u>85,988</u>
<u>\$ 94,515</u>	<u>\$ 28,700</u>	<u>\$ 18,077</u>	<u>\$ 49,462</u>	<u>\$ 39,651</u>		<u>\$ 108,720</u>

4,340
\$ 40,930

See accompanying notes to the basic financial statements.

CITY OF PALO ALTO
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2023
(Amounts in thousands)

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
Cash flows from operating activities:				
Cash received from customers	\$ 40,792	\$ 151,727	\$ 2,360	\$ 72,447
Cash payments to suppliers for goods and services	(31,273)	(143,753)	(1,232)	(53,925)
Cash payments to employees	(9,836)	(22,493)	(1,424)	(9,120)
Internal activity- receipts (payments) from (to) other funds	1,979	5,761	1,041	1,187
Other receipts	915	27,891	-	2,403
Net cash provided by operating activities	2,577	19,133	745	12,992
Cash flows from noncapital financing activities:				
Cash receipt of loans from other funds	-	-	-	-
Operating grants and contributions	-	23,996	-	54
Interest subsidy received from Build America Bonds	421	-	-	-
Transfers in	-	3,119	-	1,717
Transfers out	(722)	(15,952)	(327)	(7,373)
Net cash provided by (used in) noncapital financing activities	(301)	11,163	(327)	(5,602)
Cash flows from capital and related financing activities:				
Acquisition and construction of capital and right-to-use assets	(8,588)	(14,714)	(710)	(4,269)
Proceeds from sale of capital assets	-	-	-	-
Capital grants and contributions	131	-	-	-
Proceeds from long-term debt issuance	-	-	-	-
Principal paid on lease liabilities	(165)	(386)	-	(159)
Principal paid on SBITA liabilities	(42)	(86)	-	(12)
Principal paid on long-term debt	(1,930)	-	-	(715)
Interest paid	(1,356)	(8,522)	-	(93)
Net cash used in capital and related financing activities	(11,950)	(23,708)	(710)	(5,249)
Cash flows from investing activities:				
Investment interest received (expenses paid)	427	479	159	59
Net change in cash and cash equivalents	(9,247)	7,067	(133)	2,200
Cash and cash equivalents, beginning of year	46,429	76,743	33,820	24,378
Cash and cash equivalents, end of year	<u>\$ 37,182</u>	<u>\$ 83,810</u>	<u>\$ 33,687</u>	<u>\$ 26,578</u>
Financial statement presentation:				
Cash and investments available for operations	\$ 34,369	\$ 83,810	\$ 33,687	\$ 26,200
Restricted cash and investments with fiscal agents and trustees	2,813	-	-	378
Cash and cash equivalents, end of year	<u>\$ 37,182</u>	<u>\$ 83,810</u>	<u>\$ 33,687</u>	<u>\$ 26,578</u>
Reconciliation of operating income (loss) to net cash flows provided by (used in) operating activities:				
Operating income (loss)	\$ 492	\$ 25,120	\$ (48)	\$ 11,239
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization	3,753	8,970	423	3,976
Other	-	-	-	-
Change in assets, deferred outflow/inflow of resources, and liabilities				
Accounts receivable	(36)	(15,093)	464	746
Inventory of materials and supplies	-	-	-	-
Deposit	8	41	-	-
Prepaid items	-	-	-	-
Lease receivable	-	15	(4,646)	-
Deferred outflow of resources - pension plans	(1,744)	(7,681)	(517)	(2,274)
Deferred outflow of resources - OPEB	(343)	(971)	(7)	(410)
Accounts payable and accruals	(982)	613	(435)	(2,171)
Accrued salaries and benefits	13	146	15	30
Accrued compensated absences	-	-	-	-
Unearned revenue	-	-	-	-
Landfill closure and post-closure care	-	-	-	-
Accrued claims payable	-	-	-	-
Net pension liability	5,398	17,201	1,226	6,580
Net OPEB liability	1,011	2,873	-	1,206
Deferred inflow of resources - lease related	-	(17)	4,904	-
Deferred inflow of resources - pension plans	(3,865)	(8,828)	(640)	(4,570)
Deferred inflow of resources - OPEB	(1,128)	(3,256)	6	(1,360)
Net cash provided by operating activities	<u>\$ 2,577</u>	<u>\$ 19,133</u>	<u>\$ 745</u>	<u>\$ 12,992</u>
Noncash capital and related financing activities:				
Lease assets and liabilities addition	\$ 54	\$ 178	\$ -	\$ 73

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	
\$ 20,946	\$ 19,655	\$ 28,768	\$ 7,760	\$ 3,245	\$ 347,700	\$ 138,919
(12,971)	(7,108)	(29,163)	(1,968)	(1,579)	(282,972)	(17,674)
(4,638)	(14,631)	(3,203)	(2,785)	(1,151)	(69,281)	(95,538)
141	10,830	895	461	-	22,295	(6,358)
387	1,283	2,931	75	834	36,719	11
<u>3,865</u>	<u>10,029</u>	<u>228</u>	<u>3,543</u>	<u>1,349</u>	<u>54,461</u>	<u>19,360</u>
-	-	-	-	703	703	-
-	-	-	-	-	24,050	-
-	-	-	-	-	421	-
-	-	-	-	-	4,836	9,853
(526)	(27)	(70)	(130)	(1)	(25,128)	(3,602)
<u>(526)</u>	<u>(27)</u>	<u>(70)</u>	<u>(130)</u>	<u>702</u>	<u>4,882</u>	<u>6,251</u>
(6,420)	(28,536)	-	(1,373)	(4,005)	(68,615)	(3,090)
-	-	-	-	-	-	71
-	300	-	613	1,915	2,959	-
-	11,955	-	-	-	11,955	-
(144)	(611)	-	-	-	(1,465)	-
-	(15)	-	-	(45)	(200)	(988)
(116)	(2,249)	-	(856)	-	(5,866)	-
(16)	(655)	-	(88)	(65)	(10,795)	(66)
<u>(6,696)</u>	<u>(19,811)</u>	<u>-</u>	<u>(1,704)</u>	<u>(2,200)</u>	<u>(72,028)</u>	<u>(4,073)</u>
14	608	(55)	(122)	96	1,665	2,721
(3,343)	(9,201)	103	1,587	(53)	(11,020)	24,259
9,943	12,699	27,850	9,427	53	241,342	130,806
<u>\$ 6,600</u>	<u>\$ 3,498</u>	<u>\$ 27,953</u>	<u>\$ 11,014</u>	<u>\$ -</u>	<u>\$ 230,322</u>	<u>\$ 155,065</u>
\$ 6,600	\$ 3,496	\$ 27,953	\$ 11,014	\$ -	\$ 227,129	\$ 96,711
-	2	-	-	-	3,193	\$ 58,354
<u>\$ 6,600</u>	<u>\$ 3,498</u>	<u>\$ 27,953</u>	<u>\$ 11,014</u>	<u>\$ -</u>	<u>\$ 230,322</u>	<u>\$ 155,065</u>
\$ 458	\$ (10)	\$ (674)	\$ 2,154	\$ 220	\$ 38,951	\$ 13,644
3,204	4,853	78	1,273	97	26,627	4,044
-	-	-	-	-	-	11
174	(110)	121	39	1,513	(12,182)	(98)
-	(1)	-	-	-	(1)	51
-	17	-	-	-	66	-
-	-	-	-	-	-	1,728
-	-	-	-	(2,018)	(6,649)	-
(1,479)	(3,938)	(948)	(1,041)	(466)	(20,088)	(2,478)
(157)	(458)	(163)	(73)	(18)	(2,600)	(328)
190	5,115	341	23	(517)	2,177	729
32	74	1	14	5	330	63
-	-	-	-	-	-	529
-	595	-	-	-	595	-
-	-	451	-	-	451	-
-	-	-	-	-	-	(730)
3,421	9,157	2,368	2,457	1,284	49,092	5,493
462	1,351	480	216	53	7,652	950
-	-	-	-	1,970	6,857	-
(1,919)	(5,117)	(1,279)	(1,279)	(712)	(28,209)	(3,148)
(521)	(1,499)	(548)	(240)	(62)	(8,608)	(1,100)
<u>\$ 3,865</u>	<u>\$ 10,029</u>	<u>\$ 228</u>	<u>\$ 3,543</u>	<u>\$ 1,349</u>	<u>\$ 54,461</u>	<u>\$ 19,360</u>
\$ 81	\$ 781	\$ -	\$ -	\$ -	\$ 1,167	\$ -

See accompanying notes to the basic financial statements.

CITY OF PALO ALTO
Statement of Fiduciary Net Position
June 30, 2023
(Amounts in thousands)

	Custodial Funds
ASSETS:	
Cash and investments available for operations (Note 3)	\$ 3,081
Accounts receivable	455
Interest receivable	20
Restricted cash and investments with fiscal agents (Note 3)	2,821
Total assets	6,377
 LIABILITIES:	
Accounts payable and accruals	192
 NET POSITION:	
Restricted for:	
Governmental entities	1,609
Bondholders of special assessment bonds	4,576
Total net position	\$ 6,185

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, 2023
(Amounts in thousands)

	Custodial Funds
ADDITIONS:	
Franchise and other fees collected	\$ 1,694
Special assessments collected	2,236
Investment earnings	92
Total additions	4,022
DEDUCTIONS:	
Administrative and general	16
Distribution to governmental entities	1,486
Debt service payments	2,402
Total deductions	3,904
Changes in net position	118
NET POSITION, BEGINNING OF YEAR	6,067
NET POSITION, END OF YEAR	\$ 6,185

See accompanying notes to the basic financial statements.

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CITY OF PALO ALTO
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For the Year Ended June 30, 2023

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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, 2023

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.

Separately issued financial statements for the Corporation may be obtained from the City of Palo Alto, Administrative Services Department, 4th Floor, 250 Hamilton Avenue, Palo Alto, CA 94301. There is no separately issued financial statements for the District.

(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, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of Presentation (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.

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, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Major Funds and Other Funds (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.

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, 2023

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:

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, 2023

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, 2023

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, 2023, changes to the compensated absences liabilities were as follows (in thousands):

Beginning balance	\$ 15,768
Additions	15,269
Payments	<u>(14,740)</u>
Ending balance	<u>\$ 16,297</u>
Current portion	<u>\$ 7,565</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

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 assets that is applicable to a future reporting period. A deferred inflow of resources is defined as an acquisition of net assets 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, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Effects of New Pronouncements

As of July 1, 2022, the City implemented the following GASB Statement:

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. Implementation of this statement did not have a significant impact on the City's financial statements for the fiscal year ended June 30, 2023.

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. Implementation of this statement did not have a significant impact on the City's financial statements for the fiscal year ended 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 implementation of this statement impacted the financial statements and footnote disclosures for the City for the fiscal year ended June 30, 2023. Please refer to Note 6.

In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (a) practice issues that been identified during implementation and application of certain GASB Statements and (b) accounting and financial reporting for financial guarantees. The requirements related to leases, public-private partnerships (PPPs), and SBITAs are effective for the City's fiscal year ended June 30, 2023. Implementation of these requirements did not have a significant impact on the City's financial statements for the fiscal year ended June 30, 2023.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Effects of New Pronouncements (Continued)

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

In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of statement 53 are effective for the City's fiscal year ending June 30, 2024.

In June 2022, the GASB issued Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*. The primary objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant consistent, and comparable information for making decisions or assessing accountability. The requirements of this statement are effective for the City's fiscal year ending June 30, 2024.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. The objective of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this statement are effective for the City's fiscal year ending June 30, 2025.

(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.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING

Below are several key components of the City’s budgeting process and budgetary accounting policies:

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.
6. Budgets for governmental funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America (U.S. GAAP), except that unrealized gains or losses on investments, changes in advances to other funds and notes receivable, and GASB 87 leases and interest, 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.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 3 – CASH AND INVESTMENTS (Continued)

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):

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and investments:				
Available for operations	\$ 343,026	\$ 227,129	\$ 3,081	\$ 573,236
With fiscal agents and trustees	<u>70,932</u>	<u>3,193</u>	<u>2,821</u>	<u>76,946</u>
Total cash and investments	<u>\$ 413,958</u>	<u>\$ 230,322</u>	<u>\$ 5,902</u>	<u>\$ 650,182</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, 2023

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
California State and Municipal and other 49 State Issued Bonds	10 years (*)	AA/AA2	40%	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 and General Obligation Bonds 2013A and 2022A&B 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, 2023

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, equity 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, 2023 (in thousands):

Type of Investment	June 30, 2023	Level 2
Investments by fair value hierarchy		
U.S. Federal Agency Securities	\$ 184,775	\$ 184,775
U.S. Treasury Notes	7,479	7,479
Local Government Bonds	215,986	215,986
Negotiable Certificates of Deposit	45,813	45,813
Corporate Bonds	27,227	27,227
Supranational Bonds	40,260	40,260
Total investments by fair value hierarchy	521,540	\$ 521,540
Investment not subject to fair value hierarchy		
Money Market Mutual Funds	34,540	
Equity Mutual Funds (Irrevocable for Pension)	58,354	
California Asset Management Program	3,082	
Local Agency Investment Fund	30,378	
Total investments not subject to fair value hierarchy	126,354	
Total investments measured at fair value	\$ 647,894	

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, 2023

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 \$178.4 billion as of June 30, 2023. Of that amount, 97.2 percent was invested in nonderivative financial products and 2.8 percent in structured notes and asset backed securities. At June 30, 2023, LAIF had a weighted average maturity of 260 days.

Money Market Mutual Funds

Money market mutual funds are available for withdrawal on demand and at June 30, 2023, had a weighted average maturity of 12 days.

California Asset Management Program

The City is a voluntary participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust). The Trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Sections 6500 et seq., or the "Act") for the purpose of exercising the common power of its participants to invest certain proceeds of debt issues and surplus funds. The City's investments are limited to investments permitted by subdivisions (a) to (n), inclusive, of Section 53601 of the California Government Code. The City reports its investments in CAMP at the fair value amounts provided by CAMP, which is the same as the value of the pool share. At June 30, 2023, the fair value approximated the City's cost. CAMP had a weighted average maturity of 26 days at June 30, 2023.

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, 2023, 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	\$ 18,624	\$ 67,602	\$ 19,310	\$ 79,239	\$ 184,775
U.S. Treasury Notes	2,457	3,686	1,336	-	7,479
Local Government Bonds	10,484	62,173	75,881	67,448	215,986
Corporate Bonds	4,249	14,538	8,440	-	27,227
Money Market Mutual Funds	34,540	-	-	-	34,540
Equity Mutual Funds					
(Irrevocable for Pension)	58,354	-	-	-	58,354
Negotiable Certificates of Deposit	11,273	19,729	12,826	1,985	45,813
California Asset Management Program	3,082	-	-	-	3,082
Supranational Bonds	994	29,642	9,624	-	40,260
Local Agency Investment Fund	30,378	-	-	-	30,378
Total Investments	<u>\$ 174,435</u>	<u>\$ 197,370</u>	<u>\$ 127,417</u>	<u>\$ 148,672</u>	647,894
Cash in bank and on hand					2,288
Total Cash and Investments					<u>\$ 650,182</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 3 – CASH AND INVESTMENTS (Continued)

Investment with Fair Values Highly Sensitive to Interest Rate Fluctuations

At June 30, 2023, the City’s investments include U.S. Federal Agency Callable Securities totaling \$132.4 million with par value of \$153.2 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, 2023, for each investment type (in thousands):

Type of Investment	Rating	Total
U.S. Federal Agency Securities	AA+	\$ 184,775
Corporate Bonds	AAA	18,563
	AA+	8,664
Total Corporate Bonds		27,227
Local Government Bonds	AAA	66,458
	AA+	56,648
	AA	78,763
	AA-	1,967
	N/A	12,150
Total Government Bonds		215,986
Supranational Bonds	AAA	40,260
Money Market Mutual Funds	AAA	15,767
	N/A	18,773
Total Money Market Mutual Funds		34,540
Subtotal rated investments		502,788
Not Applicable:		
U.S. Treasury Notes		7,479
Not Rated:		
California Asset Management Program		3,082
Local Agency Investment Fund		30,378
Negotiable Certificates of Deposit		45,813
Equity Mutual Funds (Irrevocable for Pension)		58,354
Cash in bank and on hand		2,288
Total Cash and Investments		\$ 650,182

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

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, 2023 (in thousands):

Investments	Reporting Type	Fair Value at Year-End
Federal Agricultural Mortgage Corporation	U.S. Federal Agency Securities	\$ 49,212
Federal Home Loan Bank	U.S. Federal Agency Securities	48,544
Federal Home Loan Mortgage Corporation	U.S. Federal Agency Securities	37,874

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, 2023

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 2023 were as follows on the following page (in thousands):

Fund Receiving Transfer	Fund Making Transfer	Amount Transferred
General Fund	Nonmajor Governmental Funds	\$ 460 A
	Electric Services Fund	14,534 B
	Gas Services Fund	6,683 B
		<u>21,677</u>
Capital Projects Fund	General Fund	26,688 C
	Nonmajor Governmental Funds	10,309 C
	Water Services Fund	620 C
	Electric Services Fund	1,199 C
	Fiber Optics Fund	47 C
	Gas Services Fund	596 C
	Wastewater Collection Fund	471 C
	Refuse Fund	27 C
	Storm Drainage Fund	115 C
	Internal Service Funds	<u>540 C</u>
	<u>40,612</u>	
Nonmajor Governmental Funds	General Fund	1,464 A
	Capital Projects Fund	3,912 A
	Water Services Fund	13 A
	Electric Services Fund	27 A
	Fiber Optics Fund	2 A
	Gas Services Fund	11 A
	Wastewater Collection Fund	7 A
	Internal Service Funds	<u>27 A</u>
	<u>5,463</u>	
Electric Services Fund	General Fund	2,849 D
	Fiber Optics Fund	265 C
	Internal Service Funds	<u>5 C</u>
	<u>3,119</u>	
Gas	General Fund	<u>1,717 D</u>
Internal Service Funds	General Fund	6,312 E
	Water Services Fund	89 E
	Electric Services Fund	192 E
	Fiber Optics Fund	13 E
	Gas Services Fund	83 E
	Wastewater Collection Fund	48 E
	Wastewater Treatment Fund	27 E
	Refuse Fund	43 E
	Storm Drainage Services Fund	15 E
	Airport	1 E
	Internal Service Funds	<u>3,030 E/F</u>
	<u>9,853</u>	
Total	<u>\$ 82,441</u>	

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

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 winter rebate program.
- (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, 2023, 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 \$405,000, \$8,000, and \$909,000, 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, 2023, the outstanding advances was \$2.6 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, 2023

NOTE 5 – NOTES AND LOANS RECEIVABLE

At June 30, 2023, 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	47
Executive Relocation Assistance Loans	782
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	842
MP Palo Alto Garden, LLC	671
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	68,186
Less: Valuation Allowance	(14,612)
	<hr/>
Total Notes and Loans Receivable, Net	<u>\$ 53,574</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, 2023

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, 2023

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.

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.

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.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

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, 2023, the outstanding balance was \$782,000.

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, 2023

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.

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 and is due at the end of the 55-year term. As of June 30, 2023, the outstanding balance was \$842,000.

MP Palo Alto Garden, LLC

The City loaned \$619,000 and \$52,000 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, 2023

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.

NOTE 6 – LEASES AND SBITA

As part of normal operations, the City entered into various lease agreements as either a lessor or lessee for land, equipment, and other asset classes. Leasing activities are not considered to be the City's primary operation. Lease liabilities and receivables were calculated based on the Net Present Value (NPV) of future lease payments/receipts, discounted using interest rate determined using the average of Municipal Market Data (MMD) indices for the City's AAA rating. The City recorded lease liabilities and lease assets for leases with individual NPV of \$50,000 or more.

Contracts where a rental agreement existed with variable payments, including variable increases, were not taken into consideration unless there was a fixed payment associated. Some contracts increased rent based on the Consumer Price Index (CPI). The City considers these to be variable amounts and are therefore not factored into the NPV calculation.

City as Lessor

At June 30, 2023, the City is a lessor for the following leases.

The City's Governmental Activities leases space used as a restaurant. In addition, the City leases space as a part of the Cubberley Artist Studio Program.

The City also leases access and land for communication facilities and equipment under six separate contracts. There are five contracts under Governmental Activities and one under the Electric Fund.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 6 – LEASES and SBITA (Continued)

The City’s Fiber Optics Fund leases cable as equipment for business use. Contracts last for 10 years and continue on a month-to-month basis until a new contract is signed or a party terminates. Each cable is considered a project. Parties may add additional projects to the contract and the new projects will follow the timeline of the contract’s original ten- year term.

The City’s Airport Fund leases space and equipment at the airport. Contracts last for 3 years and continue on a month-to-month basis until a new contract is signed or a party terminates.

Information about lease revenues and interest revenues recognized during the year ended June 30, 2023, as well as lease receivable and lease related deferred inflows of resources as of June 30, 2023 are as follows (in thousands):

	<u>Asset Class</u>	<u>Lease Receivables at June 30, 2023</u>	<u>Deferred Inflows of Resources at June 30, 2023</u>	<u>Lease Revenue for the Year</u>	<u>Lease Interest Revenue for the Year</u>
Governmental Activities:					
	Land	\$ 2,905	\$ 2,757	\$ 218	\$ 87
	Space	238	234	53	6
	Land/Building	37	36	14	1
Total Governmental Activities		<u>\$ 3,180</u>	<u>\$ 3,027</u>	<u>\$ 285</u>	<u>\$ 94</u>
Business-Type Activities:					
	Access	\$ 141	\$ 137	\$ 17	\$ 5
	Equipment	7,669	7,634	1,438	237
	Space/ Equipment	2,018	1,970	962	49
Total Business-Type Activities		<u>\$ 9,828</u>	<u>\$ 9,741</u>	<u>\$ 2,417</u>	<u>\$ 291</u>

* *Fiber Optics Fund’s normal operations include the leasing of cable as equipment for business use.*

** *Airport Fund’s normal operations include the leasing of space and equipment.*

City as Lessee

At June 30, 2023, the City is a lessee for the following leases.

The City’s Governmental Activities leases two automatic public toilets (APT), two spaces for community use and childcare services, and office space. Business-Type Activities leases land for a reservoir site under the Water Fund and office spaces under Water Fund, Electric Fund, Gas Fund, Wastewater Collection Fund, and Wastewater Treatment Fund.

For the City’s lease assets balances and activities, see Note 7.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 6 – LEASES and SBITA (Continued)

The City's lease liabilities balances and activities are as follows (in thousands):

	Balance July 1, 2022	Additions	Retirements	Balance June 30, 2023	Current Portion
Governmental activities	\$ 7,728	\$ 7,704	\$ (4,842)	\$ 10,590	\$ 3,874
Business-Type activities	\$ 2,277	\$ 1,167	\$ (1,465)	\$ 1,979	\$ 1,079

Detailed information about lease assets and liabilities as of June 30, 2023 are as follows (in thousands):

	Asset Class	Lease Asset at June 30, 2023	Lease Liability at June 30, 2023
Governmental Activities			
	Equipment	\$ 1,715	\$ 1,752
	Space	3,293	3,332
	Space	3,698	3,783
	Office Space	1,384	1,408
	Office Space	305	315
Total Governmental Activities		\$ 10,395	\$ 10,590
Business-Type Activities			
	Office Space	\$ 1,045	\$ 1,101
	Office Space	37	38
	Office Space **	763	792
	Land	47	48
Total Business-Type Activities		\$ 1,892	\$ 1,979

** Items under this contract are split as follows: Electric Fund 46%, Gas Fund 19%, Water Fund 21%, and Wastewater Collection Fund 14%.

The annual payment schedule for the lease liabilities is as follows (dollars in thousands):

Fiscal Year Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2024	\$ 3,874	\$ 206	\$ 1,079	\$ 34
2025	2,696	122	497	14
2026	1,226	80	403	5
2027	914	56	-	-
2028	912	34	-	-
2028 - 2033	875	65	-	-
2034 - 2038	93	1	-	-
Total	\$ 10,590	\$ 564	\$ 1,979	\$ 53

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 6 – LEASES and SBITA (Continued)

The City entered into various subscription-based information technology arrangements (SBITAs) for the operation of city services. SBITA liabilities were calculated based on the NPV of future subscription payments, discounted using interest rate determined using the average of MMD indices for the City’s AAA rating. The City only recorded SBITA liabilities for arrangements with a NPV of \$50,000 or more.

Arrangements where payment was dependent on future performance or usage were not taken into consideration unless there was associated fixed payments. Some agreements increased payments based on the CPI. The City considers these to be variable amounts and are therefore not factored into the NPV calculation.

The City’s Governmental Activities recorded 10 SBITA arrangements and Business-type Activities recorded 6 SBITA arrangements.

For the City’s SBITA assets balances and activities, see Note 7.

The City’s SBITA liabilities balances and activities are as follows (in thousands):

	Balance July 1, 2022 (as restated *)	Additions	Retirements	Balance June 30, 2023	Current Portion
Governmental activities	\$ 3,277	\$ 640	\$ (1,064)	\$ 2,853	\$ 1,160
Business-Type activities	\$ 3,937	\$ -	\$ (200)	\$ 3,737	\$ 319

* Beginning balances are restated due to the implementation of GASB Statement No. 96.

The annual payment schedule for the SBITA liabilities is as follows (dollars in thousands):

Fiscal Year Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2024	\$ 1,160	\$ 62	\$ 319	\$ 109
2025	993	37	281	100
2026	351	17	274	92
2027	135	8	235	85
2028	145	5	246	78
2028 - 2033	69	2	1,360	277
2034 - 2038	-	-	1,023	62
Total	\$ 2,853	\$ 131	\$ 3,738	\$ 803

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 7 – 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.

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, 2023

NOTE 7 – CAPITAL ASSETS (Continued)

Governmental Activities

Changes in the capital assets for governmental activities during the year ended June 30, 2023 were (in thousands):

	Balance July 1, 2022 (as restated*)	Additions	Retirements	Transfers	Balance June 30, 2023
<i>Governmental activities</i>					
Nondepreciable capital assets:					
Land and improvements	\$ 82,131	\$ -	\$ -	\$ -	\$ 82,131
Street trees	14,960	111	(257)	-	14,814
Intangible assets - Easement	3,567	-	-	-	3,567
Construction in progress	117,318	48,762	(3,950)	(6,038)	156,092
Total nondepreciable capital assets	<u>217,976</u>	<u>48,873</u>	<u>(4,207)</u>	<u>(6,038)</u>	<u>256,604</u>
Depreciable capital assets:					
Buildings and structures	350,604	-	-	5,161	355,765
Intangible assets - Software	279	-	-	-	279
Equipment	18,102	31	-	877	19,010
Roadway network	359,074	-	-	-	359,074
Recreation and open space network	36,994	-	-	-	36,994
Total depreciable capital assets	<u>765,053</u>	<u>31</u>	<u>-</u>	<u>6,038</u>	<u>771,122</u>
Less accumulated depreciation:					
Buildings and structures	(122,159)	(10,760)	-	-	(132,919)
Intangible assets - Software	(279)	-	-	-	(279)
Equipment	(9,468)	(560)	-	-	(10,028)
Roadway network	(186,940)	(8,148)	-	-	(195,088)
Recreation and open space network	(18,447)	(1,324)	-	-	(19,771)
Total accumulated depreciation	<u>(337,293)</u>	<u>(20,792)</u>	<u>-</u>	<u>-</u>	<u>(358,085)</u>
Depreciable capital assets, net	<u>427,760</u>	<u>(20,761)</u>	<u>-</u>	<u>6,038</u>	<u>413,037</u>
Internal service fund capital assets					
Construction in progress	4,501	2,854	-	(436)	6,919
Equipment	64,812	236	(5,108)	436	60,376
Less accumulated depreciation	(47,885)	(3,013)	5,108	-	(45,790)
Net internal service fund capital assets	<u>21,428</u>	<u>77</u>	<u>-</u>	<u>-</u>	<u>21,505</u>
Amortized lease assets					
Intangible assets - right to use leased assets	9,745	7,704	-	-	17,449
Less accumulated amortization	(2,721)	(4,333)	-	-	(7,054)
Net amortized lease assets	<u>7,024</u>	<u>3,371</u>	<u>-</u>	<u>-</u>	<u>10,395</u>
Amortized SBITA assets					
Intangible assets - right to use SBITA assets	3,277	640	-	-	3,917
Less accumulated amortization	-	(1,127)	-	-	(1,127)
Net amortized SBITA assets	<u>3,277</u>	<u>(487)</u>	<u>-</u>	<u>-</u>	<u>2,790</u>
Total nondepreciable capital assets	222,477	51,727	(4,207)	(6,474)	263,523
Total depreciable capital assets, net	454,988	(20,654)	-	6,474	440,808
Governmental activities capital assets, net	<u>\$ 677,465</u>	<u>\$ 31,073</u>	<u>\$ (4,207)</u>	<u>\$ -</u>	<u>\$ 704,331</u>

* Beginning balances are restated due to the implementation of GASB Statement No. 96.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 7 – CAPITAL ASSETS (Continued)

Business-Type Activities Capital Assets

Changes in the capital assets for the business-type activities during the year ended June 30, 2023 were (in thousands):

	Balance July 1, 2022 (as restated *)	Additions	Retirements	Transfers	Balance June 30, 2023
<i>Business-type activities</i>					
Nondepreciable capital assets:					
Land and improvements	\$ 4,973	\$ -	\$ -	\$ -	\$ 4,973
Construction in progress	136,949	68,001	-	(18,808)	186,142
Total nondepreciable capital assets	<u>141,922</u>	<u>68,001</u>	<u>-</u>	<u>(18,808)</u>	<u>191,115</u>
Depreciable capital assets:					
Buildings and structures	80,526	-	-	3,228	83,754
Infrastructure	633	-	-	-	633
Transmission, distribution and treatment systems	948,937	431	(1,736)	15,580	963,212
Total depreciable capital assets	<u>1,030,096</u>	<u>431</u>	<u>(1,736)</u>	<u>18,808</u>	<u>1,047,599</u>
Less accumulated depreciation:					
Buildings and structures	(19,106)	(1,712)	-	-	(20,818)
Infrastructure	(107)	(21)	-	-	(128)
Transmission, distribution and treatment systems	(419,698)	(23,371)	1,520	-	(441,549)
Total accumulated depreciation	<u>(438,911)</u>	<u>(25,104)</u>	<u>1,520</u>	<u>-</u>	<u>(462,495)</u>
Depreciable capital assets, net	<u>591,185</u>	<u>(24,673)</u>	<u>(216)</u>	<u>18,808</u>	<u>585,104</u>
Amortized lease assets					
Intangible assets - right to use lease assets	2,851	1,167	-	-	4,018
Less accumulated amortization	(781)	(1,345)	-	-	(2,126)
Net amortized lease assets	<u>2,070</u>	<u>(178)</u>	<u>-</u>	<u>-</u>	<u>1,892</u>
Amortized SBITA assets					
Intangible assets - right to use SBITA assets	3,937	183	-	-	4,120
Less accumulated amortization	-	(178)	-	-	(178)
Net amortized SBITA assets	<u>3,937</u>	<u>5</u>	<u>-</u>	<u>-</u>	<u>3,942</u>
Total depreciable capital assets, net	<u>597,192</u>	<u>(24,846)</u>	<u>(216)</u>	<u>18,808</u>	<u>590,938</u>
Business-type activities capital assets, net	<u>\$ 739,114</u>	<u>\$ 43,155</u>	<u>\$ (216)</u>	<u>\$ -</u>	<u>\$ 782,053</u>

* Beginning balances are restated due to the implementation of GASB Statement No. 96.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 7 – CAPITAL ASSETS (Continued)

Depreciation Allocation

Depreciation expenses were 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	\$ 19	Water	\$ 3,532
City Attorney	1	Electric	8,528
City Clerk	3	Fiber Optics	423
City Auditor	1	Gas	3,819
Administrative Services	2	Wastewater Collection	3,095
Public Works	12,721	Wastewater Treatment	4,276
Planning and Development Services	420	Refuse	78
Office of Transportation	13	Storm Drainage	1,273
Police	116	Airport	80
Fire	594		<u>\$ 25,104</u>
Community Services	4,528		
Library	2,374		
Internal Service Funds	3,013		
	<u>\$ 23,805</u>		

Amortization of Right to Use Leased and SBITA Assets

Right to use leased assets are amortized in a systematic and rational manner over the lease term of the underlying lease and SBITA assets. The amount of amortized expense recognized in the fiscal year ended June 30, 2023 is as follows (in thousands):

<i>Governmental Activities</i>		<i>Business-type Activities</i>	
<u>Lease assets</u>			
Public Works	\$ 163	Water	\$ 181
Planning and Development Services	602	Electric	357
Non-Departmental	3,568	Gas	146
	<u>\$ 4,333</u>	Wastewater Collection	109
		Wastewater Treatment	552
			<u>\$ 1,345</u>
 <u>SBITA assets</u>			
Non-Departmental	\$ 96	Water	\$ 40
Internal Service Funds	1,031	Electric	85
	<u>\$ 1,127</u>	Gas	11
		Wastewater Treatment	25
		Nonmajor Airport	17
			<u>\$ 178</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 7 – CAPITAL ASSETS (Continued)

Construction In Progress

Construction in progress as of June 30, 2023 is comprised of the following (in thousands):

Governmental Activities	Expended to June 30, 2023
New Public Safety Building	\$ 102,342
Charleston/Arastradero Corridor	20,286
Bicycle Boulevards Implementation Project	9,248
Traffic Signal Upgrades	5,414
Technology Fund	5,268
Rinconada Park Improvements	3,222
Animal Shelter Renovation	2,921
Newell Road Bridge/SFC Bridge Replacemen	2,861
Vehicle Fund	1,651
New Downtown Parking Garage	1,440
Quarry Road	1,282
Building System Improvements	1,005
Boulware Park Improvement Project	824
Fire Station No. 4 Replacement	735
Municipal Service Center Improvements	571
Civic Center Electrical Upgrade	567
Art In Public Places	519
Emerg Vehicle Traffic Signal Preempt Sys	486
Civic Ctr Fire Life Safety & Elect	485
Parking Guidance Systems, Access Control	438
Other Construction In Progress	1,446
Total Governmental Activities	<u>\$ 163,011</u>
Business-type Activities	Expended to June 30, 2023
Airport's Apron Reconstruction	\$ 40,941
Water quality control plant equipment replacement and lab facilities	40,111
Electric distribution system improvements	33,710
Water system extension replacements and improvements	10,539
Gas system extension replacements and improvements	8,976
Sewer system rehabilitation and extensions	7,782
Other electrical improvement projects	4,184
Storm drainage structural and water quality improvements	2,903
Other construction in progress	36,996
Total Business-type Activities	<u>\$ 186,142</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 7 – 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 - \$16.2 million
- Roth Building Rehabilitation Phase 1 - \$6.2 million
- Municipal Service Center Improvements - \$5.9 million
- Parking Guidance System - \$4.8 million
- Boulware Park Improvement - \$4.8 million

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

- Secondary Treatment Upgrades - \$171.0 million
- Smart Grid Technology Installation - \$9.4 million
- Gas Mains Replacement – Project 24 - \$8.6 million
- WC Rehabilitation/Augmentation Project 31 - \$8.4 million
- Seismic Water System Upgrade - \$7.2 million
- Primary Sedimentation Tank Rehabilitation - \$5.6 million

Vehicle Registration Fees (VRF)

In fiscal year 2023, 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, 2022	\$	-
VRF revenue		389
VRF interest earned		5
VRF expense		(394)
Ending VRF balance June 30, 2023	<u>\$</u>	<u>-</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 8 – LONG-TERM DEBT

The City's long-term debt balances and activities, other than special assessment debt discussed in Note 9, are as follows (in thousands):

	Original Issue Amount	Balance July 1, 2022	Additions	Retirements	Balance June 30, 2023	Current Portion
Governmental Activities Debt:						
2013A General Obligation Bonds, 2 - 5%, due 08/01/2041	\$ 20,695	\$ 12,170	\$ -	\$ 485	\$ 11,685	\$ 505
2022 General Obligation Bonds, Series A, 5%, due 08/01/2040	34,435	34,435	-	-	34,435	1,105
2022 General Obligation Bonds, Series B, 4%, due 08/01/2028	2,110	2,110	-	-	2,110	-
2018 Capital Improvement Project and Refinancing Certificates of Participation, 2.2%- 4.22%, due 11/1/2047	8,970	8,380	-	195	8,185	200
2019 California Ave Parking Garage Certificates of Participation, Series A & B 2.5%-5%, due 11/1/2048	37,370	35,720	-	665	35,055	690
2021 Public Safety Building Certificates of Participation, 2%-5%, due 11/1/2050	101,505	101,505	-	-	101,505	2,135
Add: Unamortized Premium	-	15,925	-	709	15,216	710
Total Governmental Activities Debt	\$ 205,085	\$ 210,245	\$ -	\$ 2,054	\$ 208,191	\$ 5,345

	Original Issue Amount	Balance July 1, 2022	Additions	Retirements	Balance June 30, 2023	Current Portion
Business-type Activities Debt:						
Utility Revenue Bonds						
1999 Refunding, 5.125-5.25%, due 06/01/2024	\$ 17,735	\$ 3,500	\$ -	\$ 1,705	\$ 1,795	\$ 1,795
2009 Series A, 1.80-5.95%, due 06/01/2035	35,015	23,095	-	1,295	21,800	1,355
2011 Refunding, 3-4%, due 06/01/2035	17,225	5,420	-	1,300	4,120	1,335
Add: Unamortized Premium	-	315	-	81	234	-
Total Bonds	69,975	32,330	-	4,381	27,949	4,485
State Water Resources Loans						
Direct Borrowings:						
2007, 1.02%, due 06/30/2029	9,000	3,150	-	450	2,700	450
2009, 2.6%, due 11/30/2030	8,596	4,409	-	441	3,968	453
2017, 1.8%, due 5/31/2049	25,197	23,187	-	675	22,512	687
2021, 0.9%, due 2/15/2053	19,400	1,203	8,348	-	9,551	-
2022, 0.8%, due 12/31/2056	168,659	-	3,607	-	3,607	-
Total Direct Borrowings	230,852	31,949	11,955	1,566	42,338	1,590
Total Business-type Activities Debt	\$ 300,827	\$ 64,279	\$ 11,955	\$ 5,947	\$ 70,287	\$ 6,075

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, 2023

NOTE 8 – LONG-TERM DEBT (Continued)

Description of Long-Term Debt Issues

2013A General Obligation Bonds (2013A GO Bonds) and 2022A and B General Obligation Bonds (2022A&B GO Bonds) – On June 26, 2013, the City issued GO bonds to finance costs for constructing a new Mitchell Park Library and Community Center, as well as substantial improvements to the Main 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 2.0 percent to 5.0 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 of the \$2.8 million of defeased 2013A GO Bonds until they are paid on August 1, 2023.

On March 2, 2022, Council approved the refinancing of the 2010 General Obligation Bonds (2010 GO Bonds) and 2013A GO Bonds outstanding principal of \$40.6 million and \$13.6 million respectively through the issuance of 2022A&B GO Bonds of \$36.5 million. The 2010 GO Bonds was refinanced as a tax-exempt bonds and 2013A GO Bonds was partially refinanced as taxable bonds. The tax reform bill passed by Congress and signed into law on December 22, 2017 prohibits the issuance of tax-exempt advance refunding bonds during the (ten-year) call protection period. The call protection period has passed on the 2010 GO Bonds, but it has not passed for the 2013A GO Bonds. The portions of the 2013A GO bonds or \$2.4 million in principal, that had realized savings were refinanced. In total, a net present value savings of \$4.5 million or 10.6 percent was realized. The cash savings is \$6.4 million and average annual debt service savings over 18 years is \$356,000. The \$2.4 million of defeased 2013A GO Bonds was deposited into an irrevocable trust account. The trust account assets and the liabilities for the defeased bonds are not included in the City’s financial statements. The City legally remains the primary obligor of the \$2.4 million of defeased 2013A bonds until they are paid on August 1, 2023.

The City’s 2013A, 2022A and 2022B 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. For the fiscal year ended June 30, 2023, the City received \$4.2 million in ad valorem property taxes.

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, 2023

NOTE 8 – 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, 2023

NOTE 8 – LONG-TERM DEBT (Continued)

The pledge of future Net Revenues for the above bonds ends upon repayment of the \$1.8 million principal and \$0.1 million interest as the remaining debt service on the bonds, which is scheduled to occur in fiscal year 2024. For fiscal year 2023, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$61.3 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$48.9 million. Net Revenues available for debt service amounted to \$12.4 million, which represents coverage of 6.6 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 pledge of future Net Revenues for the above bonds ends upon repayment of the \$21.8 million principal and \$9.0 million interest as the remaining debt service on the bonds, which is scheduled to occur in fiscal year 2035. For fiscal year 2023, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$44.2 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$39.5 million. Net Revenues available for debt service amounted to \$4.7 million, which represented coverage of 1.8 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 \$4.1 million principal and \$0.2 million interest as remaining debt service on the bonds, which is scheduled to occur in fiscal year 2026. For fiscal year 2023, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$119.5 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$99.5 million. Net Revenues available for debt service amounted to \$20.0 million, which represented coverage of 13.6 times over the \$1.5 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.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 8 –LONG-TERM DEBT (Continued)

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, 2023 was \$1.8 million.

Direct Borrowing - 2009 State Water Resources Loan – In October 2009, the City approved an \$8.6 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, however, the actual loan was \$25.2 million, net of \$4.0 loan principal forgiveness for environmental benefits and other adjustments for actual costs. The loan interest rate is 1.80 percent.

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.

Direct Borrowing - 2021 State Water Resources Loan – In July 2021, the City approved an \$17.5 million direct loan agreement with SWRCB to finance the rehabilitation and upgrade of the City’s RWQCP Primary Sedimentation Tanks (PSTs) and ancillary systems to improve reliability of the treatment processes at RWQCP. During the year ended June 30, 2023, the loan amount was increased to \$19.4 million. Repayment of loan will begin one year after completion of construction, which is currently ongoing. The loan interest rate is 0.9 percent.

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.

Direct Borrowing - 2022 State Water Resources Loan – In May 2022, the City approved a \$168.7 million direct loan agreement with SWRCB to finance the Secondary Treatment Upgrades project to produce treated effluent with reduced total nitrogen content, increase treatment capacity, and rehabilitate aging infrastructure. The loan interest rate is 0.8 percent.

Though the City 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.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 8 –LONG-TERM DEBT (Continued)

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
2024	\$ 4,635	\$ 7,238	\$ 11,873	\$ 4,485	\$ 1,427	\$ 5,912	1,590	\$ 283	\$ 1,873
2025	5,075	6,941	12,016	2,790	1,229	4,019	1,896	347	2,243
2026	5,275	6,629	11,904	2,900	1,121	4,021	1,919	332	2,251
2027	5,535	6,367	11,902	1,555	1,009	2,564	1,947	311	2,258
2028	5,810	6,091	11,901	1,630	936	2,566	2,082	319	2,401
2029-2033	33,925	25,881	59,806	9,650	3,171	12,821	7,943	1,264	9,207
2034-2038	41,735	18,042	59,777	4,705	424	5,129	6,361	930	7,291
2039-2043	39,625	10,250	49,875	-	-	-	6,852	660	7,512
2044-2048	34,540	4,802	39,342	-	-	-	7,383	369	7,752
2049-2053	16,820	545	17,365	-	-	-	3,473	109	3,582
2054-2057	-	-	-	-	-	-	892	14	906
Total	<u>\$ 192,975</u>	<u>\$ 92,786</u>	<u>\$ 285,761</u>	<u>\$ 27,715</u>	<u>\$ 9,317</u>	<u>\$ 37,032</u>	<u>\$ 42,338</u>	<u>\$ 4,938</u>	<u>\$ 47,276</u>

Debt Call Provisions

Long-term debt as of June 30, 2023 is callable on the following terms and conditions:

	<u>Initial Call Date</u>
<i>Business-Type Activities Long-Term Debt</i>	
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.

Leasing Arrangements

COPs 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.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 8 –LONG-TERM DEBT (Continued)

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 9 – 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 responsible 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, 2023, the District's outstanding debt amounted to \$14.7 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. Reserve and redemption funds held by the District are reported within the University Avenue Area Off-Street Parking Assessment District Custodial Fund.

NOTE 10 – 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 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, 2023 are \$6.9 million, an increase of \$0.5 million from the previous year. The City is required by State and federal laws and regulations to fund post-closure maintenance activities by pledging future revenue received from Refuse customers through rate fees.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 11 – 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.

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.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 11 – NET POSITION AND FUND BALANCES (Continued)

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 or the City's Section 115 Pension Trust, as outlined in the Pension Funding Policy. 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, 2023, total outstanding encumbrances and reappropriations related to governmental funds were \$43.5 million for the General Fund, \$75.8 million for the Capital Projects Fund, and \$6.1 million for the Special Revenue Funds.

Enterprise Funds

At June 30, 2023, enterprise funds’ unrestricted net position (in thousands) were as follows:

	Water	Electric	Fiber Optics	Gas	Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Airport	Total
Unrestricted										
Rate stabilization										
Supply	\$ -	\$ -	\$ -	\$ (3,077)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (3,077)
Distribution	6,069	-	32,460	-	-	(20,220)	16,460	4,320	(7,523)	31,566
	<u>6,069</u>	<u>-</u>	<u>32,460</u>	<u>(3,077)</u>	<u>-</u>	<u>(20,220)</u>	<u>16,460</u>	<u>4,320</u>	<u>(7,523)</u>	<u>28,489</u>
Operations										
Supply	-	44,462	-	-	-	-	-	-	-	44,462
Distribution	7,958	(5,581)	-	14,437	(675)	-	-	-	-	16,139
	<u>7,958</u>	<u>38,881</u>	<u>-</u>	<u>14,437</u>	<u>(675)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,601</u>
Emergency plant replacement	-	-	1,000	-	-	1,980	-	-	-	2,980
Electric special projects	-	20,149	-	-	-	-	-	-	-	20,149
Reappropriations	12,591	18,260	-	8,959	9,301	-	-	6,826	2,030	57,967
Commitments	6,212	19,724	3,417	4,000	281	13,657	5,952	1,555	1,738	56,536
Underground loan	-	727	-	-	-	-	-	-	-	727
Notes and loans	-	-	-	-	-	1,651	-	-	-	1,651
Landfill corrective action	-	-	-	-	-	-	759	-	-	759
Hydro stabilization reserve	-	400	-	-	-	-	-	-	-	400
Electrification reserve	-	4,500	-	-	-	-	-	-	-	4,500
Public benefit program	-	5,673	-	-	-	-	-	-	-	5,673
Reserve for LCFS	-	6,712	-	-	-	-	-	-	-	6,712
CIP reserve	6,961	880	-	-	-	-	-	-	-	7,841
Geng Road reserve	-	-	-	-	-	-	268	-	-	268
Cap & Trade	-	2,231	-	6,731	-	-	-	-	-	8,962
GASB 68 Pension	(12,991)	(32,380)	(2,223)	(13,433)	(7,875)	(20,042)	(5,796)	(3,972)	(809)	(99,521)
GASB 75 OPEB	(2,968)	(10,044)	(2)	(4,519)	(1,726)	(5,505)	(1,939)	(864)	(343)	(27,910)
GASB 87 Leases	-	4	34	-	-	-	-	-	48	86
Unrealized loss on investments	(3,483)	(7,181)	(3,021)	(2,242)	(735)	(728)	(2,497)	(914)	38	(20,763)
Total	<u>\$ 20,349</u>	<u>\$ 68,536</u>	<u>\$ 31,665</u>	<u>\$ 10,856</u>	<u>\$ (1,429)</u>	<u>\$ (29,207)</u>	<u>\$ 13,207</u>	<u>\$ 6,951</u>	<u>\$ (4,821)</u>	<u>\$ 116,107</u>

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.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 11 – NET POSITION AND FUND BALANCES (Continued)

Internal Service Funds

At June 30, 2023, 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	\$ 4,718	\$ 7,459	\$ -	\$ 567	\$ 97	\$ 32	\$ -	\$ 12,873
Future catastrophic losses	-	-	-	-	-	2,695	-	2,695
Retiree health care	-	-	-	-	-	-	1,242	1,242
GASB 68 pension	(2,879)	(10,684)	(219)	-	56	-	-	(13,726)
GASB 75 OPEB	(1,219)	(2,429)	(126)	-	5	-	-	(3,769)
Available	9,839	11,337	173	5,729	2,418	93	-	29,589
Total	<u>\$ 10,459</u>	<u>\$ 5,683</u>	<u>\$ (172)</u>	<u>\$ 6,296</u>	<u>\$ 2,576</u>	<u>\$ 2,820</u>	<u>\$ 1,242</u>	<u>\$ 28,904</u>

- Commitments represent the portion of net position set aside for open purchase orders and reappropriations.
- Future catastrophic losses represent the portion of net position to be used for unforeseen future losses.
- Retiree health care represents the portion of net position set aside to defer future costs of retiree health care coverage.
- GASB 68 pension 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.
- Prepaid Items represent medical premium advance payments.

Deficit Fund Balance and Net Position:

At June 30, 2023, the City's Printing and Mailing Services internal service fund had a deficit net position of \$159,000. The deficit is due to the impact of Pension and OPEB liabilities and related balances. The deficits are 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, 2023

NOTE 12 – 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.

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 as of June 30, 2023, are summarized in the following table. Contribution rates are based on the Actuarial Valuation Report as of June 30, 2020.

	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 Dec. 8, 2012	On or after Jan 1, 2013	
Hire Date	Prior to June 8, 2012	2012	2012	2013
Benefit formula ¹	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 ¹	55 ¹	57 ¹
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	71.14%	71.14%	71.14%	71.14%
	Miscellaneous Plan			
	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 ²	2% at 60 ²	2% at 62 ³	
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 ²	60 ²	62 ³	
Monthly benefit as % of eligible compensation ²	2.70%	2.0% - 2.418%	2%	
Actuarially determined contribution rate - EE	8%	7%	6.25%	
Actuarially determined contribution rate - ER	42.85%	42.85%	42.85%	

¹ 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.

² 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.

³ 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, 2023

NOTE 12 – PENSION PLANS (Continued)

Employees Covered – Based on the Actuarial Valuation Report as of June 30, 2022, 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	1,320	453
Inactive employees entitled to but not yet receiving benefits	866	117
Active employees	712	156
Total	2,898	726

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 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 ended June 30, 2023, the City contributed \$16.1 million to the PARS Trust. As of June 30, 2023, the City reported the account balance of \$58.4 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, 2022 (measurement date), using the Actuarial Valuation Report as of June 30, 2021 rolled forward to June 30, 2022 using standard update procedures.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 12 – PENSION PLANS (Continued)

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

	Miscellaneous and Safety Plans
Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Salary Increases	Varies by Entry Age and Service
Mortality ¹	Derived using CalPERS membership data for all funds.
Post Retirement Benefit Increase	The lessor of contract COLA or 2.30% until Purchasing Power Protection Allowance Floor on purchasing power applies, 2.30% thereafter.

¹ The mortality table used was developed based on CalPERS' specific data. The probabilities of mortality are based on the 2021 CalPERS Experience Study for the period from 2001 to 2019. Pre-retirement and Post-retirement mortality rates include generational mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries. For more details on the table, refer to the 2021 CalPERS experience study report available on the CalPERS website.

All other actuarial assumptions used in the June 30, 2021 actuarial valuation were based on the 2021 CalPERS Experience Study for the period from 2001 to 2019, 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.

Change of Assumptions – During measurement period 2022, the discount rate was reduced from 7.15% to 6.90%, inflation rate was reduced from 2.50% to 2.30%, and demographic assumptions were changed in accordance with the 2021 CalPERS Experience Study.

Discount Rate – The discount rate used to measure the total pension liability was 6.90 percent. The projection of cash flows used to determine the discount rate assumed that the contributions from plan members will be made at the 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, 2023

NOTE 12 – 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. Using historical returns of all of the funds' asset classes, expected compound (geometric) returns were calculated over the next 20 years using a building-block approach. The expected rate of return was then adjusted to account for assumed administrative expense of 10 basis points. The expected real rates of return by asset class are as follows:

Asset Class:	Assumed Asset Allocation	Real Return ^{1,2}
Global Equity - Cap-Weighted	30.0%	4.54%
Global Equity - Non-Cap-Weighted	12.0%	3.84%
Private Equity	13.0%	7.28%
Treasury	5.0%	0.27%
Mortgage-Backed Securities	5.0%	0.50%
Investment Grade Corporates	10.0%	1.56%
High Yield	5.0%	2.27%
Emerging Market Debt	5.0%	2.48%
Private Debt	5.0%	3.57%
Real Assets	15.0%	3.21%
Leverage	-5.0%	-0.59%

(1) An expected inflation of 2.30% used for this period

(2) Figures are based on the 2021 Asset Liability Management study.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 12 – 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
Miscellaneous Plan:			
Balances reported at July 1, 2022	\$ 924,643	\$ 720,189	\$ 204,454
Changes for the year:			
Service cost	15,439	-	15,439
Interest on total pension liability	64,016	-	64,016
Changes in assumptions	26,819	-	26,819
Differences between expected and actual experiences	(6,449)	-	(6,449)
Contributions from employer	-	33,219	(33,219)
Contributions from employees	-	7,426	(7,426)
Net investment income	-	(54,761)	54,761
Benefit payments, including refunds of employee contributions	(49,926)	(49,926)	-
Administrative expense	-	(449)	449
Net changes	<u>49,899</u>	<u>(64,491)</u>	<u>114,390</u>
Balances reported at June 30, 2023	<u>974,542</u>	<u>655,698</u>	<u>318,844</u>
Safety Plan:			
Balances reported at July 1, 2022	\$ 493,528	\$ 353,361	\$ 140,167
Changes for the year:			
Service cost	8,395	-	8,395
Interest on total pension liability	34,037	-	34,037
Change of assumption	16,004	-	16,004
Differences between expected and actual experiences	(6,264)	-	(6,264)
Contributions from employer	-	17,376	(17,376)
Contributions from employees	-	3,480	(3,480)
Net investment income	-	(26,833)	26,833
Benefit payments, including refunds of employee contributions	(28,355)	(28,355)	-
Administrative expense	-	(220)	220
Net changes	<u>23,817</u>	<u>(34,552)</u>	<u>58,369</u>
Balances reported at June 30, 2023	<u>517,345</u>	<u>318,809</u>	<u>198,536</u>
Total	<u>\$ 1,491,887</u>	<u>\$ 974,507</u>	<u>\$ 517,380</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 12 – 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 6.90 percent, compared to a discount rate that is 1 percentage point lower (5.90 percent) or 1 percentage point higher (7.90 percent). Amounts shown below are in thousands:

	Discount Rate - 1% (5.90%)	Current Discount Rate (6.90%)	Discount Rate + 1% (7.90%)
Miscellaneous Plan:			
Plan's Net Pension Liability	\$ 444,019	\$ 318,844	\$ 215,218
Safety Plan:			
Plan's Net Pension Liability	\$ 265,540	\$ 198,536	\$ 143,281

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, 2023, the City recognized a pension expense of \$38.7 million and \$22.6 million for the Miscellaneous and Safety Plan, respectively, for a total of \$61.3 million. At June 30, 2023, the City reported pension related deferred outflows of resources and deferred inflows of resources for the Miscellaneous and Safety Plans from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Miscellaneous Plan:		
Pension contributions subsequent to measurement date	\$ 37,167	\$ -
Change of assumptions	17,241	-
Difference between expected and actual experience	2,730	(4,146)
Net difference between projected and actual earnings on plan investments	32,465	-
Balance reported at June 30, 2023	<u>89,603</u>	<u>(4,146)</u>
Safety Plan:		
Pension contributions subsequent to measurement date	19,221	-
Change of assumptions	10,077	-
Difference between expected and actual experience	399	(3,944)
Net difference between projected and actual earnings on plan investments	15,889	-
Balance reported at June 30, 2023	<u>45,586</u>	<u>\$ (3,944)</u>
Total, Miscellaneous and Safety Plans	<u>\$ 135,189</u>	<u>\$ (8,090)</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 12 – PENSION PLANS (Continued)

The \$56.4 million reported as deferred outflows of resources relates to contributions paid by the City from the year ended June 30, 2023 which is subsequent to the City’s measurement date of June 30, 2022 for both the Miscellaneous and Safety Plans. This amount will be recognized as a reduction of the net pension liability in the year ending June 30, 2024.

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 Ending June 30,	Miscellaneous Plan	Safety Plan	Total
2024	\$ 14,994	\$ 6,502	\$ 21,496
2025	10,342	4,731	15,073
2026	2,140	1,002	3,142
2027	20,814	10,186	31,000
	<u>\$ 48,290</u>	<u>\$ 22,421</u>	<u>\$ 70,711</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 13 – 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 ¹	Dependent Coverage	Retired on or After	Retiree Contribution
Management & Professional ²	1/1/2004	100%	100%	5/1/2011	Flat rate ⁴
Police Management ²	1/1/2004	100%	100%	6/1/2012	Flat rate ⁴
Fire Fighters ²	1/1/2004	100%	100%	12/1/2011	Flat rate ⁴
Fire Chiefs Association ²	1/1/2004	100%	100%	1/1/2013	Flat rate ⁴
SEIU ²	1/1/2005	100%	100%	5/1/2011	Flat rate ⁴
Police Officers ³	1/1/2006	100%	100%	4/1/2015	Flat rate ⁴
Utilities Managers & Professional ²	12/1/2013	100%	100%	12/1/2013	Flat rate ⁴

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

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

³ Effective 3/1/2009 plan capped at the second highest CalPERS Bay Area Basic plan premium.

⁴ For the year ended June 20, 2022, 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 ¹	Dependent Coverage ²
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	12/1/2013	50%-100%	Max. 90%
SEIU	1/1/2005	50%-100%	Max. 90%
Police Officers	1/1/2006	50%-100%	Max. 90%

¹ 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.

² 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, 2023

NOTE 13 – 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, 2022, the most recent information available, are as follows:

Inactive employees or beneficiaries currently receiving benefits	1,031
Inactive employees entitled to but not yet receiving benefits	142
Active employees	937
Total	2,110

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, 2023, the City’s contributions totaled \$16.4 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, 2022, using an annual actuarial valuation as of June 30, 2021 rolled forward to June 30, 2022 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, 2021
Measurement Date	June 30, 2022
Actuarial Cost Method	Entry-Age, level percentage of payroll
Actuarial Assumptions:	
Discount Rate	6.25%
Inflation	2.50%
Payroll Growth	2.75%
Projected Salary Increase	2021 CalPERS Experience Study for the period from 2000 to 2019
Medical Trend	Non-Medicare - 6.50% for 2023, decreasing to an ultimate rate of 3.75% in 2076 Medicare - 5.65% / 4.60% for 2023, decreasing to an ultimate rate of 3.75% in 2076
Disability, Termination, Retirement	2021 CalPERS Experience Study for the period from 2000 to 2019
Mortality	2021 CalPERS Experience Study for the period from 2000 to 2019
Mortality Improvement	Post-retirement mortality projected fully generational with Society of Actuaries Scale MP-2021
Increase to Group 3 Flat Dollar Caps	1/2 of Medical Trend, not less than assumed inflation (2.50%)
Healthcare Participation for Future	Future retirees: 95-98%, based on Plan experience

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

Discount Rate – The discount rate used to measure the total OPEB liability was 6.25%. 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 6.25%. 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	49.0%	4.56%
Fixed Income	23.0	1.56
TIPS	5.0	-0.08
Commodities	3.0	1.22
REITS	20.0	4.06
Assumed long-term rate of inflation of 2.50%		

(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 reported at June 30, 2022	\$ 244,197	\$ 162,807	\$ 81,390
Changes during the measurement period:			
Service cost	5,673	-	5,673
Interest on the total OPEB liability	15,195	-	15,195
Contributions - employer	-	17,790	(17,790)
Investment income	-	(22,256)	22,256
Administrative expenses	-	(70)	70
Benefit payments	(13,499)	(13,499)	-
Net changes	7,369	(18,035)	25,404
Balance reported at June 30, 2023	\$ 251,566	\$ 144,772	\$ 106,794

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 13 – 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 6.25 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 (5.25 percent) or 1 percentage-point higher (7.25 percent) than the current discount rate:

Discount Rate -1% (5.25%)	Current Discount Rate (6.25%)	Discount Rate +1% (7.25%)
\$ 138,025	\$ 106,794	\$ 80,819

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%
\$ 76,279	\$ 106,794	\$ 144,096

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, 2023, the City recognized an OPEB expense of \$4.3 million for the OPEB plan. At June 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 16,364	\$ -
Differences between expected and actual experience	-	(20,683)
Changes in assumptions	3,541	(2,011)
Net differences between projected and actual earnings on plan investments	11,850	-
Total	\$ 31,755	\$ (22,694)

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

The \$16.4 million reported as deferred outflows of resources relates to contributions made by the City during the year ended June 30, 2023, which is subsequent to the City’s measurement date of June 30, 2022. This amount will be recognized as a reduction of the net OPEB liability in the fiscal year ending June 30, 2024.

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>	
2024	\$ (6,176)
2025	(4,186)
2026	(2,451)
2027	<u>5,510</u>
Total	<u>\$ (7,303)</u>

NOTE 14 – 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 15 – 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 injuries 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, 2023

NOTE 15 – RISK MANAGEMENT (Continued)

The City’s property, boiler, and machinery insurance policies have 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 \$55 million per occurrence. The City retains the risk for the first \$1.0 million in losses for each occurrence under various policies. California municipalities’ liability claim costs have significantly increased all cities’ costs, and have caused insurance underwriters to pull back from the California insurance market which resulted in a lower amount of insurance limits available to the City.

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 member 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, 2023, the City paid \$3.7 million to ACCEL for current year coverage, which included an increase for the pool’s shared layer of coverage and cost for excess liability insurance.

Audited financial statements are available from ACCEL at 100 Pine Street, 11th 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):

	Year Ended June 30	
	2023	2022
Beginning balance	\$ 33,130	\$ 32,531
Claims expense, including claims incurred but not reported (IBNR)	4,309	6,758
Claims paid	(5,039)	(6,159)
Ending balance	\$ 32,400	\$ 33,130
Current portion	\$ 6,661	\$ 6,927

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 15 – RISK MANAGEMENT (Continued)

The City also recorded claims payable of \$17.3 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 17.

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 16 – 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, 2023, the City incurred expenses totaling \$114.4 million for purchased power and assessments earned by NCPA.

The City's interest in NCPA projects and reserves, as computed by NCPA, was \$8.6 million at June 30, 2023. 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, 2023

NOTE 16 – 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, 2023, the book value of this Project's plant, equipment and other assets was \$250.7 million, while its long-term debt totaled \$203.5 million and other liabilities totaled \$43.1 million. The City's share of the Project's long-term debt amounted to \$46.6 million at June 30, 2023. During the fiscal year, the City paid its share of the annual debt service of \$8.5 million.

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, 2023

NOTE 16 – 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 \$1.5 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 17 – COMMITMENTS AND CONTINGENCIES

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.

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 of Palo Alto is adjusted annually based on CPI indicators stipulated in the contract. In fiscal year 2023 payments to GreenWaste of Palo Alto were \$12.4 million for their base compensation.

GreenWaste Recovery – GreenWaste Recovery is the City's contractor for processing and recovering recyclable and compostable materials from the municipal solid waste collected in the City effective January 1, 2022. This agreement expires June 30, 2030, with an option to extend for up to two years. The base compensation for GreenWaste Recovery is adjusted annually based on CPI indicators stipulated in the agreement. In fiscal year 2023 payments to GreenWaste of Recovery were \$3.7 million.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 17 – COMMITMENTS AND CONTINGENCIES (Continued)

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, 2023, the approximate minimum obligations for the contracts, assuming the energy is delivered over the next five years, are as follows:

Fiscal Year	Projected Obligation
2024	\$59 million
2025	\$47 million
2026	\$48 million
2027	\$49 million
2028	\$51 million

Contractual Commitments beyond 2023 (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 scheduled 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, but still retains the ability to reduce its share or terminate the agreement until June 30, 2024.

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 both increased by 5% from fiscal year 2022 to fiscal year 2023. The gas transmission and local transportation rates are expected to decrease by 20% and 5%, respectively, in fiscal year 2024.

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 FY2027. However, rebound from recent drought conditions make forecasts highly uncertain.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 17 – 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.

Green v. City of Palo Alto was a class action lawsuit was filed against the City in October 2016 that challenged the City's gas and electric rates under Proposition 26. The trial court rejected plaintiff's challenges to the City's electric rates but found that its gas rates constituted unapproved taxes in violation of article XIII C of the California Constitution.

After years of litigation, the City and Plaintiffs mediated the case and reached an agreement in principle in April 2022 while the case was pending in the Sixth District Court of Appeal. The parties finalized a settlement in September 2022. The settlement results in a stipulated reversal of the judgment against the City and commits the City to issuing refunds, totaling \$17.3 million, in the form of gas utility credits to current customers, or checks to former customers. The refunds will be distributed in three installments over an approximate two-year period. The City recorded a related claims payable on its governmental activities' financial statements.

The settlement is being administered by the Santa Clara County Superior Court, and the judge has preliminarily approved the parties' settlement and issued an order that notice be sent to affected ratepayers about the settlement and refund process. Class members received notice about the settlement and refund process on August 3, 2023. They will have until October 2nd to submit claims, opt out of the settlement, or object.

The Court's final approval hearing is scheduled on December 21, 2023, where it will review any objections to the settlement and consider issuing a final approval order. Once the Court issues the final order, the City will commence refunds to class members within 90 days. If the Court approves the settlement in late December, one-third of the total amount will be paid by late March 2024, and the remainder paid in two installments over the following two years (e.g., March 2025 and 2026). On June 30, 2023, the City 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 has contributed its self-insured retention (SIR) to ACCEL insurance group and anticipates any settlement and litigation costs in excess of the SIR amount will be covered by the City's primary and excess insurance coverage.

During the year ended June 30, 2023, the City received \$23.9 million related to the litigation of the Central Valley Project Improvement Act (CVPIA) operated by the U. S. Bureau of Reclamation (Bureau). The payment comes after years of litigation by NCPA members that the United States government did not follow the CVPIA legislation and overcharged the City \$23.9 million when collecting CVPIA on an annual basis from 1992-2020 for an overcharge associated with the Central Valley Project, where the City gets most of its hydroelectric power. The refund is as a result of successful litigation the City participated in against the Bureau. The refund received was recorded as other nonoperating revenues in the Electric Fund.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2023

NOTE 17 – COMMITMENTS AND CONTINGENCIES (Continued)

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.

CITY OF PALO ALTO
Required Supplementary Information (Unaudited)
Last 9 Fiscal Years*

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

Fiscal year	2022-23	2021-22	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15
Measurement Period	2021-22	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14
Total pension liability									
Service cost	\$ 15,439	\$ 15,012	\$ 14,267	\$ 15,045	\$ 14,724	\$ 14,423	\$ 12,582	\$ 12,183	\$ 12,442
Interest	64,016	62,769	59,995	57,523	54,903	52,831	51,531	49,345	46,963
Changes of assumptions	26,819	-	-	-	(5,673)	42,239	-	(11,552)	-
Difference between expected and actual experience	(6,449)	9,554	4,850	6,230	4,271	(6,378)	757	3,507	-
Benefit payments, including refunds of employee contributions	(49,926)	(47,027)	(43,781)	(41,124)	(37,624)	(36,405)	(34,825)	(32,980)	(31,781)
Net change in total pension liability	49,899	40,308	35,331	37,674	30,601	66,710	30,045	20,503	27,624
Total pension liability - beginning	924,643	884,335	849,004	811,330	780,729	714,019	683,974	663,471	635,847
Total pension liability - ending (a)	\$ 974,542	\$ 924,643	\$ 884,335	\$ 849,004	\$ 811,330	\$ 780,729	\$ 714,019	\$ 683,974	\$ 663,471
Plan fiduciary net position									
Contributions - employer	\$ 33,219	\$ 31,005	\$ 28,889	\$ 25,423	\$ 23,342	\$ 20,638	\$ 18,840	\$ 18,610	\$ 17,400
Contributions - employee	7,426	7,295	7,189	6,939	6,654	6,314	5,812	5,730	6,345
Net investment income	(54,761)	135,446	28,735	36,322	43,690	53,259	2,464	10,597	70,989
Benefit payments, including refunds of employee contributions	(49,926)	(47,027)	(43,781)	(41,124)	(37,624)	(36,405)	(34,825)	(32,980)	(31,781)
Administrative expense	(449)	(593)	(809)	(390)	(799)	(694)	(291)	(538)	-
Other non-investment income (expenses)	-	-	-	1	(1,518)	30	-	-	-
Net change in fiduciary net position	(64,491)	126,126	20,223	27,171	33,745	43,142	(8,000)	1,419	62,953
Plan fiduciary net position - beginning	720,189	594,063	573,840	546,669	512,924	469,782	477,782	476,363	413,410
Plan fiduciary net position - ending (b)	\$ 655,698	\$ 720,189	\$ 594,063	\$ 573,840	\$ 546,669	\$ 512,924	\$ 469,782	\$ 477,782	\$ 476,363
Plan net pension liability/(asset) - Ending (a) - (b)	\$ 318,844	\$ 204,454	\$ 290,272	\$ 275,164	\$ 264,661	\$ 267,805	\$ 244,237	\$ 206,192	\$ 187,108
Plan fiduciary net position as a percentage of total pension liability	67.28%	77.89%	67.18%	67.59%	67.38%	65.70%	65.79%	69.85%	71.80%
Covered payroll	\$ 81,951	\$ 87,227	\$ 81,017	\$ 82,573	\$ 80,634	\$ 77,606	\$ 73,722	\$ 69,837	\$ 66,373
Plan net pension liability/(asset) as a percentage of covered payroll	389.07%	234.39%	358.29%	333.24%	328.23%	345.08%	331.29%	295.25%	281.90%

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, 2021 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 2017 CalPERS Experience Study. There are no change in assumptions during measurement periods 2019, 2020 or 2021. During measurement period 2022, the discount rate was reduced from 7.15% to 6.90%, inflation rate was reduced from 2.50% to 2.30%, and demographic assumptions were changed in accordance with the 2021 CalPERS Experience Study.

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

CITY OF PALO ALTO
Required Supplementary Information (Unaudited)
Last 10 Fiscal Years

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

Fiscal Year	2022-23	2021-22	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14
Actuarially determined contribution	\$ 37,167	\$ 33,219	\$ 31,005	\$ 28,889	\$ 25,423	\$ 23,342	\$ 20,638	\$ 18,840	\$ 18,610	\$ 17,400
Actual contribution	<u>(37,167)</u>	<u>(33,219)</u>	<u>(31,005)</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>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 92,090	\$ 81,951	\$ 87,227	\$ 81,017	\$ 82,573	\$ 80,634	\$ 77,606	\$ 73,722	\$ 69,837	\$ 66,373
Contributions as percentage of covered payroll	40.36%	40.54%	35.55%	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 2023 contribution rates are as follows:

ADC for fiscal year	June 30, 2023
Actuarial valuation date	June 30, 2020
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.

CITY OF PALO ALTO
Required Supplementary Information (Unaudited)
Last 9 Fiscal Years*

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

Fiscal year	2022-23	2021-22	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15
Measurement Period	2021-22	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14
Total pension liability									
Service cost	\$ 8,395	\$ 8,180	\$ 7,898	\$ 7,259	\$ 7,168	\$ 6,584	\$ 5,916	\$ 5,959	\$ 6,221
Interest	34,037	33,560	32,469	31,066	29,871	28,272	27,816	27,047	26,113
Changes of assumptions	16,004	-	-	-	(1,374)	22,566	-	(6,327)	-
Difference between expected and actual experience	(6,264)	1,197	6,314	3,841	11,604	(2,790)	(1,516)	75	-
Benefit payments, including refunds of employee contributions	(28,355)	(26,959)	(25,948)	(24,757)	(23,636)	(22,413)	(21,669)	(21,148)	(19,985)
Net change in total pension liability	23,817	15,978	20,733	17,409	23,633	32,219	10,547	5,606	12,349
Total pension liability - beginning	493,528	477,550	456,817	439,408	415,775	383,556	373,009	367,403	355,054
Total pension liability - ending (a)	\$ 517,345	\$ 493,528	\$ 477,550	\$ 456,817	\$ 439,408	\$ 415,775	\$ 383,556	\$ 373,009	\$ 367,403
Plan fiduciary net position									
Contributions - employer	\$ 17,376	\$ 15,703	\$ 14,297	\$ 12,370	\$ 11,030	\$ 10,220	\$ 9,403	\$ 8,617	\$ 7,616
Contributions - employee	3,480	3,490	3,459	3,225	2,799	2,475	2,059	2,047	2,762
Net investment income	(26,833)	66,683	14,310	18,217	22,724	28,112	1,259	5,774	40,033
Benefit payments, including refunds of employee contributions	(28,355)	(26,959)	(25,948)	(24,757)	(23,636)	(22,413)	(21,669)	(21,148)	(19,985)
Administrative expense	(220)	(295)	(407)	(201)	(418)	(370)	(157)	(290)	-
Other non-investment income (expenses)	-	-	-	1	(794)	(30)	-	-	-
Net change in fiduciary net position	(34,552)	58,622	5,711	8,855	11,705	17,994	(9,105)	(5,000)	30,426
Plan fiduciary net position - beginning	353,361	294,739	289,028	280,173	268,468	250,474	259,579	264,579	234,153
Plan fiduciary net position - ending (b)	\$ 318,809	\$ 353,361	\$ 294,739	\$ 289,028	\$ 280,173	\$ 268,468	\$ 250,474	\$ 259,579	\$ 264,579
Plan net pension liability/(asset) - Ending (a) - (b)	\$ 198,536	\$ 140,167	\$ 182,811	\$ 167,789	\$ 159,235	\$ 147,307	\$ 133,082	\$ 113,430	\$ 102,824
Plan fiduciary net position as a percentage of total pension liability	61.62%	71.60%	61.72%	63.27%	63.76%	64.57%	65.30%	69.59%	72.01%
Covered payroll	\$ 26,466	\$ 27,843	\$ 26,189	\$ 24,263	\$ 24,131	\$ 21,906	\$ 21,822	\$ 21,912	\$ 21,896
Plan net pension liability/(asset) as a percentage of covered payroll	750.15%	503.42%	698.04%	691.54%	659.88%	672.45%	609.85%	517.66%	469.60%

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, 2021 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 2017 CalPERS Experience Study. There are no change in assumptions during measurement periods 2019, 2020 or 2021. During measurement period 2022, the discount rate was reduced from 7.15% to 6.90%, inflation rate was reduced from 2.50% to 2.30%, and demographic assumptions were changed in accordance with the 2021 CalPERS Experience Study.

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

CITY OF PALO ALTO
Required Supplementary Information (Unaudited)
Last 10 Fiscal Years

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

Fiscal Year	2022-23	2021-22	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14
Actuarially determined contribution	\$ 19,221	\$ 17,375	\$ 15,703	\$ 14,297	\$ 12,370	\$ 11,030	\$ 10,220	\$ 9,403	\$ 8,617	\$ 7,616
Actual contribution	<u>(19,221)</u>	<u>(17,375)</u>	<u>(15,703)</u>	<u>(14,297)</u>	<u>(12,370)</u>	<u>(11,030)</u>	<u>(10,220)</u>	<u>(9,403)</u>	<u>(8,617)</u>	<u>(7,616)</u>
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 29,395	\$ 26,466	\$ 27,843	\$ 26,189	\$ 24,263	\$ 24,131	\$ 21,906	\$ 21,822	\$ 21,912	\$ 21,896
Contributions as percentage of covered payroll	65.39%	65.65%	56.40%	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 2023 contribution rates are as follows:

ADC for fiscal year	June 30, 2023
Actuarial valuation date	June 30, 2020
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.

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

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

Fiscal year	2022-23	2021-22	2020-21	2019-20	2018-19	2017-18
Measurement Period	2021-22	2020-21	2019-20	2018-19	2017-18	2016-17
Total OPEB liability						
Service cost	\$ 5,673	\$ 6,448	\$ 6,366	\$ 6,622	\$ 6,429	\$ 6,242
Interest	15,195	16,959	16,572	17,292	16,546	15,853
Changes in benefit terms	-	-	-	972	-	-
Changes of assumptions	-	2,596	(4,426)	7,057	-	-
Difference between expected and actual experience	-	(20,122)	-	(29,907)	-	-
Benefit payments, including refunds of employee contributions	(13,499)	(12,977)	(12,728)	(12,157)	(12,104)	(11,916)
Net change in total OPEB liability	7,369	(7,096)	5,784	(10,121)	10,871	10,179
Total OPEB liability - beginning	244,197	251,293	245,509	255,630	244,759	234,580
Total OPEB liability - ending (a)	\$ 251,566	\$ 244,197	\$ 251,293	\$ 245,509	\$ 255,630	\$ 244,759
Plan fiduciary net position						
Contributions - employer	\$ 17,790	\$ 14,592	\$ 16,475	\$ 15,997	\$ 21,349	\$ 14,739
Net investment income	(22,256)	34,772	4,327	6,852	7,519	8,628
Benefit payments, including refunds of employee contributions	(13,499)	(12,977)	(12,728)	(12,157)	(12,104)	(11,916)
Administrative expense	(70)	(75)	(58)	(23)	(204)	(44)
Net change in fiduciary net position	(18,035)	36,312	8,016	10,669	16,560	11,407
Plan fiduciary net position - beginning	162,807	126,495	118,479	107,810	91,250	79,843
Plan fiduciary net position - ending (b)	\$ 144,772	\$ 162,807	\$ 126,495	\$ 118,479	\$ 107,810	\$ 91,250
Plan net OPEB liability/(asset) - Ending (a) - (b)	\$ 106,794	\$ 81,390	\$ 124,798	\$ 127,030	\$ 147,820	\$ 153,509
Plan fiduciary net position as a percentage of total OPEB liability	57.55%	66.67%	50.34%	48.26%	42.17%	37.28%
Covered employee payroll	\$ 123,304	\$ 120,869	\$ 125,676	\$ 118,014	\$ 119,090	\$ 118,774
Plan net OPEB liability/(asset) as a percentage of covered employee payroll	86.61%	67.34%	99.30%	107.64%	124.12%	129.24%

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. During measurement period 2021, (1) the discount rate was updated based upon newer capital market assumptions, (2) medical plan at retirement percentages were updated and Medicare advantage plan implied subsidy was excluded, (3) medical trend rates for Kaiser Senior Advantage was decreased, (4) Experience Study was updated to 2021 CalPERS Experience Study, (5) 25 basis point inflation rate was decreased which reduce the discount rate and long term rate of return, and (6) the mortality improvement scale was updated to Scale MP-2021. There are no change in assumptions during measurement period 2022.

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

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

VI. SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS
(In thousands)

Fiscal Year	2022-23	2021-22	2020-21	2019-20	2018-19	2017-18	2016-17
Actuarially Determined							
Contributions	\$ 11,428	\$ 15,013	\$ 14,566	\$ 16,482	\$ 15,997	\$ 16,938	\$ 16,365
Actual contribution	<u>(16,364)</u>	<u>(17,790)</u>	<u>(14,592)</u>	<u>(16,475)</u>	<u>(15,997)</u>	<u>(21,349)</u>	<u>(14,739)</u>
Contribution deficiency/(excess)	<u>\$ (4,936)</u>	<u>\$ (2,777)</u>	<u>\$ (26)</u>	<u>\$ 7</u>	<u>\$ -</u>	<u>\$ (4,411)</u>	<u>\$ 1,626</u>
 Covered employee payroll	 \$ 130,454	 \$ 123,304	 \$ 120,869	 \$ 125,676	 \$ 118,014	 \$ 119,090	 \$ 118,774
 Contributions as percentage of covered employee payroll	 12.54%	 14.43%	 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 2023 contribution rates are as follows:

ADC for fiscal year	June 30, 2023
Actuarial valuation date	June 30, 2021
Actuarial cost method	Entry-Age, level percentage of payroll
Amortization method	Level percent of pay
Amortization period	22-year fixed period for 2022/23
Asset valuation method	Market value, no smoothing
Inflation	2.50%
Investment rate of return	6.25%
Medical trend	Non-Medicare - 6.75% for 2022, decreasing to an ultimate rate of 3.75% in 2076 Medicare - 5.85% for 2022, decreasing to an ultimate rate of 3.75% in 2076
Mortality	2021 CalPERS Experience Study for the period from 2000 to 2019
Mortality Improvement	Post-retirement mortality projected fully generational with Society of Actuaries Scale MP-2021

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

CITY OF PALO ALTO
Non-major Governmental Funds
Combining Balance Sheet
June 30, 2023
(Amounts in thousands)

	Special Revenue Funds	Debt Service Funds	Permanent Fund	Total Other Governmental Funds
ASSETS:				
Cash and investments available for operations	\$ 54,863	\$ 2,789	\$ 2,381	\$ 60,033
Receivables, net:				
Accounts and intergovernmental	613	19	-	632
Interest	337	10	15	362
Notes and loan receivable	52,792	-	-	52,792
Restricted cash and investments with fiscal agents	-	9	-	9
Total assets	\$ 108,605	\$ 2,827	\$ 2,396	\$ 113,828
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts payable and accruals	\$ 589	\$ -	2	\$ 591
Accrued salaries and benefits	40	-	-	40
Due to other funds	413	-	-	413
Total liabilities	1,042	-	2	1,044
Deferred inflows of resources				
Deferred inflows of resources - Unavailable revenue	67	-	-	67
Total liabilities and deferred inflows of resources	1,109	-	2	1,111
Fund balances:				
Nonspendable				
Eyerly family	-	-	2,394	2,394
Restricted for:				
Transportation mitigation	18,918	-	-	18,918
Federal revenue	5,293	-	-	5,293
Street improvement	13	-	-	13
Local law enforcement	659	-	-	659
Public benefit	12,677	-	-	12,677
Debt service	-	2,827	-	2,827
Committed for:				
Developer impact fee	7,935	-	-	7,935
Housing In-Lieu	60,089	-	-	60,089
Special districts	1,864	-	-	1,864
Downtown business	48	-	-	48
Total fund balances	107,496	2,827	2,394	112,717
Total liabilities and fund balances	\$ 108,605	\$ 2,827	\$ 2,396	\$ 113,828

CITY OF PALO ALTO
Non-major Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2023
(Amounts in thousands)

	Special Revenue Funds	Debt Service Funds	Permanent Fund	Total Other Governmental Funds
REVENUES:				
Property tax	\$ -	\$ 4,153	\$ -	\$ 4,153
Other taxes and fines	3,394	-	-	3,394
Intergovernmental	465	-	-	465
Licenses, permits and fees:				
University Avenue Parking	1,795	-	-	1,795
California Avenue Parking	187	-	-	187
Other licenses, permits and fees	1,356	-	-	1,356
Investment earnings	243	27	2	272
Housing In-Lieu - residential	49	-	-	49
Other revenue	10,377	-	-	10,377
Total revenues	17,866	4,180	2	22,048
EXPENDITURES:				
Current:				
Administrative Services	307	-	-	307
Public Works	1,583	-	-	1,583
Planning and Development Services	658	-	-	658
Office of Transportation	1,301	-	-	1,301
Police	414	-	-	414
Community Services	307	-	-	307
Non-Departmental	274	72	2	348
Debt service:				
Principal retirement	242	1,345	-	1,587
Interest and fiscal charges	42	6,579	-	6,621
Total expenditures	5,128	7,996	2	13,126
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	12,738	(3,816)	-	8,922
OTHER FINANCING SOURCES (USES):				
Transfers in	1,022	4,441	-	5,463
Transfers out	(10,769)	-	-	(10,769)
Total other financing sources (uses)	(9,747)	4,441	-	(5,306)
Change in fund balances	2,991	625	-	3,616
FUND BALANCES, BEGINNING OF YEAR	104,505	2,202	2,394	109,101
FUND BALANCES, END OF YEAR	\$ 107,496	\$ 2,827	\$ 2,394	\$ 112,717

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, 2023
(Amounts in thousands)

	Street Improvement	Federal Revenue	Housing In-Lieu	Special Districts
ASSETS:				
Cash and investments available for operations	\$ -	\$ -	\$ 12,626	\$ 2,189
Receivables, net:				
Accounts and intergovernmental	419	137	30	8
Interest	-	-	80	14
Notes and loan receivable	-	5,351	47,441	-
Total assets	<u>\$ 419</u>	<u>\$ 5,488</u>	<u>\$ 60,177</u>	<u>\$ 2,211</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts payable and accruals	1	186	86	316
Accrued salaries and benefits	-	1	2	31
Due to other funds	405	8	-	-
Total liabilities	<u>406</u>	<u>195</u>	<u>88</u>	<u>347</u>
Deferred inflows of resources				
Deferred inflows of resources - Unavailable revenue	-	-	-	-
Total liabilities and deferred inflows of resources	<u>406</u>	<u>195</u>	<u>88</u>	<u>347</u>
Fund balances:				
Restricted				
Transportation mitigation	-	-	-	-
Federal revenue	-	5,293	-	-
Street improvement	13	-	-	-
Local law enforcement	-	-	-	-
Public benefit	-	-	-	-
Committed				
Developer impact fee	-	-	-	-
Housing In-Lieu	-	-	60,089	-
Special districts	-	-	-	1,864
Downtown business	-	-	-	-
Total fund balances	<u>13</u>	<u>5,293</u>	<u>60,089</u>	<u>1,864</u>
Total liabilities and fund balances	<u>\$ 419</u>	<u>\$ 5,488</u>	<u>\$ 60,177</u>	<u>\$ 2,211</u>

Transportation Mitigation	Local Law Enforcement	Asset Seizure	Developer Impact Fee	Downtown Business Development District	Public Benefit	Total Special Revenue Funds
\$ 18,828	\$ 699	\$ 3	\$ 7,880	\$ 48	\$ 12,590	\$ 54,863
-	19	-	-	-	-	613
90	5	-	61	-	87	337
-	-	-	-	-	-	52,792
<u>\$ 18,918</u>	<u>\$ 723</u>	<u>\$ 3</u>	<u>\$ 7,941</u>	<u>\$ 48</u>	<u>\$ 12,677</u>	<u>\$ 108,605</u>
-	-	-	-	-	-	\$ 589
-	-	-	6	-	-	40
-	-	-	-	-	-	413
-	-	-	6	-	-	1,042
-	67	-	-	-	-	67
-	67	-	6	-	-	1,109
18,918	-	-	-	-	-	18,918
-	-	-	-	-	-	5,293
-	-	-	-	-	-	13
-	656	3	-	-	-	659
-	-	-	-	-	12,677	12,677
-	-	-	7,935	-	-	7,935
-	-	-	-	-	-	60,089
-	-	-	-	-	-	1,864
-	-	-	-	48	-	48
<u>18,918</u>	<u>656</u>	<u>3</u>	<u>7,935</u>	<u>48</u>	<u>12,677</u>	<u>107,496</u>
<u>\$ 18,918</u>	<u>\$ 723</u>	<u>\$ 3</u>	<u>\$ 7,941</u>	<u>\$ 48</u>	<u>\$ 12,677</u>	<u>\$ 108,605</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, 2023
(Amounts in thousands)

	Street Improvement	Federal Revenue	Housing In-Lieu	Special Districts
REVENUES:				
Other taxes and fines	\$ 3,249	\$ -	\$ -	\$ 145
Intergovernmental	-	245	-	-
Licenses, permits and fees:				
University Avenue Parking	-	-	-	1,795
California Avenue Parking	-	-	-	187
Other licenses, permits and fees	-	-	-	579
Investment earnings	17	-	103	38
Housing In-Lieu - residential	-	-	49	-
Other revenue	-	-	191	120
Total revenues	3,266	245	343	2,864
EXPENDITURES:				
Current:				
Administrative Services	-	-	-	307
Public Works	-	-	-	1,583
Planning and Development Services	-	245	392	21
Office of Transportation	-	-	-	1,301
Police	-	-	-	-
Community Services	-	-	-	34
Non-Departmental	-	-	43	231
Debt service:				
Principal retirement	-	-	-	242
Interest and fiscal charges	-	-	-	42
Total expenditures	-	245	435	3,761
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	3,266	-	(92)	(897)
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	838
Transfers out	(3,411)	-	-	(136)
Total other financing sources (uses)	(3,411)	-	-	702
Change in fund balances	(145)	-	(92)	(195)
FUND BALANCES, BEGINNING OF YEAR	158	5,293	60,181	2,059
FUND BALANCES, END OF YEAR	\$ 13	\$ 5,293	\$ 60,089	\$ 1,864

Transportation Mitigation	Local Law Enforcement	Asset Seizure	Developer Impact Fee	Downtown Business Development District	Public Benefit	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,394
-	220	-	-	-	-	465
-	-	-	-	-	-	1,795
-	-	-	-	-	-	187
-	-	-	777	-	-	1,356
(234)	2	-	161	-	156	243
-	-	-	-	-	-	49
10,066	-	-	-	-	-	10,377
<u>9,832</u>	<u>222</u>	<u>-</u>	<u>938</u>	<u>-</u>	<u>156</u>	<u>17,866</u>
-	-	-	-	-	-	307
-	-	-	-	-	-	1,583
-	-	-	-	-	-	658
-	-	-	-	-	-	1,301
-	414	-	-	-	-	414
-	-	-	273	-	-	307
-	-	-	-	-	-	274
-	-	-	-	-	-	242
-	-	-	-	-	-	42
-	414	-	273	-	-	5,128
<u>9,832</u>	<u>(192)</u>	<u>-</u>	<u>665</u>	<u>-</u>	<u>156</u>	<u>12,738</u>
-	-	-	184	-	-	1,022
(522)	-	-	(4,300)	-	(2,400)	(10,769)
(522)	-	-	(4,116)	-	(2,400)	(9,747)
9,310	(192)	-	(3,451)	-	(2,244)	2,991
9,608	848	3	11,386	48	14,921	104,505
<u>\$ 18,918</u>	<u>\$ 656</u>	<u>\$ 3</u>	<u>\$ 7,935</u>	<u>\$ 48</u>	<u>\$ 12,677</u>	<u>107,496</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, 2023
(Amounts in thousands)

	Street Improvement			Federal Revenue		
	Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance
REVENUES:						
Other taxes and fines	\$ 3,234	\$ 3,249	\$ 15	\$ -	\$ -	\$ -
Intergovernmental	-	-	-	1,148	245	(903)
Licenses, permits and fees						
University Avenue Parking	-	-	-	-	-	-
California Avenue Parking	-	-	-	-	-	-
Other licenses, permits and fees	-	-	-	-	-	-
Investment earnings	6	2	(4)	-	-	-
Rental income	-	-	-	-	-	-
Housing In-Lieu - residential	-	-	-	-	-	-
Other:						
Loan payoffs	-	-	-	-	-	-
Other revenue	-	-	-	-	-	-
Total revenues	<u>3,240</u>	<u>3,251</u>	<u>11</u>	<u>1,148</u>	<u>245</u>	<u>(903)</u>
EXPENDITURES:						
Current:						
Administrative Services	-	-	-	-	-	-
Public Works	-	-	-	-	-	-
Planning and Development Services	-	-	-	1,732	1,108	624
Office of Transportation	-	-	-	-	-	-
Police	-	-	-	-	-	-
Community Services	-	-	-	-	-	-
Non-Departmental	-	-	-	-	-	-
Debt service:						
Principal retirement	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,732</u>	<u>1,108</u>	<u>624</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,240</u>	<u>3,251</u>	<u>11</u>	<u>(584)</u>	<u>(863)</u>	<u>(279)</u>
OTHER FINANCING SOURCES (USES):						
Transfers in	-	-	-	-	-	-
Transfers out	<u>(3,411)</u>	<u>(3,411)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(3,411)</u>	<u>(3,411)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in fund balances, budgetary basis	<u>\$ (171)</u>	<u>(160)</u>	<u>\$ 11</u>	<u>\$ (584)</u>	<u>(863)</u>	<u>\$ (279)</u>
Adjustment to Budgetary Basis:						
Unrealized gain (loss) on investments		15			-	
Current year encumbrances/reappropriations		<u>-</u>			<u>863</u>	
CHANGE IN FUND BALANCE, GAAP BASIS		<u>(145)</u>			<u>-</u>	
FUND BALANCES, BEGINNING OF YEAR, GAAP BASIS		<u>158</u>			<u>5,293</u>	
FUND BALANCES, END OF YEAR, GAAP BASIS		<u>\$ 13</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
\$ -	\$ -	\$ -	\$ 85	\$ 145	\$ 60	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-
-	-	-	1,525	1,795	270	-	-	-
-	-	-	325	187	(138)	-	-	-
-	-	-	661	579	(82)	276	-	(276)
182	428	246	57	44	(13)	182	297	115
9	-	(9)	-	-	-	-	-	-
2,150	49	(2,101)	-	-	-	-	-	-
25	53	28	-	-	-	-	-	-
185	191	6	-	120	120	-	10,066	10,066
<u>2,551</u>	<u>721</u>	<u>(1,830)</u>	<u>2,653</u>	<u>2,870</u>	<u>217</u>	<u>458</u>	<u>10,363</u>	<u>9,905</u>
-	-	-	371	307	64	-	-	-
-	-	-	2,438	1,583	855	-	-	-
4,664	5,174	(510)	1	21	(20)	-	-	-
-	-	-	2,127	1,668	459	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	44	34	10	-	-	-
668	96	572	215	231	(16)	-	-	-
-	-	-	-	242	(242)	-	-	-
-	-	-	-	42	(42)	-	-	-
<u>5,332</u>	<u>5,270</u>	<u>62</u>	<u>5,196</u>	<u>4,128</u>	<u>1,068</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(2,781)</u>	<u>(4,549)</u>	<u>(1,768)</u>	<u>(2,543)</u>	<u>(1,258)</u>	<u>1,285</u>	<u>458</u>	<u>10,363</u>	<u>9,905</u>
-	-	-	838	838	-	-	-	-
-	-	-	(136)	(136)	-	(5,971)	(522)	5,449
-	-	-	702	702	-	(5,971)	(522)	5,449
<u>\$ (2,781)</u>	<u>(4,549)</u>	<u>\$ (1,768)</u>	<u>\$ (1,841)</u>	<u>(556)</u>	<u>\$ 1,285</u>	<u>\$ (5,513)</u>	<u>9,841</u>	<u>\$ 15,354</u>
	(325)			(6)			(531)	
	4,782			367			-	
	(92)			(195)			9,310	
	60,181			2,059			9,608	
	<u>\$ 60,089</u>			<u>\$ 1,864</u>			<u>\$ 18,918</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, 2023
(Amounts in Thousands)

	Local Law Enforcement			Asset Seizure		
	Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance
REVENUES:						
Other taxes and fines	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	218	220	2	-	-	-
Licenses, permits and fees						
University Avenue Parking	-	-	-	-	-	-
California Avenue Parking	-	-	-	-	-	-
Other licenses, permits and fees	-	-	-	-	-	-
Investment earnings	10	18	8	-	-	-
Rental income	-	-	-	-	-	-
Housing In-Lieu - residential	-	-	-	-	-	-
Other:						
Loan payoffs	-	-	-	-	-	-
Other revenue	-	-	-	-	-	-
Total revenues	228	238	10	-	-	-
EXPENDITURES:						
Current:						
Administrative Services	-	-	-	-	-	-
Public Works	-	-	-	-	-	-
Planning and Development Services	-	-	-	-	-	-
Office of Transportation	-	-	-	-	-	-
Police	460	460	-	-	-	-
Community Services	-	-	-	-	-	-
Non-Departmental	-	-	-	-	-	-
Debt service:						
Principal retirement	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	460	460	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	(232)	(222)	10	-	-	-
OTHER FINANCING SOURCES (USES):						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Change in fund balances, budgetary basis	\$ (232)	(222)	\$ 10	\$ -	-	\$ -
Adjustment to Budgetary Basis:						
Unrealized gain (loss) on investments		(16)			-	
Current year encumbrances/reappropriations		46			-	
CHANGE IN FUND BALANCE, GAAP BASIS		(192)			-	
FUND BALANCES, BEGINNING OF YEAR, GAAP BASIS		848			3	
FUND BALANCES, END OF YEAR, GAAP BASIS		\$ 656			\$ 3	

Developer Impact Fee			Downtown Business Improvement District			Public Benefit		
Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
948	777	(171)	-	-	-	-	-	-
169	195	26	-	1	1	275	273	(2)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>1,117</u>	<u>972</u>	<u>(145)</u>	<u>-</u>	<u>1</u>	<u>1</u>	<u>275</u>	<u>273</u>	<u>(2)</u>
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
301	313	(12)	-	-	-	-	-	-
-	-	-	25	-	25	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
<u>301</u>	<u>313</u>	<u>(12)</u>	<u>25</u>	<u>-</u>	<u>25</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>816</u>	<u>659</u>	<u>(157)</u>	<u>(25)</u>	<u>1</u>	<u>26</u>	<u>275</u>	<u>273</u>	<u>(2)</u>
184	184	-	-	-	-	-	-	-
(5,651)	(4,300)	1,351	-	-	-	(4,400)	(2,400)	2,000
<u>(5,467)</u>	<u>(4,116)</u>	<u>1,351</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,400)</u>	<u>(2,400)</u>	<u>2,000</u>
<u>\$ (4,651)</u>	<u>(3,457)</u>	<u>\$ 1,194</u>	<u>\$ (25)</u>	<u>1</u>	<u>\$ 26</u>	<u>\$ (4,125)</u>	<u>(2,127)</u>	<u>\$ 1,998</u>
	(34)			(1)			(117)	
	40			-			-	
	<u>(3,451)</u>			<u>-</u>			<u>(2,244)</u>	
	<u>11,386</u>			<u>48</u>			<u>14,921</u>	
	<u>\$ 7,935</u>			<u>\$ 48</u>			<u>\$ 12,677</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 2013A, 2022A and 2022B 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, 2023
(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	\$ 19	\$ 26	\$ 2,709	\$ 35	\$ 2,789
Receivables:					
Accounts and intergovernmental	-	-	19	-	19
Interest	-	-	10	-	10
Restricted cash and investments with fiscal agents	-	2	4	3	9
Total assets	<u>\$ 19</u>	<u>\$ 28</u>	<u>\$ 2,742</u>	<u>\$ 38</u>	<u>\$ 2,827</u>
FUND BALANCES:					
Restricted:					
Debt service	<u>\$ 19</u>	<u>\$ 28</u>	<u>\$ 2,742</u>	<u>\$ 38</u>	<u>\$ 2,827</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, 2023
(Amounts in thousands)

	2018 Golf Course Capital Improvement	2019 California Avenue Parking Garage COPs	Library Projects	Public Safety Building	Total Debt Service Funds
REVENUES:					
Property tax	\$ -	\$ -	\$ 4,153	\$ -	\$ 4,153
Investment earnings	-	3	11	13	27
Total revenues	<u>-</u>	<u>3</u>	<u>4,164</u>	<u>13</u>	<u>4,180</u>
EXPENDITURES:					
Non-Departmental	-	-	72	-	72
Debt service:					
Principal retirement	195	665	485	-	1,345
Interest and fiscal charges	334	1,710	1,608	2,927	6,579
Total expenditures	<u>529</u>	<u>2,375</u>	<u>2,165</u>	<u>2,927</u>	<u>7,996</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(529)</u>	<u>(2,372)</u>	<u>1,999</u>	<u>(2,914)</u>	<u>(3,816)</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	529	2,375	74	1,463	4,441
Change in fund balances	-	3	2,073	(1,451)	625
FUND BALANCES, BEGINNING OF YEAR	<u>19</u>	<u>25</u>	<u>669</u>	<u>1,489</u>	<u>2,202</u>
FUND BALANCES, END OF YEAR	<u>\$ 19</u>	<u>\$ 28</u>	<u>\$ 2,742</u>	<u>\$ 38</u>	<u>\$ 2,827</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, 2023
(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
REVENUES:												
Property tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,397	\$ 4,153	\$ (244)	\$ -	\$ -	\$ -
Investment earnings	-	-	-	-	3	3	8	15	7	-	13	13
Total revenues	-	-	-	-	3	3	4,405	4,168	(237)	-	13	13
EXPENDITURES:												
Current:												
Non-Departmental Capital outlay	-	-	-	-	-	-	-	72	72	-	-	-
Debt service:												
Principal retirement	195	195	-	665	665	-	1,935	485	1,450	-	-	-
Interest and fiscal charges	334	334	-	1,710	1,710	-	2,492	1,608	884	2,927	2,927	-
Total expenditures	529	529	-	2,375	2,375	-	4,427	2,165	2,406	2,927	2,927	-
Excess (deficiency) of revenues over (under) expenditures	(529)	(529)	-	(2,375)	(2,372)	3	(22)	2,003	2,025	(2,927)	(2,914)	13
OTHER FINANCING SOURCES (USES):												
Transfers in	529	529	-	2,375	2,375	-	74	74	-	1,463	1,463	-
Change in fund balances, budgetary basis	\$ -	-	\$ -	\$ -	3	\$ 3	\$ 52	2,077	\$ 2,025	\$ (1,464)	(1,451)	\$ 13
Adjustment to Budgetary Basis:												
Unrealized gain (loss) on investments	-	-	-	-	-	-	-	(4)	-	-	-	-
CHANGE IN FUND BALANCE, GAAP BASIS	-	-	-	3	3	3	2,073	2,073	2,073	(1,451)	(1,451)	(1,451)
FUND BALANCES, BEGINNING OF YEAR	19	19	19	25	25	25	669	669	669	1,489	1,489	1,489
FUND BALANCES, END OF YEAR	\$ 19	\$ 19	\$ 19	\$ 28	\$ 28	\$ 28	\$ 2,742	\$ 2,742	\$ 2,742	\$ 38	\$ 38	\$ 38

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, 2023
(Amounts in thousands)

	Eyerly Family Permanent Fund		
	Budget	Actual, Budgetary Basis	Variance Positive (Negative)
REVENUES:			
Investment earnings	\$ 33	\$ 51	\$ 18
EXPENDITURES:			
Current:			
Non-Departmental	2	2	-
Change in fund balance	\$ 31	49	\$ 18
Adjustment to Budgetary Basis:			
Unrealized gain (loss) on investments		(49)	
CHANGE IN FUND BALANCE, GAAP BASIS		-	
FUND BALANCE, BEGINNING OF YEAR		2,394	
FUND BALANCE, END OF YEAR		\$ 2,394	

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, 2023
(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
ASSETS:								
Current Assets:								
Cash and investments available for operations	\$ 14,453	\$ 19,259	\$ 256	\$ 24,074	\$ 28,175	\$ 9,245	\$ 1,249	\$ 96,711
Accounts receivable, net	-	-	-	165	25	-	-	190
Interest receivable	86	127	2	145	171	58	7	596
Prepaid items	-	30	-	-	-	-	-	30
Inventory of materials and supplies	133	-	-	-	-	-	-	133
Restricted cash and investments with fiscal agents and trustees	-	-	-	58,354	-	-	-	58,354
Total current assets	14,672	19,416	258	82,738	28,371	9,303	1,256	156,014
Noncurrent Assets:								
Capital assets:								
Nondepreciable	1,651	5,268	-	-	-	-	-	6,919
Depreciable, net	12,963	3,743	13	-	-	-	-	16,719
Total noncurrent assets	14,614	9,011	13	-	-	-	-	23,638
Total assets	29,286	28,427	271	82,738	28,371	9,303	1,256	179,652
DEFERRED OUTFLOWS OF RESOURCES:								
Pension related	964	3,766	21	-	56	-	-	4,807
OPEB related	358	817	19	-	16	-	-	1,210
Total deferred outflows of resources	1,322	4,583	40	-	72	-	-	6,017
LIABILITIES:								
Current Liabilities:								
Accounts payable and accruals	71	446	81	1,631	46	7	14	2,296
Accrued salaries and benefits	44	174	4	-	46	-	-	268
Accrued compensated absences	-	-	-	7,565	-	-	-	7,565
Current portion of SBITA liabilities	-	1,027	-	-	-	-	-	1,027
Accrued claims payable - current	-	-	-	160	4,185	2,316	-	6,661
Total current liabilities	115	1,647	85	9,356	4,277	2,323	14	17,817
Noncurrent liabilities:								
Accrued compensated absences	-	-	-	8,732	-	-	-	8,732
Net pension liabilities	3,802	14,284	240	-	-	-	-	18,326
Net OPEB liabilities	1,309	2,661	132	-	-	-	-	4,102
SBITA liabilities	-	1,149	-	-	-	-	-	1,149
Accrued claims payable	-	-	-	-	21,579	4,160	-	25,739
Total noncurrent liabilities	5,111	18,094	372	8,732	21,579	4,160	-	58,048
Total liabilities	5,226	19,741	457	18,088	25,856	6,483	14	75,865
DEFERRED INFLOWS OF RESOURCES:								
Pension related	41	166	-	-	-	-	-	207
OPEB related	268	585	13	-	11	-	-	877
Total deferred inflows of resources	309	751	13	-	11	-	-	1,084
NET POSITION:								
Net Investment in capital assets	14,614	6,835	13	-	-	-	-	21,462
Restricted for supplemental pension	-	-	-	58,354	-	-	-	58,354
Unrestricted	10,459	5,683	(172)	6,296	2,576	2,820	1,242	28,904
Total net position	\$ 25,073	\$ 12,518	\$ (159)	\$ 64,650	\$ 2,576	\$ 2,820	\$ 1,242	\$ 108,720

CITY OF PALO ALTO
Internal Service Funds
Combining Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended June 30, 2023
(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
OPERATING REVENUES:								
Charges for services	\$ 10,571	\$ 14,812	\$ 1,232	\$ 86,462	\$ 7,399	\$ 5,243	\$ 13,298	\$ 139,017
Other	-	-	-	-	80	-	-	80
Total operating revenues	10,571	14,812	1,232	86,462	7,479	5,243	13,298	139,097
OPERATING EXPENSES:								
Administrative and general	1,751	8,113	877	220	1,037	3,793	38	15,829
Operations and maintenance	3,912	7,626	313	-	181	-	-	12,032
Depreciation and amortization	2,720	1,318	6	-	-	-	-	4,044
Claim payments and change in estimated self-insured liability	-	-	-	1,319	3,052	1,337	-	5,708
Refund of charges for services	254	11	-	-	-	-	-	265
Employment benefits	-	-	-	71,248	-	-	16,327	87,575
Total operating expenses	8,637	17,068	1,196	72,787	4,270	5,130	16,365	125,453
Operating income (loss)	1,934	(2,256)	36	13,675	3,209	113	(3,067)	13,644
NONOPERATING REVENUES (EXPENSES):								
Investment earnings	(107)	63	(1)	2,892	(68)	(23)	65	2,821
Interest expense	-	(66)	-	-	-	-	-	(66)
Gain on disposal of capital assets	71	-	-	-	-	-	-	71
Other nonoperating revenues	11	-	-	-	-	-	-	11
Total nonoperating revenues (expenses)	(25)	(3)	(1)	2,892	(68)	(23)	65	2,837
Income (loss) before transfers	1,909	(2,259)	35	16,567	3,141	90	(3,002)	16,481
Transfers in	80	1,743	-	5,000	-	5	3,025	9,853
Transfers out	(545)	(32)	-	(3,025)	-	-	-	(3,602)
Change in net position	1,444	(548)	35	18,542	3,141	95	23	22,732
NET POSITION, BEGINNING OF YEAR	23,629	13,066	(194)	46,108	(565)	2,725	1,219	85,988
NET POSITION, END OF YEAR	\$ 25,073	\$ 12,518	\$ (159)	\$ 64,650	\$ 2,576	\$ 2,820	\$ 1,242	\$ 108,720

CITY OF PALO ALTO
Internal Service Funds
Combining Statement of Cash Flows
For the Year Ended June 30, 2023
(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
Cash flows from operating activities:								
Cash received from customers	\$ 10,574	\$ 14,812	\$ 1,232	\$ 86,318	\$ 7,442	\$ 5,243	\$ 13,298	\$ 138,919
Cash payments to suppliers for goods and services	(3,938)	(8,125)	(1,061)	(220)	(506)	(3,786)	(38)	(17,674)
Cash payments to employees	(2,224)	(7,800)	(165)	(68,707)	(661)	-	(15,981)	(95,538)
Cash payments for judgments and claims	-	-	-	(1,319)	(3,785)	(1,254)	-	(6,358)
Other cash receipts	11	-	-	-	-	-	-	11
Net cash flows provided by (used in) operating activities	4,423	(1,113)	6	16,072	2,490	203	(2,721)	19,360
Cash flows from noncapital financing activities:								
Transfers in	80	1,743	-	5,000	-	5	3,025	9,853
Transfers out	(545)	(32)	-	(3,025)	-	-	-	(3,602)
Net cash flows provided by (used in) noncapital financing activities	(465)	1,711	-	1,975	-	5	3,025	6,251
Cash flows from capital and related financing activities:								
Acquisition of capital assets	(2,009)	(1,081)	-	-	-	-	-	(3,090)
Proceeds from sale of capital assets	71	-	-	-	-	-	-	71
Principal paid on SBITA liabilities	-	(988)	-	-	-	-	-	(988)
Interest paid	-	(66)	-	-	-	-	-	(66)
Net cash flows (used in) capital and related financing activities	(1,938)	(2,135)	-	-	-	-	-	(4,073)
Cash flows from investing activities:								
Investment interest received (expenses paid)	(129)	49	(2)	2,865	(98)	(31)	67	2,721
Net change in cash and cash equivalents	1,891	(1,488)	4	20,912	2,392	177	371	24,259
Cash and cash equivalents, beginning of year	12,562	20,747	252	61,516	25,783	9,068	878	130,806
Cash and cash equivalents, end of year	\$ 14,453	\$ 19,259	\$ 256	\$ 82,428	\$ 28,175	\$ 9,245	\$ 1,249	\$ 155,065
Financial statement presentation:								
Cash and investments available for operations	\$ 14,453	\$ 19,259	\$ 256	\$ 24,074	\$ 28,175	\$ 9,245	\$ 1,249	\$ 96,711
Restricted cash and investments with fiscal agents and trustees	-	-	-	58,354	-	-	-	58,354
Cash and cash equivalents, end of year	\$ 14,453	\$ 19,259	\$ 256	\$ 82,428	\$ 28,175	\$ 9,245	\$ 1,249	\$ 155,065
Reconciliation of operating income (loss) to net cash flows provided by (used in) operating activities:								
Operating income (loss)	\$ 1,934	\$ (2,256)	\$ 36	\$ 13,675	\$ 3,209	\$ 113	\$ (3,067)	\$ 13,644
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Depreciation and amortization	2,720	1,318	6	-	-	-	-	4,044
Other	11	-	-	-	-	-	-	11
Change in assets, deferred outflow/inflow of resources, and liabilities:								
Accounts receivable	3	-	-	(144)	43	-	-	(98)
Inventory of materials and supplies	51	-	-	-	-	-	-	51
Prepaid items	-	(30)	-	1,426	-	-	332	1,728
Deferred outflows of resources - pension plans	(471)	(1,999)	(3)	-	(5)	-	-	(2,478)
Deferred outflows of resources - OPEB	(96)	(223)	(5)	-	(4)	-	-	(328)
Accounts payable and accruals	(96)	181	(9)	586	46	7	14	729
Accrued salaries and benefits	7	25	2	-	29	-	-	63
Accrued compensated absences	-	-	-	529	-	-	-	529
Accrued claims payable	-	-	-	-	(813)	83	-	(730)
Net pension liability	1,059	4,453	(19)	-	-	-	-	5,493
Net OPEB liability	282	653	15	-	-	-	-	950
Deferred inflows of resources - pension plans	(655)	(2,493)	-	-	-	-	-	(3,148)
Deferred inflows of resources - OPEB	(326)	(742)	(17)	-	(15)	-	-	(1,100)
Net cash flows provided by (used in) operating activities	\$ 4,423	\$ (1,113)	\$ 6	\$ 16,072	\$ 2,490	\$ 203	\$ (2,721)	\$ 19,360

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, 2023
(Amounts in thousands)

	Cable Joint Powers Authority	University Avenue Area Off-Street Parking Assessment District	Total
ASSETS:			
Cash and investments available for operations (Note 3)	\$ 1,382	\$ 1,699	\$ 3,081
Accounts receivable	410	45	455
Interest receivable	9	11	20
Restricted cash and investments with fiscal agents (Note 3)	-	2,821	2,821
Total assets	<u>1,801</u>	<u>4,576</u>	<u>6,377</u>
LIABILITIES:			
Accounts payable and accruals	<u>192</u>	<u>-</u>	<u>192</u>
NET POSITION:			
Restricted for:			
Governmental entities	1,609	-	1,609
Bondholders of special assessment bonds	-	4,576	4,576
Total net position	<u>\$ 1,609</u>	<u>\$ 4,576</u>	<u>\$ 6,185</u>

CITY OF PALO ALTO
Custodial Funds
Combining Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2023
(Amounts in thousands)

	Cable Joint Powers Authority	University Avenue Area Off-Street Parking Assessment District	Total
ADDITIONS:			
Franchise and other fees collected	\$ 1,694	\$ -	\$ 1,694
Special assessments collected	-	2,236	2,236
Investment earnings	-	92	92
Total additions	<u>1,694</u>	<u>2,328</u>	<u>4,022</u>
DEDUCTIONS:			
Administrative and general	11	5	16
Distribution to governmental entities	1,486	-	1,486
Debt service payments	-	2,402	2,402
Total deductions	<u>1,497</u>	<u>2,407</u>	<u>3,904</u>
Changes in net position	197	(79)	118
NET POSITION, BEGINNING OF YEAR	<u>1,412</u>	<u>4,655</u>	<u>6,067</u>
NET POSITION, END OF YEAR	<u>\$ 1,609</u>	<u>\$ 4,576</u>	<u>\$ 6,185</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

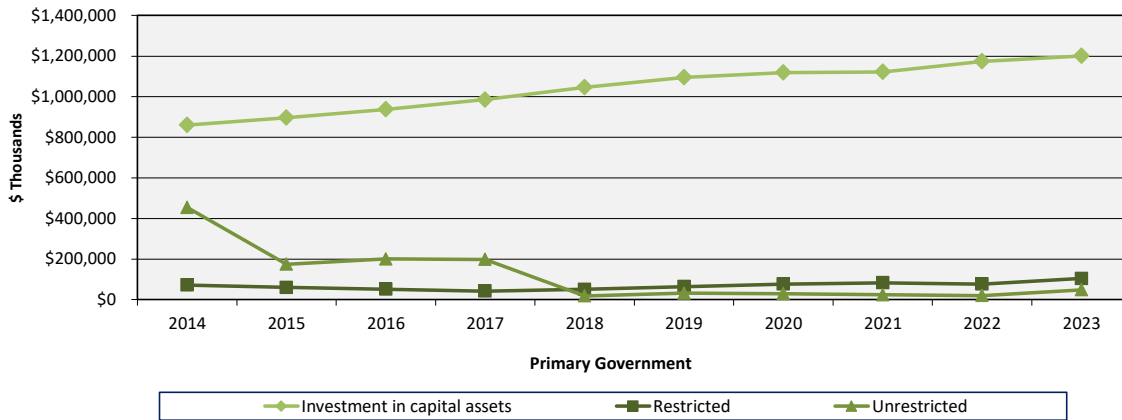
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

- 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									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Governmental Activities										
Investment in capital assets	\$ 386,696	\$ 405,921	\$ 425,179	\$ 453,878	\$ 473,233	\$ 493,706	\$ 497,378	\$ 480,620	\$ 503,869	\$ 493,029
Restricted	68,331	55,963	47,907	38,138	46,724	59,669	73,274	80,265	72,901	101,126
Unrestricted	187,386	1,972	37,905	35,273	(92,587)	(103,392)	(130,078)	(137,748)	(102,664)	(77,666)
Total Governmental Activities Net Position	\$ 642,413	\$ 463,856	\$ 510,991	\$ 527,289	\$ 427,370	\$ 449,983	\$ 440,574	\$ 423,137	\$ 474,106	\$ 516,489
Business-type Activities										
Investment in capital assets	\$ 473,795	\$ 490,874	\$ 512,918	\$ 532,063	\$ 573,688	\$ 602,136	\$ 621,354	\$ 642,018	\$ 670,830	\$ 707,940
Restricted	4,166	4,142	4,115	4,073	4,014	4,016	4,060	3,340	3,340	3,193
Unrestricted	266,794	172,802	162,806	163,158	110,429	135,391	159,592	161,861	122,646	126,613
Total Business-type Activities Net Position	\$ 744,755	\$ 667,818	\$ 679,839	\$ 699,294	\$ 688,131	\$ 741,543	\$ 785,006	\$ 807,219	\$ 796,816	\$ 837,746
Primary Government										
Investment in capital assets	\$ 860,491	\$ 896,795	\$ 938,097	\$ 985,941	\$ 1,046,921	\$ 1,095,842	\$ 1,118,732	\$ 1,122,638	\$ 1,174,699	\$ 1,200,969
Restricted	72,497	60,105	52,022	42,211	50,738	63,685	77,334	83,605	76,241	104,319
Unrestricted	454,180	174,774	200,711	198,431	17,842	31,999	29,514	24,113	19,982	48,947
Total Primary Government Net Position	\$ 1,387,168	\$ 1,131,674	\$ 1,190,830	\$ 1,226,583	\$ 1,115,501	\$ 1,191,526	\$ 1,225,580	\$ 1,230,356	\$ 1,270,922	\$ 1,354,235

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									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
PROGRAM REVENUES										
Governmental Activities										
Charges for services										
Administrative Services	\$ 4,055	\$ 5,460	\$ 9,444	\$ 5,242	\$ 6,536	\$ 6,413	\$ 5,758	\$ 1,150	\$ 4,173	\$ 14,332
Public Works	1,093	1,209	599	878	781	1,478	990	937	1,401	1,200
Planning & Community Environment	12,896	8,090	9,071	6,067	5,119	11,997	-	-	-	-
Development Services ^{1&2}	-	12,019	12,570	11,768	16,000	13,904	-	-	-	-
Planning & Development Services ³	-	-	-	-	-	-	16,173	21,228	17,499	16,914
Office of Transportation ³	-	-	-	-	-	-	1,161	80	560	657
Public Safety	14,902	15,726	13,945	12,670	13,507	14,179	12,101	11,135	12,298	14,534
Community Services	20,882	20,912	21,551	20,472	21,285	22,805	20,808	20,893	23,767	25,144
Library	166	137	198	139	145	134	94	47	40	43
Operating grants and contributions	5,360	5,300	2,164	1,990	14,054	2,100	2,619	3,033	9,901	7,981
Capital grants and contributions	917	619	344	1,929	1,534	8,247	9,021	11,326	30,373	7,204
Total Governmental Activities										
Program Revenues	<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>	<u>100,012</u>	<u>88,009</u>
Business-type Activities										
Charges for services										
Water	40,291	35,847	37,588	42,678	45,087	45,571	48,740	48,812	44,892	43,722
Electric	121,916	120,842	120,743	137,543	154,142	163,514	169,389	162,240	163,704	200,474
Fiber Optics	4,485	4,627	4,505	4,553	4,529	4,657	4,576	3,936	2,520	2,679
Gas	35,737	30,751	30,212	36,431	37,044	42,113	37,402	39,520	49,970	75,345
Wastewater Collection	15,599	16,182	16,496	17,748	17,990	20,219	20,933	20,484	20,435	21,300
Wastewater Treatment	18,460	24,120	23,825	23,649	27,382	27,573	29,310	30,522	29,984	31,283
Refuse	30,297	31,576	32,169	33,918	34,647	33,996	32,695	30,636	31,650	32,022
Storm Drainage	6,183	6,281	6,520	6,693	6,964	7,249	7,543	7,785	7,896	8,257
Airport	-	683	826	1,286	2,382	2,483	2,362	2,585	2,657	2,614
Operating grants and contributions	549	534	744	512	501	488	473	462	676	24,417
Capital grants and contributions	2,005	2,080	1,061	4,265	14,194	6,677	6,449	6,391	7,303	2,659
Total Business-type Activities										
Program Revenues	<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>	<u>361,687</u>	<u>444,772</u>
Total Primary Government										
Program Revenues	<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>	<u>\$ 461,699</u>	<u>\$ 532,781</u>
EXPENSES										
Governmental Activities										
City Council	\$ 387	\$ 271	\$ 352	\$ 329	\$ 345	\$ 270	\$ 172	\$ 178	\$ (113)	\$ 124
City Manager	2,180	2,155	2,662	1,975	2,757	3,336	3,616	2,466	1,600	2,525
City Attorney	1,797	1,759	2,472	2,140	2,511	3,086	2,845	2,292	1,984	2,634
City Clerk	641	680	582	762	931	822	748	702	407	692
City Auditor	489	362	414	847	994	1,081	645	641	487	268
Administrative Services	11,388	9,980	10,637	11,887	13,949	19,169	15,919	22,985	15,019	9,487
Human Resources	1,346	1,464	2,224	2,272	2,674	3,021	3,060	2,518	1,637	2,121
Public Works	24,577	21,075	24,613	25,539	30,349	36,617	45,609	52,727	31,177	37,406
Planning & Community Environment ²	14,926	8,423	10,208	10,918	11,357	12,169	-	-	-	-
Development Services ^{1&2}	-	10,449	11,158	11,102	12,664	12,622	-	-	-	-
Planning & Development Services ²	-	-	-	-	-	-	21,725	18,141	15,680	24,497
Office of Transportation ³	-	-	-	-	-	-	4,693	3,636	4,398	6,357
Public Safety (Police and Fire)	62,883	58,660	56,653	73,320	83,923	89,189	92,187	80,758	66,237	85,187
Community Services	23,822	24,688	28,547	27,866	33,709	36,815	34,147	30,289	31,928	36,985
Library	7,758	7,721	10,825	11,437	12,208	12,557	12,971	11,145	9,527	11,046
Interest on long term debt	3,367	3,658	3,552	2,846	2,761	3,653	4,576	6,317	9,167	6,730
Total Governmental										
Activities Expenses	<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>	<u>189,135</u>	<u>226,059</u>
Business-type Activities										
Water	31,593	33,205	35,120	37,535	40,836	40,606	43,034	43,556	41,893	43,838
Electric	113,004	122,499	120,319	128,603	146,033	139,605	142,426	156,105	169,098	182,194
Fiber Optics	1,661	1,891	2,107	2,159	2,653	2,476	2,761	2,529	2,242	2,617
Gas	26,869	23,525	20,879	26,783	27,930	30,915	27,212	28,556	40,744	63,383
Wastewater Collection	13,235	14,595	15,199	16,405	16,801	17,324	18,877	19,577	18,256	20,473
Wastewater Treatment	21,018	21,553	22,546	23,498	27,518	27,070	28,755	28,403	27,106	31,747
Refuse	28,413	27,974	30,370	30,665	28,808	30,391	36,947	29,138	29,955	32,551
Storm Drainage	3,644	3,721	3,735	4,106	5,059	4,951	5,514	4,897	4,631	6,093
Airport	466	1,004	970	1,274	1,656	1,790	2,131	1,499	1,924	2,415
Total Business-type										
Activities Expenses	<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>	<u>335,849</u>	<u>385,311</u>
Total Primary										
Government Expenses	<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>	<u>\$ 524,984</u>	<u>\$ 611,370</u>

Fiscal Year Ended June 30

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
NET (EXPENSE)/REVENUE										
Governmental Activities	\$ (95,290)	\$ (81,873)	\$ (95,013)	\$ (122,085)	\$ (132,171)	\$ (153,150)	\$ (174,188)	\$ (164,966)	\$ (89,123)	\$ (138,050)
Business-type Activities	35,619	23,556	23,444	38,248	47,568	59,412	52,215	39,113	25,838	59,461
Total Primary Government										
Net (Expense)/Revenue	<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>	<u>\$ (63,285)</u>	<u>\$ (78,589)</u>
GENERAL REVENUES AND OTHER CHANGES IN NET POSITION										
Governmental Activities										
Taxes										
Property tax	\$ 35,299	\$ 38,750	\$ 41,189	\$ 43,953	\$ 47,170	\$ 51,718	\$ 55,604	\$ 60,901	\$ 63,632	\$ 67,282
Sales tax	29,424	29,675	30,018	29,923	31,091	36,508	30,563	29,127	32,705	36,926
Utility user tax	11,008	10,861	12,469	14,240	15,414	16,402	16,140	14,642	15,599	18,763
Transient occupancy tax	12,255	16,699	22,366	23,477	24,937	25,649	18,553	5,179	16,946	25,485
Other taxes	9,660	11,867	7,868	8,989	11,337	9,525	9,775	13,471	15,028	9,070
Investment earnings	5,859	5,010	8,639	(711)	420	15,375	13,850	4,939	(24,497)	2,243
Miscellaneous	2,575	3,428	894	168	1,973	1,906	60	183	418	372
Transfers	17,103	16,405	18,705	18,344	19,077	18,680	20,234	19,087	20,261	20,292
Total Governmental Activities	<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>	<u>140,092</u>	<u>180,433</u>
Business-type Activities										
Investment earnings	6,379	4,857	7,282	(449)	596	12,680	11,482	2,187	(16,098)	1,761
Gain from sale of capital assets	-	-	-	-	-	-	-	-	118	-
Transfers	(17,103)	(16,405)	(18,705)	(18,344)	(19,077)	(18,680)	(20,234)	(19,087)	(20,261)	(20,292)
Total Business-type Activities	<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>	<u>(36,241)</u>	<u>(18,531)</u>
Total Primary Government	<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>	<u>\$ 103,851</u>	<u>\$ 161,902</u>
CHANGE IN NET POSITION										
Governmental Activities	\$ 27,893	\$ 50,822	\$ 47,135	\$ 16,298	\$ 19,248	\$ 22,613	\$ (9,409)	\$ (17,437)	\$ 50,969	\$ 42,383
Business-type Activities	24,895	12,008	12,021	19,455	29,087	53,412	43,463	22,213	(10,403)	40,930
Total Primary Government										
Change in Net Position	<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>	<u>\$ 40,566</u>	<u>\$ 83,313</u>

Notes:

¹The Development Services Department was formed in FY15.

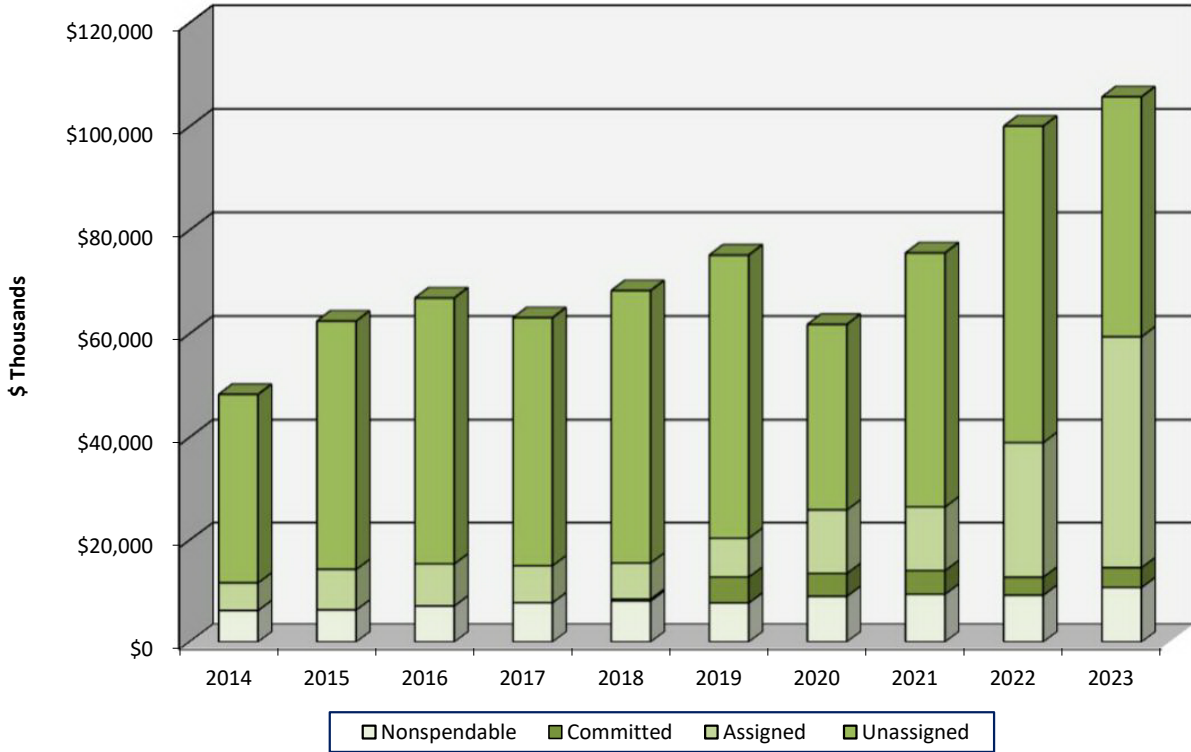
²In FY20, the Development Services Department was combined with the Planning and Community Environment Department to form the Planning and Development Services Department.

³In FY20, the City established the Office of Transportation.

Source:

Annual Financial Statements, Statement of Activities

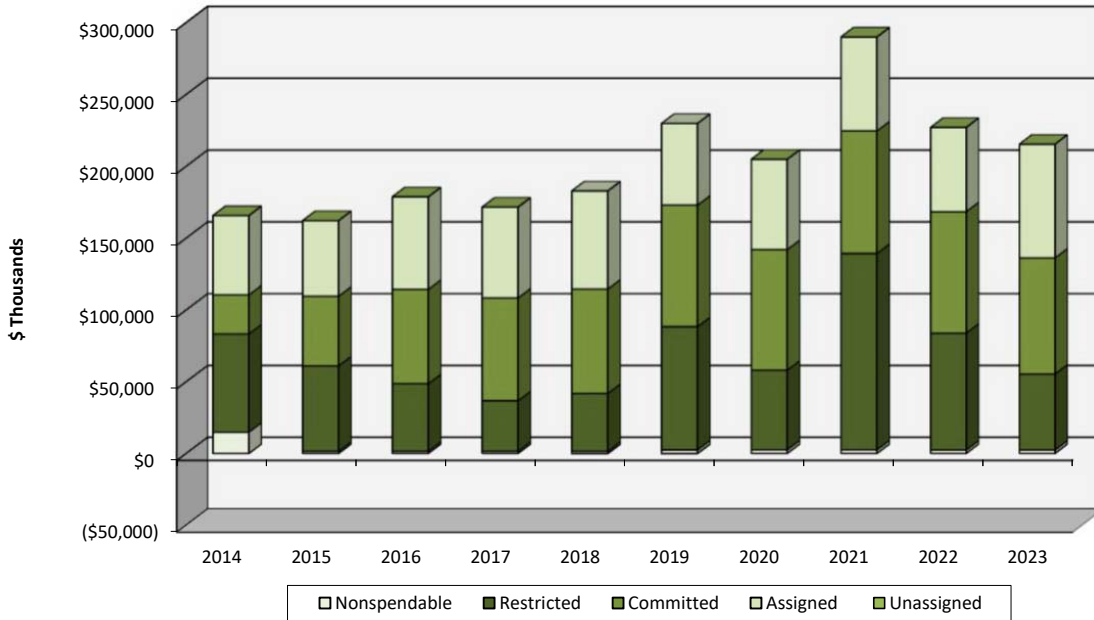
CITY OF PALO ALTO
Fund Balances of Governmental Funds (General Fund)
Last Ten Fiscal Years
(Modified accrual basis of accounting)
(Amounts in thousands)



	Fiscal Year Ended June 30									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
General Fund										
Nonspendable	\$ 6,188	\$ 6,296	\$ 7,088	\$ 7,709	\$ 8,049	\$ 7,647	\$ 8,967	\$ 9,376	\$ 9,175	\$ 10,703
Committed	-	-	-	-	373	5,100	4,505	4,651	3,563	3,920
Assigned	5,432	7,976	8,261	7,280	7,098	7,657	12,496	12,520	26,282	44,823
Unassigned	36,690	48,198	51,582	48,118	52,826	54,811	35,871	49,089	61,080	46,312
Total General Fund	<u>\$ 48,310</u>	<u>\$ 62,470</u>	<u>\$ 66,931</u>	<u>\$ 63,107</u>	<u>\$ 68,346</u>	<u>\$ 75,215</u>	<u>\$ 61,839</u>	<u>\$ 75,636</u>	<u>\$ 100,100</u>	<u>\$ 105,758</u>

Source: Annual Financial Statements, Balance Sheet

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



	Fiscal Year Ended June 30									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
All Other Governmental Funds										
Nonspendable	\$ 14,869	\$ 1,468	\$ 1,505	\$ 1,499	\$ 1,498	\$ 2,438	\$ 2,540	\$ 2,556	\$ 2,394	\$ 2,394
Restricted	68,468	59,650	47,113	35,298	40,317	85,940	55,548	136,795	81,500	52,956
Committed	27,145	48,434	65,745	71,566	72,781	84,616	83,973	85,324	84,578	80,891
Assigned	55,211	52,627	64,411	63,225	68,261	56,842	62,825	65,331	58,567	79,143
Unassigned	-	-	-	-	(32)	(32)	-	-	-	-
Total All Other Governmental Funds	<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>	<u>\$ 227,039</u>	<u>\$ 215,384</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									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenues										
Property tax	\$ 35,393	\$ 38,836	\$ 41,289	\$ 44,050	\$ 47,242	\$ 51,776	\$ 55,628	\$ 60,906	\$ 63,633	\$ 67,282
Sales tax	29,424	29,675	30,018	29,923	31,091	36,508	30,563	29,127	32,705	36,926
Other taxes and fines	35,305	41,576	44,909	48,875	53,837	53,525	45,729	33,947	48,419	54,023
Contributions ⁵	-	-	-	-	11,733	-	-	-	-	-
Charges for services	23,962	25,973	23,910	22,267	26,835	27,346	24,127	25,106	29,252	35,065
Intergovernmental ⁶	5,700	7,727	4,417	5,443	5,392	4,689	12,315	15,252	16,327	15,772
Licenses, permits and fees ⁶	8,990	9,179	11,228	10,523	12,786	17,759	13,144	9,422	12,163	10,791
Interest and rentals	18,445	18,658	22,269	15,348	16,288	32,905	26,123	20,145	1,720	13,828
Other revenue	7,471	12,837	13,827	4,985	6,067	7,955	1,091	1,033	1,083	11,537
Total Revenues	<u>164,690</u>	<u>184,461</u>	<u>191,867</u>	<u>181,414</u>	<u>211,271</u>	<u>232,463</u>	<u>208,720</u>	<u>194,938</u>	<u>205,302</u>	<u>245,224</u>
Expenditures										
Administration ¹	9,961	10,806	11,501	13,192	14,721	15,799	16,527	13,954	14,393	15,954
Public Works	12,439	12,276	13,112	14,485	15,426	14,764	14,793	14,692	13,542	17,704
Planning and Community Environment ³	14,761	8,628	9,722	10,568	10,332	10,911	-	-	-	-
Development Services ^{2,3}	-	11,152	10,643	10,908	11,749	11,549	-	-	-	-
Planning and Development Services ²	-	-	-	-	-	-	20,170	17,115	17,618	20,492
Office of Transportation ⁴	-	-	-	-	-	-	4,175	3,373	2,700	3,681
Public Safety (Police and Fire)	62,028	61,447	63,784	71,164	73,916	76,344	82,173	76,282	81,594	91,066
Community Services	22,644	23,553	25,511	25,408	29,831	31,619	29,868	26,490	29,968	32,726
Library	7,340	7,980	7,960	8,953	9,120	9,288	9,988	8,528	8,591	9,227
Non-departmental	8,135	6,180	8,068	6,566	7,579	12,231	9,498	4,854	3,806	628
Capital Outlay	37,035	41,754	24,457	39,643	40,971	46,914	66,362	48,114	72,082	68,974
Debt service - principal payments	1,524	1,948	7,130	2,066	2,961	2,101	2,280	2,595	4,712	6,263
Debt service - interest and fiscal fees	3,196	3,404	4,266	3,032	2,956	3,398	5,025	6,147	10,726	6,891
Payment to bond refunding escrow	-	-	-	-	-	-	-	-	1,640	-
Total Expenditures	<u>179,063</u>	<u>189,128</u>	<u>186,154</u>	<u>205,985</u>	<u>219,562</u>	<u>234,918</u>	<u>260,859</u>	<u>222,144</u>	<u>261,372</u>	<u>273,606</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(14,373)</u>	<u>(4,667)</u>	<u>5,713</u>	<u>(24,571)</u>	<u>(8,291)</u>	<u>(2,455)</u>	<u>(52,139)</u>	<u>(27,206)</u>	<u>(56,070)</u>	<u>(28,382)</u>
Other Financing Sources (Uses)										
Issuance of Debt	-	-	-	-	8,970	42,297	-	101,505	36,545	-
Original debt premium	-	-	-	-	-	-	-	6,524	4,780	-
Proceeds from sale of capital assets	-	-	-	-	-	2,442	-	100	-	-
Lease and SBITA financing	-	-	-	-	-	-	-	-	-	8,344
Transfers in	41,683	45,137	61,835	58,331	56,882	54,711	58,397	43,558	46,566	67,752
Transfers out	(24,175)	(29,824)	(46,492)	(44,770)	(41,085)	(43,147)	(44,552)	(25,564)	(28,999)	(53,711)
Payments to refund bond escrow	-	-	-	-	-	-	-	-	(41,325)	-
Total Other Financing Sources (Uses)	<u>17,508</u>	<u>15,313</u>	<u>15,343</u>	<u>13,561</u>	<u>24,767</u>	<u>56,303</u>	<u>13,845</u>	<u>126,123</u>	<u>17,567</u>	<u>22,385</u>
Net Change in Fund Balances	<u>\$ 3,135</u>	<u>\$ 10,646</u>	<u>\$ 21,056</u>	<u>\$ (11,010)</u>	<u>\$ 16,476</u>	<u>\$ 53,848</u>	<u>\$ (38,294)</u>	<u>\$ 98,917</u>	<u>\$ (38,503)</u>	<u>\$ (5,997)</u>
Debt Service as a Percentage of Non-Capital Expenditures	3.3%	3.7%	7.1%	3.1%	3.3%	2.8%	3.6%	4.6%	7.6%	5.9%

Notes: ¹ Comprised of the following departments: City Council, City Manager, City Attorney, City Clerk, City Auditor, Administrative Services, and Human Resources.
² The Development Services Department was formed in FY15.
³ In FY20, the Development Services Department was combined with the Planning and Community Environment Department to form the Planning and Development Services Department.
⁴ In FY20, the City established the Office of Transportation.
⁵ Represents contributions from the Stanford University Medical Center in FY18.
⁶ In FY23, previous category "From other agencies" changed to "Intergovernmental"; previous category "Permits and licenses" changed to "Licenses, permits and fees."

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)

Fiscal Year	Residential	Commercial & Industrial	City of Palo Alto	Total
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
2022	25,446	101,284	4,543	131,273
2023	32,360	126,435	5,761	164,556

* 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 Revenue¹

Customer (alphabetical order)	Type of Business
3000 Hanover LLC	Property Management
City of Palo Alto	Municipal
Communications & Power Industries (CPI)	Research
M10 Dev LLC	Developer
Space Systems Loral	Satellite & Satellite Systems
Stanford Hospital & Clinic	Hospital
Tesla Inc.	Manufacturing
Varian Medical Systems	Manufacturing
Veterans Administration Hospital	Hospital
VMware Inc.	Computer

¹ The top ten customer's accounted for approximately 39.77% of total kWh consumption (344,882,784 kWh) and 35.8% of revenue (\$62,769,896). The largest top ten customer accounted for 13.45 % of total kWh consumption and 11.63 % of revenue. The smallest top ten customer accounted for 2.04 % of kWh consumption and 2.06 % of revenue.

	Maximum Installations Billed ¹	Kilowatt-hour Sales (kWh)	Revenue
Residential	26,220	160,320,266	\$ 32,360
Commercial	3,582	523,095,344	105,575
Industrial	58	112,006,001	20,860
City of Palo Alto	142	28,298,997	5,760
Total	30,002	823,720,608	\$ 164,555

¹Values provided are in terms of the maximum number of meters (installations) billed in any given month by customer sectors within the fiscal year. 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, 2023

Source	Capacity Available (MW)	Actual Energy (GWh)	Percent of Total Energy
Purchased Power:			
Solar	152	347	41%
Wind	20	36	4%
Landfill Gas	14	102	12%
Hydro (NCPA)	58	202	24%
Hydro (Western)	132	177	21%
Net Forward Market Sales/Purchases	13	14	2%
Net Spot Market Sales/Purchases	-	(26)	-4%
Total	N/A ¹	852	100%

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

In the fiscal year ended June 30, 2023, Palo Alto's average cost of power delivered to the Palo Alto electric system was approximately \$0.115 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, 2023

Top Ten Largest Water Utility Customers (alphabetical order)

City of Palo Alto
Palo Alto Hills Golf & Country Club
OCA Holdings LLC
Palo Alto Unified School District
Simon Property Group
Stanford Hospital & Clinic
Stanford West Management
Veterans Administration Hospital
VI at Palo Alto
VMware Inc.

The top ten customer's total consumption is 721,050 CCF with revenue of \$7,549,542. This amount accounts for approximately 18.63 % of total consumption and 17% of the total revenue. The largest top ten customer (other than The City of Palo Alto) accounted for 4.64 % of consumption and 4.51% of revenue. The smallest customer accounted for 0.55% of consumption and 0.47% 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, 2023

Top Ten Largest Gas Utility Customers (alphabetical order)

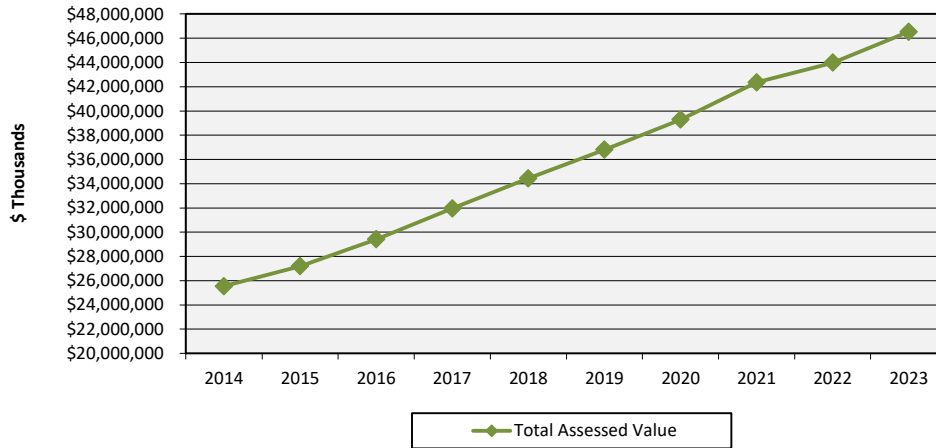
City of Palo Alto
Genencor International
Hewlett Packard
Lockheed Martin Space Systems
Palo Alto Unified School District
Space Systems/Loral, LLC
Stanford Hospital & Clinics
Stanford University
Veterans Administration Hospital
VMware, Inc.

The top ten customer's total consumption is 7015770.743 THM with revenue of \$ 16,433,270. This amount accounts for approximately 24.53 % of total consumption and 21.08% of the total revenue. The largest customer accounted for 7.62 % of consumption and 6.28% of revenue. The smallest of the top 10 customers accounted for 0.77% of consumption and 0.68% 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)

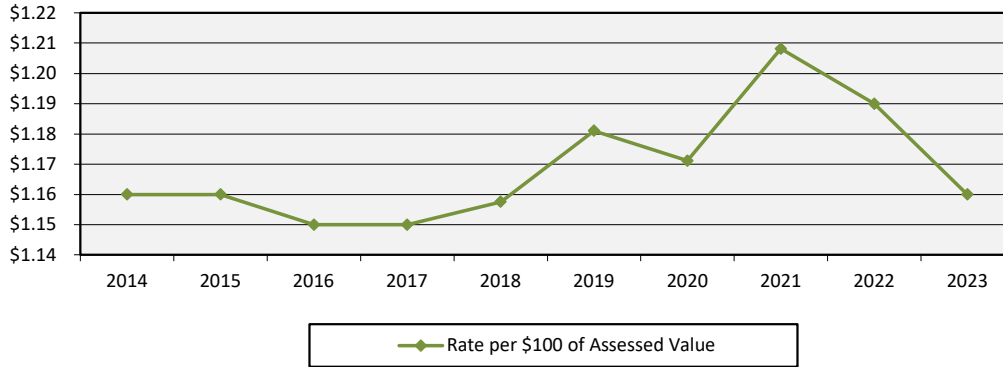


	Fiscal Year Ended June 30									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Net Local Secured Roll										
Land	\$ 13,357,851	\$ 14,409,837	\$ 15,718,665	\$ 17,333,969	\$ 18,770,642	\$ 20,386,904	\$ 22,186,582	\$ 24,028,178	\$ 25,332,564	\$ 27,448,389
Improvements	12,984,735	13,633,986	14,998,502	16,752,295	18,642,970	19,845,666	21,183,768	22,706,856	23,600,092	24,531,946
Personal property	307,499	290,590	310,929	306,576	300,352	181,381	194,646	198,396	153,837	134,129
	<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>	<u>49,086,493</u>	<u>52,114,464</u>
Less:										
Exemptions net of state aid	<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>	<u>(7,342,627)</u>	<u>(7,687,087)</u>
Total Net Local Secured Roll	<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>	<u>41,743,866</u>	<u>44,427,377</u>
Public utilities	2,573	2,573	2,573	2,573	2,573	7,004	7,004	7,004	7,004	7,004
Unsecured property	<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>	<u>2,232,482</u>	<u>2,088,552</u>
Total Assessed Value	<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>	<u>\$ 43,983,352</u>	<u>\$ 46,522,933</u>
Total Direct Tax Rate	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 ¹	County Affordable Housing Bond (Measure A) ²	Total Direct and Overlapping Rates
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
2022	1.00	0.0388	0.0061	0.0092	0.0051	0.0789	0.0331	0.0015	0.0126	1.19
2023	1.00	0.0388	0.0063	0.0082	0.0044	0.0563	0.0291	0.0013	0.0108	1.16

Notes: ¹The 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.

²The 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 ¹	Collected within the Fiscal Year of the Levy			Total Collections to Date		
		Amount	Percentage of Levy	Collections in Subsequent Years ²	Amount	Percentage of Levy	
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%	
2022	59,353	59,353	100%	-	59,353	100%	
2023	63,129	63,129	100%	-	63,129	100%	

Notes: ¹During 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.

²Effective 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 Balance.

CITY OF PALO ALTO
Principal Property Taxpayers
Current Year and Nine Years Ago
(Amounts in thousands)

Taxpayer	Fiscal Year 2023			Fiscal Year 2014		
	Taxable Assessed	Rank	Total Taxable Assessed	Taxable Assessed	Rank	Total Taxable Assessed
	Value		Value	Value		Value
Leland Stanford Jr. University	\$ 6,793,280	1	14.6%	\$ 3,645,323	1	14.3%
Google Inc.	328,707	2	0.7%	n/a	n/a	n/a
ARE-San Francisco 80 LLC	299,895	3	0.6%	n/a	n/a	n/a
ARE-San Francisco 69 LLC	146,252	4	0.3%	n/a	n/a	n/a
395 Page Mill LLC	126,845	5	0.3%	n/a	n/a	n/a
SVF Sherman Palo Alto Corporation	122,910	7	0.3%	n/a	n/a	n/a
KRE El Camino Real Owner LLC	105,672	8	0.2%	n/a	n/a	n/a
PA Hotel Holdings LLC	91,866	9	0.2%	n/a	n/a	n/a
Palo Alto Tech Center LLC	90,141	10	0.2%	n/a	n/a	n/a
Space Systems/Loral, Inc.	n/a	n/a	n/a	250,324	2	1.0%
Arden Realty Limited Partnership	n/a	n/a	n/a	114,722	3	0.4%
Whisman Ventures, LLC	n/a	n/a	n/a	107,168	4	0.4%
SRP Valley LLC	n/a	n/a	n/a	60,872	5	0.2%
Ronald & Ann Williams Charitable Foundation	n/a	n/a	n/a	59,980	6	0.2%
PPC Forest Towers LLC	n/a	n/a	n/a	54,272	7	0.2%
Blackhawk Parent, LLC	n/a	n/a	n/a	51,200	8	0.2%
529 Bryant St. LLC	n/a	n/a	n/a	43,488	9	0.2%
Park Village Peninsula LLC	125,510	6	0.3%	38,283	10	0.1%
Total	\$ 8,231,078		17.7%	\$ 4,425,632		18.9%

Total City Taxable Assessed Value:

FY 2023	\$ 46,522,933
FY 2014	\$ 25,536,059

Source: California Municipal Statistics, Inc.

CITY OF PALO ALTO
Assessed Valuation and Parcels by Land Use
As of June 30, 2023

	2022-2023				No. of	
	Assessed	% of	No. of	% of	Taxable	% of
	Valuation¹	Total	Parcels	Total	Parcels	Total
Non-Residential:						
Agricultural/forest	\$ 38,594,792	0.09 %	49	0.23 %	31	0.15 %
Commercial	2,553,989,147	5.75	461	2.19	455	2.21
Professional/office	6,524,990,831	14.69	565	2.69	532	2.58
Industrial/research & development	2,456,963,128	5.53	230	1.09	226	1.10
Recreational	49,455,466	0.11	14	0.07	12	0.06
Government/social/institutional	41,026,358	0.09	120	0.57	56	0.27
Miscellaneous	8,690,131	0.02	19	0.09	18	0.09
Subtotal Non-Residential	\$ 11,673,709,853	26.28	1,458	6.93	1,330	6.46
Residential:						
Single family residence	26,963,612,824	60.69	15,220	72.38	15,148	73.59
Condominium/townhouse	2,992,432,879	6.74	3,156	15.01	3,156	15.33
Mobile Home	501,823	0.00	11	0.05	11	0.05
2-4 Residential units	648,825,766	1.46	491	2.33	481	2.34
5+ Residential units	1,926,373,551	4.34	360	1.71	335	1.63
Subtotal Residential	32,531,746,843	73.22	19,238	91.48	19,131	92.95
Vacant Parcels	221,919,866	0.50	333	1.58	122	0.59
Total	\$ 44,427,376,562	100 %	21,029	100 %	20,583	100 %

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.

¹Local 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, 2023

	No. of Taxable Parcels ¹	2022-2023 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	15,148	\$26,963,612,824	\$1,780,011	\$1,270,447

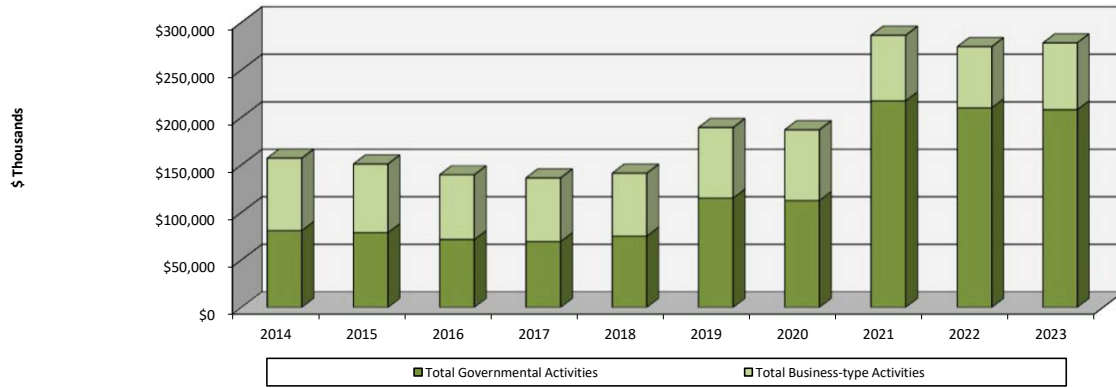
2022-2023 Assessed Valuation	No. of Taxable Parcels ¹	% of Total Parcels	Cumulative % of Total Parcels	Total Valuation	% of Total Valuation	Cumulative % of Total Valuation
\$0-199,999	2,062	13.61 %	13.61 %	\$ 253,096,456	0.94 %	0.94 %
\$200,000-399,999	1,269	8.38	21.99	374,517,298	1.39	2.33
\$400,000-599,999	1,037	6.85	28.84	520,775,903	1.93	4.26
\$600,000-799,999	1,081	7.14	35.97	753,503,864	2.79	7.05
\$800,000-999,999	891	5.88	41.85	803,848,838	2.98	10.03
\$1,000,000-1,199,999	937	6.19	48.04	1,027,343,710	3.81	13.84
\$1,200,000-1,399,999	775	5.12	53.16	1,002,856,605	3.72	17.56
\$1,400,000-1,599,999	716	4.73	57.88	1,072,171,372	3.98	21.54
\$1,600,000-1,799,999	697	4.60	62.48	1,183,565,362	4.39	25.93
\$1,800,000-1,999,999	574	3.79	66.27	1,087,866,942	4.03	29.96
\$2,000,000-2,199,999	522	3.45	69.72	1,093,245,444	4.05	34.02
\$2,200,000-2,399,999	434	2.87	72.58	995,345,043	3.69	37.71
\$2,400,000-2,599,999	492	3.25	75.83	1,230,138,418	4.56	42.27
\$2,600,000-2,799,999	472	3.12	78.95	1,276,718,600	4.73	47.01
\$2,800,000-2,999,999	415	2.74	81.69	1,202,238,968	4.46	51.47
\$3,000,000-3,199,999	388	2.56	84.25	1,200,979,835	4.45	55.92
\$3,200,000-3,399,999	314	2.07	86.32	1,035,923,939	3.84	59.76
\$3,400,000-3,599,999	279	1.84	88.16	973,541,255	3.61	63.37
\$3,600,000-3,799,999	235	1.55	89.71	866,909,269	3.22	66.59
\$3,800,000-3,999,999	205	1.35	91.07	800,055,181	2.97	69.56
\$4,000,000 and greater	1,353	8.93	100.00	8,208,970,522	30.44	100.00
Total	<u>15,148</u>	<u>100.00</u> %		<u>\$ 26,963,612,824</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.

¹Improved 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

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Governmental Activities										
Certificates of Participation	\$ 1,430	\$ 1,285	\$ 1,135	\$ 975	\$ 8,970	\$ 46,305	\$ 45,750	\$ 146,440	\$ 145,605	\$ 144,745
General Obligation Bonds	73,215	71,795	65,210	63,710	62,140	60,500	58,775	56,995	48,715	48,230
2011 Lease-Purchase Agreement	2,026	1,643	1,248	842	426	-	-	-	-	-
Add: unamortized premium	4,242	4,084	3,926	3,768	3,610	8,331	7,980	14,099	15,925	15,216
Total Governmental Activities	80,913	78,807	71,519	69,295	75,146	115,136	112,505	217,534	210,245	208,191
Business-type Activities										
Utility Revenue Bonds	60,224	57,224	54,095	50,825	47,400	43,815	40,060	36,130	32,015	27,715
Energy Tax Credits	800	700	600	500	400	300	200	100	-	-
State Water Resources Loan	14,309	13,500	12,681	15,034	17,711	29,589	33,808	32,288	31,949	42,338
Add: unamortized premium (discount), net	867	803	737	673	608	544	468	392	315	234
Total Business-type Activities	76,200	72,227	68,113	67,032	66,119	74,248	74,536	68,910	64,279	70,287
Total Primary Government Outstanding Debt	\$ 157,113	\$ 151,034	\$ 139,632	\$ 136,327	\$ 141,265	\$ 189,384	\$ 187,041	\$ 286,444	\$ 274,524	\$ 278,478
Percentage of Personal Income ¹	3.24%	2.94%	2.42%	2.21%	2.10%	2.57%	2.41%	3.25%	3.12%	2.79%
Population	66,861	66,029	66,968	66,478	66,649	67,082	67,019	66,573	67,973	68,624
Debt Per Capita	\$ 2.35	\$ 2.29	\$ 2.09	\$ 2.05	\$ 2.12	\$ 2.82	\$ 2.79	\$ 4.30	\$ 4.04	\$ 4.06

Notes: ¹See 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)
 Official City Data Set (population)
 California Department of Transportation Long-Term Socio-Economic Forecasts (personal income)
 Annual Financial Statements and Note 8 Long-Term Debt

CITY OF PALO ALTO
Computation of Direct and Overlapping Debt
As of June 30, 2023

2022-2023 Assessed Value

\$ 46,522,932,971

	Total Debt	Percentage	Amount
	Outstanding	Applicable	Applicable
<u>Direct and Overlapping Tax and Assessment Debt</u>	to City of	to City of	to City of
	Palo Alto¹	Palo Alto	Palo Alto
Santa Clara County	\$ 1,041,125,000	7.52%	\$ 78,240,544
Foothill-DeAnza Community College District	603,653,754	21.32%	128,674,834
Palo Alto Unified School District	447,128,668	90.21%	403,341,358
Fremont Union High School District	771,685,088	0.01%	61,735
Los Gatos-Saratoga Joint Union High School District	81,235,000	0.01%	9,748
Mountain View-Los Altos Union High School District	250,148,487	0.79%	1,973,672
Cupertino Union School District	258,383,303	0.01%	38,757
Los Altos School District	134,380,000	1.08%	1,452,648
Mountain View-Whisman School District	361,720,000	0.55%	1,989,460
Saratoga Union School District	15,206,197	0.03%	4,106
Whisman School District	4,377,383	1.36%	59,357
City of Palo Alto	48,230,000	100%	48,230,000
El Camino Hospital District	105,480,000	0.07%	70,672
Midpeninsula Regional Open Space District	82,680,000	12.21%	10,096,055
City of Palo Alto Special Assessment Bonds	14,650,000	100%	14,650,000
Santa Clara Valley Water District Benefit Assessment District	38,900,000	7.52%	2,923,335
Total Direct and Overlapping Tax and Assessment Debt			<u>691,816,281</u>
<u>Direct and Overlapping General Fund Debt</u>			
Santa Clara County General Fund Obligations	1,120,404,570	7.51%	84,198,403
Santa Clara County Pension Obligations	329,741,844	7.52%	24,780,100
Santa Clara County Board of Education Certificates of Participation	935,000	7.51%	70,265
Foothill-DeAnza Community College District Certificates of Participation	20,645,000	21.32%	4,400,688
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	149,000	0.01%	18
Mountain View-Los Altos Union High School District Certificates of Participation	1,810,475	0.79%	14,285
Saratoga Union High School District Certificates of Participation	1,905,000	0.03%	514
Los Altos School District Certificates of Participation	1,457,488	1.08%	15,755
City of Palo Alto General Fund Obligations	144,745,000	100%	144,745,000
Santa Clara County Vector Control District Certificates of Participation	1,230,000	7.52%	92,435
Midpeninsula Regional Open Space Park District General Fund Obligations	91,570,600	12.21%	11,181,686
Total Gross Direct and Overlapping General Fund Debt			<u>\$ 269,499,149</u>
Less: Santa Clara County supported obligations			<u>790,594</u>
Total Net Direct and Overlapping General Fund Debt			<u>\$ 268,708,555</u>
Total Combined Debt			<u>\$ 960,524,836</u>
	Ratio to		
	Assessed Value		
Total Direct Debt	0.45%		\$ 208,191,000 ³
Total Overlapping Debt	1.65%		<u>767,549,836</u>
Total Direct and Overlapping Debt	2.10%		<u>\$ 975,740,836</u> ²

Notes: ¹The 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.

²Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

³Includes unamortized premium of \$15,925,000.

Source: California Municipal Statistics, Inc.

CITY OF PALO ALTO
Computation of Legal Bonded Debt Margin
As of June 30, 2023
(Amounts in thousands)

Assessed Valuation:		
Secured property assessed value, net of exempt real property	\$	46,522,933
Bonded Debt Limit (3.75% of Assessed Value) ¹		1,744,610
Direct Debt:		
Certificates of Participation	144,745	
General Obligation bonds	48,230	
Total Direct Debt³	192,975	
Less: Amount of Debt Not Subject to Limit ²	144,745	
Total Net Debt Applicable to Limit		48,230
Legal Bonded Debt Margin	\$	1,696,380

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
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
2022	43,983,352	1,649,376	48,715	1,600,661	67,973	2.95%	0.0011	0.72
2023	46,522,933	1,744,610	48,230	1,696,380	68,624	2.76%	0.0010	0.70

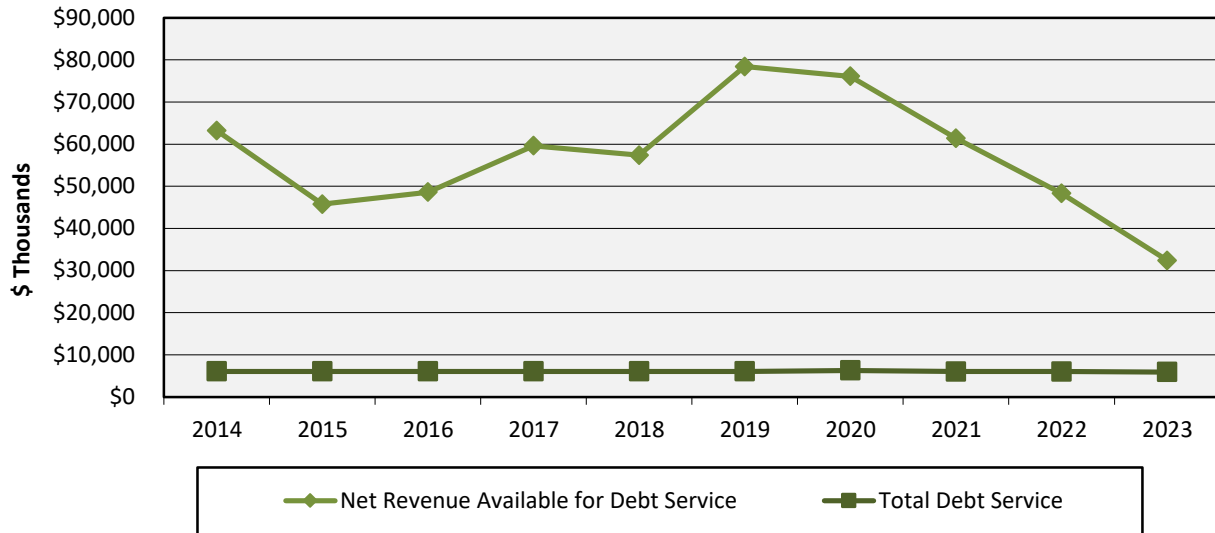
Notes: ¹California Government Code, Section 43605 sets the debt limit at 15% of the assessed value of all real and personal property of the City. Because this Code section was enacted when assessed value was 25% of market value, the limit is calculated at one-fourth, or 3.75%. This legal debt margin applies to General Obligation debt. Prior year limits have been adjusted to conform to the current year methodology.

²In 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.

³Total direct debt excludes any premiums, discounts or other amortization amounts.

Source: Annual Financial Statements, Assessed Value of Taxable Property and Note 8 Long-Term Debt

CITY OF PALO ALTO
Revenue Bond Coverage
Business-type Activities¹
Last Ten Fiscal Years
(Amounts in thousands)



Fiscal Year	Gross Revenue	Less: Direct Operating Expenses ²	Net Revenue Available for Debt Service	Debt Service			Coverage Ratio
				Principal	Interest ³	Total	
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
2022	316,150	267,866	48,284	4,215	1,801	6,016	8.03
2023	180,856	148,461	32,395	4,300	1,621	5,921	5.47

Notes: ¹Airport, Refuse and Fiber Optics funds have no debt and are therefore excluded from this schedule. Starting fiscal year 2023, Electric fund also has no debt and are therefore excluded.

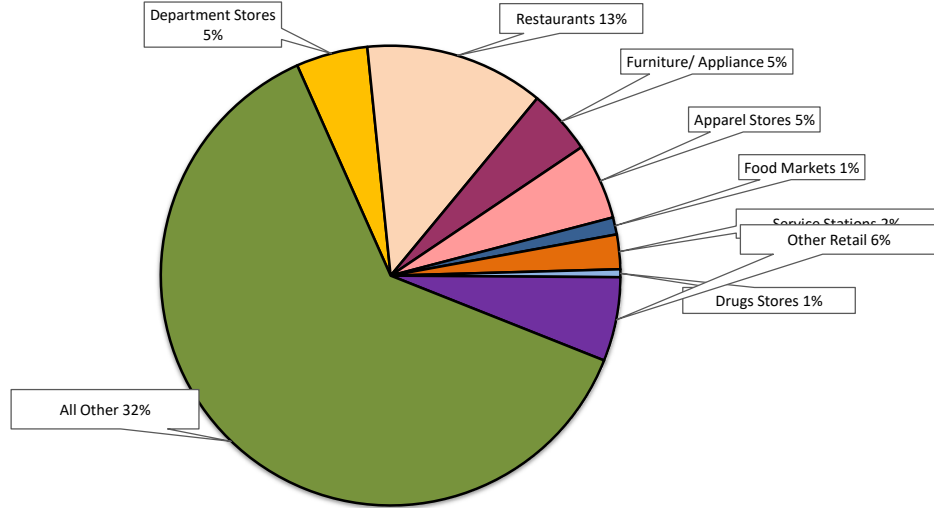
²Excludes depreciation and amortization expense.

³Excludes 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 2023



■ Department Stores
 ■ Restaurants
 ■ Furniture/ Appliance
 ■ Apparel Stores
 ■ Food Markets
 ■ Service Stations
 ■ Drug Stores
 ■ Other Retail
 ■ All Other

ECONOMIC SEGMENT

Fiscal Year	Department Stores	Restaurants	Furniture/ Appliance	Apparel Stores	Food Markets	Service Stations	Drug Stores	Other Retail	All Other	Total
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 ¹	1,260	3,488	1,421	1,391	417	572	1,413	1,597	18,313	29,872
2021 ¹	1,125	2,410	980	1,283	332	489	700	2,062	18,744	28,125
2022	1,700	3,805	1,383	1,833	393	811	309	2,354	18,948	31,536
2023	1,809	4,516	1,638	1,914	430	870	202	2,113	22,298	35,790

Source: Avenu Insights & Analytics

Sales Tax Rates for the Fiscal Year Ended June 30, 2023

State Rate: 7.25%

Special District Tax Rates:

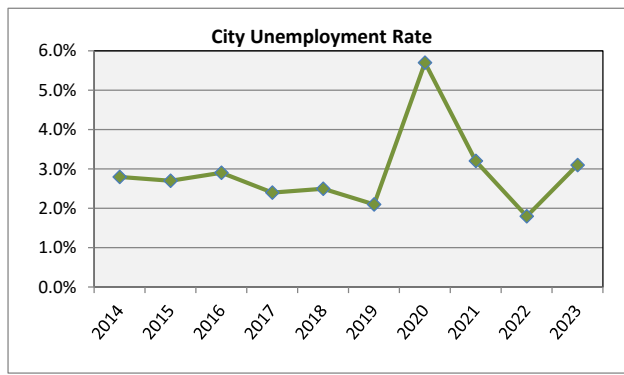
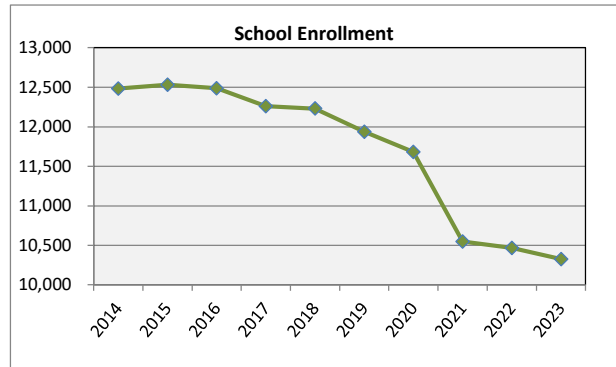
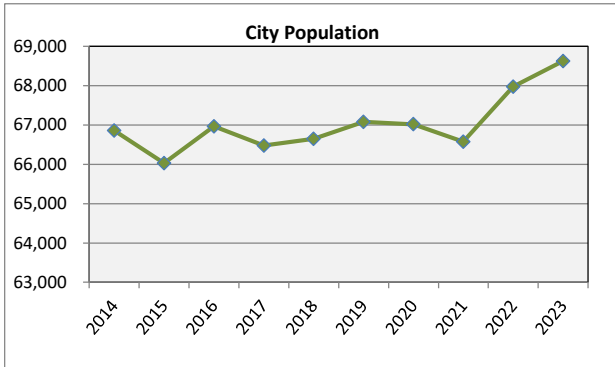
Santa Clara County Transit District (SCCT) 0.50%
 Santa Clara County Valley Transportation Authority (SCVT) 0.50%
 Santa Clara VTA BART Operating and Maintenance Transactions and Use Tax (SVTB) 0.125%
 Santa Clara County Retail Transactions and Use Tax (SCCR) 0.125%
 Silicon Valley Transportation Solutions Tax (SVTS) 0.50%
 2020 Peninsula Corridor Joint Powers Board Retail Transactions and Use Tax (JPBC) 0.125%

Total Sales and Use Tax Rate: 9.125%

Notes: ¹Decrease due to the adverse impact of coronavirus COVID-19 since March 2020.

Source: California Department of Tax and Fee Administration

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
2014	66,861	2.8%	12,483	1,840,218	3.63%	\$ 135,200,000	\$ 73,470
2015	66,029	2.7%	12,532	1,866,208	3.54%	147,300,000	78,930
2016	66,968	2.9%	12,488	1,914,457	3.50%	165,000,000 *	86,186 *
2017	66,478	2.4%	12,261	1,925,914	3.45%	179,000,000 *	92,943 *
2018	66,649	2.5%	12,230	1,932,947	3.45%	195,000,000 *	100,882 *
2019	67,082	2.1%	11,938	1,937,985	3.46%	213,000,000 *	109,908 *
2020	67,019	5.7%	11,683	1,936,521	3.46%	224,000,000 *	115,671 *
2021	66,573	3.2%	10,549	1,933,516	3.44%	236,000,000 *	122,057 *
2022	67,973	1.8%	10,466	1,913,113	3.55%	248,000,000 *	129,632 *
2023	68,624	3.1%	10,325	1,903,058	3.61%	277,000,000	145,555

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

Employer	FY 2023 ¹			FY 2014		
	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Hewlett-Packard Company ³	14,673	1	12.8%	2,500	8	2.0%
SAP Labs Inc. ³	14,164	2	12.4%	3,500	5	2.8%
VMware Inc. ³	10,720	3	9.3%	3,509	4	2.8%
Stanford Health Care ²	5,500	4	4.8%	5,886	2	4.7%
Stanford University ²	4,060	5	3.5%	11,128	1	8.9%
Veteran's Affairs Palo Alto Health Care System ³	4,400	6	3.8%	3,000	6	2.4%
Varian Medical Systems ³	3,490	7	3.0%	n/a	n/a	n/a
Cooley ³	2,324	8	2.0%	n/a	n/a	n/a
Palantir ³	2,026	9	1.8%	n/a	n/a	n/a
Wilson Sonsini Goodrich & Rosati ³	1,701	10	1.5%	n/a	n/a	n/a
Stanford Children's Health/Lucile Packard Children's Hospital	n/a	n/a	n/a	4,215	3	3.4%
Space Systems/Loral	n/a	n/a	n/a	2,720	7	2.2%
Colubris Networks Inc.	n/a	n/a	n/a	2,201	9	1.8%
Palo Alto Medical Foundation	n/a	n/a	n/a	2,200	10	1.8%
Total	63,058		55.0%	40,859		32.7%

Estimated Total City Day Population:

FY 2023	114,685
FY 2014	125,000

Notes: ¹Available data sources are limited and may be unreliable. The City does not affirm the validity of this data. Figures may include employees not located within City limits.
²FY23 data not available. Prior years data was used.
³Data from AtoZdatabases varies widely from year to year.

Source: 2022 Official City Data Set (City Day Population); AtoZdatabases; Stanford Comprehensive Plan Economic Impact Report, Stanford University Land Use Planning.

CITY OF PALO ALTO
Operating Indicators by Function/Program
Last Ten Fiscal Years¹

FUNCTIONS/PROGRAMS	Fiscal Year Ended June 30			
	2013	2014	2015	2016
<u>Governmental activities</u>				
Community Services				
Number of theater performances	184	108	172	161
Total hours of athletic field usage ²	-	-	47,504	65,723
Number of rounds of golf	60,153	46,527	42,048	42,573
Enrollment in recreation classes (includes summer camps)	11,598	11,997	12,586	12,974
Planning and Community Environment				
Planning applications completed	307	310	335	383
Building permits issued	3,682	3,624	3,844	3,492
Caltrain average weekday boarding ³	6,763	7,564	8,294	9,622
Police				
Calls for service	54,628	58,559	59,795	53,870
Total arrests	2,274	2,589	3,273	2,988
Parking citations issued	43,877	36,551	41,412	37,624
Animal Services				
Number of service calls	2,909	2,398	2,013	2,421
Number of animals handled	2,675	2,480	2,143	2,184
Fire				
Calls for service	7,904	7,829	8,548	8,882
Number of fire incidents	150	150	135	150
Number of fire inspections ⁴	2,069	1,741	1,964	2,806
Library				
Total number of cardholders	51,007	46,950	51,792	57,307
Total number of items in collection	277,749	361,103	429,460	461,292
Total checkouts	1,512,975	1,364,872	1,499,406	1,400,926
Public Works				
Street resurfacing (lane miles)	36	36	31	39
Number of potholes repaired	2,726	3,418	2,487	3,435
Sq. ft. of sidewalk replaced or permanently repaired	82,118	74,051	120,776	115,293
Number of trees planted	245	148	305	387
Tons of materials recycled or composted	47,941	49,594	50,546	56,438
<u>Business-type activities</u>				
Electric				
Number of customer accounts	29,299	29,338	29,065	29,304
Residential MWH consumed	156,411	153,190	145,284	150,112
Gas				
Number of customer accounts	23,659	23,592	23,461	23,467
Residential therms consumed	10,834,793	10,253,776	8,537,754	9,535,377
Water				
Number of customer accounts	20,043	20,037	20,061	19,994
Residential water consumption (CCF)	2,521,930	2,496,549	2,052,176	1,696,383
Wastewater collection				
Number of customer accounts	22,152	22,105	21,990	22,016
Millions of gallons processed	7,546	7,186	6,512	6,387

Notes: ¹Ten most recent years available.

²According to the department, this measure was not accurately tracked during FY13, FY14, FY20 and FY22 and thus are not presented.

³Beginning 2015, data source is Official City Data Set. In FY20 and FY21 the count was not provided due to COVID-19.

⁴The 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. In FY22, only State Mandated Inspections number reported, other types unavailable.

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

2017	2018	2019	2020	2021	2022
171	160	175	191	63	186
71,431	65,443	67,608	-	45,705	-
-	6,790	54,619	42,429	63,352	64,157
11,649	10,652	13,553	12,997	6,919	12,889
365	376	327	262	246	233
2,970	3,105	2,918	2,476	2,883	2,977
9,994	9,977	10,400	-	-	-
53,901	55,480	54,479	48,394	39,703	39,138
2,745	2,678	2,388	1,568	1,388	1,354
33,661	37,441	33,496	20,261	2,423	16,279
1,674	1,737	2,550	3,081	2,322	2,945
2,211	2,077	2,125	2,361	1,746	2,114
9,153	8,981	8,843	8,102	7,209	8,334
155	189	133	140	144	117
5,476	9,581	10,984	9,602	7,347	395
54,676	56,159	68,034	66,530	55,672	54,334
427,548	472,895	485,157	514,162	522,760	538,416
1,524,614	1,538,118	1,470,551	1,194,673	842,787	1,214,928
39	31	10	7	20	6
3,449	2,835	2,929	1,761	1,108	2,105
17,275	38,557	66,662	48,847	11,218	24,650
319	411	403	346	146	131
60,582	57,744	55,900	51,852	46,168	49,467
29,616	29,475	29,616	29,849	29,825	29,895
148,986	149,526	146,036	153,976	164,629	154,220
23,637	23,395	23,664	23,770	23,794	23,798
10,233,669	10,261,276	9,794,177	10,382,762	10,657,987	9,832,943
20,213	20,000	20,012	20,608	20,650	20,658
1,856,879	2,120,588	2,058,663	2,241,461	2,429,941	2,149,913
22,216	21,979	22,216	22,410	22,393	22,414
7,176	6,464	6,958	6,294	5,529	5,621

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

FUNCTION/PROGRAM	Fiscal Year Ended June 30				
	2014	2015	2016	2017	2018
Public Safety					
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
Community Services					
Acres - Downtown/Urban Parks ²	157	157	-	-	-
Acres - Open Space ²	3,744	3,752	-	-	-
Acres - Parks and Preserves ²	-	-	3,921	174	174
Acres - Open Space ²	-	-	4,489	4,030	4,030
Acres - Municipal Golf Course ²	-	-	-	181	181
Parks and Preserves ³	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
Libraries					
Libraries	5	5	5	5	5
Public Works:					
Number of Trees Maintained	31,757	31,652	31,699	31,712	31,849
Electric Utility¹					
Miles of Overhead Lines	223	223	222	223	222
Miles of Underground Lines	249	262	268	264	272
Water Utility					
Miles of Water Mains	236	236	235	236	236
Gas Utility					
Miles of Gas Mains	214	211	209	210	210
Waste Water					
Miles of Sanitary Sewer Lines	217	217	216	216	216

Note: ¹The 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.

²Beginning 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. In FY22 the number was rounded up from 174 to 175.

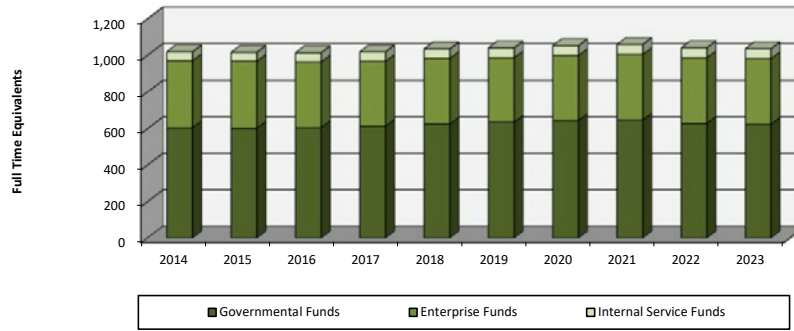
³Williams Park is excluded from the list as the City does not operate it as a park. Located near downtown and across from Heritage Park, the land is leased to a non-profit that operates it as the Museum of American Heritage.

Source: City of Palo Alto

Fiscal Year Ended June 30

2019	2020	2021	2022	2023
7	7	7	7	7
1	1	1	1	1
30	29	29	30	30
-	-	-		-
-	-	-		-
174	174	174	175	175
4,030	4,018	4,018	4,018	4,018
181	181	181	181	181
36	36	36	36	36
1	1	1	1	1
51	50	50	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
31,815	31,819	31,716	31,599	31,404
220	220	221	220	220
274	279	287	288	290
236	236	236	233	231
210	210	211	211	211
216	216	216	207	207

CITY OF PALO ALTO
Full-Time Equivalent City Government Employees by Function
Last Ten Fiscal Years



Full Time Equivalent Employees as of June 30

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
Governmental Funds											
General Fund:											
Administration		83	84	86	87	89	87	86	85	76	82
Community Services		74	76	77	78	79	78	76	75	67	70
Development Services ⁴		-	38	38	36	36	36	-	-	-	-
Fire		116	107	107	109	109	98	98	98	90	100
Library		42	44	48	48	48	48	47	47	41	47
Office of Emergency Services		3	3	3	3	3	3	3	3	2	2
Planning and Community Environment ⁴		49	28	31	32	30	30	-	-	-	-
Planning and Development Services ⁴		-	-	-	-	-	-	62	62	54	65
Office of Transportation ⁵		-	-	-	-	-	-	6	6	5	5
Police		155	155	155	155	155	155	149	149	124	133
Public Works ¹		56	53	54	56	55	51	49	51	49	49
Subtotal General Fund		578	588	599	604	604	586	576	576	508	553
All Other Funds:											
Capital Projects Fund		27	27	28	31	34	33	36	36	35	37
Special Revenue Fund		9	10	9	10	9	10	11	11	10	10
Total Governmental Funds		614	625	636	645	647	629	623	623	553	600
Enterprise Funds											
Public Works ²		99	100	95	99	101	101	101	101	101	104
Utilities ³		255	258	256	255	257	257	257	257	257	268
Total Enterprise Funds		354	357	351	354	358	358	358	358	358	372
Internal Service Funds											
Printing and Mailing		2	2	2	2	2	2	2	2	2	2
Technology		32	32	34	35	36	36	36	36	29	31
Vehicle Replacement		17	17	17	16	16	16	16	16	14	13
Total Internal Service Funds		51	52	53	53	54	54	54	54	45	46
Total		1,019	1,034	1,040	1,052	1,059	1,041	1,035	1,035	956	1,018

Notes: ¹Fleet and Facilities Management

²Refuse, Storm Drainage, Wastewater Treatment

³Electric, Fiber Optics, Gas, Wastewater Collection, Water Fund

⁴In 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.

⁵In 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 2023 Adopted Operating Budget

CITY OF PALO ALTO
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For the Year Ended June 30, 2023

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**Independent Auditor’s Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

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

We have audited, in accordance with the 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 (*Government Auditing Standards*), the 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, 2023, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated November 9, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 9, 2023

**Independent Auditor’s Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance**

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Palo Alto, California’s (City) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City’s major federal programs for the year ended June 30, 2023. The City’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Audit Standards* issued by the Comptroller General of the United States (*Government Audit Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulation Part 200, Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City’s federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion of the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identify during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 9, 2023

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CITY OF PALO ALTO
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2023

Grantor/Pass-Through Grantor/Federal Program Title	Grantor Identifying Number	Assistance Listing Number	Federal Expenditures	Subrecipients Expenditures
U.S. Department of Housing and Urban Development				
<i>Direct:</i>				
CDBG - Entitlement Grants Cluster:				
Community Development Block Grants/Entitlement Grants	--	14.218	\$ 223,053	\$ 155,781
COVID-19 - Community Development Block Grants/Entitlement Grants	--	14.218	21,659	-
<i>Subtotal - CDBG - Entitlement Grants Cluster</i>			<u>244,712</u>	<u>155,781</u>
Total U.S. Department of Housing and Urban Development			<u>244,712</u>	<u>155,781</u>
U.S. Department of Justice				
<i>Direct:</i>				
Bulletproof Vest Partnership Program	--	16.607	10,686	-
Total U.S. Department of Justice			<u>10,686</u>	<u>-</u>
U.S. Department of Transportation				
<i>Direct:</i>				
Airport Improvement Program	3-06-0182-014-2018	20.106	718,641	-
Airport Improvement Program	3-06-0182-015-2020	20.106	792,911	-
COVID-19 - Airport Improvement Program	3-06-0182-016-2020	20.106	69,000	-
COVID-19 - Airport Improvement Program	3-06-0182-017-2021	20.106	13,000	-
Airport Improvement Program	3-06-0182-018-2021	20.106	22,615	-
Airport Improvement Program	3-06-0182-019-2021	20.106	32,000	-
Airport Improvement Program	3-06-0182-020-2021	20.106	280,343	-
<i>Subtotal - Airport Improvement Program</i>			<u>1,928,510</u>	<u>-</u>
<i>Pass-through from State of California Department of Transportation:</i>				
Highway Planning and Construction Cluster:				
Highway Planning and Construction	75LX335-00180000017	20.205	61,555	-
Highway Planning and Construction	BRLS-5100(017)	20.205	344,560	-
<i>Pass-through from Santa Clara Valley Transportation Authority:</i>				
Highway Planning and Construction	SCL 170021	20.205	198,970	-
<i>Subtotal - Highway Planning and Construction Cluster</i>			<u>605,085</u>	<u>-</u>
Total U.S. Department of Transportation			<u>2,533,595</u>	<u>-</u>
U.S. Department of Treasury				
<i>Direct:</i>				
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	--	21.027	5,494,028	-
<i>Pass-through from California State Water Resources Control Board:</i>				
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	Not Available	21.027	140,275	-
<i>Subtotal - Coronavirus State and Local Fiscal Recovery Funds</i>			<u>5,634,303</u>	<u>-</u>
Total U.S. Department of Treasury			<u>5,634,303</u>	<u>-</u>
National Endowment for the Humanities				
<i>Direct:</i>				
Museums for America	MA-10-19-0583-19	45.301	33,193	-
Museums for America	MA-40-18-0555-18	45.301	29,695	-
<i>Subtotal - Museums for America</i>			<u>62,888</u>	<u>-</u>
<i>Pass-through from California State Library:</i>				
Grants to States	LS246140-OLS-20	45.310	5,997	-
Total National Endowment for the Humanities			<u>68,885</u>	<u>-</u>
U.S. Department of Health and Human Services				
<i>Direct:</i>				
Congressional Directives	--	93.493	97,089	-
Total U.S. Department of Health and Human Services			<u>97,089</u>	<u>-</u>
U.S. Department of Homeland Security				
<i>Direct:</i>				
Staffing for Adequate Fire and Emergency Response (SAFER)	EMW-2020-FF-01734	97.083	1,141,997	-
Total U.S. Department of Homeland Security			<u>1,141,997</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 9,731,267</u>	<u>\$ 155,781</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CITY OF PALO ALTO
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2023

NOTE 1 – REPORTING ENTITY

The Schedule of Expenditures of Federal Awards (the Schedule) includes expenditures of federal awards for the City of Palo Alto, California (City), and its component unit as disclosed in the notes to the basic financial statements. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

NOTE 2 – BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of measurement focus applied. The Schedule is presented using the modified accrual basis of accounting for program expenditures accounted for in governmental funds and the accrual basis of accounting for program expenditures accounted for in proprietary funds. Expenditures of federal awards reported in the Schedule are recognized when incurred and all eligibility requirements have been met. Such expenditures are recognized following the cost principles contained in 2 CFR 200, Subpart E (Cost Principles), wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City did not elect to use the 10% de minimis cost rate allowed under the Uniform Guidance.

As a result of the COVID-19 pandemic, many new federal programs have been established and funding has been added to existing federal programs. Expenditures funded from the following acts are denoted by the prefix COVID-19 in the federal program title in the Schedule (as applicable):

- Coronavirus Preparedness and Response Supplemental Appropriations Act
- Families First Coronavirus Response Act
- Coronavirus Aid, Relief, and Economic Security Act (CARES Act)
- Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA)
- American Rescue Plan Act (ARP)

NOTE 3 – DIRECT AND INDIRECT (PASS-THROUGH) FEDERAL AWARDS

Federal awards may be granted directly to the City by a federal granting agency or may be granted to other government agencies which pass-through federal awards to the City. The Schedule includes both of these types of federal award programs when related expenditures are incurred.

NOTE 4 – RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Expenditures of federal awards are reported in the City's basic financial statements as expenditures in the governmental funds or as expenses/capital assets in the proprietary funds. Federal award expenditures agree or can be reconciled with the amounts reported in the City's basic financial statements.

CITY OF PALO ALTO
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2023

Section I Summary of Auditor’s Results

Financial Statements:

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with U.S. GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None reported

Noncompliance material to the financial statements noted? No

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None reported

Type of auditor’s report issued on compliance for the major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of major federal programs:

<u>Assistance Listing Numbers</u>	<u>Name of Federal Program or Cluster</u>
21.027	Coronavirus State and Local Fiscal Recovery Funds
97.083	Staffing for Adequate Fire and Emergency Response (SAFER)

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as a low-risk auditee? Yes

Section II Financial Statement Findings

None reported.

Section III Federal Awards Findings

None reported.

CITY OF PALO ALTO
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2023

No prior audit findings were reported.



CITY OF
**PALO
ALTO**

IN COMPLIANCE WITH
AMERICANS WITH DISABILITIES ACT (ADA) OF 1990,
THIS DOCUMENT MAY BE PROVIDED
IN OTHER ACCESSIBLE FORMATS.

For information contact:

ADA Coordinator

City of Palo Alto

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(650) 329-2550

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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.

CITYOFPALOALTO.ORG

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