



# City of Palo Alto

Comprehensive

Annual

Financial

Report

for the

Fiscal Year Ended

*June 30, 1997*



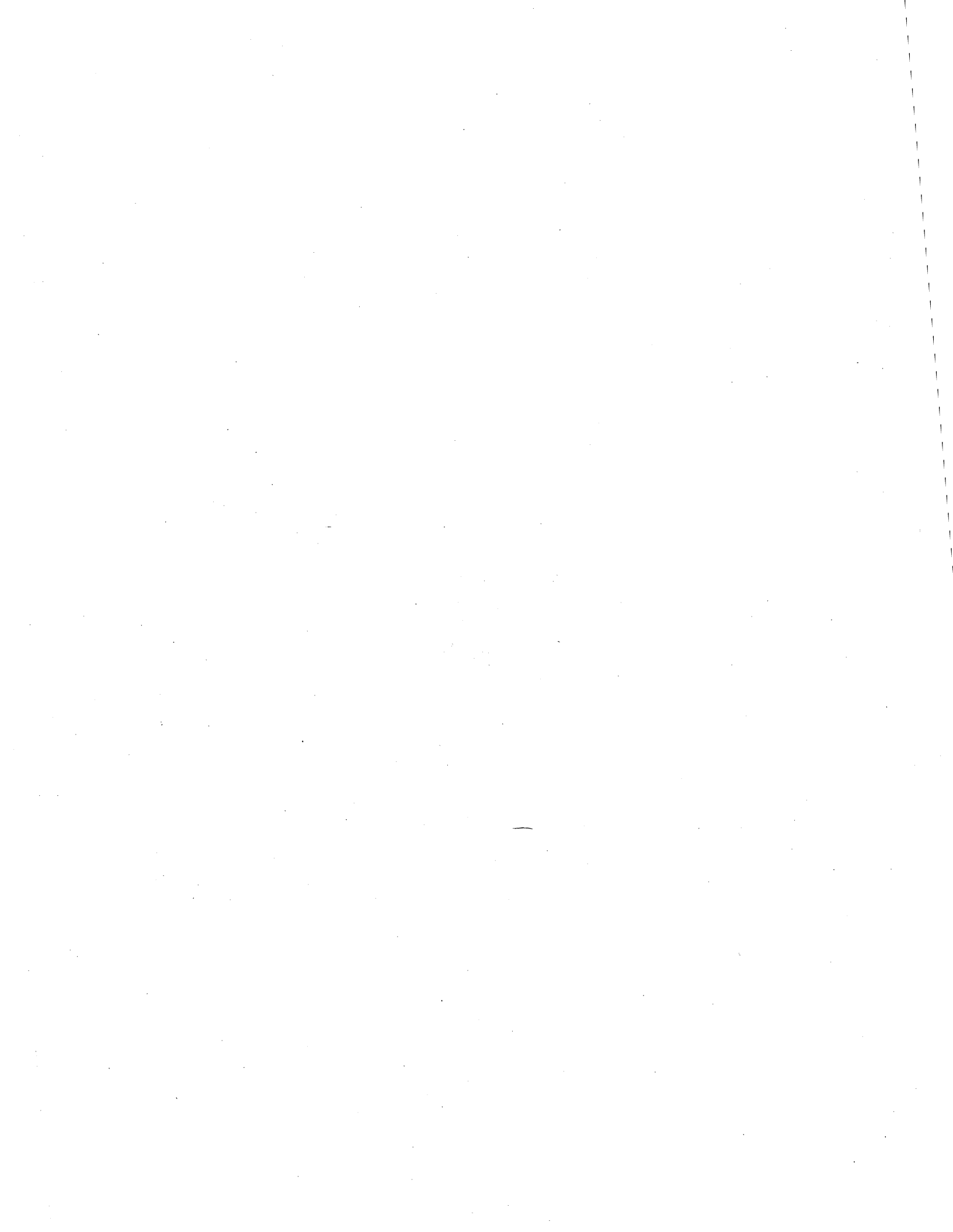
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**CITY OF PALO ALTO**

for the  
Fiscal Year Ended June 30, 1997



prepared by  
**ADMINISTRATIVE SERVICES DEPARTMENT**





## **AMERICANS WITH DISABILITIES ACT STATEMENT**

In compliance with the Americans with Disabilities Act of 1990, this document may be provided in other accessible formats. For information contact:

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Palo Alto, California 94301  
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650/328-1199 (TDD)



# CITY OF PALO ALTO, CALIFORNIA

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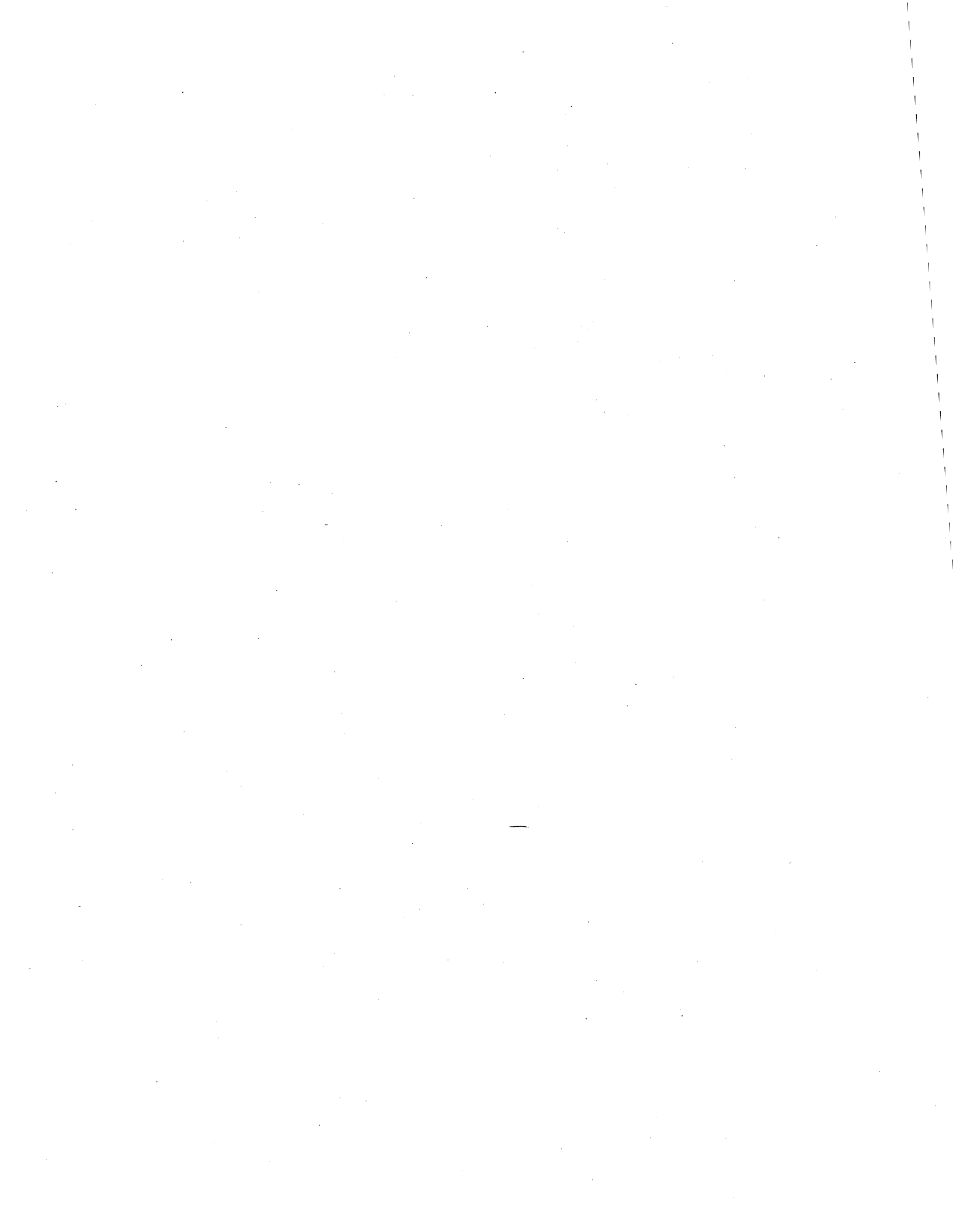
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CITY OF PALO ALTO

CITY OFFICIALS

June 30, 1997

City Council

Joseph H. Huber  
Mayor

Ron Andersen  
Vice Mayor

Micki Schneider  
Chairperson,  
Finance Committee

Jean McCown  
Chairperson,  
Policy and Services Committee

Liz Kniss

Ron Andersen

Dick Rosenbaum

Sandy Eakins

Lanie Wheeler

Gary Fazzino

Council-Appointed  
Officers

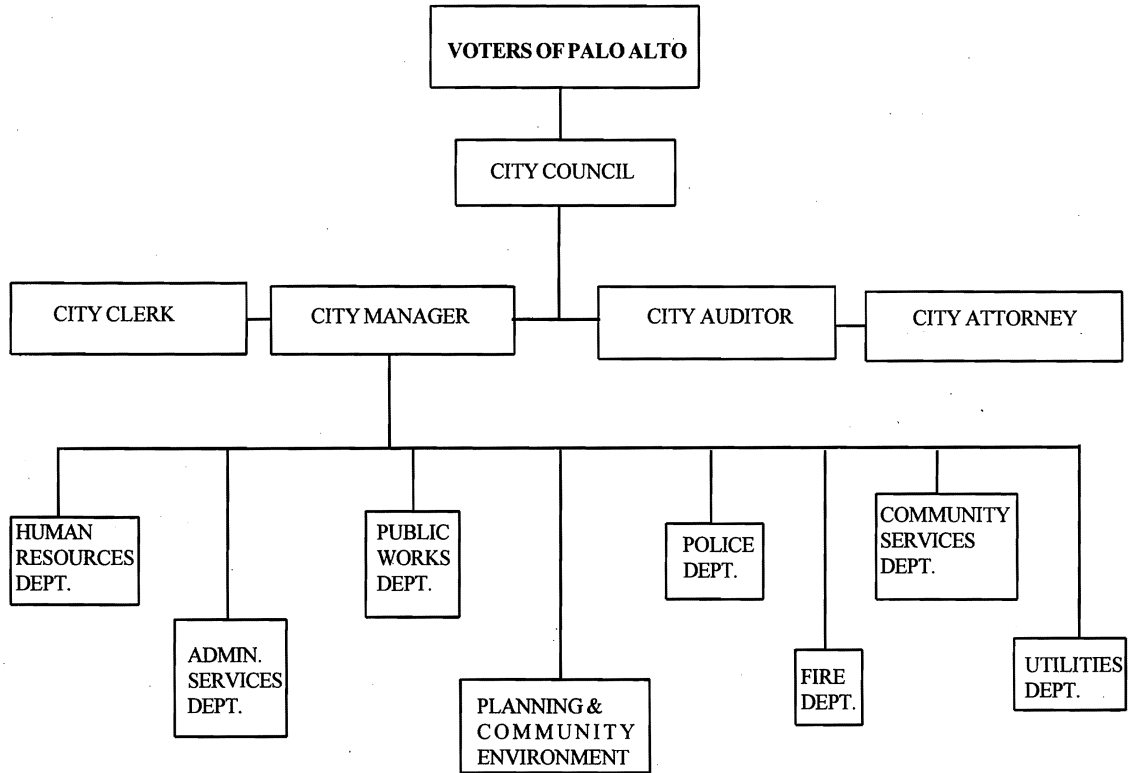
June Fleming  
City Manager

Gloria L. Young  
City Clerk

Ariel Calonne  
City Attorney

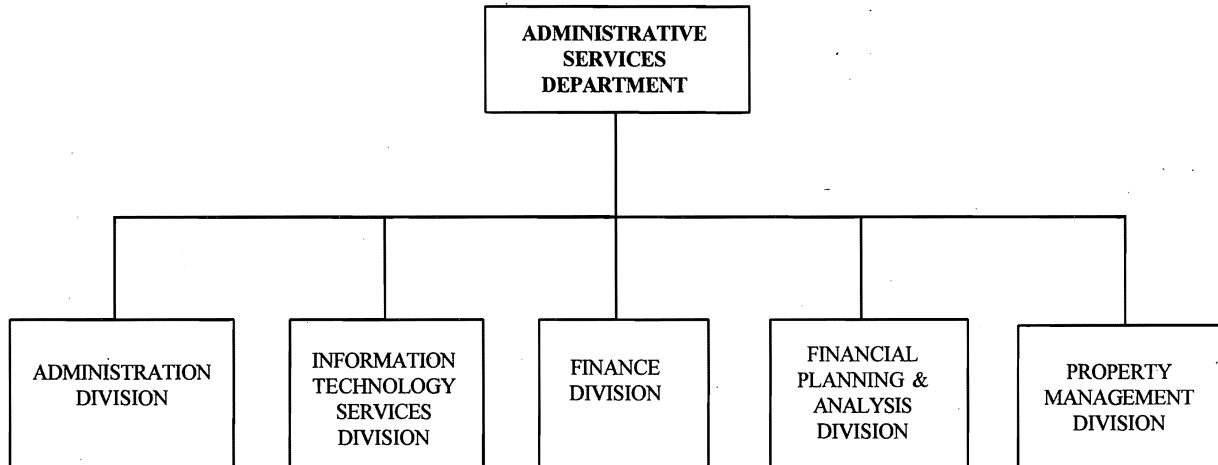
William Vinson  
City Auditor

# CITY OF PALO ALTO ORGANIZATIONAL CHART





**CITY OF PALO ALTO  
ADMINISTRATIVE SERVICES DEPARTMENT  
ORGANIZATIONAL CHART**



**Mission Driven Budgeting 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.**



December 1, 1997

THE HONORABLE CITY COUNCIL  
Palo Alto, California

Attention: Finance Committee

**COMPREHENSIVE ANNUAL FINANCIAL REPORT, YEAR ENDING JUNE 30, 1997**

Members of the Council:

The Comprehensive Annual Financial Report, including the opinion of Deloitte & Touche, LLP for the fiscal year ended June 30, 1997, is submitted for Council review, in accordance with Article IV, Section 13 of the City Charter. Although Deloitte & Touche, LLP has expressed an opinion on this report based upon its recent audit, responsibility for both the accuracy of the data and the fairness of the presentation, including all disclosures, rests with the City's management.

**GENERAL INFORMATION**

Located in northern Santa Clara County, approximately 35 miles south of the City of San Francisco, Palo Alto was named by an early Spanish exploration party for the tall, twin-trunked redwood tree they camped beneath in 1769. The City has a population of 59,900. It is part of the San Francisco Bay metropolitan area. Partly due to the presence of Stanford University, which is adjacent to the City, Palo Alto is considered the birthplace of the high technology industry that has made Santa Clara County famous worldwide as Silicon Valley. The 630-acre Stanford Research Park includes the headquarters of such prestigious and innovative high-tech leaders as Hewlett-Packard, Varian Associates, Watkins-Johnson and Alza. Palo Alto is a major employment center, including Stanford University, Stanford University Medical Center, Lockheed Martin Missiles and Space, Palo Alto Medical Center,

and Xerox. The number of jobs in Palo Alto in 1996-1997 was approximately 90,500. Palo Alto is also one of the area's most unique and desirable residential communities with about 25,625 housing units. Palo Alto is noted for its excellent public and private schools and its comprehensive municipal services.

### **REPORTING ENTITY**

For financial reporting purposes, and in conformance with Governmental Accounting Standards Board Statement 14, "The Financial Reporting Entity", the City of Palo Alto's financial statements include all component units that are financially accountable to the City or whose relationship with the City is so significant that failure to include them in the City's financial statements would make the statements misleading or incomplete. Financial accountability is determined based upon: 1) the City's substantive authority for appointing the governing board; 2) the City's ability to impose its will on the organization's operations; 3) the organization's ability to provide financial benefits or a financial burden on the City; and 4) fiscal dependence on the City. Accordingly, the City's general purpose financial statements include the City of Palo Alto Golf Course Corporation and the Palo Alto Public Improvement Corporation as component units. Although the Corporations are not agencies of the City, the City maintains ultimate control over the policies and actions of the Corporations through its ability to appoint directors.

### **GOVERNMENT ORGANIZATION**

The City of Palo Alto was incorporated in 1894. Its first Charter was granted by the State of California in 1909, and Palo Alto continues to operate as a Charter City. Municipal operations are conducted under the Council-Manager form of government. The nine Council Members are elected at large for four-year, staggered terms. The Mayor and Vice Mayor are elected annually at the first Council meeting in January. The Mayor presides over all Council meetings. The City Manager is responsible for the operation of all municipal functions, except the offices of the City Attorney, City Clerk, and City Auditor. These officials are appointed by, and report directly to, the City Council.

### **SERVICES PROVIDED**

The City provides a full range of municipal services and maintains municipal electric, water, gas, wastewater collection, wastewater treatment, storm drainage, and refuse utilities for the

benefit of Palo Alto residents and businesses. The City's parks, recreation and cultural facilities are outstanding. The City owns over 36 parks, totaling more than 4,000 acres, a golf course, four community centers, a Cultural Center, a Community Theater, a Children's Theater, and a Junior Museum. The City offers a wide array of social, recreational and cultural events, including human services for seniors and youth, subsidized child care, classes, concerts, exhibits, team sports and special events. The City and the Palo Alto Unified School District (PAUSD) have an agreement to jointly fund the costs of maintaining and rehabilitating school athletic fields, recognizing the significant recreational use of these facilities by the community. In addition, the City offers a high level of library and public safety services. Palo Alto has 6 libraries and 7 fire stations providing services throughout the community.

### **ACCOUNTING SYSTEM AND INTERNAL CONTROL**

In developing and evaluating the City's accounting system, consideration has been given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute assurance regarding: the safekeeping of assets against loss from unauthorized user disposition; the reliability of financial records for preparing financial statements; and accountability for the maintenance of assets. The concept of reasonable assurance recognizes that the cost of internal controls should not exceed their benefits and that the evaluation of cost and benefits requires estimates and judgments by management.

Budgetary control is maintained by an annual appropriation ordinance, which is amended by Council action, as required, throughout the year. In 1990, the Council adopted a two-year budget plan. Budgets for the period are presented to Council for review, comment, and action. Council votes to formally approve the first year's budget and conceptually approve the second year's budget. Formal adoption of the second year budget occurs the following June. The City is required under the terms of Proposition 4 (Gann) to adhere to an annual appropriation limit, necessitating the two-step budget adoption procedure. The Council takes similar action on the first two years of the Five-Year Capital Improvement Program (CIP). In 1995-96, the City adopted a new budget format called mission driven budgeting. This approach emphasizes the clear presentation of services provided to the public, the costs associated with those services, and impact measures to evaluate staff's performance in delivering services. With this knowledge, Council is better able to prioritize and allocate resources in the budget process and evaluate management's performance.

The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is by department in the General Fund and by fund for the Special Revenue, Debt Service Fund, Enterprise, and Internal Service Funds. The legal level of budgetary control is at the project level for the Capital Improvement Fund. The City utilizes an encumbrance system to track purchase orders as they are issued, and corresponding appropriation amounts are reserved for later payment to avoid overcommitment of funds. Budgets are adopted by the City Council for all funds except for the Trust and Agency Funds.

## **SIGNIFICANT EVENTS AND ACCOMPLISHMENTS**

### **Council Priorities**

The City Council selected four priorities on which to focus in 1996-97: Palo Alto's Families, Youth and Community, Traffic Management and Safety, Completion of the Comprehensive Plan, and the Infrastructure Plan.

Families, Youth and Community: This Council priority was introduced in 1995-96 and continued into 1996-97. The opening of a Teen Center in downtown Palo Alto in November 1995 has proved successful. With an annual attendance of 10,000 teenagers, Teen Center activities include dances, classes, street parties, and tournaments. A 15-member Teen Advisory Council has been formed to advise staff and help plan and coordinate activities at the Center. Building on a strong recreational program for youth, which includes an "Open Gym" program, cafe nights, and special interest classes, the City introduced a job fair, awareness workshops, and a teen volunteer recognition week in 1996-97. The City's Recreation Division won two statewide and one local award for its teen programs.

In 1996-97, after two years of development, the Positive Alternatives for Youth (PAY) program was implemented. The goal of the multi-faceted program is to provide young people and their families with alternative activities, assistance, counseling, and opportunities to choose more positive life directions. The anticipated result of this program is the further reduction of youth crime. Program accomplishments included the securing of federal grant and state funding, the hiring of a Program Coordinator and the initiation of program components, including job placement, counseling/life skills, recreation, and mentoring. Significant strides have been made in the development of collaborations with other community organizations and agencies to provide services to young people and their families. Plans have been finalized for after school programs and activities such as tutoring, job placement, and life skills that will be conducted at the Police Substation at the Ventura

Center. In partnership with the Palo Alto YMCA and other agencies, the Substation will also serve as a youth activities center. The kick-off event to celebrate the initiation of these activities was held in September of this year and was attended by over 400 teens, parents, community members and volunteers. During the year, ten young people were placed in jobs with several businesses in the immediate area.

In conjunction with the PAY program, the Police Department fully implemented the Gang Resistance Education and Training (GREAT) program in the schools.

Traffic Management and Safety: Traffic and transportation issues have had a high profile in the City in recent years. To address these issues and the often costly solutions to traffic problems, a proposed framework for prioritizing traffic and transportation work was presented to Council in July 1996. Included in the prioritization report were a series of plans and projects that will be folded into the citywide infrastructure prioritization process which is discussed below. Significant accomplishments in 1996-97 include: completion of the Downtown Parking Structure Feasibility Study; evaluation of a six-month trial of a Lytton Neighborhood Traffic Management Plan which Council has approved; completion of the Alma Street bike bridge; and continued progress on the Embarcadero Bridge and Bike Path project.

Completion of the Comprehensive Plan: The Draft Comprehensive Plan and Draft Environmental Impact Report were published and distributed for public review in December 1996. The Draft Comprehensive Plan contains six subject areas: Business and Economics, Housing, Transportation, Natural Environment, Land Use and Community Design, and Governance and Community Services. An additional chapter addresses governance. Reviews of the Draft Plan and Environmental Impact documents were conducted in the second half of the year by the Planning Commission and other City boards and committees. City Council review is scheduled to begin in Fall 1997, with adoption of the new plan in early 1998.

Infrastructure Plan: For several years Council has expressed concern about the condition of the City's General Fund infrastructure. To address this concern, staff has prepared and delivered three reports to Council on the status of existing infrastructure needs for buildings, traffic and transportation (for example, streets, sidewalks, medians and pedestrian and bicycle paths), and parks and open space areas. These reports have identified the need for \$95.0 million worth of improvements over the next ten years. In addition, \$42.7 million in new traffic management work has been identified for the next decade. A fourth report on the City's parking lots and bridges, which are considered to be in relatively good condition, will be presented to Council in the Summer of 1998.

In the near future, staff will present a recommended methodology for prioritizing all of the required infrastructure work identified in the first three reports. In addition, staff will recommend a variety of financing vehicles that could be used to fund improvements. Council feedback on both the prioritization methodology and financing vehicles will be requested so infrastructure improvements can be implemented in upcoming capital improvement programs.

In 1996-97, Council approved the establishment of an Infrastructure Reserve Fund, which included guidelines for funding and use of the Reserve. This reserve will be funded when General Fund revenues exceed expenses and are in excess of the amounts set by Council policy for the Budget Stabilization Reserve (BSR). The Infrastructure Reserve may be used for large capital projects (over \$1.0 million); when the City has a backlog of capital work that does not easily lend itself to debt financing; and potentially, for all a part of the financing for a new facility. At June 30, 1997, \$8.2 million was transferred to the new Infrastructure Reserve. This amount represents the excess funding in the BSR, which has a target range of 10 to 20 percent of General Fund expenditures.

### **Development Projects**

Sand Hill Road: This major development project, proposed by Stanford University for land on its western border, underwent a long and thorough review process in 1996-97. Major components of the project include: building 628 apartment units to provide housing for Stanford employees; constructing 388 independent living units and a Health Care Center for senior citizens; expanding the Stanford Shopping Center by 80,000 square feet; and expanding, extending, and improving several roadways. This project represents the largest single development activity in the City since the 1950's. After intensive reviews by the Planning Commission, Architectural Review Board and the City Council, the City of Palo Alto and Stanford negotiated a project that balanced development, open space, and aesthetic and traffic needs. In addition, the components of the project are tied to the time frame of the City's new Comprehensive Plan and the City's 2010 planning horizon.

After agreeing upon the project, Council decided that it should be submitted as a ballot measure (Measure O) for public approval. Opposition to the proposed project surfaced in the form of an alternative ballot measure (Measure M) that would modify and downsize the project to protect the open space area and limit traffic. The passage of Measure O on November 4 has culminated a vast review effort by the City in 1996-97.



Palo Alto Medical Foundation's "Urban Lane" Relocation Plan: The Palo Alto Medical Foundation (PAMF) provides family and specialty medical care to numerous Palo Altans and surrounding communities. The PAMF includes clinical and research facilities. In January 1996, PAMF received City Council approval to relocate its aging facilities to a new campus. The campus, which will have approximately 355,000 square feet of buildings, will be located on a 9.2-acre site southwest of Palo Alto's downtown, along El Camino Real known as "Urban Lane." Approval of the project involved review of numerous planning entitlements, which included certification of an extensive environmental impact report, amendments to the Comprehensive Plan and zoning regulations, and approval of variance and conditional use permits. Construction of the project is underway.

### **The Urban Forest**

During 1996-97, there was considerable effort to preserve and protect the City's urban forest and was partially funded by the Electric Fund to promote the use of appropriate trees. A nonprofit organization, Canopy, was created to foster the health and growth of City trees. This group is focusing on: becoming a comprehensive information source, educating the public; planting trees through a contract with the City and through a volunteer network; and establishing its organizational nonprofit structure. In the coming year, Canopy will focus on its information, educational and volunteer activities. In particular, the group is targeting "heritage" trees such as native oaks to foster a spirit of stewardship in the community. Finally, a tree protection ordinance has been passed by the City and a Planning Arborist has been hired to administer it.

### **Technology**

Internet Master Plan: The City of Palo Alto was the first local government to establish a presence on the Internet. As a pioneer, City staff had little or no guidance as to how this powerful new tool could or should be used by a public entity. In 1996-97, the City attempted to formulate a vision for Internet use through creation of an Internet Master Plan. The Master Plan's goals for Internet use are: providing access to public information; delivering enhanced customer service; and providing the opportunity for proactive communication between City government and the citizens it serves. In addition, the Master Plan specifies the roles and responsibilities of departments and staff related to the Internet; establishes policies and procedures governing use of the Internet; and proposes a work plan to identify projects, scope, and time lines for implementation of the City's Internet vision. In the 1997-98 Adopted Budget, the City Council approved the addition of an Internet Coordinator, who

will be responsible for implementing the vision and policies embodied in the Internet Master Plan.

Computer Replacement Fund: During 1996-97, the City laid the foundation for establishment of a Computer Replacement Fund (CRF). This fund allows the City to systematically and regularly replace personal computers, mainframes, and monitors. As an internal service fund like the City's Vehicle Replacement Fund, departments are charged based on the number of computers utilized and their depreciation schedules. These funds will then be transferred to the CRF to purchase hardware. Beginning in 1997-98, the CRF will pay for approximately \$5.4 million in replacement equipment. This new internal service fund will facilitate the long-term management of the City's investment in computer technology.

### **Permit Streamlining**

In response to community and business concerns, the City continued the effort begun in 1995-96 to streamline its permit approval process. In a joint work effort with selected customers, the City identified needed improvements to enhance its building permit process. Improvements implemented since the end of 1995-96 include:

- o The addition of two positions to perform plan checking duties in the Building Division and other permit related work in the Fire Department.
- o Increased contract dollars for plan review consultants.
- o Added funding for a consultant to design a new brochure that encompasses the permitting issuance process.
- o Provided funding for a customer service training program for all involved in the permitting process.
- o Continued to work on implementing an automated permit tracking system and the use of the Internet for an online permit status system.

Additional improvements to the permitting process are anticipated in the coming year.

## **Electric Deregulation**

In the Electric Fund, the City proactively responded to challenges posed by deregulation. Although publicly-owned utilities were not required to allow customer choice in January, 1998, the City of Palo Alto has chosen to offer its large electric customers this option. Seeking to meet the competition "head on," the Electric utility, beginning in 1996-97, is developing an aggressive action plan to provide customers with a high level of service, low rates, reliability, quality power and service and energy efficiency and is implementing a new billing system to accommodate innovative rate structures. Acting upon Organizational Review recommendations, the Electric Fund has made personnel and information technology changes to compete in a deregulated environment. To address rate competition, the City has chosen to cover stranded costs, or debt service on its share of the Calaveras Project, by building the Calaveras Reserve to \$92.1 million by the year 2001. At the end of 1996-97, this Reserve reached \$41.7 million. The reserve will allow the City to moderate potential rate increases and continue to offer competitive rates.

## **Downtown**

Downtown Parking: A study investigating the feasibility of building two new parking structures in downtown Palo Alto, funded through an assessment district, was presented to the City Council in March of 1997. Council forwarded the results of the study to the Policy and Services and Finance Committees for review. This review resulted in staff being directed to conduct an informal survey of downtown business owners to ascertain the level of support for the parking structures. Staff reported back to Council on the results of this survey in early 1997-98, and Council approved proceeding with the preliminary design phase for the two structures.

Downtown Health and Safety Program: Over the past few years, downtown Palo Alto has experienced increases in traffic violations, panhandling, public intoxication, and aggressive and assaultive behavior. At Council's direction, staff prepared a long-term strategy in 1996-97 to address health and safety issues. This strategy included elements of police enforcement (police presence in the downtown area was increased), development of new ordinances, code enforcement, educational efforts, and assistance to chronic substance abusers. As a result of this multi-pronged effort, statistics show a visible decrease in arrests for intoxication and disturbing the peace, and a decrease in other violations compared to 1995-96 and prior years.

Downtown Urban Design: In response to growing economic activity in the City's downtown and the attraction of numerous visitors, staff developed a Downtown Urban Design

Improvements Master Plan. The Plan was designed to implement a variety of landscape and lighting improvements, update and enhance public area facilities, improve signage, replace benches, and institute a limit on the number of newsracks. The City is working in partnership with downtown businesses to implement improvements identified in the Master Plan in a phased program beginning in fiscal year 1997-98.

### **Seasonal Work Opportunity Program**

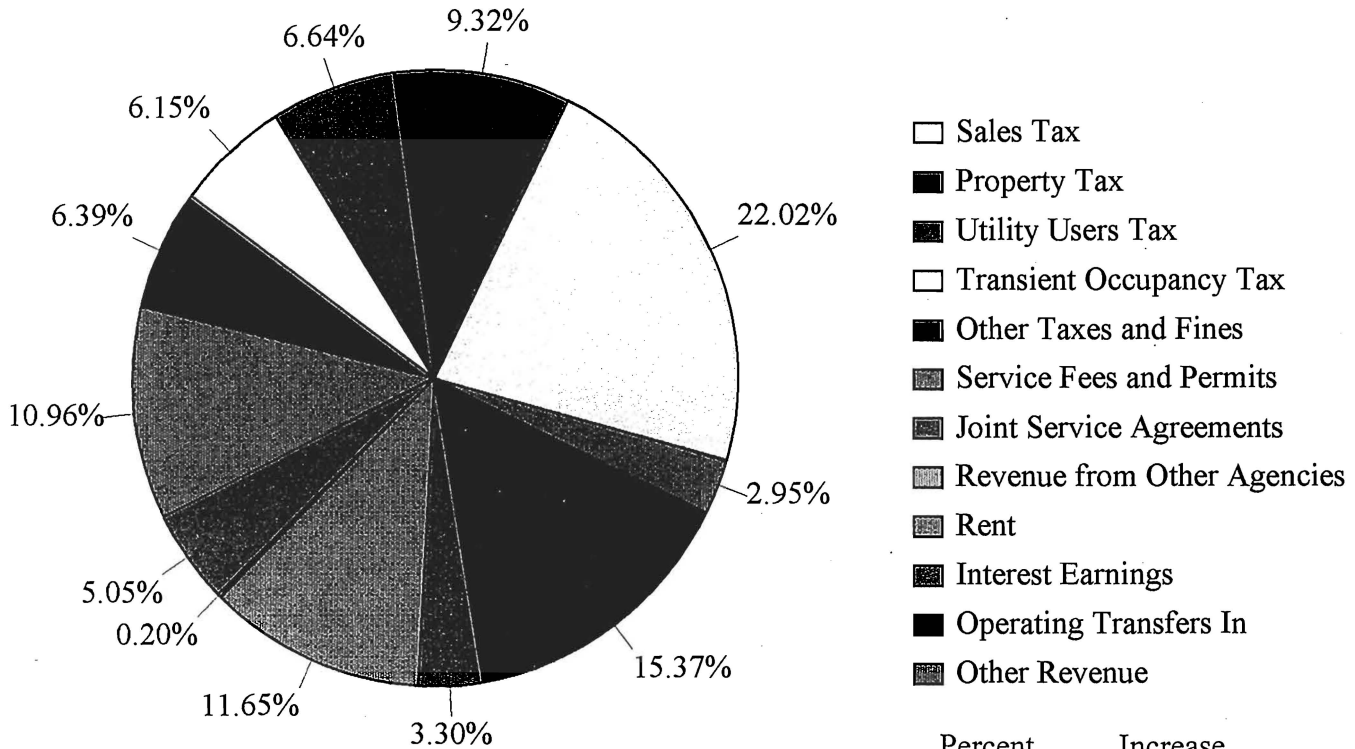
A successful pilot program was conducted in 1996-97 of the Seasonal Employment Opportunities Program for the Homeless. As a result, funding for continuation of the program was made part of the 1997-98 budget. This program provides job opportunities for low-income individuals who are homeless. In addition to job opportunities, the program provides food vouchers, clothing, and bicycle transportation. The goals of the program are to provide participants with opportunities to experience vocational success and increased self-esteem, and to improve their prospects for employment in the future.

### **FINANCIAL HIGHLIGHTS**

Palo Alto's economy remained solid during the fiscal year, reflecting the resurgence of the state economy and a booming Silicon Valley. Strong growth in the City's transient occupancy tax (TOT), documentary transfer tax, and planning fees and permits reveal dynamic business, real estate, and building activity. Although sales tax revenues seem to have plateaued in 1996-97, they have sustained the 21.2 percent, or \$3.1 million growth experienced in 1995-96. Property tax revenues were flat compared to the prior year, but are expected to rise by around 3.5 percent in the coming year. City revenues are expected to remain robust in 1997-98. The General Fund is closing the fiscal year well within the adjusted budget. The combined impact of the strong economy and prudent expenditure management have resulted in a surplus for 1996-97.

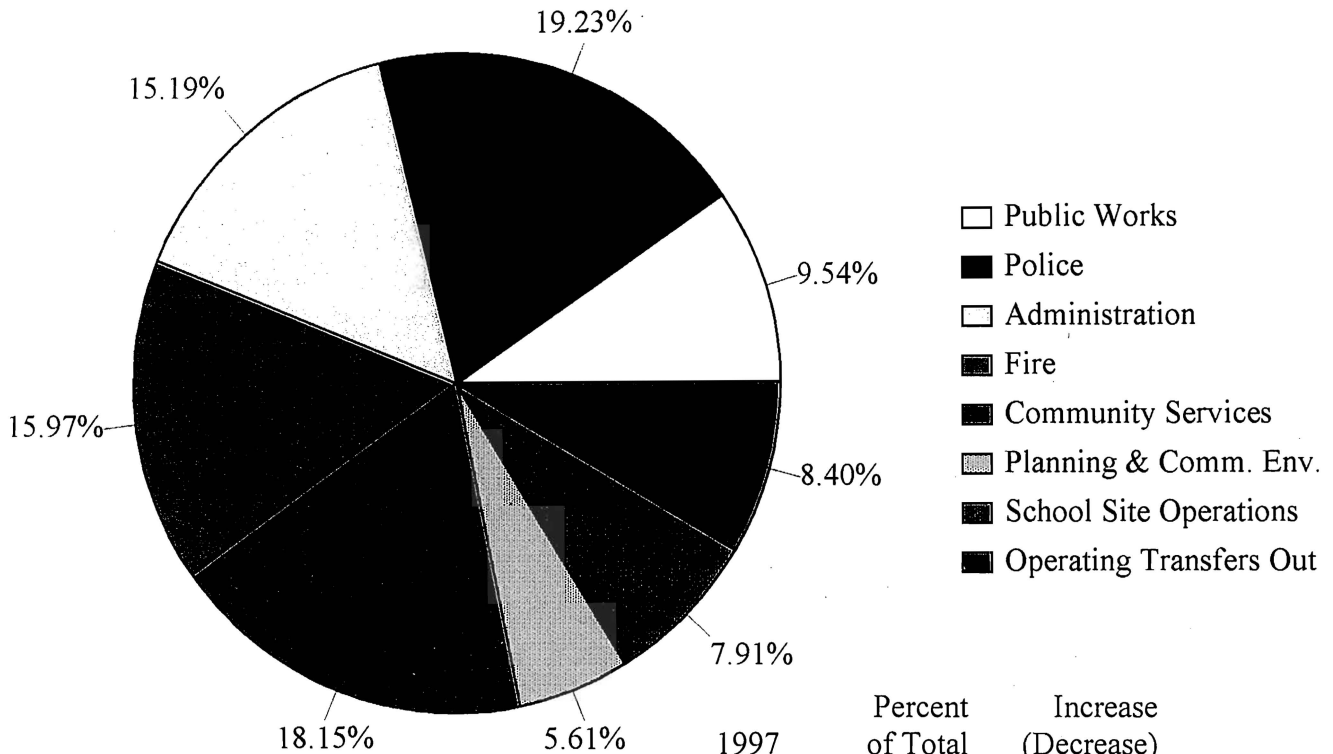
While the General Fund's current financial position is sound, significant fiscal challenges lie ahead. The City's infrastructure rehabilitation requirements currently stand at \$95.0 million over the next ten years. In addition, new traffic and transportation infrastructure projects worth \$42.7 over the next decade also have been identified to address public and Council concerns. Further pressures on the City's General Fund resources include the unknown impact of utility deregulation and competition; the pending closure of the next phase of the landfill in 2003-04; implementation of the City's new Comprehensive Plan; new facility needs; and potential impacts from Proposition 218. Consequently, careful financial planning will continue to be a key component of the City's strategy in planning for the 21st century.

**CITY OF PALO ALTO**  
**GENERAL FUND REVENUES BY SOURCE**  
For the year ended June 30, 1997



Revenues (\$000)	1997 Actual	Percent of Total Revenue	Increase (Decrease) from 1996
Sales Tax	\$18,277	22.02	\$382
Property Tax	7,735	9.32	(119)
Utility Users Tax	5,509	6.64	411
Transient Occupancy Tax	5,107	6.15	828
Other Taxes and Fines	5,299	6.39	207
Service Fees and Permits	9,087	10.96	707
Joint Service Agreements	4,193	5.05	120
Revenue from Other Agencies	171	0.20	(198)
Rent	9,667	11.65	23
Interest Earnings	2,739	3.30	40
Other Revenue	<u>2,451</u>	<u>2.95</u>	<u>768</u>
Total Direct Revenues	70,235	84.63	3,169
Operating Transfers In	<u>12,759</u>	<u>15.37</u>	<u>1255</u>
Total Revenues	<u>\$82,994</u>	<u>100.00</u>	<u>\$4,424</u>

CITY OF PALO ALTO  
 GENERAL FUND EXPENDITURES  
 For the year ended June 30, 1997

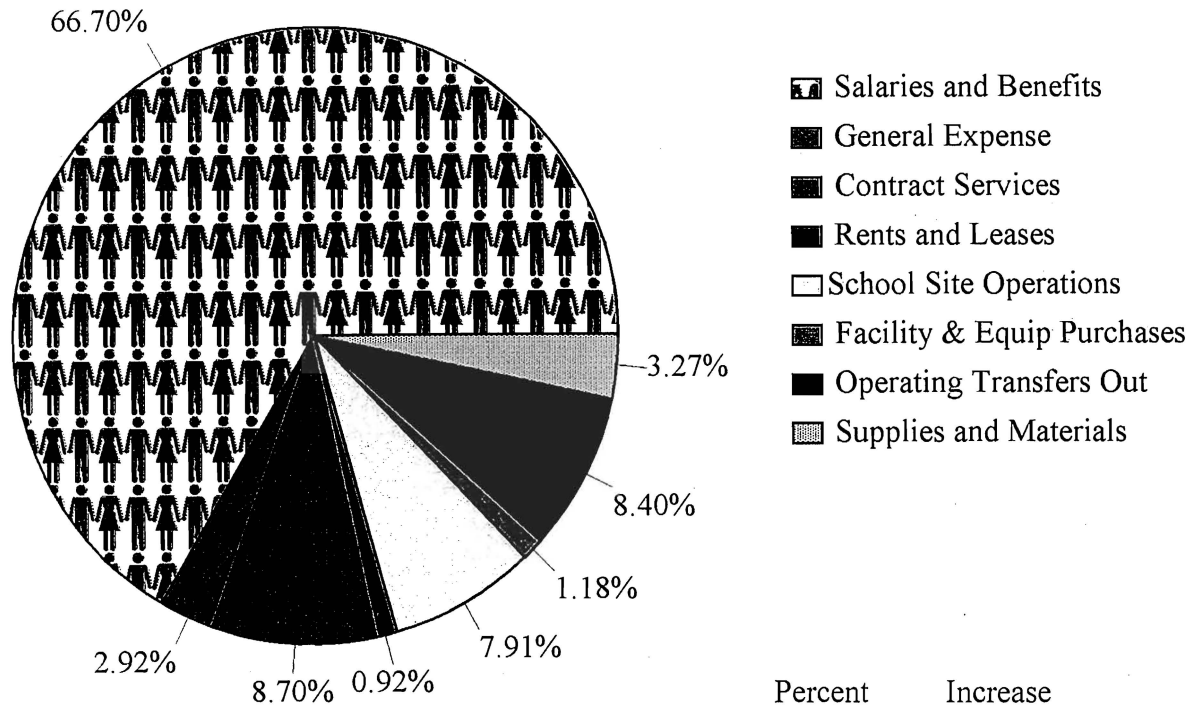


Expenditures (\$000)	1997 Actual	Percent of Total Expenditure	Increase (Decrease) from 1996
Administration (A)	\$11,689	15.19	\$556
Public Works	7,339	9.54	725
Police	14,804	19.23	738
Fire	12,292	15.97	553
Community Services	13,972	18.15	953
Planning & Community Environment	4,320	5.61	419
School Site Operations	6,086	7.91	94
<b>Total Direct Expenditures</b>	<b>70,502</b>	<b>91.60</b>	<b>4,038</b>
Operating Transfers Out	6,469	8.40	935
<b>Total Expenditures</b>	<b>\$76,971</b>	<b>100.00</b>	<b>\$4,973</b>

(A) Comprised of the following departments:

City Council	\$116	City Auditor	\$426
City Manager	918	Administrative Services	6,921
City Attorney	1,162	Human Resources	1,546
City Clerk	600		

CITY OF PALO ALTO  
 GENERAL FUND EXPENDITURES BY TYPE  
 For the year ended June 30, 1997



<u>Expenditures (\$000)</u>	<u>1997 Actual</u>	<u>Percent of Total Expenditure</u>	<u>Increase (Decrease) from 1996</u>
Salaries and Benefits	\$51,337	66.70	\$2,140
Contract Services	6,697	8.70	1455
Supplies and Materials	2,518	3.27	330
General Expense	2,248	2.92	67
Rents and Leases	705	0.92	30
School Site Operations	6,086	7.91	94
Facility and Equipment Purchases	<u>911</u>	<u>1.18</u>	<u>(78)</u>
<b>Total Direct Expenditures</b>	<b>70,502</b>	<b>91.60</b>	<b>4,038</b>
Operating Transfers Out	<u>6,469</u>	<u>8.40</u>	<u>935</u>
<b>Total Expenditures</b>	<b><u>\$76,971</u></b>	<b><u>100.00</u></b>	<b><u>\$4,973</u></b>

## **General Fund**

In 1996-97, the City's General Fund ended the year with an operating surplus of \$6.0 million. A variety of factors contributed to the positive results. On the revenue side, TOT revenues, which exceeded budget by \$.5 million, and service fees and permits, which exceeded budget by \$.7 million, were major contributors. On the expenditure side, the primary sources of the surplus were departmental savings in salaries and benefits, due to vacancies and savings in contractual services. Compared to the 1996-97 adjusted budget, which showed an expected surplus of \$0.23 million, the City exceeded its goal by \$5.8 million.

### **Revenues:**

Overall, total General Fund revenues were \$4.4 million, or 5.6 percent higher than the previous fiscal year and were 1.3 percent, or \$1.1 million higher than the 1996-97 adjusted budget. Other taxes and fines, service fee and permit revenues exceeded the prior year by 6.8 percent, or \$.9 million, and the adjusted budget by 6.8 percent, or \$.9 million.

Sales tax revenues were 2.1 percent greater than 1995-96 receipts and 1.7 percent below the adjusted budget. The strong economic segments in sales taxes were auto sales, department stores, and restaurants. Lower-than-expected electronic, auto leasing and light industry receipts contributed to the negative variance from budget. After adjusting property tax revenues for an overpayment by the County, property taxes were .7 percent in excess of prior year revenues and a slight .4 percent under the adjusted budget. TOT surged in 1996-97, exceeding 1995-96 revenues by 19.4 percent, or \$.83 million over the previous year. The substantial increase in TOT revenues results from higher occupancy and hotel rates. Utility user tax (UUT) revenues have rebounded by rising \$.4 million, or 8.1 percent over 1995-96 and \$.25 million, or 4.7 percent over the adjusted budget. Telephone UUT revenues, driven by Internet and new phone line activity, contributed to the surge.

As a result of new and planned construction activity, the City realized approximately \$1.4 million in zoning, site and design, and plan checking fees. Projects such as the new Palo Alto Medical Foundation building and Stanford University's planned Sand Hill project have augmented permit revenues in 1996-97.

### **Expenditures:**

General Fund budgeted expenditures were \$4.9 million, or 6.9 percent higher than the previous fiscal year. Actual expenditures, however, were \$4.7 million, or 5.7 percent lower than the adjusted budget for 1996-97. Lower-than-anticipated expenditures were a consequence of staff vacancies, lower-than-anticipated contractual services and operating department expenditures, and lower water usage fees.



### **Special Revenue Funds**

The Special Revenue Funds include the Street Improvement Fund, Federal Revenue Fund, Housing-in-Lieu Fund, Special Districts Fund, Transportation Mitigation Fund, Local Law Enforcement Fund and Downtown Planned Community Fund. The City spends approximately \$1.0 million of Street Improvement Funds (gas tax) each year to refurbish its streets. Housing-in-Lieu money has been used to support construction of a single resident occupancy (SRO) on Alma Street. Construction began in 1996-97, and is expected to be completed by spring of 1998.

### **Capital Projects Fund**

Capital projects expenditures in 1996-97 totaled \$6.3 million and focused, once again, on upgrading the City's aging infrastructure. Replacement of the Civic Center chiller, irrigation and backflow systems, park facility equipment and structural studies were a sizable part of General Fund capital expenditures. Ongoing street and sidewalk renovation also represented a significant share of capital expenses at \$1.4 million. Remaining expenditures consisted of a traffic calming device, Americans with Disabilities Act compliance and technology improvements.

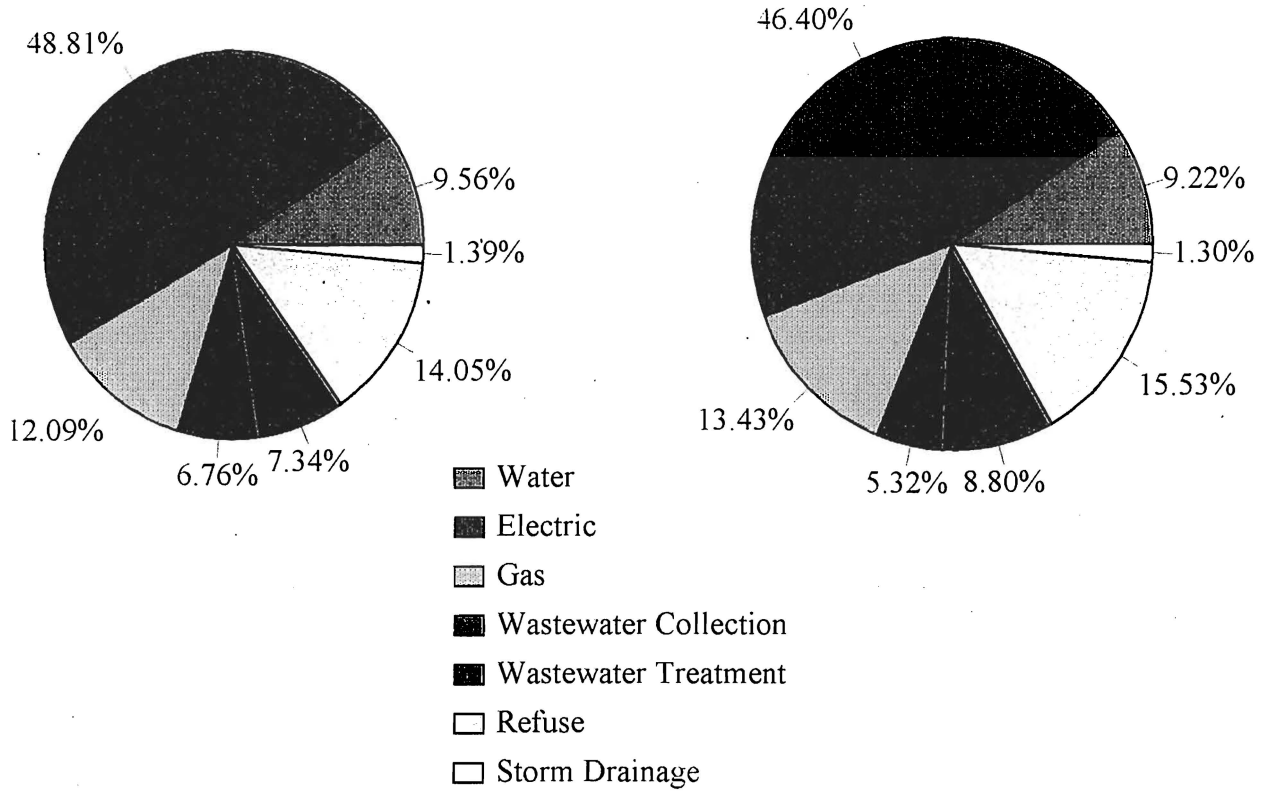
### **Enterprise Funds**

Water Fund revenues were \$1.8 million, or 14.6 percent above the prior year and \$1.6 million or 12 percent above the adjusted budget. Water consumption in 1996-97 was 14 percent above projections, due to dry weather conditions in the Spring and Summer months. Because of higher consumption, water commodity costs were \$.2 million above budget. Overall, expenditures were \$.5 million above those in the prior year and \$.8 million below the adjusted budget. Expense savings were realized as a consequence of vacancies, cancellation of the Water Site Rehabilitation capital project, and lower-than-expected costs on the Water Main Replacement project. The Water Fund's RSR increased by \$1.0 million in 1996-97 and by year end was \$.7 million above the maximum guideline level.

Electric Fund revenues were \$7.2 million, or 11.4 percent higher than the prior fiscal year. This increase is attributable to higher electric sales during the summer months. Expenses were \$2.3 million, or 5.8 percent higher than the prior fiscal year. Power purchase costs were \$1.6 million below budget, despite a downward midyear budget adjustment of \$5.2 million. These healthy savings were due to the City's ability to purchase power from low-cost spot market sources, while being able to sell surplus from higher cost sources such as Calaveras power. The combination of strong revenues and expense savings in a variety of areas resulted in a \$24.3 million Electric Fund Rate Stabilization Reserve (RSR) at year end (\$1.3 million above Council's maximum target guideline), after a \$15.9 million transfer to the Calaveras Reserve. There was no rate increase in 1996-97, but a 4 percent increase was

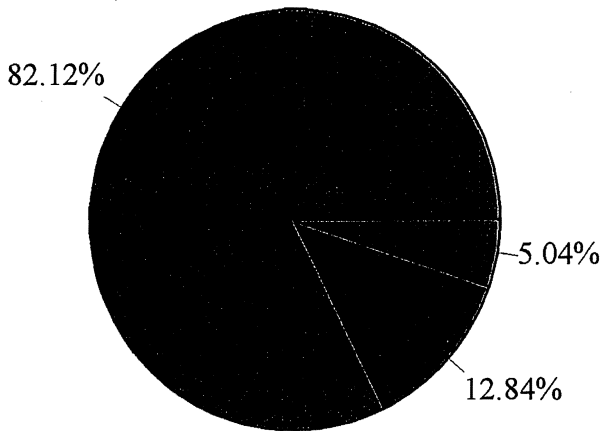
CITY OF PALO ALTO  
 ENTERPRISE FUNDS REVENUES  
 For the year ended June 30, 1997

CITY OF PALO ALTO  
 ENTERPRISE FUNDS EXPENSES  
 For the year ended June 30, 1997



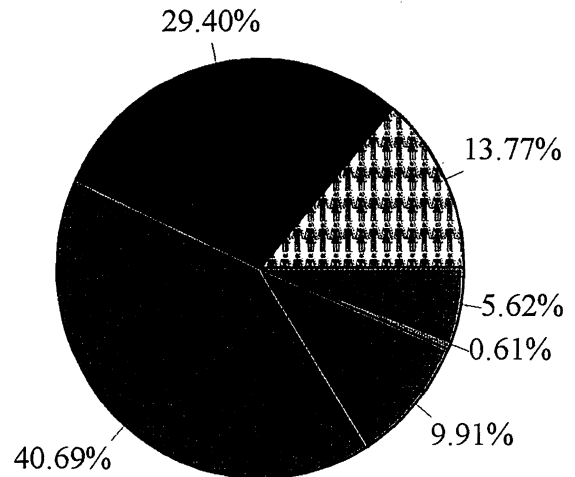
<u>Enterprise Funds</u>	<u>Revenues (\$000)</u>	<u>Expenses (\$000)</u>
Water	\$14,527	\$11,454
Electric	74,157	57,647
Gas	18,365	16,686
Wastewater Collection	10,264	6,606
Wastewater Treatment	11,145	10,932
Refuse	21,339	19,294
Storm Drainage	2,118	1,614
<b>Total</b>	<b><u>\$151,915</u></b>	<b><u>\$124,233</u></b>

**CITY OF PALO ALTO  
ENTERPRISE FUNDS REVENUES  
For the year ended June 30, 1997**



Utility Sales
  Other Revenue  
 Investment Income

**CITY OF PALO ALTO  
ENTERPRISE FUNDS EXPENSES  
For the year ended June 30, 1997**



Salaries and Benefits
  Operating Expenses  
 Purchases
  Transfer to Gen Fund  
 Interest Expense
  Rent

	1997 Actual	Percent of Total	Increase (Decrease) from 1996
<u>Revenues (\$000)</u>			
Utility Sales	\$124,749	82.12	\$3,612
Other Revenue	19,503	12.84	6,993
Investment Income	7,663	5.04	804
<b>Total Revenues</b>	<b>\$151,915</b>	<b>100.00</b>	<b>\$11,409</b>
<u>Expenses (\$000)</u>			
Salaries and Benefits	\$17,113	13.77	\$162
Operating Expenses	36,525	29.40	3,291
Purchases	50,548	40.69	4,968
Transfer to General Fund	12,306	9.91	1,229
Interest Expense	754	0.61	(42)
Rent	6,987	5.62	(648)
<b>Total Expenses</b>	<b>\$124,233</b>	<b>100.00</b>	<b>\$8,960</b>

implemented for 1997-98. In conjunction with the 1998-99 budget process, staff will present a revised, comprehensive Enterprise Funds reserve policy to address changing business and regulatory conditions.

The Gas Fund continues to be fiscally healthy. Although revenues were slightly above budget and prior year levels, commodity purchases and other expenses were \$2.7 million below budget. Lower purchase costs resulted from declining gas consumption and lower gas prices than anticipated. The Gas Fund realized \$1.3 million in savings relative to budget. The Gas Fund's year end RSR balance at the end of 1996-97 was \$13.02 million, exceeding the maximum target level by \$6.2 million. The excess will be addressed in the revised reserve policy report that Council will review during the 1998-99 budget process.

Wastewater Collection Fund revenues were basically on budget for 1996-97 and \$.7 million, or 7.2 percent lower than the previous year. The Fund realized \$.5 million in savings compared to budget. The savings resulted from lower-than-budgeted salary and benefit costs and lower contract costs. The RSR decreased \$.5 million in 1996-97 due to a 9 percent sewer rate decrease. Even with the rate change, the RSR balance still exceeded the maximum guideline level by \$3.4 million at year end. Staff will address the excess reserve issue in the 1998-99 proposed budget.

Wastewater Treatment Fund revenues which are based on cost reimbursements from the Regional Water Quality Control Plant (RWQCP) Partners, were \$0.2 million, or 2 percent below budget and \$.6 million, or 6.3 percent higher than the prior year. Expenses were a slight \$.1 million under budget as a result of overtime and contract cost savings. The Wastewater Treatment's RSR balance of \$3.1 million is within the Council approved guidelines.

Refuse Fund revenues were .2 million above budget and \$1.6 million higher than the prior year. The rise in revenues over 1995-96 was caused by a 9 percent rate increase in 1996-97 and higher disposal fee revenues from the landfill. Operating expenses were \$1.3 million lower than budget, primarily as a result of lower maintenance and operating costs at the SMaRT Station. The Fund also realized savings from lower landfill and street sweeping operating costs. Revenues and cost savings contributed to the \$1.4 million increase in the RSR, which totals \$5.9 million at the end of 1996-97. This balance exceeds the maximum guideline level by \$2.3 million.

Storm Drainage Fund revenues were basically on budget for 1996-97 and did not differ substantially from revenues in 1995-96. Fund expenses were \$.6 million under budget and \$.1 million above prior year expenses, as a consequence of lower maintenance costs and a

favorable variance in curb and gutter replacement costs. At year's end, the Fund had an RSR balance of \$1.2 million, ensuring solvency during the coming fiscal year. No formal reserve policies exist for the Storm Drainage Fund.

### **Cash Management**

The City's portfolio balance at year end had a carrying value of \$272 million and a market value of \$271 million, or 99.6 percent of carrying value. Excluding employees' deferred compensation accounts held in trust, the City's investment portfolio had a market value of \$222.9 million. The portfolio grew by \$19.5 million during 1996-97. This growth is consistent with recent years' experience. Increases in the portfolio result from: savings in operating budgets, especially in utility commodity prices; budgeted increases in reserves; incomplete capital projects; and continuing strength in City revenues from a vibrant local economy.

The City invests funds prudently and ensures that there is sufficient liquidity to meet unexpected needs. As of June 30, 1997, 52 percent of portfolio securities mature in less than two years, and \$11.0 million of the portfolio was immediately available in overnight funds. The available liquid funds represent over a half month's operating and capital expenditures. The City's ongoing cash needs are adequately met through the receipt of daily cash, due in part to a consistent flow of utility revenues. Although the City has a "buy and hold" philosophy, which means holding securities until they mature, the City's investments are very liquid on the secondary market.

The City's portfolio yield increased from 5.9 percent to 6.1 percent over the year, reflecting rising interest rates, which were higher than the State Treasurer's Local Agency Investment Fund (LAIF) and money market funds, and careful planning which incorporates the City's safety and liquidity needs. The average life of the securities in the portfolio increased from 2.0 to 2.2 years. This stems from extending the term of many new investments to a length of five years. With the overall growth in the portfolio, the City has been able to maintain adequate cash for shorter and intermediate needs and still place slightly longer term investments which have higher yields. This practice is consistent with Council direction, approved in an update to the City Investment Policy.

During 1996-97, staff complied with all aspects of the City's Investment Policy.

### **Risk Management**

The City is obligated to maintain adequate reserves for its self-insured worker's compensation and general liability programs. Calculation of necessary reserve levels is determined on an annual basis and recorded at the end of the fiscal year. Reserves include

an estimate of incurred but not reported (IBNR) losses. Operating departments are charged for their share of operating expenses for the programs which include the maintenance of adequate reserves.

In fiscal year 1996-97, an actuarial study was conducted. Estimates for the required self-insurance reserves were higher than the 1995-96 actuarial study. The City's actuarial consultant, the Actuarial Group, Deloitte & Touche, LLP determined that the total balance for both the worker's compensation and general liability self-insurance reserves should be \$6.6 million, \$.8 million more than the previously recommended reserve levels of \$5.8 million.

Municipal liability claims are handled through the Authority of California Cities Excess Liabilities (ACCEL) Program. As a member of ACCEL, the City shares pooled risk for civil liability exposures with eleven other cities. Participation in ACCEL provides the City with an alternative to purchasing liability insurance from commercial carriers. In a prior year, one of the ACCEL member cities suffered losses due to extensive flooding and landslide damage. As a member of the self-insurance pool, the City is expected to share in that loss. Palo Alto's estimated share of the damage will not exceed \$0.9 million and payment is now anticipated in fiscal year 1997-98.

For the fifth year in its nine-year history, ACCEL returned retroactive adjustments to its members; the adjustments are calculated beginning five years after the end of each program year. The City received a retroactive adjustment of \$0.7 million during 1996-97, relating to the liability year 1991-92. The program reserves are maintained in excess of \$27 million.

### **AWARDS**

For the third consecutive year, the Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 1996.

In addition, the City received a Certificate of Award for Outstanding Financial Reporting from the California Society of Municipal Finance Officers (CSMFO) for its CAFR for the fiscal year ended June 30, 1996. The City received this award for the third straight year.

These awards are given to agencies whose CAFRs conform to high standards of public reporting and generally accepted accounting principles (GAAP), and its attainment represents a significant accomplishment by the agencies and its management. Both awards are valid for a period of one year. Staff believes that the current CAFR continues to meet both

program's requirements, and submissions to GFOA and CSMFO will again be made to determine its eligibility for certificates.

## REPORT FORMAT

The CAFR has been divided into three sections:

1. **INTRODUCTION:** This section transmits the CAFR to the City Council and includes the City's organization chart, a table of contents, and reproduced copies of previous year's certificates and awards.
2. **FINANCIAL SECTION:** This section includes:

**The Independent Auditor's Report** - The City Charter requires an annual audit of the financial statements of all City funds and accounts by an independent, certified public accountant. This year's audit was completed by Deloitte & Touche, LLP.

**General Purpose Financial Statements** - This section contains the general purpose financial statements (GPFS), also known as the combined financial statements, which reflect a complete summary of the City's activities and encompass all fund types and account groups. They present a combined overview of the financial position, cash flows of proprietary funds, and operating results for the completed fiscal year. This section also includes the Notes to the Financial Statements which communicate information necessary for fair presentation of financial position and results of operations that are not readily apparent or cannot be included in the financial statements themselves. GPFS are "liftable", and may be issued separately from the CAFR for inclusion in official statements, bond offerings, or for distribution to users requiring less detailed information than is contained in the complete CAFR.

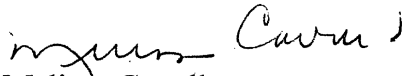
**Combining Fund Statements** - This section presents combined and individual fund and account group statements and schedules. Combined financial statements are presented in each instance where the City has more than one fund of a given type (e.g., the Enterprise Funds). Individual fund statements and schedules are presented for certain individual funds and account groups where the City has only one fund of a specific type (e.g., the Capital Projects Fund) or to give more detailed information than is presented in the GPFS.

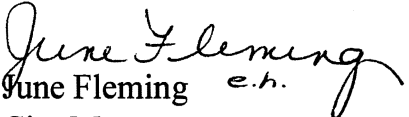
3. STATISTICAL SECTION: This section presents comparative statistical data for the past ten years and other pertinent information involving taxes, revenues, expenditures, and bonded debt.

Acknowledgment

The preparation of the CAFR reflects the dedication and effort of staff members of the Administrative Services Department, and could not have been accomplished without their efforts. Staff would also like to thank the City Council, particularly the Finance Committee, for its leadership and insightful questions as we forge ahead in a new year of fiscal opportunities and challenges.

Respectfully submitted,

  
Melissa Cavallo  
Acting Director of Administrative Services

  
June Fleming *e.h.*  
City Manager



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Palo Alto,  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 1996

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Arthur R. Lynch*  
President

*Jeffrey L. Essler*  
Executive Director

*California Society of  
Municipal Finance Officers*

**Certificate of Award**

*Outstanding Financial Reporting 1995-96*

**Presented to the**

*City of Palo Alto*

*This certificate is issued in recognition of meeting professional standards and criteria in reporting which reflect a high level of quality in the annual financial statements and in the underlying accounting system from which the reports were prepared.*

*February 24, 1997*



*Barbara R. Underwood*  
Chair, Professional & Technical Standards Committee

*Barbara Steedel*  
President, CSMFO

**⌘ Dedicated to Excellence in Municipal Financial Management ⌘**



## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying general purpose financial statements of the City of Palo Alto, California (the City) as of June 30, 1997, and for the year then ended, listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the management of the City. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City at June 30, 1997, and the results of its operations and the cash flows of its proprietary fund types for the year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 30, 1997 on our consideration of the City's internal control structure and a report dated October 30, 1997 on its compliance with laws and regulations.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying combining, individual fund, and account group financial statements and schedules listed in the foregoing table of contents, which are also the responsibility of the management of the City, are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City. Such additional information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly presented, in all material respects, when considered in relation to the general purpose financial statements taken as a whole.

The statistical data listed in the foregoing table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the City. Such additional information has not been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, accordingly, we express no opinion on it.

*Deloitte & Touche LLP*

October 30, 1997

## **GENERAL PURPOSE FINANCIAL STATEMENTS**

These combined statements provide an overview of the financial position and the operating results of all fund types and account groups. Separate columns are used for each fund type and account group.

# CITY OF PALO ALTO, CALIFORNIA

## COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS JUNE 30, 1997 WITH COMPARATIVE TOTAL FOR JUNE 30, 1996 (In thousands of dollars)

	Governmental Funds			
	General	Special Revenue	Debt Service	Capital Project
<b>ASSETS AND OTHER DEBITS</b>				
Cash, cash equivalents and investments	\$ 31,760	\$ 7,230	\$ 1,734	\$ 11,554
Restricted:				
Cash and cash equivalents			90	
Investments			946	
Receivables, net:				
Accounts	5,061	369	7,570	485
Interest	817	108	17	
Notes	703	6,424		
Interfund receivable	203			
Inventory	2,086			
Prepaid items				
Property, plant and equipment, net				
Amount available in debt service funds				
Amount to be provided for retirement of general long-term debt				
<b>TOTAL ASSETS AND OTHER DEBITS</b>	<b><u>\$ 40,630</u></b>	<b><u>\$ 14,131</u></b>	<b><u>\$ 10,357</u></b>	<b><u>\$ 12,039</u></b>
<b>LIABILITIES, FUND EQUITY AND OTHER CREDITS</b>				
<b>LIABILITIES:</b>				
Accounts payable and accrued liabilities	\$ 1,237	\$ 372		\$ 914
Accrued salaries and benefits	818			
Deferred revenue			\$ 7,570	
Deferred compensation				
Accrued compensated absences				
Accrued self insurance				
Landfill closure and postclosure care				
Interfund payable		203		
General revenue bonds				
Utility revenue bonds				
Certificates of participation				
Special assessment debt with governmental commitment				
Capital lease obligations				
<b>Total liabilities</b>	<b><u>2,055</u></b>	<b><u>575</u></b>	<b><u>7,570</u></b>	<b><u>914</u></b>
<b>FUND EQUITY AND OTHER CREDITS:</b>				
Contributed capital				
Investment in general fixed assets				
Retained earnings				
Fund balances:				
Reserved	6,495	12,315	2,787	11,871
Unreserved:				
Designated	32,080	1,241		
Undesignated				(746)
<b>Total fund equity and other credits</b>	<b><u>38,575</u></b>	<b><u>13,556</u></b>	<b><u>2,787</u></b>	<b><u>11,125</u></b>
<b>TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS</b>	<b><u>\$ 40,630</u></b>	<b><u>\$ 14,131</u></b>	<b><u>\$ 10,357</u></b>	<b><u>\$ 12,039</u></b>

The accompanying notes are an integral part of these general purpose financial statements.

<u>Proprietary Funds</u>		<u>Fiduciary Funds</u> Trust and Agency	<u>Account Groups</u>		<u>Totals</u> <u>Reporting Entity</u> <u>(Memorandum Only)</u> <u>June 30</u>	
<u>Enterprise</u>	<u>Internal Service</u>		<u>General Fixed Assets</u>	<u>General Long-Term Debt</u>	<u>1997</u>	<u>1996</u>
\$134,336	\$30,898	\$ 7,532			\$225,044	\$206,679
4,240		1			4,331	7,094
		48,259			49,205	41,047
13,114	18				26,617	25,930
1,984	380	112			3,418	3,380
					7,127	5,712
					203	106
	222				2,308	1,835
187					187	164
216,983	7,141		\$104,167	\$ 2,787	328,291	309,811
					2,787	3,020
				13,274	13,274	14,465
<u>\$370,844</u>	<u>\$38,659</u>	<u>\$55,904</u>	<u>\$104,167</u>	<u>\$16,061</u>	<u>\$662,792</u>	<u>\$619,243</u>
\$ 4,709	\$ 120	\$ 1			\$ 7,353	\$ 8,677
335	1,523				2,676	2,194
		48,259			7,570	8,080
	8,876				48,259	40,105
	7,920				8,876	8,931
6,932					7,920	7,833
					6,932	6,685
					203	106
				\$ 725	725	825
18,724					18,724	19,496
				5,675	5,675	6,115
				8,080	8,080	8,555
				1,581	1,581	1,990
<u>30,700</u>	<u>18,439</u>	<u>48,260</u>		<u>16,061</u>	<u>124,574</u>	<u>119,592</u>
58,593	5,997				64,590	64,139
			\$104,167		104,167	102,938
281,551	14,223				295,774	268,052
					33,468	30,721
					33,321	26,576
		7,644			6,898	7,225
<u>340,144</u>	<u>20,220</u>	<u>7,644</u>	<u>104,167</u>	<u>-</u>	<u>538,218</u>	<u>499,651</u>
<u>\$370,844</u>	<u>\$38,659</u>	<u>\$55,904</u>	<u>\$104,167</u>	<u>\$16,061</u>	<u>\$662,792</u>	<u>\$619,243</u>

# CITY OF PALO ALTO, CALIFORNIA

## COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND FOR THE FISCAL YEAR ENDED JUNE 30, 1997 WITH COMPARATIVE TOTAL FOR THE FISCAL YEAR ENDED JUNE 30, 1996 (In thousands of dollars)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Project
REVENUES:				
Property taxes	\$ 7,735			
Special assessments			\$ 981	
Sales taxes	18,277			
Utility users' tax	5,509			
Transient occupancy tax	5,107			
Other taxes and fines	5,299	\$ 1,100		
Fire protection and emergency communication services	4,193			
From other agencies	171	1,312	246	\$ 510
Service fees and permits	9,087			
Interest earnings	2,739	469	91	
Rental income	9,667			
Other	2,451	1,820		109
	<u>70,235</u>	<u>4,701</u>	<u>1,318</u>	<u>619</u>
Total revenues				
EXPENDITURES:				
Current operations:				
City Council	116			
City Manager	918			
City Attorney	1,162			
City Clerk	600			
City Auditor	426			
Administrative Services	6,921			
Human Resources	1,546			
Public works	7,339			
Planning and community environment	4,320			
Public safety - Police	14,804			
Public safety - Fire	12,292			
Community services	13,972			
School site operations	6,086			
Capital outlay		1,245		6,336
Debt service:				
Principal retirement			1,410	
Interest and fiscal charges			1,065	
	<u>70,502</u>	<u>1,245</u>	<u>2,475</u>	<u>6,336</u>
Total expenditures				
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(267)</u>	<u>3,456</u>	<u>(1,157)</u>	<u>(5,717)</u>

The accompanying notes are an integral part of these general purpose financial statements.



Fiduciary Fund Type Expendable Trust	Totals Reporting Entity (Memorandum Only) Year Ended June 30	
	1997	1996
		\$ 7,735
	981	952
	18,277	17,895
	5,509	5,098
	5,107	4,279
	6,399	6,172
	4,193	4,073
	2,239	1,144
	9,087	8,380
\$ 437	3,736	3,719
	9,667	9,644
<u>13</u>	<u>4,393</u>	<u>2,474</u>
<u>450</u>	<u>77,323</u>	<u>71,684</u>
	116	97
	918	1,038
	1,162	1,170
	600	682
	426	421
	6,921	6,370
	1,546	1,355
	7,339	6,614
	4,320	3,901
31	14,835	14,157
	12,292	11,739
	13,972	13,039
	6,086	5,992
	7,581	6,296
	1,410	1,365
	<u>1,065</u>	<u>1,125</u>
<u>31</u>	<u>80,589</u>	<u>75,361</u>
<u>419</u>	<u>(3,266)</u>	<u>(3,677)</u>

(Continued)

# CITY OF PALO ALTO, CALIFORNIA

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES  
AND EXPENDABLE TRUST FUND FOR THE FISCAL YEAR ENDED JUNE 30, 1997  
WITH COMPARATIVE TOTAL FOR THE FISCAL YEAR ENDED JUNE 30, 1996  
(In thousands of dollars)**

	<b>Governmental Fund Types</b>			
	<b>General</b>	<b>Special Revenue</b>	<b>Debt Service</b>	<b>Capital Project</b>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ (267)	\$ 3,456	\$ (1,157)	\$ (5,717)
OTHER FINANCING SOURCES (USES):				
Operating transfers in	12,759	391	924	7,562
Operating transfers out	<u>(6,469)</u>	<u>(2,724)</u>	<u>          </u>	<u>(12)</u>
Total other financing sources (uses)	<u>6,290</u>	<u>(2,333)</u>	<u>924</u>	<u>7,550</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	6,023	1,123	(233)	1,833
FUND BALANCES, BEGINNING OF YEAR	33,660	12,433	3,020	8,184
Residual equity transfers in				1,108
Residual equity transfers out	<u>(1,108)</u>	<u>          </u>	<u>          </u>	<u>          </u>
FUND BALANCES, END OF YEAR	<u>\$38,575</u>	<u>\$13,556</u>	<u>\$ 2,787</u>	<u>\$11,125</u>

The accompanying notes are an integral part of these general purpose financial statements.

Fiduciary Fund Type Expendable Trust	Totals Reporting Entity (Memorandum Only) Year Ended June 30	
	1997	1996
\$ 419	\$ (3,266)	\$ (3,677)
	21,636	18,895
	<u>(9,205)</u>	<u>(7,677)</u>
-	<u>12,431</u>	<u>11,218</u>
419	9,165	7,541
7,225	64,522	56,981
	1,108	1,121
	<u>(1,108)</u>	<u>(1,121)</u>
<u>\$7,644</u>	<u>\$73,687</u>	<u>\$64,522</u>

(Concluded)

# CITY OF PALO ALTO, CALIFORNIA

## COMBINED STATEMENT OF REVENUES, EXPENDITURES AND OTHER FINANCING SOURCES (USES) - BUDGET AND ACTUAL - GENERAL, SPECIAL REVENUE AND CAPITAL PROJECT FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 1997 (In thousands of dollars)

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
<b>REVENUES:</b>						
Property taxes	\$ 7,936	\$ 7,735	\$ (201)			
Sales taxes	18,600	18,277	(323)			
Utility users' tax	5,260	5,509	249			
Transient occupancy tax	4,580	5,107	527			
Other taxes and fines	5,118	5,299	181	\$ 1,037	\$ 1,100	\$ 63
Fire protection and emergency communication services	4,161	4,193	32			
From other agencies	166	171	5	1,298	1,312	14
Service fees and permits	8,351	9,087	736			
Interest earnings	2,525	2,739	214	433	469	36
Rental income	9,526	9,667	141			
Other	2,892	2,451	(441)	580	1,820	1,240
<b>Total revenues</b>	<b>69,115</b>	<b>70,235</b>	<b>1,120</b>	<b>3,348</b>	<b>4,701</b>	<b>1,353</b>
<b>EXPENDITURES:</b>						
<b>Current operations:</b>						
City Council	132	116	16			
City Manager	1,220	918	302			
City Attorney	1,418	1,162	256			
City Clerk	681	600	81			
City Auditor	478	426	52			
Administrative Services	7,611	6,921	690			
Human Resources	1,608	1,546	62			
Public works	8,214	7,339	875			
Planning and community environment	4,922	4,320	602			
Public safety - Police	15,396	14,804	592			
Public safety - Fire	12,587	12,292	295			
Community services	14,672	13,972	700			
School site operations	6,223	6,086	137			
Capital outlay				1,909	1,245	664
<b>Total expenditures</b>	<b>75,162</b>	<b>70,502</b>	<b>4,660</b>	<b>1,909</b>	<b>1,245</b>	<b>664</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>						
	<b>(6,047)</b>	<b>(267)</b>	<b>5,780</b>	<b>1,439</b>	<b>3,456</b>	<b>2,017</b>

The accompanying notes are an integral part of these general purpose financial statements.

Capital Project Fund			Totals Reporting Entity (Memorandum Only)		
Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
			\$ 7,936	\$ 7,735	\$ (201)
			18,600	18,277	(323)
			5,260	5,509	249
			4,580	5,107	527
			6,155	6,399	244
			4,161	4,193	32
\$ 100	\$ 510	\$ 410	1,564	1,993	429
			8,351	9,087	736
			2,958	3,208	250
			9,526	9,667	141
<u>12</u>	<u>109</u>	<u>97</u>	<u>3,484</u>	<u>4,380</u>	<u>896</u>
<u>112</u>	<u>619</u>	<u>507</u>	<u>72,575</u>	<u>75,555</u>	<u>2,980</u>
			132	116	16
			1,220	918	302
			1,418	1,162	256
			681	600	81
			478	426	52
			7,611	6,921	690
			1,608	1,546	62
			8,214	7,339	875
			4,922	4,320	602
			15,396	14,804	592
			12,587	12,292	295
			14,672	13,972	700
<u>7,761</u>	<u>6,336</u>	<u>1,425</u>	<u>6,223</u>	<u>6,086</u>	<u>137</u>
<u>7,761</u>	<u>6,336</u>	<u>1,425</u>	<u>9,670</u>	<u>7,581</u>	<u>2,089</u>
<u>7,761</u>	<u>6,336</u>	<u>1,425</u>	<u>84,832</u>	<u>78,083</u>	<u>6,749</u>
<u>(7,649)</u>	<u>(5,717)</u>	<u>1,932</u>	<u>(12,257)</u>	<u>(2,528)</u>	<u>9,729</u>

(Continued)

# CITY OF PALO ALTO, CALIFORNIA

## COMBINED STATEMENT OF REVENUES, EXPENDITURES AND OTHER FINANCING SOURCES (USES) - BUDGET AND ACTUAL - GENERAL, SPECIAL REVENUE AND CAPITAL PROJECT FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 1997 (In thousands of dollars)

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ (6,047)	\$ (267)	\$ 5,780	\$ 1,439	\$ 3,456	\$ 2,017
OTHER FINANCING SOURCES (USES):						
Operating transfers in	12,775	12,759	(16)	403	391	(12)
Operating transfers out	(6,495)	(6,469)	26	(2,820)	(2,724)	96
Total other financing sources (uses)	<u>6,280</u>	<u>6,290</u>	<u>10</u>	<u>(2,417)</u>	<u>(2,333)</u>	<u>84</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	\$ 233	\$ 6,023	\$ 5,790	\$ (978)	\$ 1,123	\$ 2,101

The accompanying notes are an integral part of these general purpose financial statements.

Capital Project Fund			Totals Reporting Entity (Memorandum Only)		
Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
<u>\$ (7,649)</u>	<u>\$ (5,717)</u>	<u>\$ 1,932</u>	<u>\$ 12,257</u>	<u>\$ (2,528)</u>	<u>\$ 9,729</u>
<u>7,649</u>	<u>7,562</u> <u>(12)</u>	<u>(87)</u> <u>(12)</u>	<u>20,827</u> <u>(9,315)</u>	<u>20,712</u> <u>(9,205)</u>	<u>(115)</u> <u>110</u>
<u>7,649</u>	<u>7,550</u>	<u>(99)</u>	<u>11,512</u>	<u>11,507</u>	<u>(5)</u>
<u>\$ -</u>	<u>\$ 1,833</u>	<u>\$ 1,833</u>	<u>\$ (745)</u>	<u>\$ 8,979</u>	<u>\$ 9,724</u>

(Concluded)

# CITY OF PALO ALTO, CALIFORNIA

## COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES FOR THE FISCAL YEAR ENDED JUNE 30, 1997 WITH COMPARATIVE TOTAL FOR THE FISCAL YEAR ENDED JUNE 30, 1996 (In thousands of dollars)

	Enterprise Funds	Internal Service Funds	Totals Reporting Entity (Memorandum Only)	
			Year Ended June 30 1997	1996
<b>OPERATING REVENUES:</b>				
Sales of utilities:				
Customers	\$117,677		\$117,677	\$114,343
City departments	7,072		7,072	6,794
Wastewater treatment	6,735		6,735	6,341
Service connection charges and miscellaneous	916		916	736
Charges for services		\$29,615	29,615	29,214
Other revenues	11,852		11,852	5,433
	<u>144,252</u>	<u>29,615</u>	<u>173,867</u>	<u>162,861</u>
Total operating revenues				
<b>OPERATING EXPENSES:</b>				
Purchase of utilities	50,548		50,548	45,580
Administration and general	7,202	2,080	9,282	8,457
Engineering (operating)	2,185		2,185	2,151
Resource management	3,099		3,099	2,832
Operations and maintenance	23,301	1,836	25,137	24,403
Rent	6,987		6,987	6,998
Depreciation and amortization	8,257	1,575	9,832	9,054
Claim payments and change in estimated self-insured liability		2,583	2,583	2,379
Compensated absences and other benefits		23,884	23,884	23,627
	<u>101,579</u>	<u>31,958</u>	<u>133,537</u>	<u>125,481</u>
Total operating expenses				
OPERATING INCOME (LOSS)	<u>42,673</u>	<u>(2,343)</u>	<u>40,330</u>	<u>37,380</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Interest income	7,663	1,599	9,262	7,961
Interest expense	(754)		(754)	(804)
Joint venture debt service	(9,034)		(9,034)	(8,972)
Gain (loss) on disposal of fixed assets	(560)	115	(445)	(91)
Other		794	794	710
	<u>(2,685)</u>	<u>2,508</u>	<u>(177)</u>	<u>(1,196)</u>
Total nonoperating revenues (expenses)				
INCOME (LOSS) BEFORE OPERATING TRANSFERS	<u>39,988</u>	<u>165</u>	<u>40,153</u>	<u>36,184</u>
<b>OPERATING TRANSFERS:</b>				
Operating transfers in	213		213	253
Operating transfers out	(12,519)	(125)	(12,644)	(11,471)
	<u>(12,306)</u>	<u>(125)</u>	<u>(12,431)</u>	<u>(11,218)</u>
Net operating transfers				
NET INCOME	<u>27,682</u>	<u>40</u>	<u>27,722</u>	<u>24,966</u>
RETAINED EARNINGS, BEGINNING OF YEAR	<u>253,869</u>	<u>14,183</u>	<u>268,052</u>	<u>243,086</u>
RETAINED EARNINGS, END OF YEAR	<u>\$281,551</u>	<u>\$14,223</u>	<u>\$295,774</u>	<u>\$268,052</u>

The accompanying notes are an integral part of these general purpose financial statements.



# CITY OF PALO ALTO, CALIFORNIA

## COMBINED STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUND TYPES FOR THE FISCAL YEAR ENDED JUNE 30, 1997 WITH COMPARATIVE TOTAL FOR THE FISCAL YEAR ENDED JUNE 30, 1996 (In thousands of dollars)

	Enterprise Funds	Internal Service Funds	Totals Reporting Entity (Memorandum Only)	
			Year Ended June 30 1997	1996
<b>CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>				
Operating income (loss)	\$ 42,673	\$ (2,343)	\$ 40,330	\$ 37,380
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	8,257	1,575	9,832	9,054
Other		909	909	802
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	225	(7)	218	(475)
Increase in interest receivable	(78)	(83)	(161)	(33)
Increase in inventory		(35)	(35)	(9)
Increase in prepaid items	(23)		(23)	(84)
Decrease in accounts payable, accrued liabilities and accrued salaries and benefits	(521)	(514)	(1,035)	(2,844)
Increase (decrease) in accrued compensated absences		(55)	(55)	472
Increase in accrued self-insurance		87	87	456
Increase in accrued landfill closure liability	247		247	247
Net cash provided by (used in) operating activities	<u>50,780</u>	<u>(466)</u>	<u>50,314</u>	<u>44,966</u>
<b>CASH FLOWS PROVIDED BY (USED IN) NONCAPITAL FINANCING ACTIVITIES:</b>				
Operating transfers in	213		213	253
Operating transfers out	(12,519)	(125)	(12,644)	(11,471)
Net cash used in noncapital financing activities	<u>(12,306)</u>	<u>(125)</u>	<u>(12,431)</u>	<u>(11,218)</u>
<b>CASH FLOWS PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Acquisition and construction of capital assets	(25,188)	(1,975)	(27,163)	(20,503)
Principal paid on revenue bonds	(801)		(801)	(755)
Principal paid on capital leases				(311)
Interest paid on revenue bonds and capital leases	(9,788)		(9,788)	(9,747)
Net cash used in capital and related financing activities	<u>(35,777)</u>	<u>(1,975)</u>	<u>(37,752)</u>	<u>(31,316)</u>
<b>CASH FLOWS PROVIDED BY INVESTING ACTIVITIES -</b>				
Interest and dividends on pooled cash and investments	<u>7,663</u>	<u>1,599</u>	<u>9,262</u>	<u>7,961</u>
<b>NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>	<b>10,360</b>	<b>(967)</b>	<b>9,393</b>	<b>10,393</b>
<b>CASH AND EQUIVALENTS, BEGINNING OF YEAR</b>	<u><b>128,216</b></u>	<u><b>31,865</b></u>	<u><b>160,081</b></u>	<u><b>149,688</b></u>
<b>CASH AND EQUIVALENTS, END OF YEAR</b>	<u><b>\$ 138,576</b></u>	<u><b>\$ 30,898</b></u>	<u><b>\$ 169,474</b></u>	<u><b>\$ 160,081</b></u>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES - Increase in contributed capital</b>				
	\$ -	\$ 451	\$ 451	\$ 208

The accompanying notes are an integral part of these general purpose financial statements.

# CITY OF PALO ALTO, CALIFORNIA

## INDEX TO THE NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

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

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# CITY OF PALO ALTO, CALIFORNIA

## NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS JUNE 30, 1997

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Description of Reporting Entity* - The City of Palo Alto, California (the City) was incorporated in 1894 and operates as a charter city, having had its first charter granted by the State of California (State) in 1909. The City operates under the Council-Manager form of government. The City provides a full range of municipal services, in addition to providing its own municipal electric, water, gas, wastewater, storm drain and refuse utilities.

As required by generally accepted accounting principles (GAAP), these financial statements present the City (the primary government) and its component units, the Palo Alto Public Improvement Corporation and the City of Palo Alto Golf Course Corporation.

#### *Blended Component Units*

The component units are blended into the City's financial statements; the data from the separate financial statements of the component units are combined with the data of the City's operations. Though the component units are legally separate, in substance they are part of the City because the component units serve the City exclusively and the City Council has the ability to impose its will on the component units. The governing bodies of these component units are approved by the City Council.

#### **City of Palo Alto Golf Course Corporation**

The City of Palo Alto Golf Course Corporation was organized under the general corporation not-for-profit law of the State of California. The Corporation was formed by the City in 1977, and leases the municipal golf course from the City. It financed improvements to the golf course by issuing lease revenue bonds in 1978, and leases the improved golf course back to the City. The City's lease payments serve to pay back the bonds. The Corporation's use of the property is limited to the construction of the improved facility, and title to the golf course vests in the City throughout the term of the lease. The Corporation is prohibited from engaging in any business activities other than those incidental to its primary purposes (financing golf course improvements). Lease payments and interest revenue and expense are recorded in the Debt Service Fund.

#### **Palo Alto Public Improvement Corporation**

The Palo Alto Public Improvement Corporation (PIC) was organized under the general corporation not-for-profit law of the State of California. The PIC was formed by the City in 1983, and leases the Civic Center office building from the City. The PIC financed seismic improvements to the Civic Center by issuing Certificates of Participation (COPs), and leases the improved office building back to the City. The City's lease payments serve to pay back the COPs. Those COPs were refunded in 1992, and additional funds were used to finance the construction of additional office space at the Civic Center. The same lease arrangement is in place for the 1992 series Certificates. The PIC's use of the property is limited to the

construction of the improved facility, and title to the Civic Center vests in the City throughout the term of the lease. The PIC is prohibited from engaging in any business activities other than those incidental to its primary purposes (financing Civic Center improvements). Lease payments and interest revenue and expense are recorded in the Debt Service Fund.

Complete financial statements of the individual component units can be obtained from:

The City of Palo Alto  
Administrative Services Department  
250 Hamilton Ave.  
Palo Alto, CA 94301

### ***Fund Accounting***

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain City functions or activities. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording resources together with all related liabilities, obligations, revenues, expenditures or expenses, reserves and equities, which are segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. The various funds are grouped in the general purpose financial statements by generic fund types within three broad fund types and two account groups as follows:

#### ***GOVERNMENTAL FUND TYPES***

*General Fund* is the general operating fund of the City. It is used to account for all financial resources committed to financing the services that the City performs for its citizens, except those required to be accounted for in another fund.

*Special Revenue Funds* are used to account for the proceeds of specific revenue sources (other than agency funds or major capital projects) that are legally restricted to expenditures for specified purposes or for which separate accounting is required by administrative action.

*Debt Service Funds* are used to account for the accumulation of resources for, and the payment of, general and special assessment long-term obligation principal and interest, other than obligations payable from Proprietary Fund Types.

*Capital Project Fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Fund Types and Special Revenue Funds).

#### ***PROPRIETARY FUND TYPES***

*Enterprise Funds* are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general

public on a continuing basis are financed or recorded primarily through user charges; and (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

*Internal Service Funds* are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis.

### ***FIDUCIARY FUND TYPES***

*Agency Fund* is used to account for assets held by the City as an agent for individuals, private organizations, other governments, and/or other funds. The Agency Fund is custodial in nature and does not involve measurement of results of operations.

*Expendable Trust Funds* are funds held by the City in a trustee capacity for which principal and interest may be expended in the course of their designated operations. They are accounted for in essentially the same manner as Governmental Fund Types.

### ***ACCOUNT GROUPS***

*General Fixed Assets Account Group* is used to maintain control and cost information on property, plant and equipment owned by the City, other than that of the Proprietary Fund Types.

*General Long-Term Debt Account Group* accounts for long-term debt not recorded in the Agency Fund or Proprietary Fund Types.

### ***Measurement Focus and Basis of Accounting***

Governmental Fund Types and the Expendable Trust Fund are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recognized when the liability is incurred, except for interest on long-term debt which is recorded as due.

In applying the “susceptible to accrual” concept to intergovernmental revenues (grant revenues), the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized when the expenditures are incurred. In the other, monies are virtually unrestricted as to purpose of expenditure and essentially irrevocable. These resources are reflected as revenues at the time of receipt.

Licenses and permits, state gas taxes, charges for services, forfeitures and miscellaneous revenues are recognized as revenues when received because they are generally not measurable until actually received. Property taxes, sales taxes, motor vehicle fees, fines and earned grant entitlements are accrued on the modified accrual basis (when they are measurable and available). The City considers such revenues available if they are collected within 60 days after year-end.

All Proprietary Fund Types are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded in the period in which they are earned and expenses are recognized at the time liabilities are incurred. The City applies Governmental Accounting Standards Board pronouncements as well as Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Principles Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict Governmental Accounting Standards Board pronouncements.

Agency Funds are accounted for using the modified accrual basis of accounting.

***Appropriated Budget and Budgetary Control*** - The City Council adopts a budget resolution on or before July 1 of each year for the General Fund, Debt Service Fund, Special Revenue Funds, Capital Project Fund, Enterprise Funds, and Internal Service Funds. Budgetary amounts for the Debt Service Fund are not presented. No annual budget is adopted for Trust and Agency Funds. Governmental fund budgets are adopted on a GAAP basis.

The legal level of budgetary control is by department in the General Fund and by fund for the Special Revenue, Debt Service, Enterprise and Internal Service Funds. The legal level of budgetary control is at the project level for the Capital Project Fund. Any amendments to the total level of appropriations by department in the General Fund must be approved by the City Council. Any amendments to the total level of appropriations for the Special Revenue, Enterprise, Internal Service, and Capital Project Funds or transfers of appropriations between funds must be approved by the City Council. The City Council grants the City Manager the authority to reallocate funds from a contingent account maintained in the General and Enterprise Funds. Net budget amendments during 1996-97 are considered to be immaterial. Budget appropriations lapse at the end of the fiscal year. Open contract commitments (encumbrances) and the corresponding appropriations are carried over to the following fiscal year. Budgets for the Capital Project Fund remain authorized for each project until closed, irrespective of fiscal year.

***Cash and Investments*** - The City maintains a cash and investments pool that is available for use by all funds except the Deferred Compensation Program Agency Fund, which has investments that are managed by an administrator. The cash balance in the cash and investments pooled is available to meet current operating requirements, and any cash in excess of current requirements is invested in various securities. Investments consist mainly of government securities and are stated at cost, except for Deferred Compensation Program Agency Fund investments which are stated at market value.

The Governmental Accounting Standards Board issued Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools* which becomes effective for the fiscal year ending June 30, 1998 and requires the City to account for its investments at fair value. Management of the City does not expect the impact of adopting this statement to be material.

***Cash Equivalents*** - For purposes of the Combined Statement of Cash Flows, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. The Proprietary Fund Types' "deposits" in the cash and investments pool are, in substance, demand deposits and are, therefore, considered cash equivalents for purposes of the Combined Statement of Cash Flows.

***Stores Inventories*** - Materials and supplies are held for consumption and are recorded at average cost (which approximates first-in, first-out basis). The consumption method is used to account for

inventories. Under the consumption method, inventories are recorded as expenditures when the inventory items are used, rather than purchased.

**Property, plant and equipment** in the General Fixed Assets Account Group are stated at historical cost, or estimated historical cost if actual historical cost is not available. Property, plant and equipment acquisitions are charged to expenditures in the Governmental Fund Types as purchased and capitalized in the General Fixed Assets Account Group. Maintenance and repairs of property, plant and equipment are charged to expenditures in the Governmental Fund Types as incurred. Expenditures for public domain (infrastructure) general fixed assets such as roads, bridge construction, sidewalks, curbs, gutters and drainage systems are not capitalized as property, plant and equipment. Upon disposal of property, plant and equipment, the historical cost or estimated historical cost is removed from the General Fixed Assets Account Group and any proceeds from sales are generally recorded as an other financing source in the funds originally acquiring the assets. Depreciation is not computed on the assets capitalized in the General Fixed Assets Account Group.

Property, plant and equipment in the Proprietary Fund Types are capitalized at historical cost or estimated historical cost when historical cost is not available, or the estimated fair market value at the time received in the case of gifts or projects constructed by others and accepted for ownership and maintenance by the City. Significant interest costs incurred under restricted tax-exempt borrowings to finance the construction of property, plant and equipment are capitalized during the construction period, net of interest earned on investment of the proceeds of such borrowings. Maintenance and repairs are expensed as incurred. Depreciation is computed and charged as an expense against operations using the straight-line method over the estimated useful lives of Proprietary Fund Type property, plant and equipment as follows:

- Buildings and structures - 25 to 60 years
- Equipment
  - Vehicles and heavy equipment - 3 to 10 years
  - Machinery and equipment - 10 to 50 years
  - Transmission and distribution equipment - 10 to 100 years

**Special Assessments** - The City accounts for resources available to pay special assessment debt in its Debt Service Funds. The special assessment obligation is included in the General Long-Term Debt Account Group.

Assessments are recognized as receivables at the time property owners are assessed for property improvements. Current assessments receivable expected to be collected soon enough after year-end to meet liabilities of the current period are considered measurable and available and are generally recognized as revenues. All other assessments receivable (\$7,570,000 at June 30, 1997) are offset by deferred revenue. Interest on special assessment levies is recognized when due, in accordance with the modified accrual basis of accounting employed by the Debt Service Funds. In the event of default by the property owners for certain districts, the City has covenanted to institute foreclosure on properties which are 150 or more days delinquent in order to make the debt payment. The City is required to cover delinquencies with other resources until foreclosure proceeds are received. Those districts created after the passage of Proposition 13 may have their own reserves which would be drawn on in case of default by property owners. The possibility of the City assuming a secondary liability is

considered remote as the underlying property values were evaluated before the assessment districts were established.

**Compensated Absences** - Vacation and sick pay for all City employees is accrued and paid in the General Benefits and Insurance Internal Service Fund. The General Benefits and Insurance Internal Service Fund is reimbursed through payroll charges to all other funds. Earned but unpaid vacation and overtime compensation pay is 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. Accumulated vacation and overtime compensation pay amounted to approximately \$5,206,000 for all funds at June 30, 1997. Vested accumulated sick pay is paid in the event of termination due to disability and under certain conditions specified in employment agreements primarily restricted to individuals with fifteen or more years of continuous service. An accrual of approximately \$3,670,000 at June 30, 1997 for vested accumulated sick pay is included in accrued liabilities of the General Benefits and Insurance Internal Service Funds. No accrual is made for nonvesting accumulated sick pay of employees with less than fifteen years of continuous service.

**Bond discount costs** are amortized over the related debt repayment period and approximate the interest method of amortization in Proprietary Fund Types; unamortized bond discount costs are offset against bonds payable. In Governmental Fund Types, bond discount costs are netted against bond proceeds in the year of issuance.

**Contributed capital** is an equity account in the Proprietary Fund Types which shows the amount of permanent fund capital contributed to the fund from general government revenues and resources or, in the case of Enterprise Funds, by subdivision developers and builders.

**Encumbrances** represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the Governmental Fund Types. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

**Property Tax Levy, Collection and Maximum Rates** - The State of California Constitution Article XIII A provides that the combined maximum property tax rate on any given property may not exceed one percent of its assessed value except for voter approved incremental property taxes adopted prior to the passage of Article XIII A and any additional amount for general obligation debt approved by voters subsequent to the passage of Article XIII A. Assessed value is calculated at 100 percent of market value as defined by Article XIII A and may be adjusted by no more than two percent per year unless the property is modified, sold or transferred. The State legislature has determined the method of distribution of receipts from a one percent levy among the counties, cities, school districts and other districts.



Santa Clara County assesses properties and bills for and collects property taxes as follows:

	<b>Secured</b>	<b>Unsecured</b>
Valuation dates	March 1	March 1
Lien/levy dates	July 1	July 1
Due dates	50% on November 1 50% on February 1	Upon receipt of billing
Delinquent as of	December 10 (for November) April 10 (for February)	August 31

Property taxes levied are recognized as revenue in the year of levy.

The term "unsecured" refers to taxes on personal property other than land and buildings. These taxes are secured by liens on the property being taxed.

Effective with fiscal year 1993-94, the City is on the Teeter Plan, under which the County of Santa Clara pays the City the full tax levy due. All prior delinquent taxes were also received in fiscal year 1993-94.

**Total (Memorandum Only) columns** on the general purpose financial statements represent the aggregate of the columnar statements by fund type and account group; they do not represent consolidated financial information and interfund transactions have not been eliminated. Data in the total columns are presented only to facilitate financial analysis and do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles.

**Comparative data** for the prior year has been presented in the general purpose financial statements in order to provide an understanding of changes in the City's financial position and operations. However, prior year totals by fund have not been presented because their inclusion would make the statements unduly complex and difficult to read.

**Reclassification** - Certain reclassifications were made to the June 30, 1996 financial statements to conform with the 1997 presentation.

## 2. CASH AND INVESTMENTS

The City's investment policy authorizes the City to invest in obligations of the U.S. Treasury and U.S. Agencies, nonnegotiable certificates of deposit and negotiable certificates of deposit, bankers' acceptance notes, commercial paper, the State Treasurer's Local Agency Investment Fund (LAIF), repurchase agreements, and money market mutual funds. City management is not aware of any violations of the City's investment policy during the year.

The City has contracted with and maintains demand deposit accounts with Bank of America. A written contract with the City's custodial agent, Union Bank of California, outlines the basic responsibilities with regard to delivery and receipt of securities.

### ***Deposits***

Total deposits as of June 30, 1997 follow (in thousands):

	<b>Carrying Value</b>	<b>Bank Balance</b>
Cash in banks or on hand	\$ 1,718	\$ 3,247
Cash held in trust with fiscal agent	<u>5,277</u>	<u>5,277</u>
Total	<u>\$ 6,995</u>	<u>\$ 8,524</u>

The difference between the carrying value and the corresponding bank balance is due to outstanding checks of \$1,834,641, deposits in transit of \$299,582, and petty cash of \$6,420. Of the bank balance, \$100,000 was insured by Federal Depository Insurance Corporation and \$3,147,309 was collateralized with securities held in a collateral pool with the City's agent, in the City's name. The California Government Code requires that such pledged collateral maintain a market value of at least 110% of the deposits if government securities are used as collateral and of at least 150% of the deposits if first trust deed mortgages are used.

Included in the amounts held with a fiscal agent are bond proceeds in the amount of \$4,239,726 held in a construction fund, which earns interest. All cash held in trust was in compliance with the respective trust agreements.

### ***Investments***

The June 30, 1997 market value information presented herein is based on quotes obtained as of that date. It is presented to reflect the market value of the portfolio if the City had liquidated the securities on that date.

All the City's investments are insured or registered or held by the City or its agent in the City's name except for investments in the Local Agency Investment Fund and mutual funds which are not subject to credit risk categorization. Investments are required to categorize accordingly to the level of credit risk. Credit risks are presented below:

- Category 1 - Insured or registered, or securities held by the City or by its agent in the City's name.
- Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the City's name.

	Category			Carrying Amount (In Thousands)	Market Value (In Thousands)
	1	2	3		
U.S. Treasury obligations	\$ 24,968			\$ 24,968	\$ 25,039
U.S. Agency obligations	<u>187,358</u>			<u>187,358</u>	<u>186,871</u>
Categorized investments	<u>\$212,326</u>	<u>\$ -</u>	<u>\$ -</u>	212,326	211,910
State of California Local Agency Investment Fund				10,000	10,000
Mutual funds:					
Unrestricted				1,000	1,000
Restricted				<u>48,259</u>	<u>48,259</u>
Total investments				<u>\$271,585</u>	<u>\$271,169</u>

The City is prohibited by its investment policy to enter into any reverse repurchase agreements.

As of June 30, 1997, the City's investments were scheduled to mature as follows (in thousands):

	Carrying Value	Market Value
Less than one year	\$ 103,379(a)	\$ 103,421(a)
One to five years	167,795	167,318
More than five years	<u>411</u>	<u>430</u>
Total	<u>\$271,585</u>	<u>\$271,169</u>

(a) Includes \$48,259,000 of investments in restricted mutual funds held with a fiscal agent for employees' deferred compensation.

### 3. PROPERTY, PLANT AND EQUIPMENT

The following is a summary of changes in the general fixed assets account group for the fiscal year ended June 30, 1997 (in thousands):

	Balances June 30, 1996	Additions	Deletions/ Transfers	Balances June 30, 1997
Land and improvements	\$ 49,693	\$ 886		\$ 50,579
Buildings and structures	48,211	510	\$ (5)	48,716
Equipment	<u>5,034</u>	<u>415</u>	<u>(577)</u>	<u>4,872</u>
Total	<u>\$102,938</u>	<u>\$1,811</u>	<u>\$ (582)</u>	<u>\$104,167</u>

In fiscal year 1996-97, a physical inventory was conducted of the City's general fixed assets.

Included in land and improvements and equipment at June 30, 1997 are assets under capital leases amounting to \$6,321,000.

Included in the general fixed assets account group at June 30, 1997 is \$1,738,264 of construction-in-progress (capital improvements) expended in fiscal year 1996-97.

A summary of Proprietary Fund Type fixed assets at June 30, 1997 follows (in thousands):

	Enterprise Funds	Internal Service Funds
Land and improvements	\$ 1,541	
Buildings and structures	11,288	
Equipment	309,366	\$ 17,719
Construction in progress	<u>10,691</u>	<u>          </u>
Total	332,886	17,719
Less accumulated depreciation	<u>(115,903)</u>	<u>(10,578)</u>
Net fixed assets	<u>\$216,983</u>	<u>\$ 7,141</u>

Capitalized interest for the year ended June 30, 1997 in the Enterprise Funds' fixed assets increased the carrying value of such assets by \$468,469.

Also included in land and improvements in the Enterprise Funds is \$1,169,000 of development and artwork costs incurred by the Refuse Fund as part of a project to convert a portion of a solid waste landfill site into a park.

A summary of total Enterprise Funds construction-in-progress expended during fiscal year 1996-97 follows (in thousands):

	Project Authorization	Expended to June 30, 1997	Committed
Storm drainage structural and water quality improvements	\$ 6,602,916	\$ 2,564,104	\$ 566,775
Gas system extension replacements and improvements	3,783,694	2,059,312	27,993
Water system extension replacements and improvements	4,144,612	1,914,732	8,080
Street lighting	1,194,966	807,908	
Electric distribution system improvements	2,784,857	2,257,555	757
Other electrical improvement projects	10,938,958	6,917,253	1,138,871
Water quality control plant equipment replacement and lab facilities	708,976	322,973	198,850
Sewer system rehabilitation and extensions	9,632,026	4,091,997	2,205,515
Automated mapping	87,995	6,501	34,854
Water-Gas-Storm Drain Station Improvements	741,398	558,154	54,646
Natural gas vehicle conversion	390,578	162,068	
Other construction in progress	<u>4,091,728</u>	<u>3,324,111</u>	<u>1,725,113</u>
	<u>\$45,102,704</u>	<u>\$24,986,668</u>	<u>\$5,961,454</u>

Of the total construction-in-progress expended to June 30, 1997, \$14,296,000 has been transferred to capital assets.

Allocations of administration and general expenses of \$2,116,940 are included in amounts expended to June 30, 1997.

#### 4. LONG-TERM DEBT

Long-term debt at June 30, 1997 follows (in thousands):

	Maturity	Effective Interest Rates	Authorized and Issued	Outstanding at June 30, 1997
General revenue bonds (a) -				
Golf Course Corporation Lease Revenue Bonds, Series 1978	2003	5.00% - 6.00%	\$ 1,800	\$ 725
Utility revenue bonds (b):				
Utility Revenue Refunding Bonds 1990 Series A	2006	5.70% - 6.80%	9,650	6,550
Utility Revenue Bonds 1992 Series A	2007	6.30% - 6.375%	4,750	4,374
Utility Revenue Bonds 1995 Series A	2020	5.00% - 6.25%	8,640	8,300
Less: unamortized discount/issuance cost				(500)
Total utility revenue bonds			23,040	18,724
1992 Certificates of Participation - Civic Center improvement certificates (c)	2012	3.60% - 6.70%	7,670	5,675
Special assessment debt with governmental commitment - Utility street improvement and parking district bonds (d)	2016	3.40% - 9.50%	13,360	8,080
Capital lease obligations:				
Terman School (e)	2000	Variable	6,321	1,581
Total capital lease obligations			6,321	1,581
Total long-term debt			\$ 52,191	\$ 34,785

Debt service payments are generally made from the following sources:

- (a) Principal and interest on general revenue golf course bonds are paid from lease revenues received by the Palo Alto Golf Course Corporation from the City.
- (b) Principal and interest on all utility revenue bonds are payable from the net revenues of the Electric, Gas, Water, Wastewater Collection, Wastewater Treatment and Storm Drainage Enterprise Funds. The revenue bonds are collateralized by a lien on the net revenues of the Enterprise Funds. Future interest payments are based on average interest rates of 6.425% for the 1990 Series A, 6.343% for the 1992 Series A and 5.63% for the 1995 Series A bonds.
- (c) Principal and interest on certificates of participation are paid from lease revenues received by the Palo Alto Public Improvement Corporation from the City.
- (d) Principal and interest on special assessment debt are paid from assessments to benefited properties of the Special Assessment Debt Service Fund.

- (e) The variable interest rate for the Terman School site lease is based on the lessor's investment portfolio; the rate for the 1996-97 fiscal year was 5.57%. Future interest payments are based on an estimated rate of 5% and are payable first from lease revenue of the site, then from the City's General Fund revenues.

A summary of the changes in long-term debt, net of discounts, where applicable, for the year ended June 30, 1997 follows (in thousands):

	Balance July 1, 1996	Additional Obligations	Current Maturities and Retirements	Balance June 30, 1997
<b>GOVERNMENTAL FUND TYPES</b>				
<b>LONG-TERM DEBT</b>				
General lease revenue bonds	\$ 825	\$	\$ 100	\$ 725
Certificates of participation	6,115		440	5,675
Special assessment debt with governmental commitment	8,555		475	8,080
Capital lease obligations	<u>1,990</u>	<u>      </u>	<u>409</u>	<u>1,581</u>
Total governmental	<u>17,485</u>	<u>      </u>	<u>1,424</u>	<u>16,061</u>
<b>PROPRIETARY FUND TYPES</b>				
<b>LONG-TERM DEBT</b>				
Enterprise Funds:				
Utility Revenue Bond - 1990 Series	7,075		525	6,550
Utility Revenue Bond - 1992 Series	4,475		101	4,374
Utility Revenue Bond - 1995 Series	8,475		175	8,300
Less - unamortized discount/issuance cost	<u>(529)</u>	<u>      </u>	<u>(29)</u>	<u>(500)</u>
Total proprietary	<u>19,496</u>	<u>      </u>	<u>772</u>	<u>18,724</u>
Total governmental and proprietary long-term debt	<u>\$36,981</u>	<u>\$ -</u>	<u>\$2,196</u>	<u>\$34,785</u>

The annual requirements to amortize all bonds, certificates of participation and capital leases outstanding as of June 30, 1997 are as follows (in thousands):

	Principal	Interest	Total
General lease revenue bonds:			
1998	\$ 100	\$ 41	\$ 141
1999	100	36	136
2000	125	30	155
2001	125	23	148
2002	125	16	141
Thereafter	<u>150</u>	<u>8</u>	<u>158</u>
Total	<u>\$ 725</u>	<u>\$ 154</u>	<u>\$ 879</u>
Utility revenue bonds:			
1998	\$ 809	\$ 1,214	\$ 2,023
1999	864	1,163	2,027
2000	919	1,107	2,026
2001	984	1,048	2,032
2002	1,044	984	2,028
Thereafter	<u>14,104</u>	<u>7,963</u>	<u>22,067</u>
Total	<u>\$ 18,724</u>	<u>\$ 13,479</u>	<u>\$ 32,203</u>
Certificates of participation:			
1998	\$ 460	\$ 356	\$ 816
1999	485	330	815
2000	510	303	813
2001	550	272	822
2002	580	238	818
Thereafter	<u>3,090</u>	<u>809</u>	<u>3,899</u>
Total	<u>\$ 5,675</u>	<u>\$ 2,308</u>	<u>\$ 7,983</u>
Special assessment debt:			
1998	\$ 510	\$ 499	\$ 1,009
1999	550	466	1,016
2000	590	430	1,020
2001	645	391	1,036
2002	660	349	1,009
Thereafter	<u>5,125</u>	<u>1,352</u>	<u>6,477</u>
Total	<u>\$ 8,080</u>	<u>\$ 3,487</u>	<u>\$ 11,567</u>
Capital lease obligations:			
1998	\$ 395	\$ 79	\$ 474
1999	395	59	454
2000	395	40	435
2001	396	20	416
2002	-	-	-
Thereafter	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,581</u>	<u>\$ 198</u>	<u>\$ 1,779</u>

Long-term debt as of June 30, 1997 is callable on the following terms and conditions:

	Interest Rates	Initial Call Date	
General revenue (golf course) bonds issued - 03/01/78	5.00% - 6.00%	03/01/88	(1)
Utility revenue bonds issued:			
08/01/90	5.70% - 6.80%	06/01/99	(2)
04/01/92	6.30% - 6.375%	06/01/01	(2)
02/01/95	5.00% - 6.25%	06/01/04	(2)
Certificates of participation issued - 03/18/92	3.60% - 6.70%	03/01/01	(4)
Special assessment bonds issued:			
01/02/75	7.00% - 7.50%	07/02/85	(1)
06/02/77	5.40% - 7.75%	07/02/87	(1)
05/02/80	7.25% - 9.50%	07/02/90	(1)
03/30/87	6.70% - 9.25%	09/02/96	(3)
12/18/89	5.75% - 6.90%	09/01/00	(2)
11/22/93	3.40% - 5.40%	03/02/94	(5)

- (1) Callable in inverse numerical order of maturity at par plus a premium of .25% for each year from redemption to maturity date.
- (2) Callable in inverse numerical order of maturity at par plus a premium of 2% beginning on the initial call date. The call price declines subsequent to the initial date.
- (3) Callable in inverse numerical order of maturity at par plus a premium of 3% beginning on the initial call date. The call price declines subsequent to the initial date.
- (4) Callable in any order specified by the City at par plus a premium of 2% beginning on the initial call date. The call price declines subsequent to the initial date.
- (5) Callable in any order prior to maturity at par plus 3% on any March 2 or September 2.

In addition to the long-term debt discussed above, the City of Palo Alto Insured Revenue Bonds (Lytton Gardens Health Care Center) Refunding Series 1986, which mature in the years 1997-2016, were issued in 1986 in the name of the City. The City is not obligated in any manner for the repayment of these bonds and, accordingly, the obligation is not included in the general purpose financial statements. The outstanding balance of the bonds at June 30, 1997 was \$13,360,000.

## 5. INTERFUND RECEIVABLE AND PAYABLE

Cash overdrafts in the City's pooled cash, cash equivalents and investments are reported as interfund receivable and payable. At June 30, 1997 interfund receivable and payable is as follows (in thousands):

	Interfund Receivable	Interfund Payable
General Fund	\$ 203	
Federal Revenue Special Revenue Fund	_____	\$ 203
Total	<u>\$ 203</u>	<u>\$ 203</u>

## 6. LANDFILL CLOSURE AND POSTCLOSURE CARE

State and federal laws and regulations require the City to place a final cover on the remaining open areas of the Palo Alto Refuse Disposal Site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Closure costs of \$1,561,000 were reported in fiscal year 1991-92, when a section of the refuse area was capped with a



final cover and Byxbee Park was constructed on top of that section. A second section of the refuse area was capped with a final cover during fiscal year 1992-93, with closure costs of \$904,000. The remaining closure and postclosure care costs are expected to be paid only near and after the date that the refuse site stops accepting waste and are anticipated to be \$8,127,597 (adjusted for inflation).

The \$6,932,149 reported as landfill closure and postclosure care liability at June 30, 1997 represents 85.6 percent of the estimated remaining closure and postclosure care costs, which is based upon the estimated capacity of the remaining landfill area utilized to date. The City will recognize a portion of the remaining estimated total cost of closure and postclosure care as an operating expense in each subsequent fiscal year, based on landfill capacity.

Total cost estimates are based on what it would cost to perform all currently mandated closure and postclosure care in 1997. The City expects to close the refuse area in the year 2013. Actual closure and postclosure care costs may be higher due to inflation variances, changes in technology, or changes in state or federal regulations.

The City is required by state and federal laws and regulations to make annual funding contributions to finance closure and postclosure care. The City is in compliance with these requirements for the year ended June 30, 1997 with the establishment of the fully-funded liability for this purpose.

## **7. EMPLOYEES' RETIREMENT PLAN**

***Plan Description*** - All permanent employees are eligible to participate in the Public Employees' Retirement Fund of the State of California's Public Employees' Retirement System (CalPERS). CalPERS is an agent multiple-employer defined benefit retirement plan that acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. CalPERS provides retirement, disability, and death benefits based on the employee's years of service, age and final compensation. Employees vest after five years of service and may receive retirement benefits at age 50. These benefit provisions and all other requirements are established by State statute and City ordinance.

The City contributed to CalPERS 14.30% of payroll for public safety personnel and 7.36% for other covered employees. The City's covered payroll for employees participating in CalPERS for the year ended June 30, 1997 was \$52,217,000. The City's payroll for all employees was \$60,279,000 in 1997. The City, due to a collective bargaining agreement, also has a legal obligation to contribute an additional 9% of payroll on behalf of police safety employees and 7% for miscellaneous nonsafety employees. Employees in these two groups have no obligation to contribute to CalPERS. Employees in the International Association of Fire Fighters have a legal obligation to contribute 9% of payroll to CalPERS.

***Funding Status and Progress*** - The "pension benefit obligation" is determined for each participating employer by CalPERS' actuary and is a standardized disclosure measure that results from applying actuarial assumptions to estimate the present value of pension benefits, adjusted for the effects of projected salary increases and step rate benefits, to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the City's portion of CalPERS to which contributions are made on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used.

The pension benefit obligation was computed as part of an actuarial valuation performed as of June 30, 1994. An actuarial evaluation was performed as of June 30, 1996 but was not available as of the date of this report. Additionally, CalPERS adopted GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* for fiscal year ended June 30, 1997. However, such GASB No. 25 disclosures were not available as of the date of this report. The significant economic actuarial assumptions used in the 1994 valuation to compute the pension benefit obligation were an assumed rate of return on investment assets of 8.50%; annual payroll increases of 4.5% attributable to inflation and 0% attributable to across the board increase and merit adjustments that vary by length of service.

Total pension benefit obligation applicable to the City's employees at June 30, 1995 follows (in thousands):

Pension Benefit Obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 105,791
Current employees:	
Accumulated employee contributions including allocated investment earnings	49,641
Employer-financed, vested	47,181
Employer-financed, nonvested	<u>1,584</u>
Total pension benefit obligation	204,197
Net assets available for benefits, at cost (market value, \$241,245)	<u>226,947</u>
Net assets in excess of pension benefit obligation	<u>\$ 22,750</u>

The pension benefit obligation increased by \$21,233,000 during 1995 due to normal changes in the age, length of service and salary of covered employees.

The Board of Administration of CalPERS approved system-wide changes to the mortality, retirement, withdrawal, and disability rates used in calculating the pension benefit obligation to better estimate the future experience of the Plan. For the City, these changes in actuarial assumptions increased the pension benefit obligation by \$239,000 at June 30, 1995.

**Actuarially Determined Contributions Required and Contributions Made** - The funding policy of CalPERS provides for actuarially determined periodic contributions by the City at rates such that sufficient assets will be available to pay CalPERS benefits when due. The cash contribution to CalPERS for the year ended June 30, 1996 of \$7,644,000 was made in accordance with the actuarially determined requirements computed as of June 30, 1994. The contribution consisted of \$6,981,000 for normal cost (13.91% of current covered payroll), and \$663,000 (1.32% of covered payroll) for the amortization of the unfunded actuarial liability. The City contributed \$4,595,000 as its share (9.16% of current covered payroll), and contributed \$3,049,000 (6.08% of current covered payroll) on behalf of employees due to a collective bargaining agreement; employees contributed \$763,000 (1.52% of current covered payroll). Total contributions for the year ended June 30, 1997 was \$7,374,000.

The contribution rate for normal cost is determined using the entry age-normal actuarial cost method, a projected benefit cost method. It takes into account those benefits that are expected to be earned in the future as well as those already accrued. CalPERS also uses the level percentage of payroll method to amortize the unfunded actuarial liability through the year 2016.

Significant actuarial assumptions used in the 1994 valuation to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit as described above.

**Historical trend information** gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Ten-year trend information for CalPERS is not yet available.

For the City's share of CalPERS, trend information for the years ended June 30, 1988 through 1995 follows (in millions):

	1995	1994	1993	1992	1991	1990	1989	1988
Net assets available for benefits, at cost	\$226.9	\$210.1	\$174.0	\$158.1	\$144.8	\$134.7	\$119.6	\$104.6
Pension benefit obligation	204.1	182.9	173.2	165.8	152.6	143.8	127.8	116.2
Net assets available for benefits as a percentage of pension benefit obligation	111.1%	114.9%	100.5%	95.4%	94.9%	93.7%	93.6%	90.0%
Unfunded (assets in excess of) pension benefit obligation	\$ (22.8)	\$ (27.3)	\$ (0.8)	\$ 7.7	\$ 7.8	\$ 9.0	\$ 8.1	\$ 11.5
Annual covered payroll	54.5	51.4	49.5	47.5	44.3	41.4	38.7	37.6
Unfunded (assets in excess of) pension benefit obligation as a percentage of annual covered payroll	(41.7)%	(52.9)%	(1.6)%	16.2%	17.6%	21.7%	20.9%	30.6%
City contributions, made in accordance with actuarially determined requirements, as a percentage of covered payroll	7.8%	8.5%	9.6%	11.3%	9.5%	9.8%	10.6%	N/A

Employer's contributions, made in accordance with actuarially determined requirements, as a percentage of annual covered payroll were 9.2% in 1996. Other trend information for 1996 and 1997 is not yet available.

**Other Post-Retirement Benefits** - 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. Substantially all of the City's employees may become eligible for those benefits if they reach normal retirement age while working for the City. The costs of retiree health care are recognized as expenditures when premiums are paid. For fiscal 1997, expenditures for retiree health care for approximately 415 eligible retired employees totaled \$875,000. The premium is based upon an average annual cost of coverage per retiree of \$2,108.

The City provides retirees with fully paid health care premiums and pays a portion (20% in 1996-97) of the premium for dependent coverage. The percentage of dependent coverage increases by approximately 5% per year. The City pays the widows and widowers of covered retirees full health care premiums as a surviving spousal benefit.

All employees grouped are covered under this benefit. An employee becomes eligible upon regular retirement at age 50 with at least five years of service, and at any age upon disability retirement with five years of service. Industrial disability retirees become eligible with no age or service requirement for coverage.

These benefit provisions and all other requirements are established by State Statute and City Ordinance. The City funds the benefit on a pay-as-you-go basis.

## **8. DEFERRED COMPENSATION PLAN**

Employees of the City of Palo Alto may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457, *Deferred Compensation Plans With Respect to Service for State and Local Governments*.

The deferred compensation plan is available to all employees of the City. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death or unforeseeable emergency.

The deferred compensation plan is administered by three unrelated administrators. During August 1996, Congress passed the Small Business Job Protection Act of 1996 which requires the City to set up trusts to hold assets and income of the plan for the exclusive benefit of participants by January 1, 1999. Until the trust funds are established, all amounts of compensation deferred under the plan, all property rights purchased with such amounts, and all income attributable to such amounts, property or rights would have remained the City's, subject to the claims of the general creditors, until made available to the participant or other beneficiary.

At June 30, 1997, net assets available for benefits totaled \$48,259,000, which are included as cash and investments of the Agency Funds and are offset by a corresponding liability.

## **9. SELF INSURANCE PROGRAMS**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; and unemployment coverage. The City is self-insured for its general liability, workers' compensation, general and auto liability, respectively. The City has chosen to establish risk financing in the Internal Service Fund where assets are set aside for claim settlements associated with the above risks of loss up to certain limits. All transactions related to claim settlements for all Governmental Fund Types and Proprietary Fund Types are accounted for in the Internal Service Fund. Excess coverage is provided by the Authority for California Cities Excess Liabilities (ACCEL), a joint powers authority whose purpose is to develop and fund programs of excess insurance for its member cities. The following municipalities are members of ACCEL: Anaheim, Bakersfield, Burbank, Gardena, Modesto, Monterey, Mountain View, Ontario,

Santa Barbara, Santa Monica and Visalia. ACCEL is governed by a Board of Directors consisting of representatives of its member cities. Self-insurance and ACCEL limits per occurrence are as follows:

Type of Coverage	Self-Insurance	ACCEL/Commercial
General Liability	Up to \$1,000,000	\$1,000,000 to \$27,000,000 ACCEL
Workers' Compensation	Up to \$500,000	\$500,000 to \$2,000,000 Commercial

Amounts in excess of these limits are self-insured.

Property damage risks are covered on a blanket up to \$186,579,000 by commercial insurance purchased from independent third parties. All properties are insured at replacement costs. For the past five years, there have been no significant reductions in any of the City's insurance coverage and no settlement amounts have exceeded commercial or ACCEL insurance coverage.

In accordance with GASB No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* and GASB No. 30, *Risk Financing Omnibus*, claim liabilities have been accrued in each of the self-insurance internal service funds representing estimates of amounts to be paid for reported, as well as incurred but not reported claims. The City contracts with independent actuaries to compute the estimated liabilities of the City's self-insurance programs annually. Claim liabilities are calculated considering the effects of inflation, settlement trends including frequency and amount of payouts and other economic and social factors. The claim liabilities include allocated loss adjustment expenses and exclude unallocated loss adjustment expenses. The effect of specific incremental claim adjustment expenses is included in the allocated loss adjustment expenses and is not specifically identifiable. The effects of salvage and subrogation are minimal. The liabilities for unpaid claims for general liability and workers compensation are discounted to reflect future investment earnings, assuming a 5.99% interest rate. Based on information from the City attorney, actuaries and others involved with self-insurance programs, City management believes that the aggregate accrual is adequate to cover such losses. Annual premiums are charged by each self-insurance fund using various allocation methods that include actual costs, trends in claims experience and number of participants.

Changes in the balance of claims liabilities during the past two fiscal years for all self-insurance funds combined are as follows (in thousands):

	Year Ended June 30	
	1997	1996
Unpaid claims, beginning of fiscal year	\$ 7,833	\$ 7,377
Incurred claims and changes in estimates	2,583	2,379
Claim payments	(2,496)	(1,923)
Unpaid claims, end of fiscal year	<u>\$ 7,920</u>	<u>\$ 7,833</u>

Financial information for ACCEL as of and for the year ended June 30, 1997 is as follows (in thousands):

	(Unaudited)
Assets:	
Cash and investments	\$ 27,112
Other assets	<u>480</u>
Total assets	<u>\$ 27,592</u>
Liabilities and Fund Equity:	
Loss reserves	\$ 27,403
Other liabilities	110
Fund equity	<u>79</u>
Total liabilities and fund equity	<u>\$ 27,592</u>
Total revenues	\$ 5,380
Total expenses	<u>5,389</u>
Net income	<u>\$ (9)</u>

The City's annual premium paid to ACCEL for the year ended June 30, 1997 was \$362,000.

#### 10. ESTABLISHMENT OF EXPENDABLE TRUST FUND

In the fiscal year ended June 30, 1993, the City received a 6.1 million-dollar refund from the California Public Retirement System ("CalPERS") through the passage of Assembly Bill (AB) 702. This amount was placed in trust to defer future costs of retiree health care coverage. During the fiscal year ended June 30, 1995, the City established and transferred the amount to an expendable trust fund. The trust fund is to provide for a funding of retiree health benefits to the extent that actual health care premium costs exceed one and one-half percent of the City's gross payroll costs in any fiscal year. Approval by the City Council is required if the money is to be expended for any other purpose. In fiscal year 1996-97, the \$875,000 premium represented 1.44% of gross Citywide payroll.

The Retiree Health Benefit Expendable Trust Fund's fund balance consists of the following as of June 30, 1997 (in thousands):

Fund balance, beginning of year	\$ 6,727
Excess of revenues over expenditures	<u>408</u>
Fund balance, end of year	<u>\$ 7,135</u>

#### 11. FUND BALANCES AND RETAINED EARNINGS

Fund balances and retained earnings consist of reserved and unreserved amounts. Reserved fund balances and retained earnings represent that portion of fund balance and retained earnings which is not appropriate for expenditure or is legally segregated for a specific future use. The remaining portion is unreserved fund balances and retained earnings.

Portions of unreserved fund balances may be designated to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans or intent are subject to change, have not been legally authorized and may not result in expenditures.

At June 30, 1997, fund balances for Governmental Fund Types consist of the following reserves and designations (in thousands):

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Project Fund
Reserved for:				
Encumbrances and reappropriations	\$ 3,706	\$ 5,891		\$ 11,871
Notes	703	6,424		
Debt service			\$ 2,787	
Inventory	<u>2,086</u>			
Total reserved fund balances	<u>\$ 6,495</u>	<u>\$ 12,315</u>	<u>\$ 2,787</u>	<u>\$ 11,871</u>
Unreserved; designated for:				
Streets and sidewalks/school site projects	\$ 428			
Capital and special revenue projects		\$ 1,241		
Budget stabilization	17,900			
Infrastructure	8,152			
Emergencies	<u>5,600</u>			
Total unreserved/designated fund balances (deficit)	32,080	1,241		
Undesignated				<u>\$ (746)</u>
Total unreserved/undesignated fund balances (deficit)	<u>\$ 32,080</u>	<u>\$ 1,241</u>	<u>\$ -</u>	<u>\$ (746)</u>

The Internal Service Fund's retained earnings consist of the following as of June 30, 1997 (in thousands):

Reserved retained earnings -	
Commitments and reappropriations	\$ 1,424
Unreserved:	
Designated for future catastrophic losses	5,086
Undesignated	<u>7,713</u>
Total	<u>\$ 14,223</u>

At June 30, 1997, the Enterprise Funds' retained earnings consists of the following (in thousands):

	Water	Electric	Gas	Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Total
Reserved retained earnings:								
Emergency plant replacement	\$ 769	\$ 2,205	\$ 653	\$ 372	\$1,103			\$ 5,102
Rate stabilization	7,814	24,329	13,015	8,454	3,050	\$ 5,885	\$1,219	63,766
Calaveras		41,680						41,680
Gas supplemental supply			3,092					3,092
Commitments and reappropriations	2,486	4,396	1,888	5,522	2,984	882	3,903	22,061
Underground loan		600						600
Conservation loan			632					632
Refuse water resources						472		472
Shasta Rewind loan		2,954						2,954
Central Valley project		688						688
<b>Total</b>	<b>11,069</b>	<b>76,852</b>	<b>19,280</b>	<b>14,348</b>	<b>7,137</b>	<b>7,239</b>	<b>5,122</b>	<b>141,047</b>
Unreserved retained earnings	<u>20,160</u>	<u>75,298</u>	<u>25,894</u>	<u>14,056</u>	<u>1,707</u>	<u>4,954</u>	<u>(1,565)</u>	<u>140,504</u>
<b>Total retained earnings</b>	<b><u>\$31,229</u></b>	<b><u>\$152,150</u></b>	<b><u>\$45,174</u></b>	<b><u>\$28,404</u></b>	<b><u>\$8,844</u></b>	<b><u>\$12,193</u></b>	<b><u>\$3,557</u></b>	<b><u>\$281,551</u></b>

The City Council has internally committed unreserved retained earnings for general contingencies, future capital and debt service expenditures including operating and capital contingencies for unusual or emergency expenditures.

## 12. CONTRIBUTED CAPITAL

A summary of changes in contributed capital for the year ended June 30, 1997 follows (in thousands):

	Enterprise	Internal Service
Balance at July 1, 1996	\$ 58,593	\$ 5,546
Additions	<u>-</u>	<u>451</u>
<b>Balance at June 30, 1997</b>	<b><u>\$ 58,593</u></b>	<b><u>\$ 5,997</u></b>



### 13. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City's seven Enterprise Funds account for the acquisition, operation and maintenance of water, electric, gas, wastewater collection, wastewater treatment, refuse and storm drainage facilities that are supported by user charges. Segment information for the year ended June 30, 1997 is as follows (in thousands):

	Water	Electric	Gas	Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Total
Operating revenues	\$13,942	\$70,171	\$17,250	\$ 9,455	\$10,700	\$20,667	\$2,067	\$144,252
Depreciation and amortization	652	4,022	891	772	1,570	186	164	8,257
Operating income	4,650	28,635	3,246	3,486	121	1,761	774	42,673
Operating transfers in		148				65		213
Operating transfers out	2,148	7,557	2,640	51	33	56	34	12,519
Net income	3,073	16,510	1,679	3,658	213	2,045	504	27,682
Property, plant and equipment:								
Additions	2,771	10,457	3,269	4,511	1,026	139	3,015	25,188
Retirements	71	988	247	382	461			2,149
Net working capital	11,069	76,852	19,281	14,347	7,136	7,238	5,122	141,045
Total assets	39,784	170,778	49,100	40,014	34,992	20,011	16,165	370,844
Bonds and contracts, net of bond discount, payable from operating revenues				2,026	4,407		12,291	18,724
Total equity	38,980	169,288	48,466	37,434	30,226	12,193	3,557	340,144

### 14. JOINT VENTURES

**Northern California Power Agency** - The City is a member of the Northern California Power Agency (NCPA), which operates under a joint powers agreement among 14 agencies. NCPA was created for the purpose of planning, financing, developing, acquiring, constructing, operating and maintaining projects for the generation and transmission of electric power. Each member has one representative on the NCPA commission and one vote for matters of budgeting and financing.

The City is a participant in a number of NCPA projects. Under the terms of the project agreements, the participants are obligated to make payments for their proportionate share of operating and maintenance expenses and debt service, whether or not the projects are operating or have been completed. The City has no investment in the NCPA projects. Payments to NCPA are included in cost of utilities purchased and the joint venture debt service section of the Combined Statement of Revenues, Expenses and Changes in Retained Earnings in the Enterprise Funds for the year ended June 30, 1997. The project agreements remain in effect until the project bonds outstanding are paid or funds are set aside for such payment, and the agreements cannot be terminated or amended without consent of the bond trustees.

The City's share of debt outstanding in conjunction with the various projects at June 30, 1997 is as follows (in thousands):

	Total NCPA Outstanding Debt	City's Participation Percentage	City's Share of Outstanding Debt
Hydroelectric Project #1:			
1991 Series E, F, G	\$ 307,065	22.92%	\$ 70,379
1992 Refunding Series A	193,220	22.92%	44,286
1993 Refunding Series A	59,865	22.92%	13,721
Transmission Project #1 -			
1989 Series A	13,925	11.07%	1,541
Northwest Resource 1997 Series A	17,310	13.07%	2,262

During the year ended June 30, 1997, the City paid \$7,155,000 as its portion of current debt service.

The City's participation in an NCPA Geothermal Project was sold to Turlock Irrigation District (Turlock) in October 1984. Accordingly, the City is liable for payment of outstanding geothermal related debt only in the event that Turlock fails to make specified payments. Total outstanding debt of the NCPA Geothermal Project at June 30, 1997 is \$627,915,000. The City's participation in this project was 6.15%, or \$38,617,000.

All the debt is secured by certain revenues and funds of NCPA. In addition, the NCPA Geothermal Project debt is also secured under a letter of credit by Swiss Bank Corporation.

In April 1991, the City signed an agreement with the City of Roseville to sell a 6.52% portion of its capacity share of NCPA's Calaveras hydroelectric plant for a period of 14 years. Under the terms of the sale agreement, Roseville pays all the operation and maintenance costs associated with 6.52% of the plant. In addition, Roseville will also pay the City a portion of the net debt service obligations of the current long-term debt associated with the Hydroelectric Project No. 1. However, if Roseville defaults, the City is secondarily liable for the outstanding debt service obligations.

In February 1997, NCPA issued \$18,310,000 of Northwest Resource Revenue Bonds, 1997 Series A, to finance termination of its long-term agreement for the purchase of 50 MW of firm energy from Washington Water Power Company. The City's participation in this contract was 13.07%. During the period ended June 30, 1997, the City paid \$256,000 of its portion of current debt service.

Following is a condensed balance sheet as of June 30, 1997 and a statement of operations for NCPA for the year ended June 30, 1997 (in thousands):

	(Unaudited)
Assets:	
Electric plant	\$ 683,921
Restricted assets	408,833
Other assets and deferred charges	448,720
Current assets	<u>50,646</u>
Total assets	<u>\$1,592,120</u>
Liabilities and retained earnings:	
Long-term debt	\$1,352,982
Current liabilities	131,929
Other liabilities	81,936
Retained earnings	<u>25,273</u>
Total liabilities and retained earnings	<u>\$1,592,120</u>
Statement of operations:	
Sales to participants	\$ 194,684
Operating expenses	(103,902)
Nonoperating expenses, net	(68,922)
Future recoverable costs	(5,732)
Additions to operating reserve and refunds to participants	<u>(14,044)</u>
Net revenues	<u>\$ 2,084</u>

Complete financial statements for NCPA can be obtained from:

Northern California Power Agency  
180 Cirby Way  
Roseville, CA 95678

***TANC California-Oregon Transmission Project*** - The City, together with thirteen other Northern California cities and districts and one rural electric cooperative, is a member of the Transmission Agency of Northern California (TANC), a California joint power agency. TANC is a participant in the California-Oregon Transmission Project (COTP), a 339-mile long, 1600 MW, 500 kV transmission power project between southern Oregon and central California. Each member has one representative on the TANC commission and one vote for matters of budgeting and finance.

Each member has agreed to a certain share of TANC's entitlement to project transfer capability of COTP under the joint powers agreement, and is obligated to make payments for its proportionate share of operating and maintenance expenses and debt service on the outstanding long-term debt. The project agreement remains in effect until the revenue bonds are paid, and the agreement cannot be terminated or amended in any manner that will impair or adversely affect the rights of the bondholders.

As of June 30, 1997, the City has a 4% share of TANC's entitlement to the COTP project, and is likewise responsible for a corresponding percentage of TANC's COTP financing obligations. Amounts outstanding under these obligations as of June 30, 1997 are \$399,787,000 of which the City's share is \$15,991,000. During the year ended June 30, 1997, the City paid \$1,226,000 as its portion of current debt service.

Following is a condensed balance sheet as of June 30, 1997 and a statement of operations of TANC for the year then ended (in thousands):

	(Unaudited)
Assets:	
Electric plant	\$ 395,832
Restricted assets	49,388
Current assets	7,632
Noncurrent assets and deferred charges	<u>33,158</u>
Total assets	<u>\$ 486,010</u>
Liabilities and equity:	
Long-term debt	\$ 392,122
Current liabilities	88,744
Members' equity	464
Settlement obligation	<u>4,680</u>
Total liabilities and equity	<u>\$ 486,010</u>
Statement of operations:	
Revenues	\$ 42,884
Expenses	<u>46,783</u>
Operating loss	(3,899)
Interest income	<u>3,934</u>
Net income	<u>\$ 35</u>

Complete financial statements for TANC can be obtained from:

Transmission Agency of Northern California  
6501 S Street  
Sacramento, CA 95852

## 15. COMMITMENTS AND CONTINGENCIES

***Palo Alto Unified School District*** - The City is obligated under an operating lease agreement with the Palo Alto Unified School District (PAUSD) to lease the former Cubberley School site and eleven extended day care sites. The lease is part of a larger agreement which includes a covenant not to develop certain properties owned by the PAUSD. The lease term expires in December 2005 with an option for an additional ten-year term. The City is responsible for insurance, repairs and maintenance expenses related to the leased facilities, which are not to exceed \$250,000 per annum. This lease is subject to annual appropriations by the City Council to make the annual lease payments and is cancelable upon 90 days' written notice in the event funds are not appropriated by the City. In addition, the lease is contingent upon authorization by the Palo Alto electorate if it exceeds the City's

Proposition 4 (Gann) appropriations limitation in any fiscal year. Lease expenditures for the year ended June 30, 1997 amounted to \$4,816,000. Future minimum annual lease and covenant payments are as follows (in thousands):

Year ending June 30:	
1998	\$ 4,963
1999	4,963
2000	4,963
2001	4,963
2002	4,963
Thereafter	<u>12,408</u>
Total	<u>\$37,223</u>

**Litigation** - There are currently pending against the City certain legal actions arising in the normal course of operations. In the opinion of management and legal counsel, the ultimate resolution of such actions, not covered by insurance, is not expected to have a significant effect upon the financial position or operations of the City.

**Palo Alto Sanitation Company** - The City entered into contract in 1987 with the Palo Alto Sanitation Company (PASCO) for services related to refuse collection, the curbside recycling program, operation of the Recycling Center, and emptying and maintenance of public trash receptacles. The contract is for an indefinite period unless either party gives a written cancellation notice which will become effective five years from the date of notification. The City is committed to pay PASCO a percentage of refuse revenue billed to the customers. That percentage, negotiated annually, was 30.04% for collection services and 95% for the bin rentals in fiscal 1996-97. During this period, the City made payments of approximately \$6,338,000 for services rendered by PASCO.

**Palo Alto Housing Corporation** - In January 1991, the City loaned \$2,100,000 to the Palo Alto Housing Corporation (PAHC) to assist in the acquisition of an apartment complex. The loan is evidenced by a promissory note for twenty years bearing 3% interest, the note being secured by a deed of trust. Under the terms of the note, if PAHC operates the complex meeting specified targets for the occupancy by very low, low, and moderate income households (as defined) during the preceding year, each January, \$141,000 of principal and interest shall be forgiven by the City. In 1997, such amount was forgiven. The outstanding principal balance of the note at June 30, 1997 is \$1,594,470, which is recorded in the City's Special Revenue Funds.

**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 joint operations for the transmission, treatment and disposal of sewage for the Partners. The cities of Mountain View and Los Altos are entitled to use a portion of the capacity of the Plant for a specified period of time. Each partner has the right to rent unused capacity from/to the other partners. The expenses of operations and maintenance are paid quarterly by each partner based on its pro rata share of treatment costs. Additionally, joint system revenues are shared by the partners in the same ratio as expenses are paid. The amended agreement has a term of fifty years beginning from the original signing in October 1968, but may be terminated by any partner upon ten years' notice to the other partners. All sewage treatment property, plant and equipment are included in the Wastewater Enterprise Fund's property, plant and equipment balance at June 30, 1997.

If the City initiates the termination of the contracts, it is required to pay the other partners their unamortized contribution towards the property, plant and equipment.

***Solid Waste Materials Recovery and Transfer Station (SMaRT Station)*** - On June 9, 1992, the City, along with the City of Mountain View, signed a Memorandum of Understanding (MOU) with the City of Sunnyvale (Sunnyvale) to participate in the construction and operation of the SMaRT station which will recover recyclable materials from the municipal solid waste delivered from participating cities. Per the MOU, the City has capacity share of 21.27% of this facility and will reimburse its proportionate capacity share of design, construction, and operation costs to Sunnyvale.

On December 1, 1992, the Sunnyvale Financing Authority issued \$24,160,000 revenue bonds to finance the design and construction costs. Even though these bonds are payable from and secured by the net revenues of Sunnyvale's Utilities Enterprise, the City is obligated to reimburse Sunnyvale 21.27% of total debt service payments related to these bonds. The City's portion of remaining principal balance for SMaRT revenue bonds as of June 30, 1997 is \$4,714,000. During the year ended June 30, 1997, the City paid \$397,000 as its portion of current debt service.

***Deregulation of Electric Industry*** - Under a current proposal effective January 1, 1998, Pacific Gas and Electric (PG&E), Southern California Edison and San Diego Gas & Electric Company will turn their transmission systems over to the operational control of an Independent System Operator (ISO). The City currently receives its transmission service from PG&E under an agreement between PG&E and the Northern California Power Agency. Effective January 1, 1998, the City will have the option of continuing its transmission service through its existing contracts or converting to transmission service offered by the ISO. The restructuring proposal will also introduce a Power Exchange through which the City will have the option of buying and selling electric power and energy.

## **16. RELATED PARTY TRANSACTION**

The City Council may authorize a mortgage loan as part of a relocation assistance package to new Council-appointed officers, the Assistant City Manager or department heads. Such loans may be secured by a first or second deed of trust and may be fully amortized or for interest only. A direct City loan cannot exceed four times the annual salary of the employee. The term of the loan may be set for a period not to exceed 15 years, but is due and payable within six months of termination of employment for any reason. The notes bear interest at a rate equal to the City's rate of return on the cash and investment pool during the year plus 1/4 percent. At June 30, 1997, the City has two loans outstanding and the outstanding balance of the loans totaled \$703,000, and is reported as a note receivable and a reservation of the City's General Fund balance.

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# CITY OF PALO ALTO, CALIFORNIA

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## **GENERAL FUND**

The General Fund is the general operating fund of the City. It is used to account for all financial resources committed to financing the services that the City performs for its citizens, except those required to be accounted for in another fund.



# CITY OF PALO ALTO, CALIFORNIA

## GENERAL FUND BALANCE SHEET JUNE 30, 1997 WITH COMPARATIVE TOTALS FOR JUNE 30, 1996 (In thousands of dollars)

	1997	1996
<b>ASSETS</b>		
Cash, cash equivalents and investments	\$31,760	\$28,247
Receivables, net:		
Accounts	5,061	4,290
Interest	817	926
Notes	703	751
Interfund receivable	203	106
Inventory	<u>2,086</u>	<u>1,648</u>
<b>TOTAL ASSETS</b>	<u><b>\$40,630</b></u>	<u><b>\$35,968</b></u>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>LIABILITIES:</b>		
Accounts payable and accrued liabilities	\$ 1,237	\$ 1,636
Accrued salaries and benefits	<u>818</u>	<u>672</u>
Total liabilities	<u>2,055</u>	<u>2,308</u>
<b>FUND BALANCES:</b>		
Reserved for:		
Encumbrances and reappropriations	3,706	5,141
Notes	703	751
Inventory	2,086	1,648
Unreserved - designated for:		
Streets and sidewalks/school site projects	428	393
Budget stabilization	17,900	20,427
Emergencies	5,600	5,300
Infrastructure	<u>8,152</u>	<u></u>
Total fund balances	<u>38,575</u>	<u>33,660</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><b>\$40,630</b></u>	<u><b>\$35,968</b></u>

# CITY OF PALO ALTO, CALIFORNIA

## GENERAL FUND

### SCHEDULE OF REVENUES, EXPENDITURES AND OTHER FINANCING SOURCES (USES) - BUDGET AND ACTUAL FOR THE FISCAL YEAR ENDED JUNE 30, 1997

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 1996

(In thousands of dollars)

	Budget	Actual	Variance Favorable (Unfavorable)	Year Ended June 30, 1996 Actual
<b>REVENUES:</b>				
Taxes:				
Property taxes	\$ 7,936	\$ 7,735	\$ (201)	\$ 7,854
Sales taxes	18,600	18,277	(323)	17,895
Utility users' tax	5,260	5,509	249	5,098
Transient occupancy tax	4,580	5,107	527	4,279
Other taxes and fines	<u>5,118</u>	<u>5,299</u>	<u>181</u>	<u>5,092</u>
Total taxes	41,494	41,927	433	40,218
Fire protection and emergency communication services	4,161	4,193	32	4,073
From other agencies	166	171	5	369
Service fees and permits	8,351	9,087	736	8,380
Interest earnings	2,525	2,739	214	2,699
Rental income	9,526	9,667	141	9,644
Other	<u>2,892</u>	<u>2,451</u>	<u>(441)</u>	<u>1,683</u>
Total revenues	<u>69,115</u>	<u>70,235</u>	<u>1,120</u>	<u>67,066</u>
<b>EXPENDITURES - Current operations:</b>				
City Council	132	116	16	97
City Manager	1,220	918	302	1,038
City Attorney	1,418	1,162	256	1,170
City Clerk	681	600	81	682
City Auditor	478	426	52	421
Administrative Services	7,611	6,921	690	6,370
Human Resources	1,608	1,546	62	1,355
Public Works	8,214	7,339	875	6,614
Planning and Community Environment	4,922	4,320	602	3,901
Public Safety - Police	15,396	14,804	592	14,066
Public Safety - Fire	12,587	12,292	295	11,739
Community Services	14,672	13,972	700	13,019
School Site Operations	<u>6,223</u>	<u>6,086</u>	<u>137</u>	<u>5,992</u>
Total expenditures	<u>75,162</u>	<u>70,502</u>	<u>4,660</u>	<u>66,464</u>
EXCESS OF EXPENDITURES OVER REVENUES	<u>(6,047)</u>	<u>(267)</u>	<u>5,780</u>	<u>602</u>

(Continued)

	Budget	Actual	Variance Favorable (Unfavorable)	Year Ended June 30, 1996 Actual
EXCESS OF EXPENDITURES OVER REVENUES	\$ (6,047)	\$ (267)	\$ 5,780	\$ 602
OTHER FINANCING SOURCES (USES):				
Operating transfers in:				
Street Improvement Special Revenue Fund	275	321	46	176
Federal Revenue Special Revenue Fund	180	166	(14)	173
Special District Special Revenue Fund	417	413	(4)	342
Housing Improvement Special Revenue Fund	48	4	(44)	2
Enterprise Funds	<u>11,855</u>	<u>11,855</u>	<u>          </u>	<u>10,811</u>
Total operating transfers in	<u>12,775</u>	<u>12,759</u>	<u>(16)</u>	<u>11,504</u>
Operating transfers out:				
Local Law Enforcement Special Revenue Funds	3	3		
Capital Improvement Project Fund	5,668	5,663	5	4,980
Debt Service Fund	824	803	21	547
Enterprise Funds	<u>          </u>	<u>          </u>	<u>          </u>	<u>7</u>
Total operating transfers out	<u>6,495</u>	<u>6,469</u>	<u>26</u>	<u>5,534</u>
Total other financing sources	<u>6,280</u>	<u>6,290</u>	<u>10</u>	<u>5,970</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>\$ 233</u>	<u>\$ 6,023</u>	<u>\$ 5,790</u>	<u>\$ 6,572</u>

(Concluded)

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## SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than agency funds or major capital projects) that are legally restricted to expenditures for specified purposes or for which separate accounting is required by administrative action.

The City maintains the following Special Revenue Funds:

- ***Street Improvement Fund*** - established to account for the construction and maintenance of the road network system of the City. Financing is provided by the City's share of state gasoline taxes.
- ***Federal Revenue Fund*** - established to account for monies received by the City from the Federal Community Development Block Grant and HOME Investment Grant programs.
- ***Housing In-Lieu Fund*** - established to account for monies received from industrial and residential developers to provide housing under the City's Below Market Rate program.
- ***Special Districts Fund*** - established to account for monies derived from parking permits and for maintenance of various parking lots within the City.
- ***Transportation Mitigation Fund*** - established to account for monies derived from fees or contributions required for transportation mitigation issues encountered as a result of City development.
- ***Local Law Enforcement Fund*** - established to account for monies received in support of the City's law enforcement program.
- ***Downtown Planned Community Fund*** - established to account for monies derived from contributions and fees that will be used to implement downtown improvements.

# CITY OF PALO ALTO, CALIFORNIA

## SPECIAL REVENUE FUNDS COMBINING BALANCE SHEET JUNE 30, 1997 WITH COMPARATIVE TOTALS FOR JUNE 30, 1996 (In thousands of dollars)

	Street Improvement	Federal Revenue	Housing In-Lieu	Special Districts
<b>ASSETS</b>				
Cash, cash equivalents and investments	\$3,063	\$ 69	\$1,236	\$ 518
Receivables, net	270	99		
Interest receivable	50		18	7
Notes		1,459	4,965	
<b>TOTAL ASSETS</b>	<u>\$3,383</u>	<u>\$1,627</u>	<u>\$6,219</u>	<u>\$ 525</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable and accrued liabilities		\$ 73	\$ 267	\$ 30
Interfund payable		203		
<b>Total liabilities</b>		<u>276</u>	<u>267</u>	<u>30</u>
<b>FUND BALANCES:</b>				
Reserved for:				
Encumbrances	\$1,574	128	420	
Reappropriations	2,459	1,151		
Notes		1,459	4,965	
Unreserved - Designated for special revenue projects	(650)	(1,387)	567	495
<b>Total fund balances</b>	<u>3,383</u>	<u>1,351</u>	<u>5,952</u>	<u>495</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$3,383</u>	<u>\$1,627</u>	<u>\$6,219</u>	<u>\$ 525</u>

Transportation Mitigation	Local Law Enforcement	Downtown Planned Community	Totals June 30	
			1997	1996
\$1,930	\$ 167	\$ 247	\$ 7,230	\$ 7,766
			369	142
27	2	4	108	119
_____	_____	_____	<u>6,424</u>	<u>4,961</u>
<u>\$1,957</u>	<u>\$ 169</u>	<u>\$ 251</u>	<u>\$14,131</u>	<u>\$12,988</u>
	\$ 2		\$ 372	\$ 449
	_____		<u>203</u>	<u>106</u>
	<u>2</u>		<u>575</u>	<u>555</u>
	159		2,281	1,549
			3,610	5,479
			6,424	4,961
<u>\$1,957</u>	<u>8</u>	<u>\$ 251</u>	<u>1,241</u>	<u>444</u>
<u>1,957</u>	<u>167</u>	<u>251</u>	<u>13,556</u>	<u>12,433</u>
<u>\$1,957</u>	<u>\$ 169</u>	<u>\$ 251</u>	<u>\$14,131</u>	<u>\$12,988</u>

# CITY OF PALO ALTO, CALIFORNIA

## SPECIAL REVENUE FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE FISCAL YEAR ENDED JUNE 30, 1997 WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 1996 (In thousands of dollars)

	Street Improvement	Federal Revenue	Housing In-Lieu	Special Districts
REVENUES:				
Other taxes and fines	<u>\$1,100</u>			
From other agencies:				
Community Development Block Grant		\$ 814		
Federal Urban Aid	45			
Local Law Enforcement Federal Grant				
State of California	116			
HOME Grant			\$ 50	
Other revenue from other agencies	109			
TDA grant	<u>12</u>			
Total from other agencies	<u>282</u>	<u>814</u>	<u>50</u>	
Interest earnings	<u>189</u>	<u>31</u>	<u>116</u>	<u>\$ 41</u>
Other:				
Great Western Bank - Loan payoff		(6)		
Housing In-Lieu - Residential			4	
Housing In-Lieu - Industrial			304	
Traffic Mitigation - Transportation				
University Avenue Parking				362
California Avenue Parking				95
Sale of property			82	
Other fees			<u>8</u>	<u>1</u>
Total other	<u>-</u>	<u>(6)</u>	<u>398</u>	<u>458</u>
Total revenues	<u>1,571</u>	<u>839</u>	<u>564</u>	<u>499</u>
EXPENDITURES FOR SPECIAL REVENUE PROJECTS	<u>-</u>	<u>763</u>	<u>473</u>	<u>-</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,571</u>	<u>76</u>	<u>91</u>	<u>499</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in:				
General Fund				
Downtown Planned Community Fund				
Transportation Mitigation Fund				
Housing Improvement Program		<u>138</u>	<u>100</u>	
Total transfers in	<u>-</u>	<u>138</u>	<u>100</u>	<u>-</u>
Operating transfers out:				
General Fund	(321)	(170)		(413)
Capital Project Fund	(1,214)			(40)
Debt Service				(110)
Housing In-Lieu Fund			(100)	
Special District Fund				(150)
Street Improvement Fund				
Community Development Block Grant Fund		(138)		
Enterprise Funds				(64)
Total transfers out	<u>(1,535)</u>	<u>(308)</u>	<u>(100)</u>	<u>(777)</u>
Total other financing uses	<u>(1,535)</u>	<u>(170)</u>	<u>-</u>	<u>(777)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	<u>36</u>	<u>(94)</u>	<u>91</u>	<u>(278)</u>
FUND BALANCES, BEGINNING OF YEAR	<u>3,347</u>	<u>1,445</u>	<u>5,861</u>	<u>773</u>
FUND BALANCES, END OF YEAR	<u>\$3,383</u>	<u>\$1,351</u>	<u>\$5,952</u>	<u>\$495</u>



Transportation Mitigation	Local Law Enforcement	Downtown Planned Community	Totals June 30	
			1997	1996
			\$ 1,100	\$ 1,080
			814	286
			45	46
	\$ 30		30	
	136		252	28
			50	
			109	
			<u>12</u>	<u>23</u>
	<u>166</u>		<u>1,312</u>	<u>383</u>
\$ 84	<u>7</u>	\$ 1	<u>469</u>	<u>488</u>
			(6)	3
			4	
			304	1
517		100	100	
			879	324
			95	77
			82	
<u>353</u>			<u>362</u>	<u>291</u>
<u>870</u>	<u>-</u>	<u>100</u>	<u>1,820</u>	<u>696</u>
954	173	101	4,701	2,647
<u>-</u>	<u>9</u>	<u>-</u>	<u>1,245</u>	<u>420</u>
<u>954</u>	<u>164</u>	<u>101</u>	<u>3,456</u>	<u>2,227</u>
	3		3	
		150	150	
				75
			<u>238</u>	<u>122</u>
<u>-</u>	<u>3</u>	<u>150</u>	<u>391</u>	<u>197</u>
			(904)	(693)
(4)			(1,258)	(986)
			(110)	(110)
			(100)	
			(150)	
				(75)
			(138)	(123)
			(64)	(106)
<u>(4)</u>	<u>-</u>	<u>-</u>	<u>(2,724)</u>	<u>(2,093)</u>
<u>(4)</u>	<u>3</u>	<u>150</u>	<u>(2,333)</u>	<u>(1,896)</u>
950	167	251	1,123	331
<u>1,007</u>	<u>-</u>	<u>-</u>	<u>12,433</u>	<u>12,102</u>
<u>\$1,957</u>	<u>\$167</u>	<u>\$251</u>	<u>\$13,556</u>	<u>\$12,433</u>

# CITY OF PALO ALTO, CALIFORNIA

## SPECIAL REVENUE FUNDS COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND OTHER FINANCING SOURCES (USES) - BUDGET AND ACTUAL FOR THE FISCAL YEAR ENDED JUNE 30, 1997 WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 1996 (In thousands of dollars)

	Street Improvement		Variance
	Budget	Actual	Favorable (Unfavorable)
REVENUES:			
Other taxes and fines	\$1,037	\$1,100	\$ 63
From other agencies:			
Community Development Block Grant		45	45
Federal Urban Aid		116	116
Local Law Enforcement Federal Grant			
State of California			
HOME Grant			
Other revenue from other agencies	174	109	(65)
TDA grant	106	12	(94)
Total from other agencies	280	282	2
Interest earnings	163	189	26
Other:			
Great Western Bank - Loan payoff			
Housing In-Lieu - Residential			
Housing In-Lieu - Industrial			
Traffic Mitigation - Transportation			
University Avenue Parking			
California Avenue Parking			
Sale of property			
Other fees			
Total other			
Total revenues	1,480	1,571	91
EXPENDITURES FOR SPECIAL REVENUE PROJECTS			
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,480	1,571	91
OTHER FINANCING SOURCES (USES):			
Operating transfers in:			
General Fund			
Downtown Planned Community Fund			
Transportation Mitigation Fund			
Housing Improvement Program			
Total transfers in			
Operating transfers out:			
General Fund	(274)	(321)	(47)
Capital Project Fund	(1,301)	(1,214)	87
Debt Service Fund			
Housing In-Lieu Fund			
Special District Fund			
Street Improvement Fund			
Community Development Block Grant Fund			
Enterprise Funds			
Total transfers out	(1,575)	(1,535)	40
Total other financing sources (uses)	(1,575)	(1,535)	40
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (95)	\$ 36	\$131

<u>Federal Revenue</u>		<u>Variance Favorable</u>	<u>Housing-In-Lieu</u>		<u>Variance Favorable</u>	<u>Special Districts</u>		<u>Variance Favorable</u>
<u>Budget</u>	<u>Actual</u>	<u>(Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>(Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>(Unfavorable)</u>
\$ 792	\$814	\$ 22						
10		(10)						
			\$ 50	\$ 50				
<u>802</u>	<u>814</u>	<u>12</u>	<u>50</u>	<u>50</u>				
<u>15</u>	<u>31</u>	<u>16</u>	<u>182</u>	<u>116</u>	<u>\$(66)</u>	<u>\$ 33</u>	<u>\$ 41</u>	<u>\$ 8</u>
7	(6)	(13)						
			7	4	4			
				304	297			
						351	362	11
						84	95	11
			82	82				
			9	8	(1)		1	1
<u>7</u>	<u>(6)</u>	<u>(13)</u>	<u>98</u>	<u>398</u>	<u>300</u>	<u>435</u>	<u>458</u>	<u>23</u>
824	839	15	330	564	234	468	499	31
<u>924</u>	<u>763</u>	<u>161</u>	<u>816</u>	<u>473</u>	<u>343</u>			
<u>(100)</u>	<u>76</u>	<u>176</u>	<u>(486)</u>	<u>91</u>	<u>577</u>	<u>468</u>	<u>499</u>	<u>31</u>
<u>50</u>	<u>138</u>	<u>88</u>	<u>100</u>	<u>100</u>				
<u>50</u>	<u>138</u>	<u>88</u>	<u>100</u>	<u>100</u>				
(228)	(170)	58				(417)	(413)	4
						(39)	(40)	(1)
			(100)	(100)		(110)	(110)	
						(250)	(150)	250
								(150)
(50)	(138)	(88)				(51)	(64)	(13)
<u>(278)</u>	<u>(308)</u>	<u>(30)</u>	<u>(100)</u>	<u>(100)</u>		<u>(867)</u>	<u>(777)</u>	<u>90</u>
<u>(228)</u>	<u>(170)</u>	<u>58</u>				<u>(867)</u>	<u>(777)</u>	<u>90</u>
<u>\$(328)</u>	<u>\$ (94)</u>	<u>\$ 234</u>	<u>\$(486)</u>	<u>\$ 91</u>	<u>\$577</u>	<u>\$(399)</u>	<u>\$(278)</u>	<u>\$121</u>

(Continued)

# CITY OF PALO ALTO, CALIFORNIA

## SPECIAL REVENUE FUNDS COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND OTHER FINANCING SOURCES (USES) - BUDGET AND ACTUAL FOR THE FISCAL YEAR ENDED JUNE 30, 1997 WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 1996 (In thousands of dollars)

	<u>Transportation Mitigation</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:				
Other taxes and fines				
From other agencies:				
Community Development Block Grant				
Federal Urban Aid				
Local Law Enforcement Federal Grant				
State of California				
HOME Grant				
Other revenue from other agencies				
TDA Grant				
Total from other agencies				
Interest earnings	\$ 40		\$ 84	\$ 44
Other:				
Great Western Bank - Loan payoff				
Housing In-Lieu - Residential				
Housing In-Lieu - Industrial				
Traffic Mitigation - Transportation				
University Avenue Parking			517	517
California Avenue Parking				
Sale of property				
Other fees	40		353	313
Total other	40		870	830
Total revenues	80		954	874
EXPENDITURES FOR SPECIAL REVENUE PROJECTS				
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES				
	80		954	874
OTHER FINANCING SOURCES (USES):				
Operating transfers in:				
General Fund				
Downtown Planned Community Fund				
Transportation Mitigation Fund				
Housing Improvement Program				
Total transfers in				
Operating transfers out:				
General Fund				
Capital Project Fund			(4)	(4)
Debt Service Fund				
Housing In-Lieu Fund				
Special District Fund				
Street Improvement Fund				
Community Development Block Grant Fund				
Enterprise Funds				
Total transfers out			(4)	(4)
Total other financing sources (uses)			(4)	(4)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES				
	\$ 80		\$950	\$870

Local Law Enforcement		Variance Favorable (Unfavorable)	Downtown Planned Comm.		Variance Favorable (Unfavorable)	Total Special Revenue Funds			
Budget	Actual		Budget	Actual		Budget 1997	Actual 1997	Variance Favorable (Unfavorable)	Actual 1996
						\$1,037	\$1,100	\$ 63	\$1,080
						792	814	22	286
						10	45	35	46
\$ 30	\$ 30					30	30		
136	136					136	252	116	28
						50	50		
						174	109	(65)	
						106	12	(94)	23
						1,298	1,312	14	383
						433	469	36	488
						7	(6)	(13)	3
						4	4		
						7	304	297	1
			100	100		100	100	100	
						351	879	528	324
						84	95	11	77
						82	82		
						49	362	313	291
						580	1,820	1,240	696
166	173	7	101	101		3,348	4,701	1,353	2,647
169	9	160				1,909	1,245	664	420
(3)	164	167	101	101		1,439	3,456	2,017	2,227
3	3					3	3		
			\$ 250	150	(100)	250	150	(100)	
						150	238	88	75
									122
3	3		250	150	(100)	403	391	(12)	197
						(919)	(904)	15	(693)
						(1,340)	(1,258)	82	(986)
						(110)	(110)		(110)
						(350)	(100)	250	
							(150)	(150)	
						(50)	(138)	(88)	(75)
						(51)	(64)	(13)	(123)
									(106)
						(2,820)	(2,724)	96	(2,093)
3	3		250	150	(100)	(2,417)	(2,333)	84	(1,896)
\$ -	\$ 167	\$ 167	\$ 250	\$ 251	\$ 1	\$ (978)	\$ 1,123	\$ 2,101	\$ 331

(Concluded)

## DEBT SERVICE FUNDS

The Debt Service Funds are used to account for the accumulation of resources for, and the payment of general long-term obligation principal and interest, other than obligations payable from Enterprise and Internal Service Funds.

The City maintains the following Debt Service Funds:

- ***Terman Lease Fund*** - established to account for resources used solely for the purpose of paying the principal and interest on the long-term lease of the former Terman School with the Palo Alto Unified School District.
- ***Golf Course Fund*** - established to account for resources provided from the General Fund for the payment of principal and interest associated with general obligation debt issued for the City's golf course, and certain reserve requirements.
- ***Civic Center Fund*** - established to account for resources provided from the General Fund and used solely for the purpose of paying the Civic Center Certificates of Participation as they become due, and certain reserve requirements.
- ***Special Assessment Debt Fund*** - established to account for the collection of bonded assessments from certain property owners for the purpose of paying the principal and interest on improvement bonds as they become due and for collection of special assessments from property owners within the University Avenue and California Avenue Parking districts solely for the purpose of paying the principal and interest on the parking bonds of the two districts.

# CITY OF PALO ALTO, CALIFORNIA

## DEBT SERVICE FUNDS COMBINING BALANCE SHEET

JUNE 30, 1997 WITH COMPARATIVE TOTALS FOR JUNE 30, 1996

(In thousands of dollars)

	Terman Lease	Golf Course	Civic Center	Special Assessment Debt	Totals June 30	
					1997	1996
<b>ASSETS</b>						
Cash, cash equivalents and investments	\$ 708			\$ 1,026	\$ 1,734	\$ 1,949
Restricted:						
Cash and cash equivalents				90	90	92
Investments		\$ 163	\$ 783		946	942
Special assessment receivable				7,570	7,570	8,096
Interest receivable	<u>11</u>	<u>3</u>	<u>3</u>		<u>17</u>	<u>21</u>
<b>TOTAL ASSETS</b>	<u>\$ 719</u>	<u>\$ 166</u>	<u>\$ 786</u>	<u>\$ 8,686</u>	<u>\$ 10,357</u>	<u>\$ 11,100</u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES:</b>						
Accounts payable and accrued liabilities						
Deferred revenue				\$ 7,570	\$ 7,570	\$ 8,080
Total liabilities				7,570	7,570	8,080
<b>FUND BALANCES - Reserved for debt service</b>	<u>\$ 719</u>	<u>\$ 166</u>	<u>\$ 786</u>	<u>1,116</u>	<u>2,787</u>	<u>3,020</u>
Total fund balances	<u>719</u>	<u>166</u>	<u>786</u>	<u>1,116</u>	<u>2,787</u>	<u>3,020</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 719</u>	<u>\$ 166</u>	<u>\$ 786</u>	<u>\$ 8,686</u>	<u>\$ 10,357</u>	<u>\$ 11,100</u>

# CITY OF PALO ALTO, CALIFORNIA

## DEBT SERVICE FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE FISCAL YEAR ENDED JUNE 30, 1997 WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 1996 (In thousands of dollars)

	Terman Lease	Golf Course	Civic Center	Special Assessment Debt	Totals June 30	
					1997	1996
REVENUES:						
Special assessments				\$ 981	\$ 981	\$ 952
From other agencies	\$246				246	243
Interest earnings	<u>45</u>	<u>\$ 9</u>	<u>\$ 37</u>		<u>91</u>	<u>120</u>
Total revenues	<u>291</u>	<u>9</u>	<u>37</u>	<u>981</u>	<u>1,318</u>	<u>1,315</u>
EXPENDITURES - Debt service:						
Principal retirement	395	100	440	475	1,410	1,365
Interest and fiscal charges	<u>109</u>	<u>47</u>	<u>380</u>	<u>529</u>	<u>1,065</u>	<u>1,125</u>
Total expenditures	<u>504</u>	<u>147</u>	<u>820</u>	<u>1,004</u>	<u>2,475</u>	<u>2,490</u>
EXCESS OF EXPENDITURES OVER REVENUES	<u>(213)</u>	<u>(138)</u>	<u>(783)</u>	<u>(23)</u>	<u>(1,157)</u>	<u>(1,175)</u>
OTHER FINANCING SOURCES -						
Operating transfers in		<u>139</u>	<u>785</u>		<u>924</u>	<u>657</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(213)	1	2	(23)	(233)	(518)
FUND BALANCES, BEGINNING OF YEAR	932	165	784	1,139	3,020	3,532
RESIDUAL EQUITY TRANSFER IN	-	-	-	-	-	6
FUND BALANCES, END OF YEAR	<u>\$719</u>	<u>\$166</u>	<u>\$786</u>	<u>\$1,116</u>	<u>\$2,787</u>	<u>\$3,020</u>



## **CAPITAL PROJECT FUND**

The Capital Project Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds and special revenue funds.

# CITY OF PALO ALTO, CALIFORNIA

## CAPITAL PROJECT FUND BALANCE SHEET

JUNE 30, 1997 WITH COMPARATIVE TOTALS FOR JUNE 30, 1996  
(In thousands of dollars)

	<u>Totals June 30</u>	
	<u>1997</u>	<u>1996</u>
<b>ASSETS</b>		
Cash, cash equivalents and investments	\$ 11,554	\$ 8,502
Restricted - cash and cash equivalents		12
Accounts receivable	<u>485</u>	<u>52</u>
<b>TOTAL ASSETS</b>	<u>\$ 12,039</u>	<u>\$ 8,566</u>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>LIABILITIES:</b>		
Accounts payable and accrued liabilities	<u>\$ 914</u>	<u>\$ 382</u>
Total liabilities	<u>914</u>	<u>382</u>
<b>FUND BALANCES:</b>		
Reserved for -		
Reappropriations and encumbrances	11,871	8,172
Unreserved:		
Designated for capital projects		12
Undesignated	<u>(746)</u>	<u></u>
Total fund balances	<u>11,125</u>	<u>8,184</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 12,039</u>	<u>\$ 8,566</u>

# CITY OF PALO ALTO, CALIFORNIA

## CAPITAL PROJECT FUND SCHEDULE OF REVENUES, EXPENDITURES AND OTHER FINANCING SOURCES (USES) - BUDGET AND ACTUAL FOR THE FISCAL YEAR ENDED JUNE 30, 1997 WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 1996 (In thousands of dollars)

	Year Ended June 30, 1997			Year Ended
	Budget	Actual	Variance Favorable (Unfavorable)	June 30, 1996 Actual
REVENUES:				
From other agencies:				
Stanford University	\$ 16	\$ 10	\$ (6)	\$ 23
Santa Clara County	84	480	396	50
Palo Alto Unified School District		20	20	76
Total from other agencies	100	510	410	149
Interest earnings				2
Proceeds from bond sales				58
Federal grants		55	55	
Community Development Block Grant		45	45	
Other	12	9	(3)	8
Total revenues	112	619	507	217
EXPENDITURES FOR CAPITAL PROJECTS	7,761	6,336	1,425	5,876
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(7,649)	(5,717)	1,932	(5,659)
OTHER FINANCING SOURCES (USES):				
Operating transfers in:				
General Fund	5,668	5,663	(5)	4,979
Utilities - General Fund projects	516	516		381
Special Revenue Funds:				
Street Improvement	1,301	1,215	(86)	986
Special District Fund	39	39		
Traffic mitigation		4	4	
Equipment Replacement	125	125		141
Total operating transfers in	7,649	7,562	(87)	6,487
Operating transfers out:				
Debt Service Fund		(12)	(12)	
Reimbursement from bond reserves				
Total other financing sources	7,649	7,550	(99)	6,487
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ 1,833	\$ 1,833	\$ 828

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## ENTERPRISE FUNDS

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (i.e., expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges; and (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

A separate fund is maintained for each of the City-owned utilities, each of which is a self-supporting activity that renders services on a user charge basis to residents and businesses located in Palo Alto.

The City maintains the following Enterprise Funds:

- Water Fund
- Electric Fund
- Gas Fund
- Wastewater Collection Fund
- Wastewater Treatment Fund
- Refuse Fund
- Storm Drainage Fund

# CITY OF PALO ALTO, CALIFORNIA

## ENTERPRISE FUNDS COMBINING BALANCE SHEET JUNE 30, 1997 WITH COMPARATIVE TOTALS FOR JUNE 30, 1996 (In thousands of dollars)

	Water	Electric	Gas
<b>ASSETS</b>			
CURRENT ASSETS:			
Cash, cash equivalents and investments	\$ 10,172	\$ 70,470	\$ 18,619
Restricted:			
Cash and cash equivalents			
Investments			
Accounts receivable, net	1,551	6,831	1,021
Interest receivable	150	1,041	275
Prepaid items			
	<u>11,873</u>	<u>78,342</u>	<u>19,915</u>
Total current assets			
Property, plant and equipment, net	<u>27,911</u>	<u>92,436</u>	<u>29,185</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 39,784</u></b>	<b><u>\$ 170,778</u></b>	<b><u>\$ 49,100</u></b>
<b>LIABILITIES AND FUND EQUITY</b>			
CURRENT LIABILITIES:			
Accounts payable and accrued liabilities	\$ 769	\$ 1,364	\$ 586
Accrued salaries and benefits	35	126	48
Current portion of revenue bonds, net			
Accrued landfill closure liability			
	<u>804</u>	<u>1,490</u>	<u>634</u>
Total current liabilities			
LONG-TERM LIABILITIES:			
Revenue bonds, net of current portion			
<b>TOTAL LIABILITIES</b>	<b><u>804</u></b>	<b><u>1,490</u></b>	<b><u>634</u></b>
FUND EQUITY:			
Contributed capital	7,751	17,138	3,292
Retained earnings	<u>31,229</u>	<u>152,150</u>	<u>45,174</u>
Total fund equity	<u>38,980</u>	<u>169,288</u>	<u>48,466</u>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b><u>\$ 39,784</u></b>	<b><u>\$ 170,778</u></b>	<b><u>\$ 49,100</u></b>

Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Totals June 30	
				1997	1996
\$ 13,681	\$ 7,254	\$ 12,867	\$ 1,273	\$ 134,336	\$ 121,227
			4,240	4,240	6,989
1,195	512	1,812	192	13,114	13,339
200	109	190	19	1,984	1,906
		187		187	164
15,076	7,875	15,056	5,724	153,861	143,625
<u>24,938</u>	<u>27,117</u>	<u>4,955</u>	<u>10,441</u>	<u>216,983</u>	<u>200,583</u>
<u>\$40,014</u>	<u>\$34,992</u>	<u>\$20,011</u>	<u>\$16,165</u>	<u>\$370,844</u>	<u>\$344,208</u>
\$ 526	\$ 297	\$ 859	\$ 308	\$ 4,709	\$ 5,296
28	62	27	9	335	269
175	380		285	840	801
		6,932		6,932	6,685
<u>729</u>	<u>739</u>	<u>7,818</u>	<u>602</u>	<u>12,816</u>	<u>13,051</u>
<u>1,851</u>	<u>4,027</u>		<u>12,006</u>	<u>17,884</u>	<u>18,695</u>
<u>2,580</u>	<u>4,766</u>	<u>7,818</u>	<u>12,608</u>	<u>30,700</u>	<u>31,746</u>
9,030	21,382			58,593	58,593
<u>28,404</u>	<u>8,844</u>	<u>12,193</u>	<u>3,557</u>	<u>281,551</u>	<u>253,869</u>
<u>37,434</u>	<u>30,226</u>	<u>12,193</u>	<u>3,557</u>	<u>340,144</u>	<u>312,462</u>
<u>\$40,014</u>	<u>\$34,992</u>	<u>\$20,011</u>	<u>\$16,165</u>	<u>\$370,844</u>	<u>\$344,208</u>

# CITY OF PALO ALTO, CALIFORNIA

## ENTERPRISE FUNDS COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS FOR THE FISCAL YEAR ENDED JUNE 30, 1997 WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 1996 (In thousands of dollars)

	Water	Electric	Gas
OPERATING REVENUES:			
Sales of utilities:			
Customers	\$ 12,629	\$ 60,541	\$ 15,833
City departments	651	1,623	396
Wastewater treatment			
Service connection charges and miscellaneous	180	253	391
Other revenues	<u>482</u>	<u>7,754</u>	<u>630</u>
Total operating revenues	<u>13,942</u>	<u>70,171</u>	<u>17,250</u>
OPERATING EXPENSES:			
Purchase of utilities	4,815	25,843	9,728
Administration and general	1,282	2,216	1,245
Engineering (operating)	47	311	55
Resource management	379	2,241	479
Operations and maintenance	1,512	5,088	1,408
Rent	605	1,815	198
Depreciation and amortization	<u>652</u>	<u>4,022</u>	<u>891</u>
Total operating expenses	<u>9,292</u>	<u>41,536</u>	<u>14,004</u>
OPERATING INCOME	<u>4,650</u>	<u>28,635</u>	<u>3,246</u>
NONOPERATING REVENUES (EXPENSES):			
Interest income	585	3,986	1,115
Interest expense			
Joint venture debt service		(8,637)	
Loss on disposal of fixed assets	<u>(14)</u>	<u>(65)</u>	<u>(42)</u>
Total nonoperating revenues (expenses)	<u>571</u>	<u>(4,716)</u>	<u>1,073</u>
INCOME BEFORE OPERATING TRANSFERS	<u>5,221</u>	<u>23,919</u>	<u>4,319</u>
OPERATING TRANSFERS:			
Operating transfers in		148	
Operating transfers out	<u>(2,148)</u>	<u>(7,557)</u>	<u>(2,640)</u>
Net operating transfers	<u>(2,148)</u>	<u>(7,409)</u>	<u>(2,640)</u>
NET INCOME (LOSS)	3,073	16,510	1,679
RETAINED EARNINGS, BEGINNING OF YEAR	28,156	135,640	43,495
RESIDUAL EQUITY TRANSFER OUT	<u>          </u>	<u>          </u>	<u>          </u>
RETAINED EARNINGS, END OF YEAR	<u>\$ 31,229</u>	<u>\$ 152,150</u>	<u>\$ 45,174</u>



Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Totals June 30	
				1997	1996
\$ 8,600		\$ 18,120	\$ 1,954	\$ 117,677	\$ 114,343
83	\$ 3,824	386	109	7,072	6,794
	6,735			6,735	6,341
92				916	736
<u>680</u>	<u>141</u>	<u>2,161</u>	<u>4</u>	<u>11,852</u>	<u>5,433</u>
<u>9,455</u>	<u>10,700</u>	<u>20,667</u>	<u>2,067</u>	<u>144,252</u>	<u>133,647</u>
3,824		6,338		50,548	45,580
308	854	891	406	7,202	6,437
35	1,158	352	227	2,185	2,151
				3,099	2,832
950	6,997	6,850	496	23,301	22,612
80		4,289		6,987	6,998
<u>772</u>	<u>1,570</u>	<u>186</u>	<u>164</u>	<u>8,257</u>	<u>7,635</u>
<u>5,969</u>	<u>10,579</u>	<u>18,906</u>	<u>1,293</u>	<u>101,579</u>	<u>94,245</u>
<u>3,486</u>	<u>121</u>	<u>1,761</u>	<u>774</u>	<u>42,673</u>	<u>39,402</u>
809	445	672	51	7,663	6,859
(147)	(320)		(287)	(754)	(796)
		(397)		(9,034)	(8,972)
<u>(439)</u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>(560)</u>	<u>(183)</u>
<u>223</u>	<u>125</u>	<u>275</u>	<u>(236)</u>	<u>(2,685)</u>	<u>(3,092)</u>
<u>3,709</u>	<u>246</u>	<u>2,036</u>	<u>538</u>	<u>39,988</u>	<u>36,310</u>
		65		213	253
<u>(51)</u>	<u>(33)</u>	<u>(56)</u>	<u>(34)</u>	<u>(12,519)</u>	<u>(11,330)</u>
<u>(51)</u>	<u>(33)</u>	<u>9</u>	<u>(34)</u>	<u>(12,306)</u>	<u>(11,077)</u>
3,658	213	2,045	504	27,682	25,233
24,746	8,631	10,148	3,053	253,869	228,636
<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<u>\$28,404</u>	<u>\$ 8,844</u>	<u>\$12,193</u>	<u>\$3,557</u>	<u>\$281,551</u>	<u>\$253,869</u>

# CITY OF PALO ALTO, CALIFORNIA

## ENTERPRISE FUNDS

### COMBINING STATEMENT OF CASH FLOWS

FOR THE FISCAL YEAR ENDED JUNE 30, 1997

WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 1996

(In thousands of dollars)

	Water	Electric	Gas
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Operating income	\$ 4,650	\$ 28,635	\$ 3,246
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization	652	4,022	891
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	74	(14)	189
(Increase) decrease in interest receivable	(2)	(91)	29
(Increase) decrease in prepaid items			
Increase (decrease) in accounts payable, accrued liabilities and accrued salaries and benefits	(216)	11	(222)
Increase (decrease) in accrued compensated absences			
Increase (decrease) in accrued self insurance			
Increase in accrued landfill closure liability			
Net cash provided by operating activities	<u>5,158</u>	<u>32,563</u>	<u>4,133</u>
CASH FLOWS PROVIDED BY (USED IN) NONCAPITAL FINANCING ACTIVITIES:			
Operating transfers in		148	
Operating transfers out	<u>(2,148)</u>	<u>(7,557)</u>	<u>(2,640)</u>
Net cash provided by (used in) noncapital financing activities	<u>(2,148)</u>	<u>(7,409)</u>	<u>(2,640)</u>
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(2,771)	(10,457)	(3,269)
Principal paid on revenue bonds			
Interest paid on revenue bonds		<u>(8,637)</u>	
Net cash used in capital and related financing activities	<u>(2,771)</u>	<u>(19,094)</u>	<u>(3,269)</u>
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES -			
Interest and dividends on pooled investments	<u>585</u>	<u>3,986</u>	<u>1,115</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	824	10,046	(661)
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>9,348</u>	<u>60,424</u>	<u>19,280</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 10,172</u>	<u>\$ 70,470</u>	<u>\$ 18,619</u>

Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Totals June 30	
				1997	1996
\$ 3,486	\$ 121	\$ 1,761	\$ 774	\$ 42,673	\$ 39,402
772	1,570	186	164	8,257	7,635
136	(53)	(118)	11	225	(482)
(2)	8	(20)		(78)	(125)
		(23)		(23)	(104)
440	(380)	(82)	(72)	(521)	(2,922)
					(538)
					(1,462)
		<u>247</u>		<u>247</u>	<u>247</u>
<u>4,832</u>	<u>1,266</u>	<u>1,951</u>	<u>877</u>	<u>50,780</u>	<u>41,651</u>
		65		213	253
<u>(51)</u>	<u>(33)</u>	<u>(56)</u>	<u>(34)</u>	<u>(12,519)</u>	<u>(11,330)</u>
<u>(51)</u>	<u>(33)</u>	<u>9</u>	<u>(34)</u>	<u>(12,306)</u>	<u>(11,077)</u>
(4,511)	(1,026)	(139)	(3,015)	(25,188)	(18,598)
(166)	(360)		(275)	(801)	(755)
<u>(147)</u>	<u>(320)</u>	<u>(397)</u>	<u>(287)</u>	<u>(9,788)</u>	<u>(9,739)</u>
<u>(4,824)</u>	<u>(1,706)</u>	<u>(536)</u>	<u>(3,577)</u>	<u>(35,777)</u>	<u>(29,092)</u>
<u>809</u>	<u>445</u>	<u>672</u>	<u>51</u>	<u>7,663</u>	<u>6,859</u>
766	(28)	2,096	(2,683)	10,360	8,341
<u>12,915</u>	<u>7,282</u>	<u>10,771</u>	<u>8,196</u>	<u>128,216</u>	<u>119,875</u>
<u>\$13,681</u>	<u>\$7,254</u>	<u>\$12,867</u>	<u>\$5,513</u>	<u>\$138,576</u>	<u>\$128,216</u>

## INTERNAL SERVICE FUNDS

The Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis.

The City maintains the following Internal Service Funds:

- ***Vehicle Replacement and Maintenance Fund*** - established to account for the accumulation of resources to provide for current and future replacement of the City's motor vehicle equipment and for central maintenance services on all City-owned vehicles.
- ***Printing and Mailing Services Fund*** - established to account for central duplicating, printing and mailing services provided to City departments.
- ***General Benefits and Insurance Fund*** - established to account for employee compensated absences and health benefits, and the City's self-insured workers' compensation and general liability programs.

# CITY OF PALO ALTO, CALIFORNIA

## INTERNAL SERVICE FUNDS COMBINING BALANCE SHEET

JUNE 30, 1997 WITH COMPARATIVE TOTALS FOR JUNE 30, 1996

(In thousands of dollars)

	Vehicle Replacement and Maintenance	Printing and Mailing Services	General Benefits and Insurance	Totals June 30	
				1997	1996
<b>ASSETS</b>					
CURRENT ASSETS:					
Cash, cash equivalents and investments	\$ 7,125	\$ 452	\$ 23,321	\$ 30,898	\$ 31,865
Accounts receivable, net	4		14	18	11
Interest receivable	105	7	268	380	297
Inventory	<u>222</u>			<u>222</u>	<u>187</u>
Total current assets	7,456	459	23,603	31,518	32,360
Property, plant and equipment, net	<u>7,065</u>	<u>76</u>		<u>7,141</u>	<u>6,290</u>
<b>TOTAL ASSETS</b>	<u>\$ 14,521</u>	<u>\$ 535</u>	<u>\$ 23,603</u>	<u>\$ 38,659</u>	<u>\$ 38,650</u>
<b>LIABILITIES AND EQUITY</b>					
CURRENT LIABILITIES:					
Accounts payable and accrued liabilities	\$ 57	\$ 9	\$ 54	\$ 120	\$ 904
Accrued salaries and benefits	14	4	1,505	1,523	1,253
Accrued compensated absences - current			5,595	5,595	5,837
Accrued self insurance - current			<u>2,313</u>	<u>2,313</u>	<u>2,388</u>
Total current liabilities	<u>71</u>	<u>13</u>	<u>9,467</u>	<u>9,551</u>	<u>10,382</u>
LONG-TERM LIABILITIES:					
Accrued compensated absences			3,281	3,281	3,094
Accrued self insurance			<u>5,607</u>	<u>5,607</u>	<u>5,445</u>
Total long-term liabilities	<u>-</u>	<u>-</u>	<u>8,888</u>	<u>8,888</u>	<u>8,539</u>
EQUITY:					
Contributed capital	5,801	196		5,997	5,546
Retained earnings	<u>8,649</u>	<u>326</u>	<u>5,248</u>	<u>14,223</u>	<u>14,183</u>
Total equity	<u>14,450</u>	<u>522</u>	<u>5,248</u>	<u>20,220</u>	<u>19,729</u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u>\$ 14,521</u>	<u>\$ 535</u>	<u>\$ 23,603</u>	<u>\$ 38,659</u>	<u>\$ 38,650</u>

# CITY OF PALO ALTO, CALIFORNIA

## INTERNAL SERVICE FUNDS COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS FOR THE FISCAL YEAR ENDED JUNE 30, 1997 WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 1996 (In thousands of dollars)

	Vehicle Replacement and Maintenance	Printing and Mailing Services	General Benefits and Insurance	Totals June 30	
				1997	1996
OPERATING REVENUES -					
Charges for services	<u>\$3,383</u>	<u>\$796</u>	<u>\$25,436</u>	<u>\$29,615</u>	<u>\$29,214</u>
OPERATING EXPENSES:					
Administration and general	528	740	812	2,080	2,020
Operations and maintenance	1,836			1,836	1,791
Depreciation and amortization	1,544	31		1,575	1,419
Claim payments and change in estimated self-insured liability			2,583	2,583	2,379
Compensated absences and other benefits			<u>23,884</u>	<u>23,884</u>	<u>23,627</u>
Total operating expenses	<u>3,908</u>	<u>771</u>	<u>27,279</u>	<u>31,958</u>	<u>31,236</u>
OPERATING INCOME (LOSS)	<u>(525)</u>	<u>25</u>	<u>(1,843)</u>	<u>(2,343)</u>	<u>(2,022)</u>
NONOPERATING REVENUES (EXPENSES):					
Interest income	440	24	1,135	1,599	1,102
Interest expense					(8)
Gain on disposal of fixed assets	115			115	92
Other	<u>86</u>	<u>10</u>	<u>698</u>	<u>794</u>	<u>710</u>
Total nonoperating revenues	<u>641</u>	<u>34</u>	<u>1,833</u>	<u>2,508</u>	<u>1,896</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS	<u>116</u>	<u>59</u>	<u>(10)</u>	<u>165</u>	<u>(126)</u>
OPERATING TRANSFERS OUT	<u>(125)</u>			<u>(125)</u>	<u>(141)</u>
NET INCOME (LOSS)	(9)	59	(10)	40	(267)
RETAINED EARNINGS, BEGINNING OF YEAR	<u>8,658</u>	<u>267</u>	<u>5,258</u>	<u>14,183</u>	<u>14,450</u>
RETAINED EARNINGS, END OF YEAR	<u>\$8,649</u>	<u>\$326</u>	<u>\$5,248</u>	<u>\$14,223</u>	<u>\$14,183</u>

# CITY OF PALO ALTO, CALIFORNIA

## INTERNAL SERVICE FUNDS COMBINING STATEMENT OF CASH FLOWS FOR THE FISCAL YEAR ENDED JUNE 30, 1997 WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 1996 (In thousands of dollars)

	Vehicle Replacement and Maintenance	Printing and Mailing Services	General Benefits and Insurance	Totals June 30	
				1997	1996
CASH FLOWS PROVIDED BY (USED IN) FROM OPERATING ACTIVITIES:					
Operating income (loss)	\$ (525)	\$ 25	\$ (1,843)	\$ (2,343)	\$ (2,022)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	1,544	31		1,575	1,419
Other	201	10	698	909	802
Changes in assets and liabilities:					
Decrease (increase) in accounts receivable	4		(11)	(7)	7
Decrease (increase) in interest receivable	13	(1)	(95)	(83)	92
Increase in inventory	(35)			(35)	(9)
Decrease in prepaid items					20
Increase (decrease) in accounts payable, accrued liabilities and accrued salaries and benefits	(36)	7	(485)	(514)	78
Decrease in accrued compensated absences			(55)	(55)	1,010
Increase in accrued self-insurance			87	87	1,918
Net cash provided by (used in) operating activities	<u>1,166</u>	<u>72</u>	<u>(1,704)</u>	<u>(466)</u>	<u>3,315</u>
CASH FLOWS USED IN NONCAPITAL FINANCING ACTIVITIES - Operating transfers out					
	<u>(125)</u>	<u>—</u>	<u>—</u>	<u>(125)</u>	<u>(141)</u>
CASH FLOWS PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition and construction of capital assets	(1,955)	(20)		(1,975)	(1,905)
Principal paid on capital leases					(311)
Interest paid on capital leases					(8)
Net cash used in capital related activities	<u>(1,955)</u>	<u>(20)</u>	<u>-</u>	<u>(1,975)</u>	<u>(2,224)</u>
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES - Interest and dividends on pooled investments					
	<u>440</u>	<u>24</u>	<u>1,135</u>	<u>1,599</u>	<u>1,102</u>
NET INCREASE (DECREASE) IN CASH AND INVESTMENTS					
	(474)	76	(569)	(967)	2,052
CASH AND EQUIVALENTS, BEGINNING OF YEAR					
	<u>7,599</u>	<u>376</u>	<u>23,890</u>	<u>31,865</u>	<u>29,813</u>
CASH AND EQUIVALENTS, END OF YEAR					
	<u>\$7,125</u>	<u>\$452</u>	<u>\$23,321</u>	<u>\$30,898</u>	<u>\$31,865</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES - Increase in contributed capital					
	\$ 451	\$ -	\$ -	\$ 451	\$ 208

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## TRUST AND AGENCY FUNDS

Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds.

The City uses Expendable Trust Funds to account for programs from which the fund balances and revenue may be expended for purposes specifically designated by the program agreements:

- ***The Community Projects Donations Fund*** accounts for all donations dedicated for community projects on behalf of the City's residents.
- ***The Assets Seizure Fund*** - established to account 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.
- ***The Child Care Fund*** - established to account for funding of the Child Care Master Plan through the efforts of the Child Care Task Force.
- ***The Retiree Health Benefit Fund*** - established to account for funding of retiree health benefits to the extent that actual benefits exceed one and one-half of the City's gross payroll costs in any fiscal period.

Agency Funds are custodial in nature and do not involve measurement of results of operations. The City maintains the Deferred Compensation program established for employees in an Agency Fund.

# CITY OF PALO ALTO, CALIFORNIA

## TRUST AND AGENCY FUNDS COMBINING BALANCE SHEET

JUNE 30, 1997 WITH COMPARATIVE TOTALS FOR JUNE 30, 1996

(In thousands of dollars)

	Expendable Trust Funds			
	Community Projects Donation	Assets Seizure	Child Care	Retiree Health Benefit
<b>ASSETS</b>				
Cash, cash equivalents and investments	\$ 172	\$ 48	\$ 281	\$7,031
Restricted:				
Cash and cash equivalents		1		
Investments				
Interest receivable	<u>2</u>	<u>1</u>	<u>5</u>	<u>104</u>
<b>TOTAL ASSETS</b>	<u>\$ 174</u>	<u>\$ 50</u>	<u>\$ 286</u>	<u>\$7,135</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES:</b>				
Accounts payable and accrued liabilities		\$ 1		
Deferred compensation		<u>    </u>		
Total liabilities		<u>1</u>		
<b>FUND BALANCES:</b>				
Unreserved and undesignated	<u>\$ 174</u>	<u>49</u>	<u>\$ 286</u>	<u>\$7,135</u>
Total fund balances	<u>174</u>	<u>49</u>	<u>286</u>	<u>7,135</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 174</u>	<u>\$ 50</u>	<u>\$ 286</u>	<u>\$7,135</u>

**Agency Fund  
Deferred  
Compensation  
Program**

**Totals  
June 30**

	1997	1996
	\$ 7,532	\$ 7,123
	1	1
\$48,259	48,259	40,105
	112	111
<u>\$48,259</u>	<u>\$55,904</u>	<u>\$47,340</u>
	\$ 1	\$ 10
<u>\$48,259</u>	<u>48,259</u>	<u>40,105</u>
<u>48,259</u>	<u>48,260</u>	<u>40,115</u>
	7,644	7,225
	7,644	7,225
<u>\$48,259</u>	<u>\$55,904</u>	<u>\$47,340</u>

# CITY OF PALO ALTO, CALIFORNIA

**TRUST AND AGENCY FUNDS  
EXPENDABLE TRUST FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES FOR THE FISCAL YEAR ENDED JUNE 30, 1997  
WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDED JUNE 30, 1996  
(In thousands of dollars)**

	Expendable Trust Funds				Totals	
	Community Projects Donation	Assets Seizure	Child Care	Retiree Health Benefit	June 30 1997	1996
REVENUES:						
Interest earnings	\$ 10	\$ 3	\$ 16	\$ 408	\$ 437	\$ 410
Other	<u>13</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>13</u>	<u>29</u>
Total revenues	<u>23</u>	<u>3</u>	<u>16</u>	<u>408</u>	<u>450</u>	<u>439</u>
EXPENDITURES:						
Public safety - police	11	20			31	91
Community services	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>20</u>
Total expenditures	<u>11</u>	<u>20</u>	<u>-</u>	<u>-</u>	<u>31</u>	<u>111</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>12</u>	<u>(17)</u>	<u>16</u>	<u>408</u>	<u>419</u>	<u>328</u>
OTHER FINANCING SOURCES (USES):						
Operating transfers in						50
Operating transfers out	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(50)</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	12	(17)	16	408	419	328
FUND BALANCES, BEGINNING OF YEAR	<u>162</u>	<u>66</u>	<u>270</u>	<u>6,727</u>	<u>7,225</u>	<u>6,897</u>
FUND BALANCES, END OF YEAR	<u>\$ 174</u>	<u>\$ 49</u>	<u>\$ 286</u>	<u>\$ 7,135</u>	<u>\$ 7,644</u>	<u>\$ 7,225</u>

# CITY OF PALO ALTO, CALIFORNIA

**TRUST AND AGENCY FUNDS  
DEFERRED COMPENSATION PROGRAM AGENCY FUND  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 1997  
(In thousands of dollars)**

	Balances July 1, 1996	Additions	Deductions	Balances June 30, 1997
<b>ASSETS</b>				
RESTRICTED INVESTMENTS:				
The Hartford	\$25,720	\$ 5,838	\$1,859	\$29,699
ICMA	13,571	5,064	841	17,794
Great Western Savings	<u>814</u>	<u>33</u>	<u>81</u>	<u>766</u>
Total cash and cash equivalents with fiscal agents	<u>40,105</u>	<u>10,935</u>	<u>2,781</u>	<u>48,259</u>
<b>TOTAL ASSETS</b>	<u><b>\$40,105</b></u>	<u><b>\$10,935</b></u>	<u><b>\$2,781</b></u>	<u><b>\$48,259</b></u>
<b>LIABILITIES</b>				
DEFERRED COMPENSATION	<u>\$40,105</u>	<u>\$10,935</u>	<u>\$2,781</u>	<u>\$48,259</u>
<b>TOTAL LIABILITIES</b>	<u><b>\$40,105</b></u>	<u><b>\$10,935</b></u>	<u><b>\$2,781</b></u>	<u><b>\$48,259</b></u>

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## **GENERAL FIXED ASSETS ACCOUNT GROUP**

The General Fixed Assets Account Group includes those fixed assets which are used in the performance of general governmental functions and excludes the fixed assets of the enterprise and internal service funds. Fixed assets in this account group are stated at historical cost, or estimated historical cost if actual historical cost is not available.

# CITY OF PALO ALTO, CALIFORNIA

## SCHEDULE OF GENERAL FIXED ASSETS - BY SOURCE JUNE 30, 1997 WITH COMPARATIVE TOTALS FOR JUNE 30, 1996 (In thousands of dollars)

	June 30	
	1997	1996
GENERAL FIXED ASSETS:		
Land and improvements	\$ 50,579	\$ 49,693
Buildings and structures	48,716	48,211
Equipment	<u>4,872</u>	<u>5,034</u>
<b>TOTAL GENERAL FIXED ASSETS</b>	<u><b>\$ 104,167</b></u>	<u><b>\$ 102,938</b></u>
INVESTMENT IN GENERAL FIXED ASSETS FROM:		
Investment in assets, beginning of year	\$ 102,938	\$ 105,028
Investment in assets acquired from current activity, net	1,811	3,411
Adjustment to the carrying value of fixed assets as discussed in the general purpose financial statements	<u>(582)</u>	<u>(5,501)</u>
<b>TOTAL INVESTMENT IN GENERAL FIXED ASSETS</b>	<u><b>\$ 104,167</b></u>	<u><b>\$ 102,938</b></u>

	Beginning Balance July 1, 1996	Additions Fiscal Year 1996-1997	Deletions/ Transfers	Ending Balance June 30, 1997
Investments in general fixed assets acquired prior to July 1, 1996	\$105,028			\$105,028
Adjustments to the carrying value	(4,781)		\$ (433)	(5,214)
Source of funding for general fixed assets acquired from July 1, 1996 through June 30, 1997:				
General Fund	(215)	\$ 73		(142)
Capital Projects Funds	<u>2,906</u>	<u>1,738</u>	<u>(149)</u>	<u>4,495</u>
<b>TOTAL INVESTMENTS IN GENERAL FIXED ASSETS</b>	<u><b>\$ 102,938</b></u>	<u><b>\$ 1,811</b></u>	<u><b>\$ (582)</b></u>	<u><b>\$ 104,167</b></u>



# CITY OF PALO ALTO, CALIFORNIA

## SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS - BY SOURCE FOR THE FISCAL YEAR ENDED JUNE 30, 1997 (In thousands of dollars)

	Land and Improvements	Buildings and Structures	Equipment	Total Cost
GENERAL FIXED ASSETS, JUNE 30, 1996	<u>\$ 49,693</u>	<u>\$48,211</u>	<u>\$ 5,034</u>	<u>\$ 102,938</u>
ADD:				
Expenditures from:				
General Fund Revenues			73	73
Capital Project Fund Revenues	<u>886</u>	<u>510</u>	<u>342</u>	<u>1,738</u>
Total additions	<u>886</u>	<u>510</u>	<u>415</u>	<u>1,811</u>
DEDUCT:				
Deletions	<u>-</u>	<u>5</u>	<u>577</u>	<u>582</u>
Total deductions	<u>-</u>	<u>5</u>	<u>577</u>	<u>582</u>
GENERAL FIXED ASSETS, JUNE 30, 1997	<u>\$ 50,579</u>	<u>\$48,716</u>	<u>\$ 4,872</u>	<u>\$ 104,167</u>

# CITY OF PALO ALTO, CALIFORNIA

## SCHEDULE OF GENERAL FIXED ASSETS - BY FUNCTION AND ACTIVITY JUNE 30, 1997 WITH COMPARATIVE TOTALS FOR JUNE 30, 1996

(In thousands of dollars)

	Land and Improvements	Buildings and Structures	Equipment	June 30	
				1997	1996
ADMINISTRATION:					
City clerk and council			\$ 55	\$ 55	\$ 52
City manager			11	11	5
City attorney					22
Administrative services			1,377	1,377	1,144
General government	<u>\$ 1,782</u>	<u>\$ 13,957</u>	<u>1,222</u>	<u>16,961</u>	<u>17,126</u>
Total administration	1,782	13,957	2,665	18,404	18,349
PUBLIC SAFETY:					
Police			25	25	287
Fire	392	5,188	144	5,724	5,857
Communications			603	603	378
Animal services	<u>37</u>	<u>330</u>	<u>33</u>	<u>400</u>	<u>385</u>
Total public safety	429	5,518	805	6,752	6,907
LIBRARIES	245	2,881	228	3,354	3,172
PARKS, RECREATION AND CULTURE	27,017	17,685	1,174	45,876	44,729
PARKING FACILITIES	3,012	8,675		11,687	11,687
OPEN SPACE	17,808			17,808	17,808
HOUSING	<u>286</u>			<u>286</u>	<u>286</u>
TOTAL GENERAL FIXED ASSETS	<u>\$ 50,579</u>	<u>\$ 48,716</u>	<u>\$ 4,872</u>	<u>\$ 104,167</u>	<u>\$ 102,938</u>

# CITY OF PALO ALTO, CALIFORNIA

## SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS - BY FUNCTION AND ACTIVITY FOR THE FISCAL YEAR ENDED JUNE 30, 1997 (In thousands of dollars)

	Balances July 1, 1996	Additions	Deletions/ Transfers	Balances June 30, 1997
<b>ADMINISTRATION:</b>				
City clerk and council	\$ 52	\$ 6	\$ (3)	\$ 55
City manager	5	6		11
City attorney	22		(22)	
Administrative services	1,144	233		1,377
General government	<u>17,126</u>	<u>378</u>	<u>(543)</u>	<u>16,961</u>
Total administration	18,349	623	(568)	18,404
<b>PUBLIC SAFETY:</b>				
Police	287		(262)	25
Fire	5,857		(133)	5,724
Communications	378	7	218	603
Animal services	<u>385</u>	<u>      </u>	<u>15</u>	<u>400</u>
Total public safety	6,907	7	(162)	6,752
LIBRARIES	3,172	116	66	3,354
PARKS, RECREATION AND CULTURE	44,729	1,065	82	45,876
PARKING FACILITIES	11,687			11,687
OPEN SPACE	17,808			17,808
HOUSING	<u>286</u>	<u>      </u>	<u>      </u>	<u>286</u>
<b>TOTAL GENERAL FIXED ASSETS</b>	<u>\$ 102,938</u>	<u>\$ 1,811</u>	<u>\$ (582)</u>	<u>\$ 104,167</u>

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## STATISTICAL TABLES AND OTHER SCHEDULES (UNAUDITED)

Statistical Tables and Other Schedules are included to provide detailed data on the physical, economic, social and political characteristics of the reporting government. They are intended to provide the user with a broader and more complete understanding of the City and its financial affairs than is possible from the General Purpose Financial Statements and supporting schedules included in the Financial Section.

# CITY OF PALO ALTO, CALIFORNIA

## GENERAL GOVERNMENTAL REVENUES BY SOURCE LAST TEN FISCAL YEARS (In thousands of dollars) (Unaudited)

Fiscal Year	Sales Taxes	Property Taxes	Other Taxes	Service Fees and Permits	Fines, Forfeits and Penalties
1987-88	\$ 12,590	\$ 6,578	\$ 10,056	\$ 4,835	\$ 998
1988-89	12,409	6,887	12,376	5,024	1,383
1989-90	13,987	7,512	12,158	5,615	1,251
1990-91	14,140	8,109	12,317	6,168	1,222
1991-92	14,692	8,555	12,493	6,570	1,097
1992-93	13,322	8,367	13,663	6,923	1,068
1993-94 (A)	14,635	7,737	14,763	7,915	1,180
1994-95	14,765	7,485	14,682	7,955	1,179
1995-96	17,895	7,854	15,469	8,380	1,032
<b>1996-97</b>	<b>18,277</b>	<b>7,735</b>	<b>16,777</b>	<b>9,087</b>	<b>1,219</b>

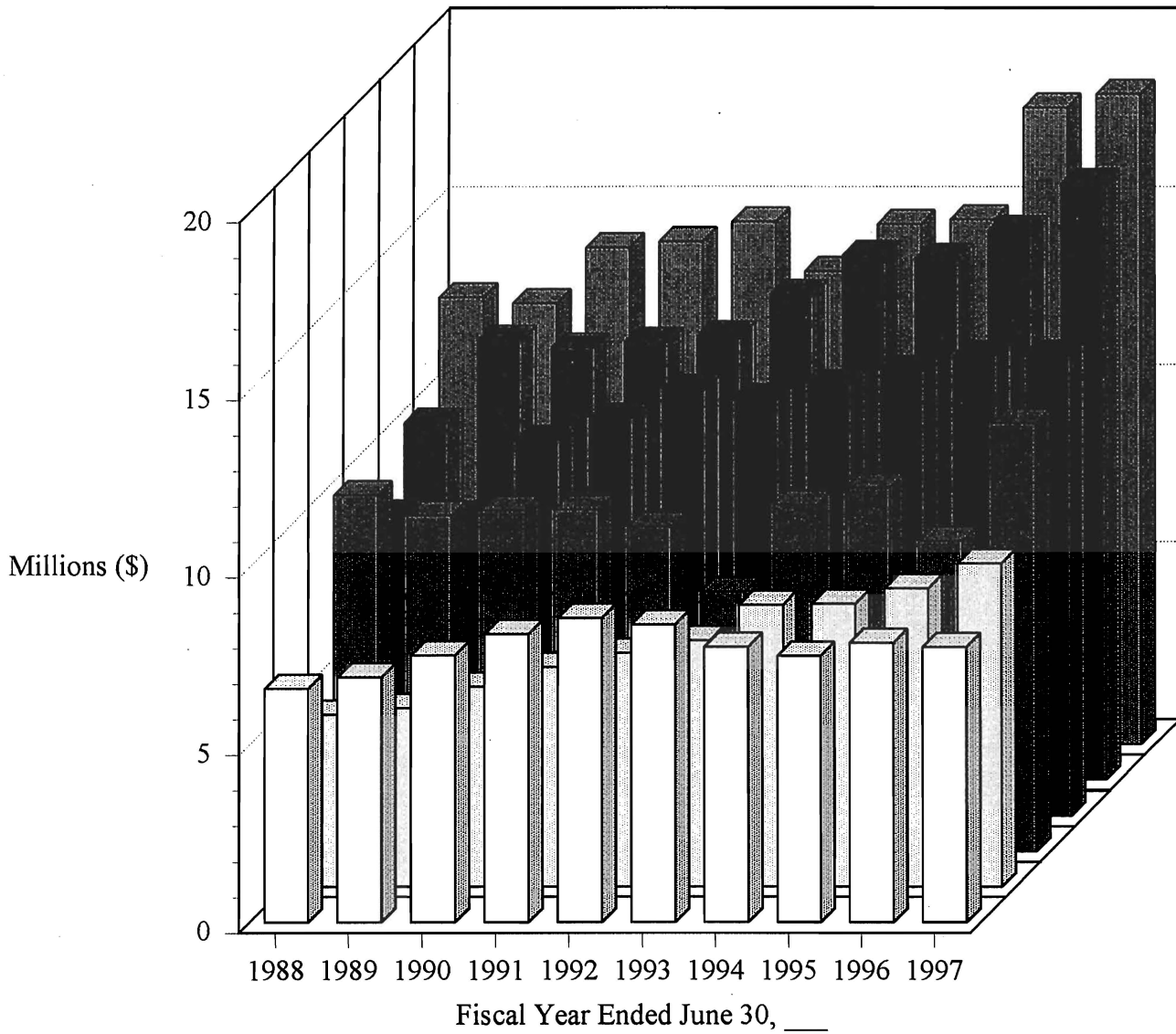
Note: Includes general, special revenue, debt service and capital project funds.

(A) During fiscal year 1993-94 the City implemented GASB Statement No. 14, *The Reporting Entity*, and as a result the Palo Alto Centennial 1994, Inc. was included in the beginning of this year. Data prior to 1993-94 has not been restated.

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<b>Interest and Rentals</b>	<b>Fire Protection and Emergency Communication Services</b>	<b>From Other Agencies</b>	<b>Other</b>	<b>Total</b>
\$ 8,468	\$ 3,479	\$ 1,365	\$ 4,182	\$ 52,551
8,444	3,227	1,193	3,628	54,571
10,567	3,029	1,269	4,038	59,426
11,190	3,561	1,711	3,110	61,528
12,001	3,908	2,982	1,127	63,425
11,725	3,565	1,910	750	61,293
12,132	3,884	2,295	2,381	66,922
12,528	4,097	2,007	2,938	67,636
12,953	4,073	1,144	2,445	71,245
<b>12,966</b>	<b>4,193</b>	<b>2,261</b>	<b>4,380</b>	<b>76,895</b>

# CITY OF PALO ALTO GENERAL REVENUES BY SOURCE (unaudited)



Property Tax     
  Service Fees & Permits     
  All Other Revenues (1)

Interest & Rentals     
  Other Taxes     
  Sales Tax

(1) Includes all revenues from categories: Fines, Forfeits and Penalties; Fire Protection and Emergency Communication Services; From Other Agencies; and Other. (pp 92 - 93)



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# CITY OF PALO ALTO, CALIFORNIA

## GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION LAST TEN FISCAL YEARS (In thousands of dollars) (Unaudited)

Fiscal Year	Administration (A)	Public Works	Planning and Community Environment	Police	Fire
1987-88	\$ 7,660	\$ 11,384	\$ 2,553	\$ 11,347	\$ 8,562
1988-89	9,117 (B)	7,953	2,807	10,954	8,339
1989-90	7,788	7,729	3,065	11,881	9,067
1990-91	7,830	5,871	2,881	12,867	9,762
1991-92	8,519	7,129	3,313	13,076	10,027
1992-93	8,809	6,673	3,757	13,380	10,040
1993-94 (C)	9,343	7,058	4,160	14,150	11,718
1994-95	10,340	7,517	3,842	14,058	11,437
1995-96	11,133	6,614	3,901	14,066	11,739
<b>1996-97</b>	<b>11,689</b>	<b>7,339</b>	<b>4,320</b>	<b>14,804</b>	<b>12,292</b>

Note: Includes general, special revenue, debt service and capital project funds.

(A) Comprised of the following departments:

City Council	City Auditor
City Manager	Administrative Services
City Attorney	Human Resources
City Clerk	

(B) Includes litigation settlement of \$1,820.

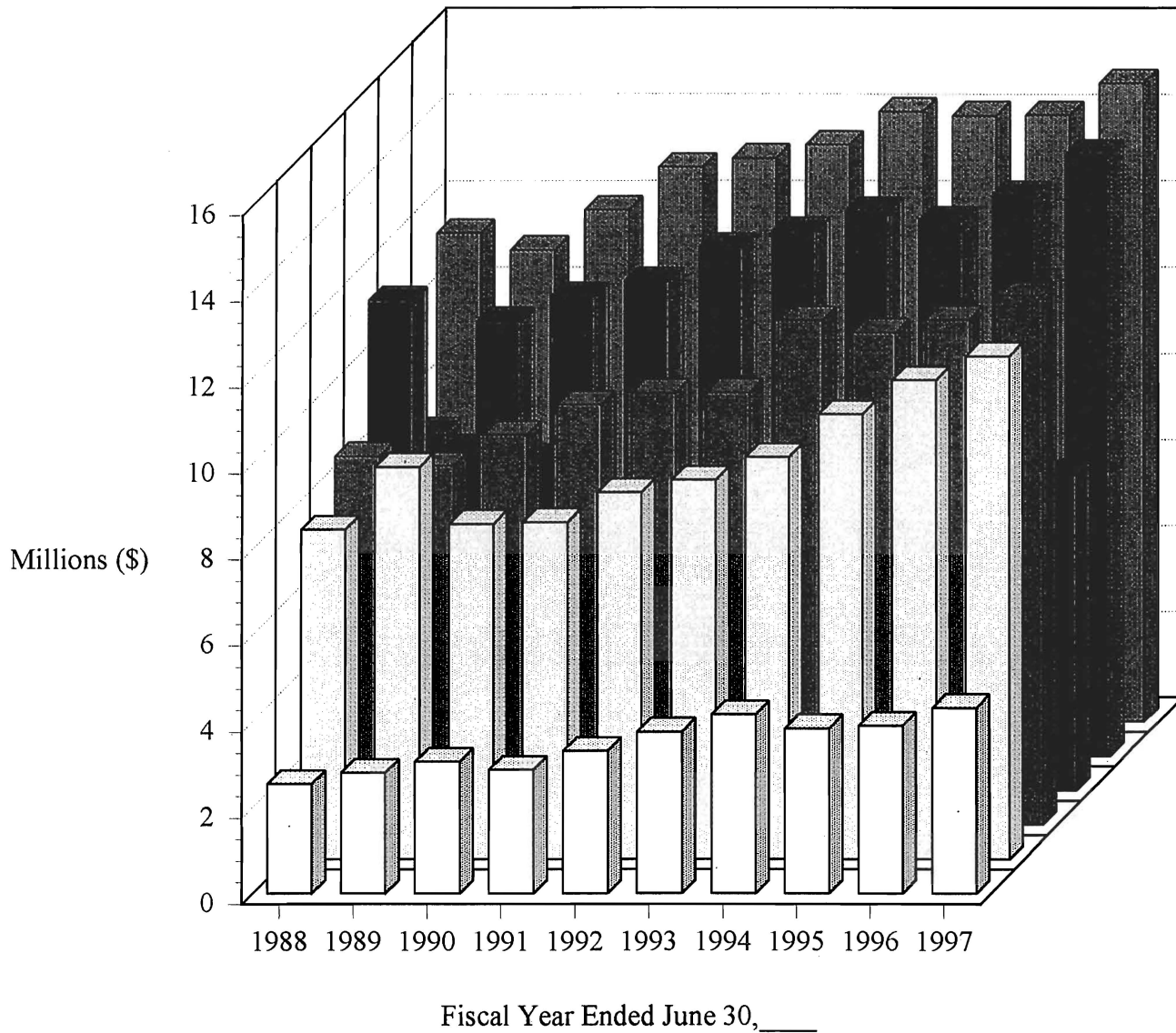
(C) During fiscal year 1993-94 the City implemented GASB Statement No. 14, *The Reporting Entity*, and as a result the Palo Alto Centennial 1994, Inc. was included in the beginning of this year. Data prior to 1993-94 has not been restated.

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<b>Community Services</b>	<b>School Site Operations</b>	<b>Special Revenue and Capital Projects</b>	<b>Debt Service</b>	<b>Total</b>
\$ 7,547	\$ 850	\$4,171	\$2,916	\$ 56,990
10,098	2,378	6,470	2,789	60,905
10,674	3,434	5,641	2,547	61,826
11,025	5,164	9,303	3,139	67,842
11,816	5,469	6,609	2,765	68,723
12,183	5,632	5,342	2,541	68,357
12,651	5,645	7,450	2,569	74,744
12,435	5,884	7,722	2,415	75,650
13,019	5,992	6,296	2,490	75,250
<b>13,972</b>	<b>6,086</b>	<b>7,581</b>	<b>2,475</b>	<b>80,558</b>

# CITY OF PALO ALTO

## GENERAL FUND DEPARTMENTAL EXPENDITURES (unaudited)



Fiscal Year Ended June 30, \_\_\_\_

□ Community Environment	□ Administration (A)
■ Fire	■ Public Works
■ Community Services	■ Police

(A) Comprised of the following departments: City Council, City Manager, City Attorney, City Clerk, City Auditor, Administrative Services and Human Resources

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# CITY OF PALO ALTO, CALIFORNIA

## PROPERTY TAX RATES, LEVIES AND COLLECTIONS LAST TEN FISCAL YEARS (In thousands of dollars) (Unaudited)

Fiscal Year	Assessed Value	Total Tax Levy (1)	Current Tax Collections	Delinquent Tax Collections	Total Tax Collections (2)
1987-88	\$ 5,162,625	\$ 6,586	\$ 6,437	\$ 141	\$ 6,578
1988-89	5,339,581	6,869	6,726	161	6,887
1989-90	5,864,061	7,509	7,356	156	7,512
1990-91	6,501,973	8,192	7,970	139	8,109
1991-92	6,949,429	8,617	8,372	183	8,555
1992-93	7,443,688	8,373	8,148	219	8,367
1993-94 (3)	7,592,131	7,310	7,310	427	7,737
1994-95	7,795,396	7,485	7,485	-	7,485
1995-96	8,058,927	7,854	7,854	-	7,854
<b>1996-97</b>	<b>8,206,532</b>	<b>7,735</b>	<b>7,735</b>	<b>-</b>	<b>7,735</b>

Note: (1) Article XIII-A of the Constitution of the State of California adopted by the electorate in June 1978 precludes the City from a local property tax levy. All general purpose property taxes are levied by the county and allocated to other governmental entities on a predetermined formula.

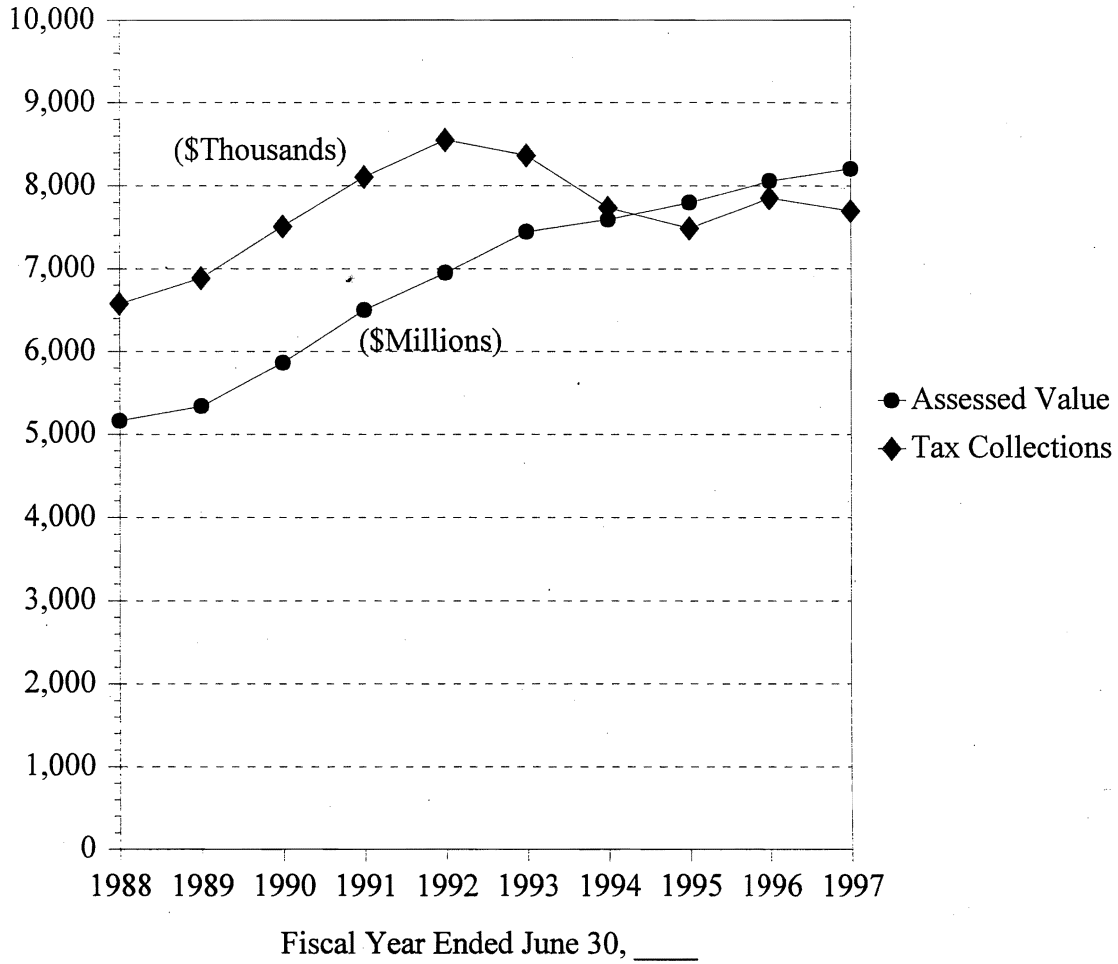
(2) Includes collection of the current levy plus delinquencies and penalties of prior years.

(3) Effective with the fiscal year 1993-94, the City is on the Teeter Plan, under which the County of Santa Clara pays the City the full tax levy due. All prior delinquent taxes were also received in this fiscal year.

# CITY OF PALO ALTO

## ASSESSED VALUES vs TAX COLLECTION

(unaudited)



# CITY OF PALO ALTO, CALIFORNIA

## ASSESSED VALUE OF TAXABLE PROPERTY LAST TEN FISCAL YEARS (In thousands of dollars) (Unaudited)

Fiscal Year	Secured Roll			Public Utilities (1)
	Land	Improvements	Personal Property	
1987-88	\$ 1,543,130	\$ 2,588,554	\$ 120,321	\$ 130,952
1988-89	1,670,237	2,809,962	142,484	7,295
1989-90	1,897,944	3,019,530	134,389	8,138
1990-91	2,168,956	3,253,018	107,494	10,139
1991-92	2,324,109	3,446,205	275,237	13,666
1992-93	2,533,275	3,758,000	356,415	3,200
1993-94	2,687,134	3,876,127	353,803	1,425
1994-95	2,764,558	4,018,251	281,479	1,508
1995-96	2,865,710	4,129,805	277,037	2,508
<b>1996-97</b>	<b>3,045,477</b>	<b>4,259,209</b>	<b>340,073</b>	<b>2,410</b>

Note: (1) Beginning in fiscal year 1988-89, Chapter 921 of the Statutes of 1987 requires the establishment of a single county-wide tax rate area for the assignment of the assessed value of certain types of state-assessed utility property and sets forth formulas for the determination of county-wide tax rates for this particular type of property.

Source: County of Santa Clara Assessor's Office



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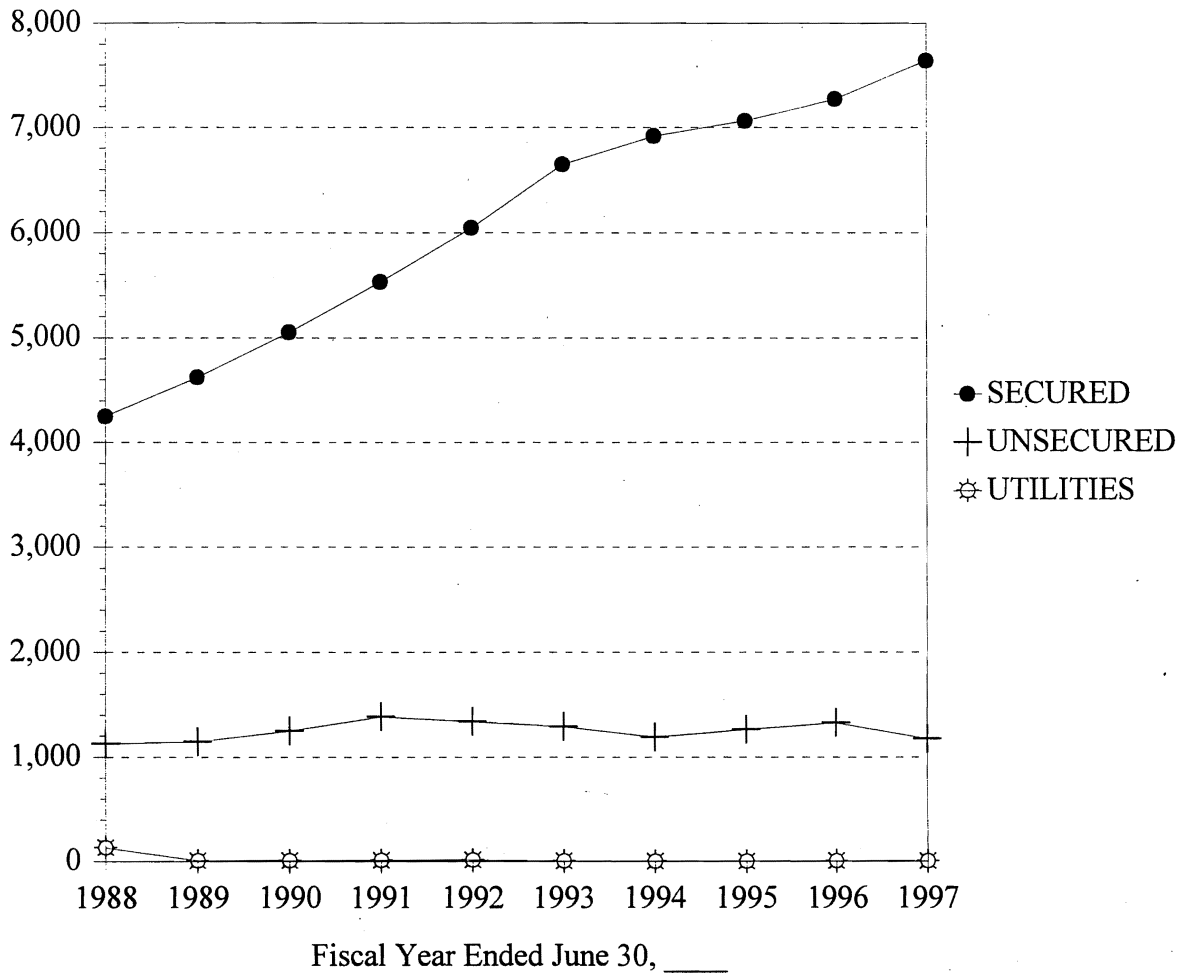
<b>Unsecured Roll</b>	<b>Less Exemptions Net of State-Aid</b>	<b>Total Assessed Value</b>
\$ 1,128,227	\$ 348,559	\$ 5,162,625
1,145,899	436,296	5,339,581
1,248,028	443,968	5,864,061
1,384,622	422,256	6,501,973
1,340,081	449,869	6,949,429
1,290,140	497,342	7,443,688
1,188,354	514,712	7,592,131
1,262,254	532,654	7,795,396
1,325,835	541,968	8,058,927
<b>1,173,563</b>	<b>614,200</b>	<b>8,206,532</b>

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# CITY OF PALO ALTO

## ASSESSED VALUE OF TAXABLE PROPERTY

(unaudited)



# CITY OF PALO ALTO, CALIFORNIA

## PROPERTY TAX RATES - ALL OVERLAPPING GOVERNMENTS (PER \$100 OF ASSESSED VALUE) LAST TEN FISCAL YEARS (Unaudited)

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Fiscal Year	County of Santa Clara	School Districts	Special Districts	Total	Parking District
1987-88	\$ 1.039	\$ 0.016	\$ 0.002	\$ 1.057	-
1988-89	1.038	0.011	0.000	1.049	-
1989-90	1.038	0.008	0.000	1.046	-
1990-91	1.039	0.004	0.000	1.043	-
1991-92	1.039	0.002	0.000	1.041	-
1992-93	1.029	0.003	0.000	1.032	-
1993-94	1.031	0.000	0.000	1.031	-
1994-95	1.033	0.000	0.000	1.033	-
1995-96	1.034	0.003	0.000	1.037	-
<b>1996-97</b>	<b>1.034</b>	<b>0.121</b>	<b>0.000</b>	<b>1.155</b>	-

Note: Tax rates stated are the rates applicable to the tax area having the highest assessed valuation of all areas within the City of Palo Alto. Rates are based on \$100 assessed valuation.

Source: County of Santa Clara, Tax Rates and Information

# CITY OF PALO ALTO, CALIFORNIA

## SPECIAL ASSESSMENT BILLINGS AND COLLECTIONS LAST TEN FISCAL YEARS (In thousands of dollars) (Unaudited)

Fiscal Year	County Assessment Due	Current Assessment Collected	Delinquent and Penalties Collected	Total Collections
1987-88	\$ 1,017	\$ 981	\$ 35	\$ 1,016
1988-89	1,127	1,086	31	1,117
1989-90	989	954	36	990
1990-91	1,016	997	23	1,020
1991-92	994	984	14	998
1992-93	959	939	11	950
1993-94 (1)	850	850	14	864
1994-95	1,016	1,016	-	1,016
1995-96	952	952	-	952
<b>1996-97</b>	<b>1,016</b>	<b>1,016</b>	<b>-</b>	<b>1,016</b>

Note: (1) Effective with the fiscal year 1993-94, the City is on the Teeter Plan, under which the County of Santa Clara pays the City the full assessment due. Payment for all prior delinquencies was also received in this fiscal year.

# CITY OF PALO ALTO, CALIFORNIA

## RATIO OF NET GENERAL BONDED DEBT TO ASSESSED VALUE AND NET BONDED DEBT PER CAPITA LAST TEN FISCAL YEARS (In thousands of dollars) (Unaudited)

Fiscal Year	Population	Assessed Value	Bonded Debt (1)	Percent of Bonded Debt to Assessed Value	Bonded Debt Per Capita
1987-88	56,900	\$ 5,162,625	\$ 20,671	.400%	\$ .36
1988-89	56,950	5,339,581	19,616	.367	.34
1989-90	57,400	5,864,061	20,334	.347	.35
1990-91	56,000	6,501,973	19,046	.293	.34
1991-92	56,330	6,949,429	20,605	.296	.37
1992-93	57,300	7,443,688	19,331	.260	.34
1993-94	58,100	7,592,131	20,888	.275	.36
1994-95	58,580	7,795,396	19,113	.245	.33
1995-96	58,500	8,058,927	17,471	.217	.30
<b>1996-97</b>	<b>59,900</b>	<b>8,206,532</b>	<b>16,061</b>	<b>.196</b>	<b>.27</b>

Note: (1) General Bonded Debt includes: General Revenue Bonds, Certificates of Participation, Special Assessment Debt, and Capital Lease Obligations. It excludes the outstanding balance of the lease purchase of copiers acquired in 1990-91 in the amount of \$34,000 and optical imaging equipment acquired in 1991-92 in the amount of \$27,000.

# CITY OF PALO ALTO, CALIFORNIA

## COMPUTATION OF LEGAL DEBT MARGIN

JUNE 30, 1997

(In thousands of dollars) (Unaudited)

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1996-97 Assessed value		<u>\$8,206,532</u>
Debt limit - 15% of assessed value		\$1,230,980
Amount of debt applicable to debt limit:		
General revenue bonds	\$ 725	
Certificates of participation	5,675	
Capital lease obligations	1,581	
Special assessment debt with governmental commitment	<u>8,080</u>	
Total	16,061	
Less amount available in debt service funds	<u>(2,787)</u>	
Total amount of debt applicable to debt limit		<u>13,274</u>
Legal debt margin		<u>\$1,217,706</u>

Note: (1) The above does not include debt recorded in the Enterprise Funds because such debt is not subject to the legal debt margin.

# CITY OF PALO ALTO, CALIFORNIA

## SCHEDULE OF DIRECT AND OVERLAPPING BONDED DEBT

JUNE 30, 1997

(In thousands of dollars) (Unaudited)

1996-97 Assessed Valuation

\$8,206,532

Direct and Overlapping Bonded Debt	% Applicable	June 30, 1997 Bonded Debt
OVERLAPPING TAX AND ASSESSMENT DEBT:		
Palo Alto Unified School District	89.628	\$ 112,869
Other School Districts and School Authorities	6.546	1,010
City of Palo Alto Special Assessment Bonds	100.000	8,080
Special Districts	13.802	4,525
Total overlapping tax and assessment debt		126,484
DIRECT AND OVERLAPPING LEASE OBLIGATION DEBT:		
Santa Clara County General Fund Obligations	7.570	38,961
Santa Clara County Board of Education Certificates of Participation	7.570	1,583
Other School Districts and School Authorities	23.662	6,233
City of Palo Alto General Fund Obligations	100.000	7,981 (1)
Santa Clara Valley Water District Certificates of Participation	7.570	10,288
Other Special Districts	13.431	<u>6,274</u>
Total gross direct and overlapping lease obligation debt		71,320
Less: El Camino Hospital Authority (100% self-supporting)		<u>(3)</u>
Total net direct and overlapping lease obligation		<u>\$ 71,317</u>
NET COMBINED TOTAL DEBT		<u>\$ 197,801</u>

Note: (1) Includes \$1,581 Terman School Capital Lease Obligation.

Ratios to Assessed Valuation:

Gross Direct Debt (\$7,981)	.10%
Total Gross Debt	2.41%
Total Net Debt	2.41%

Source: California Municipal Statistics, Inc.



# CITY OF PALO ALTO, CALIFORNIA

## RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL BONDED DEBT TO TOTAL GENERAL EXPENDITURES LAST TEN FISCAL YEARS (In thousands of dollars) (Unaudited)

Fiscal Year	Principal	Interest and Other Charges	Total Debt Service	Total General Expenditures (1)	Ratio of Debt Service to Total General Expenditures
1987-88	\$ 1,198	\$ 1,718	\$ 2,916	\$ 56,990	5.12
1988-89	1,113	1,676	2,789	60,905	4.58
1989-90	1,112	1,435	2,547	61,826	4.12
1990-91	1,289	1,850	3,139	67,842	4.63
1991-92	1,151	1,614	2,765	68,723	4.02
1992-93	1,274	1,267	2,541	68,357	3.72
1993-94	1,305	1,264	2,569	74,744	3.44
1994-95	1,245	1,170	2,415	75,650	3.19
1995-96	1,365	1,125	2,490	75,250	3.31
<b>1996-97</b>	<b>1,410</b>	<b>1,065</b>	<b>2,475</b>	<b>80,558</b>	<b>3.07</b>

Note: (1) Includes general, special revenue, debt service and capital project funds.

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# CITY OF PALO ALTO, CALIFORNIA

## REVENUE BOND COVERAGE - WATER, ELECTRIC, GAS, WASTEWATER COLLECTION, WASTEWATER TREATMENT AND STORM DRAINAGE FUNDS LAST TEN FISCAL YEARS

(In thousands of dollars) (Unaudited)

Fiscal Year	Gross Revenue (1)	Direct Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service		Requirements	
				Principal	Interest	Total	Coverage
1987-88	\$ 97,084	\$ 63,382	\$ 33,702	\$334	\$ 1,044	\$ 1,378	\$ 24.46
1988-89	97,790	60,344	37,446	534	1,011	1,545	24.24
1989-90	104,948	70,090	34,858	565	935	1,500	23.24
1990-91	109,115	70,302	38,813	950	922	1,872	20.73
1991-92	115,659	65,861	49,798	690	829	1,519	32.78
1992-93	119,274	66,212	53,062	735	1,159	1,894	28.02
1993-94	132,317	68,371	63,946	875	945	1,820	35.14
1994-95	124,537	76,693	47,844	555	997	1,552	30.83
1995-96	120,828	68,096	52,732	755	1,308	2,063	25.56
1996-97	130,576	74,602	55,974	801	1,263	2,064	27.13

Note: (1) 1993-94 excludes electric rebate.

(2) Excludes depreciation and amortization expense.

# CITY OF PALO ALTO, CALIFORNIA

## DEMOGRAPHIC STATISTICS LAST TEN FISCAL YEARS (Unaudited)

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Fiscal Year	City Size Square Miles	Street Miles	City Population (1)	County Population (1)
1987-88	25.98	193.12	56,900	1,431,600
1988-89	25.98	193.12	56,950	1,440,900
1989-90	25.98	193.12	57,400	1,463,500
1990-91	25.98	193.12	56,000	1,513,100
1991-92	25.98	193.12	56,330	1,531,700
1992-93	25.98	193.12	57,300	1,563,800
1993-94	25.98	193.12	58,100	1,587,800
1994-95	25.98	193.12	58,580	1,607,700
1995-96	25.98	193.12	58,500	1,612,300
<b>1996-97</b>	<b>25.98</b>	<b>193.12</b>	<b>59,900</b>	<b>1,653,100</b>

Sources: (1) State Department of Finance  
(2) Palo Alto Unified School District  
(3) State Employment Development Office

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<b>City Population as a % of County</b>	<b>School Population (2)</b>	<b>Unemployment Rate (3)</b>
3.97	7,683	2.6%
3.95	7,477	2.6%
3.92	7,443	2.3%
3.70	7,496	3.9%
3.68	7,756	4.5%
3.66	7,970	3.8%
3.66	8,334	3.3%
3.64	8,419	2.8%
3.63	9,122	1.9%
<b>3.62</b>	<b>9,407</b>	<b>1.5%</b>

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CITY OF PALO ALTO, CALIFORNIA

CONSTRUCTION ACTIVITY  
LAST TEN FISCAL YEARS

(In thousands of dollars) (Unaudited)

Fiscal Year	Industrial		Commercial or Office		Residential		All Others	
	Number of Permits	Valuation	Number of Permits	Valuation	Number of Permits	Valuation	Number of Permits	Valuation
1987-88	10	\$ 1,125	311	\$ 42,062	1,100	\$ 40,870	81	\$ 13,033
1988-89	3	182	316	59,835	1,130	47,334	65	5,192
1989-90	7	249	331	66,373	1,195	43,378	53	3,474
1990-91	6	470	342	79,998	1,088	41,862	70	9,935
1991-92	11	814	355	82,088	1,087	38,101	63	2,692
1992-93	7	2,244	388	68,923	1,079	33,065	65	2,506
1993-94	23	2,509	377	61,492	1,081	37,284	96	3,823
1994-95	20	2,169	364	42,302	1,032	35,563	72	7,055
1995-96	10	1,256	400	71,015	1,194	58,262	89	11,052
1996-97	2	41	375	94,444	1,095	57,617	106	5,874

# CITY OF PALO ALTO, CALIFORNIA

## INSURANCE COVERAGE JUNE 30, 1997 (Unaudited)

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Type	Coverage (or comment)
<b>Property Loss</b>	
Blanket	All real & personal property - (\$10,000 deductible)
Boiler & Machinery	All real & personal property: (\$50,000 deductible - all distributors) (\$10,000 deductible - all other objects)
<b>Financial Loss</b>	
Employee Blanket	Position bond - faithful performance per loss - (\$5,000 deductible)
<b>Trustee Errors and Omissions</b>	Trustee errors and omissions (\$15,000 deductible)
<b>Umbrella Excess</b>	City is a member of an insurance pool participating with a number of other California cities. First excess layer (\$5,000,000 deductible)
<b>Special Liability</b>	
Volunteers Accident	Each Occurrence Medical - Each Person (\$25 deductible)
Special Events	Bodily Injury
<b>Employee Benefit</b>	
Travel Accident	Indemnity, based on salary
<b>Employee Health Plan</b>	The City participates in the California Public Employees' Medical and Health Care Act (PEMHCA) program to provide medical benefits to employees and retirees.
<b>Workers' Compensation</b>	City is self-insured for first \$500,000 of liability
<b>Excess Workers' Compensation</b>	Excess Workers' Compensation Employers Liability



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<b>Limits</b>	<b>Company</b>	<b>Expiration Date</b>
\$186,579,037	Federal Insurance Company	07/01/98
\$10,000,000 per accident	Federal Insurance Company	07/01/98
\$1,000,000	Hartford Accident & Indemnity	07/01/98
\$1,000,000	National Union Fire Insurance	07/01/98
\$9,000,000 per occurrence	ACCEL Group	07/01/98
\$27,000,000 aggregate		
\$17,000,000 per occurrence	Insurance Company of Pennsylvania	07/01/98
\$5,000	North American Life Insurance Co.	01/01/98
\$1,000,000 per occurrence	General Star Indemnity Co.	01/01/98
\$1,500,000 per accident	Cigna Insurance Co.	06/30/98
\$2,000,000	National Union Fire Insurance	07/01/98

# CITY OF PALO ALTO, CALIFORNIA

## PRINCIPAL PROPERTY TAXPAYERS

JUNE 30, 1997

(In thousands of dollars) (Unaudited)

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	Type of Business	Assessed Valuation	% of Total Assessed Valuation
Leland Stanford Jr. University	University and Ancillary	\$1,338,432	16.31
Space Systems/Loral, Inc.	Research and Development	157,790	1.92
Sun Microsystems, Inc.	Computers and Electronics	48,685	0.59
Harbor Investment Partners	General Industrial	39,433	0.48
S I Palo Alto, Inc.	Offices, Banks and Clinics	35,970	0.44
Cowper-Hamilton Associates	Offices, Banks and Clinics	35,083	0.43
University Avenue Partners and Associates	Offices, Banks and Clinics	25,511	0.31
Stanford Square Limited Partners	Offices, Banks and Clinics	21,338	0.26
Maytai Investments, Inc.	Offices, Banks and Clinics	15,499	0.19
Digital Equipment Corporation	Computers and Electronics	<u>14,674</u>	<u>0.18</u>
Totals		<u>\$1,732,415</u>	<u>21.11</u>

Source: Center for Urban Analysis, County of Santa Clara

# CITY OF PALO ALTO, CALIFORNIA

## MISCELLANEOUS STATISTICAL INFORMATION

JUNE 30, 1997

(Unaudited)

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Discovered	1769
Incorporated	April 16, 1894
Incorporated as charter city	July 1, 1909
Government	Council - City Manager Form
Population	59,900
Land Area	25.98 Square Miles
City Maintained Trees	38,600
Police Protection	1 Station 160 Regular Employees 30 Police Patrol Vehicles
Fire Protection	7 Stations 117 Regular Employees 24 Fire Apparatus 1,500 Fire Hydrants
Community Services	142 Acres - Downtown Parks 3,997 Acres - Open Space 36 Parks 1 Golf Course 47 Tennis Courts 1 Athletic Center 4 Community Centers 3 Theatres 1 Cultural Center 1 Junior Museum and Zoo 3 Swimming Pools 2 Nature Centers 6 Libraries
Number of Housing Units	25,625 Units
Commercial and Industrial Space	27.1 Million Square Feet
Municipal Utility Plants:	
Water	6.4 Million CCF Sold, 19,249 Accounts 216 Miles of Mains
Wastewater	10,169 Million Gallons Processed 21,929 Accounts 219 Miles of Sanitary Sewer Lines
Electric	1,078 Million KWH Sold, 27,540 Accounts 192 Pole Miles, 251 Trench Miles
Gas	35 Million Therms Sold, 23,311 Accounts 171 Miles of Gas Mains

