



# city of palo alto

comprehensive  
annual  
financial report  
for the  
fiscal year ended  
june 30, 1999



**CITY OF PALO ALTO**  
**C A L I F O R N I A**

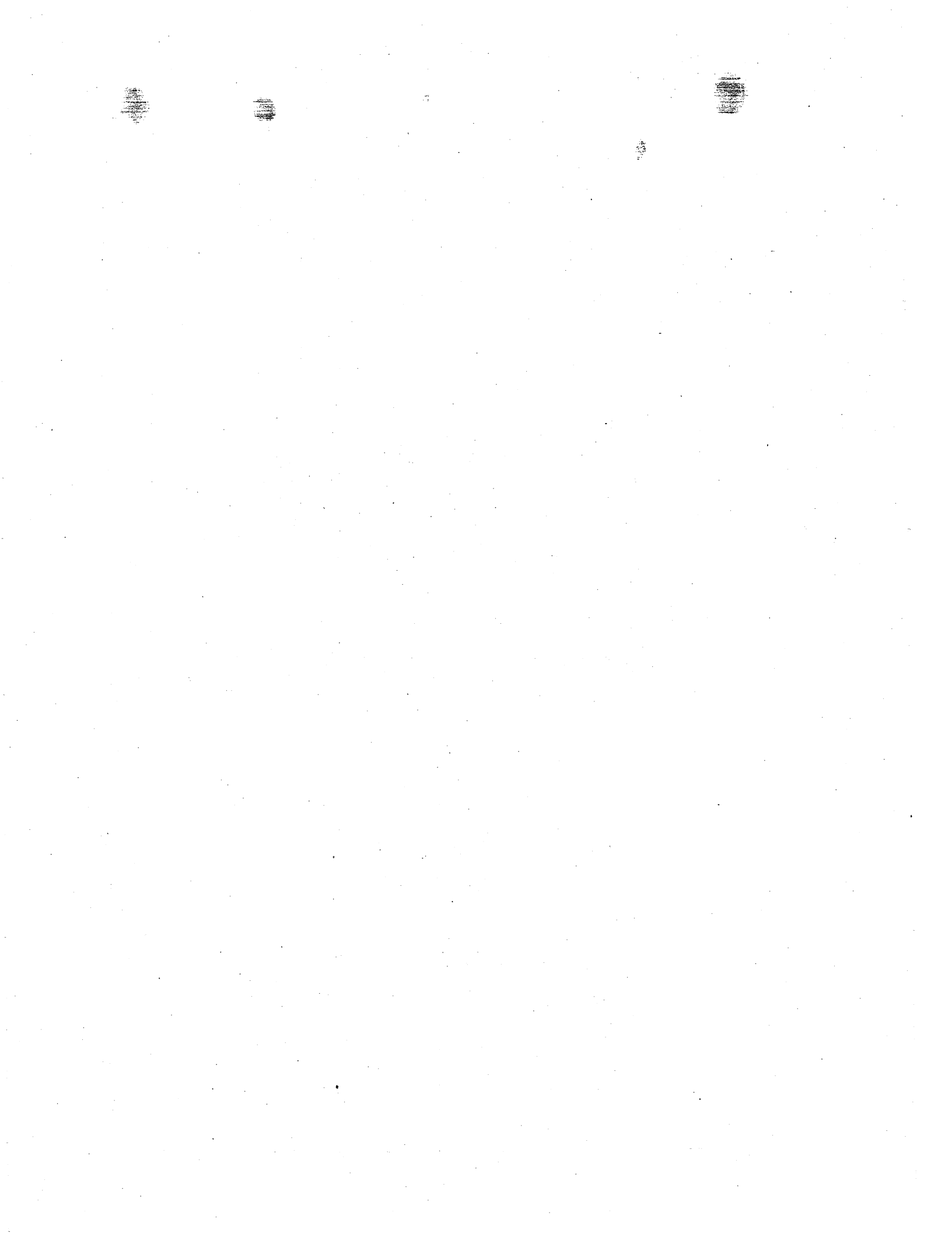


***Comprehensive  
Annual  
Financial Report***

**For the  
Fiscal Year Ended  
June 30, 1999**

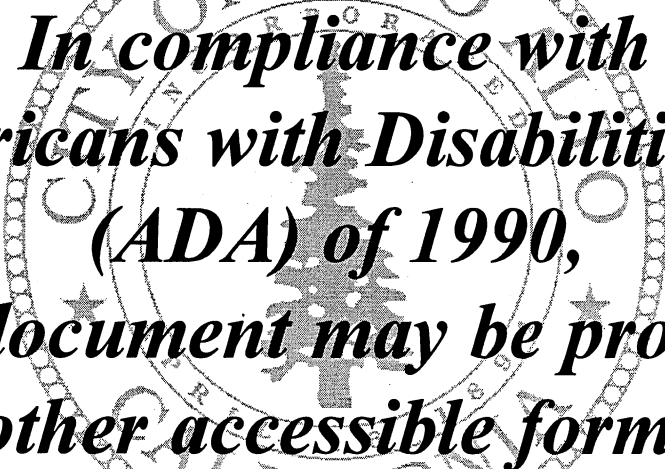


*prepared by the*  
**Administrative Services Department**





# AMERICANS WITH DISABILITY ACT STATEMENT



*In compliance with  
Americans with Disabilities Act  
(ADA) of 1990,  
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in other accessible formats.*

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CITY OF PALO ALTO, CALIFORNIA  
Comprehensive Annual Financial Report

For the Year Ended June 30, 1999

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December 1, 1999

THE HONORABLE CITY COUNCIL  
Palo Alto, California

*Attention:* Finance Committee

## COMPREHENSIVE ANNUAL FINANCIAL REPORT YEAR ENDED JUNE 30, 1999

Members of the Council and Citizens of Palo Alto:

### **ABOUT THE CAFR**

The Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 1999 is submitted for Council review in accordance with Article IV, Section 13 of the City of Palo Alto Charter and published as a matter of public record for interested citizens. This transmittal letter intends to provide a summary of the City of Palo Alto's finances, economic prospects and achievements that is easily accessible to those without a background in accounting or finance. As such, unnecessary use of accounting and legal jargon has been avoided, the length has been kept to a minimum and color graphics have been used to illustrate key financial results.

### **Management Responsibility**

While the City's independent auditor has expressed an opinion on the financial statements in this report, City management takes sole responsibility for the content of the CAFR. To the best of its knowledge, staff believes the information contained in this CAFR is accurate in all material respects and presents fairly the City's financial position as of June 30, 1999.

### **Overview**

The City of Palo Alto's CAFR consists of four sections: introductory, financial, statistical and single audit. The introductory section provides the table of contents, general information about the City's organization and staffing and this transmittal letter. The financial section reports assets, liabilities, fund balances and operating results for all fund types, individual funds and account groups. The statistical section provides ten-year trend data for key financial, demographic and other indicators. The single audit section provides an audit report for federally funded programs.

### **Reporting Entity**

The scope of the CAFR includes the City of Palo Alto's governmental and utility operations plus two "component units", separate legal entities that are financially accountable to the City whose omission would make the financial statements misleading and incomplete. The Palo Alto Golf Course and the Palo Alto Public



Improvement Corporations qualify as component units because the City of Palo Alto has the ability to control their policies and actions through the appointment of directors.

**Independent Audit**

Maze & Associates has audited the financial section of the CAFR and has issued an opinion that the statements are fairly stated and in compliance with generally accepted accounting principles. This is commonly referred to as an “unqualified” opinion. The full text of the auditor’s opinion appears at the beginning of the financial section of the CAFR.

**Awards**

During the past year, the City received two awards for the prior fiscal year Comprehensive Annual Financial Report, one from the Government Finance Officers Association (GFOA) for “excellence in financial reporting” and one from the California Society of Municipal Finance Officers (CSMFO) for “outstanding financial reporting”. This is the fifth consecutive year the City has received both of these awards and the current certificates appear immediately after the end of this transmittal letter.

**ABOUT  
PALO ALTO**

The City of Palo Alto is located in northern Santa Clara County, approximately 35 miles south of the City of San Francisco and 12 miles north of the City of San Jose. Spanish explorers named the area for the tall, twin-trunked redwood tree they camped beneath in 1769. The City of Palo Alto was incorporated in 1894 and was granted its first charter by the State of California in 1909.

**Local Economy**

Palo Alto is now a thriving, largely built-out community with a population of 61,200 persons in the heart of the Silicon Valley and Greater San Francisco economies. The City of Palo Alto is adjacent to Stanford University, one of the most prestigious higher educational institutions in the nation. Stanford University has been important to the economic development of the City, producing the talent that founded many successful high-tech companies in Palo Alto and the entire Silicon Valley. The University, along with its medical center and research park, also provides employment diversity beyond the high-tech sector, allowing Palo Alto to enjoy an economic stability lacking in other Silicon Valley cities.

The City is home to many large and small electronics, computer hardware and software, and biotechnology firms, with the largest employers including Hewlett-Packard, Stanford University, Loral, Palo Alto Medical Foundation and Roche Bioscience. In 1998-99, the number of jobs in Palo Alto totaled approximately 91,000, resulting in a low unemployment rate of 1.7 percent for Palo Alto residents.

The quality of life in the City of Palo Alto, with its many services, parks and excellent public educational system, provides a strong attraction. Consequently, the average price of a residential home is extremely high at \$630,000 and the median household income is also high at 180 percent of the national average. Assessed property valuation has been increasing consistently over the past five years, jumping 8.3 percent in each of the last two years to a current valuation of \$9.6 billion.

Vacancy rates for commercial properties are very low at 1.7 percent, with rental rates in downtown Palo Alto comparable to downtown San Francisco. The City is also an important retail center. The downtown area and the Stanford Shopping Center draw shoppers from all over the San Francisco Bay Area, with per capita retail sales nearly three times the state and national averages.

When the state faced an economic downturn in the early 1990's, the City's economy maintained a steady level during the same period and has since boomed along with the entire region. While this boom is leveling off somewhat, the strength of the high technology businesses driving the local economy plus the diversity of the City's revenue base, point to continued economic stability.

### **City Organization**

Palo Alto operates as a charter city under a council-manager form of government. The Council consists of nine members elected at-large for four-year, staggered terms. At the first meeting of each calendar year, the Council elects a Mayor and Vice-Mayor from its membership, with the Mayor having the duty of presiding over all Council meetings. The Council is the appointing authority for the City Manager, who is responsible for directing seven service departments and seven public utility operations. The City Council also appoints three other officials, the City Attorney, City Clerk, and City Auditor, who report directly to it.

### **City Services**

The City provides a full range of municipal services that include police, fire, general administration, public works, planning, building, transportation, six libraries, golf, arts, science, recreational and human services. In addition, the City 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 of Palo Alto offers outstanding open space, recreation and cultural facilities with over 4,000 acres dedicated to parks and wildlife preserves, a golf course, four community centers, a cultural center, adult and children theaters, and a junior museum. A wide array of social, recreational and cultural events such as human services for seniors and youth, subsidized childcare, continuing education classes, concerts, exhibits, team sports and special events are available. Also, the City and the Palo Alto Unified School District (PAUSD) jointly maintain school athletic fields for recreational use by the general community.

The City offers a high level of public safety service with eight fire stations providing services throughout the community. In response to the February 2-3, 1998 storm that resulted in unprecedented flooding, the City has increased its emergency preparedness for future disasters. Improvements include a weather station in Foothills Park, water level monitoring equipment at San Francisquito, Adobe and Matadero Creeks, upgrades to the City's Emergency Operation Center, training for emergency response staff, improved volunteer coordination, a public awareness and education program and an Emergency Notification System for residents. Also, Palo Alto created a joint powers agreement with several other cities and agencies to manage the San Francisquito Creek watershed.

## **FINANCIAL POLICY & CONTROL**

While retaining the authority to approve all actions, the City Council has established an advisory subcommittee to consider the financial policy and control areas discussed below. The Council and the Finance Committee oversee the City's financial performance through the review of the CAFR, external and internal audits, mid-year and year-end budget-versus-actual reports, performance measures and investment reports.

### **Budgetary Control**

The City has adopted a budget format called "mission driven budgeting". This approach focuses on the presentation of services by function, the costs associated with those services and service delivery impact measures. This format permits Council to allocate resources rationally, evaluate staff performance and determine the effectiveness of City services. The City Council adopts budgets for all funds except Trust and Agency Funds. As initial input for the budget process, Council formally establishes a set of priorities.

The level at which expenditures may not exceed appropriated amounts ("legal level of budgetary control") is by department for the General Fund and by fund for the Special Revenue, Debt Service, Enterprise and Internal Service Funds. The Capital Projects Fund budgets and manages expenditures at the project level. The City reduces budget balances available for expenditure as purchase orders are issued ("encumbrance system") to reserve funds for later payment and to avoid over-commitments.

Management presents a two-year budget to Council for all appropriated funds, except for the Capital Project Fund, which has a five-year plan. Since the City is required under the terms of a state law (Proposition 4 - Gann) to adhere to an annual appropriation limit, Council votes to formally approve only the first year of the budget. Formal adoption of the second year of the budget occurs the following year. The Council has the authority to amend the budget as necessary during the year.

### **Internal Controls**

Primary consideration has been given to the adequacy of internal controls in the design and implementation of the City's financial management system. The controls intend to protect City assets from loss, theft, or misuse, to record transactions reliably for preparation of financial statements, and to provide reasonable assurance that these objectives are met. "Reasonable assurance" means that the City recognizes that control cannot be absolute, the cost of internal controls should not exceed the benefits likely to be derived, and the evaluation of costs and benefits requires management estimates and judgments.

### **Cash & Investments**

The City of Palo Alto invests funds prudently and has adopted an investment policy as prescribed by State law that restricts the City to investments emphasizing safety and liquidity versus return on investment. As of June 30, 1999, fifty-four percent of the City's investments will mature in less than two years and \$20.8 million was available in next day funds, representing over one month's expenditures. A strong flow of daily cash is due in part to a consistent flow of utility revenues. The City's investment practice is to buy securities and hold them to maturity to avoid potential losses from a sale. During 1998-99, staff complied with all aspects of the investment policy.

The City has adopted Government Accounting Standards Board (GASB) Statement 31 that requires accounting for investments at fair market value rather than historical cost. The City adjusts the value of its investments to market at year-end and includes the increase or decrease as a gain or loss in current year income. This gain or loss is called "unrealized" because the City is still holding the securities and there would be an actual financial impact only if they had been sold.

Last year, City booked a \$1.939 million "unrealized" gain on investments and, in 1998-99, the City has booked a \$1.904 million "unrealized" loss. The fair market value of the City's portfolio at June 30, 1999 was \$290.5 million at June 30, 1998, which is \$32.7 million higher than the prior year-end. The return on the City's portfolio in 1998-99 is comprised of interest earnings less the "unrealized" GASB 31 loss, and earnings totaled \$16.0 million for a 5.16 percent yield. This compares to a \$14.8 million return and 6.58 percent yield in the prior fiscal year. Investment performance is essentially the same between the two years as most of the difference in the yield is accounted for by the opposing GASB 31 "unrealized" income adjustments.

**Debt Administration**

Debt recorded in the General Long-Term Debt Group at June 30, 1999 totaled \$18.5 million, as compared to \$12.7 million at the close of the prior fiscal year. These debt obligations consist of:

<u>Type</u>	<u>Principal Outstanding</u>
Special Assessment Debt with City Commitment	\$5,195
Certificates of Participation (COPs)	\$12,480
Capital Lease	\$791

Debt recorded in Enterprise Funds totaled \$24.4 million at June 30, 1999, as compared to \$17.9 million at the close of the prior fiscal year.

In 1998-99, the City was informed that it received the highest general city credit rating possible from both Standard & Poor's (AAA) and Moody's Investor Services (Aaa). Palo Alto is the first city in California to obtain the top rating from Standard and Poor's since the passage of Proposition 13 in 1978. Moody's has issued only one other top rating to a municipal government recently.

**Risk Management**

The City is obligated by law to maintain adequate reserves for its self-insured health, dental, workers' compensation and general liability programs. Reserve levels are calculated and recorded annually based on an actuarial study that also includes an estimate of incurred, but not reported, losses. The City's self-insurance reserves totaled \$7.7 million in 1998-99, which is the same amount as for the prior year.

The City handles liability claims through the Authority of California Cities Excess Liabilities (ACCEL) Program, a shared risk pool with eleven other cities. Participation in ACCEL provides the City with an alternative to purchasing liability insurance from commercial carriers and the cost has been significantly less.

## **SPOTLIGHT ON COUNCIL PRIORITIES**

In October 1997, the City Council of Palo Alto established the following three priorities to guide staff in the development of the 1998-99 and 1999-00 budgets: 1) The Comprehensive Plan, 2) The Infrastructure Plan, and 3) Traffic Management and Safety. Below are brief progress reports on each priority.

### **Comprehensive Plan**

After five years of collaborative development with citizens, staff, advisory boards and the Planning Commission, the City Council adopted the 1998-2010 Comprehensive Plan. This plan is the primary tool for guiding the future development of the City in the areas of land use and community design, transportation, housing, natural environment, community facilities and services, business and economics and governance.

During this past fiscal year, staff returned to Council with an implementation chapter that was added to the Plan by amendment. The Comprehensive Plan Steering Committee, appointed by the City Manager, is central to the implementation. This committee has the following objectives:

- to integrate Plan goals into the regular operating and capital budgets
- to review changes and amendments to the Plan
- to ensure timely accomplishment of the Plan
- to educate citizens on Plan goals and progress

The Committee incorporated the new Comprehensive Plan into the 1999-00 Budget and Capital Improvement Program. In May 1999, the Committee issued its first annual status report of progress.

### **Infrastructure Planning**

Over several years, Council had expressed concern that the general city infrastructure was deteriorating unacceptably. Staff provided a series of reports analyzing unmet maintenance and replacement needs for buildings, streets, and sidewalks and for transportation and open space facilities. These reports identified \$95.0 million in infrastructure replacement and rehabilitation costs over the next ten years. In June 1998, Council approved an Infrastructure Management Plan that established a methodology for prioritizing and financing these projects.

The projects emerging from the Infrastructure Management Plan were folded into the 1999-2001 Budget and were partially financed through the General Fund Infrastructure Reserve. In 1996-97, Council created this reserve to set aside a portion of year-end General Fund surpluses for infrastructure purposes. The Infrastructure Reserve balance at June 30, 1999 totaled \$14.7 million, with \$2.1 million added during this fiscal year. To meet all the goals of the Infrastructure Management Plan, the City needs to supplement the Infrastructure Reserve with additional financing from annual appropriations and other new revenue sources as appropriate.

In late 1998, the Finance Committee reviewed a list of new infrastructure needs with estimated costs totaling \$133 to \$217 million. Undertaking these projects in the timeframes desired by their proponents is beyond the financial reach of the City and projects must compete for scarce resources or alternative funding sources such as general obligation bonds and increased taxes, fees and assessments.

Prior to considering these potential projects, the City must review the long-term financial projections for the General Fund. In 1999-00, staff will bring a long-term financial forecast to the Council for this purpose.

**Traffic  
Management  
and Safety**

For several years, Council has placed high priority on addressing congestion, speed and traffic safety issues throughout the City. To that end, staff conducts regular meetings with residential, community and business groups to understand their concerns. The challenge that has emerged is how to achieve two potentially conflicting goals: 1) provision of an efficient, multi-modal transportation system meeting diverse, high volume needs and 2) promotion of a high level of safety and quality of life in both residential and non-residential neighborhoods.

Major projects completed during 1998-99 include a traffic-calming study of Embarcadero Road, a plan for community-based shuttle buses, installation of new safety devices at intersections, a school safety study and upgraded bicycle lockers at the California Avenue and downtown train stations.

Major in-progress projects include the extension and upgrade of Sand Hill Road as a component of Stanford University's retail, office and residential development project, the creation of a special assessment district to finance and build additional downtown parking facilities and the development of a residential permit parking program in the neighborhoods adjacent to the downtown area.

**SPOTLIGHT  
ON  
TECHNOLOGY**

The City has recognized that much of its information technology architecture and infrastructure is aging and suffers from efficiency and integration problems. Certain City systems are on the leading edge of technology and the City received awards this year for the quality of its Internet website and its Geographic Information System (GIS). During 1998-99, several systems were evaluated, upgraded or replaced and a brief description of the most important projects follow.

**Information  
Technology  
Strategic Plan**

In 1997-98, the development of an information technology strategic plan was initiated. This plan addresses hardware, software, networking and staffing strategies and was completed in early 1999-00. Implementation of this plan will require significant resources and it will compete for funding with the other proposed capital spending projects before the City.

**Customer  
Information  
System**

Work on an integrated customer billing system for all City utilities operations continued in 1998-99. Customers will be able to pay bills in several ways, including credit card and automatic billing to bank accounts. This large, complex project replaces an obsolete, internally developed system. It is expected to "go live" early in 1999-00.

**Year 2000  
Compliance**

Preparing City systems to handle date processing properly for the calendar year 2000 (Y2K) dominated the information technology agenda during 1998-99. The City conducted extensive Y2K compliance testing, obtained certifications from vendors and financial institutions concerning their Y2K readiness, upgraded and replaced non-compliant systems and developed a contingency plan for continuing to provide City services should there be computer disruptions after the new year. The City established an area on its website to keep the public informed of its Y2K efforts. It includes a

status report on all of the City's "mission critical" systems, including those systems affecting public safety and delivery of utility services.

## **GENERAL GOVERNMENT HIGHLIGHTS**

The City of Palo Alto accounts for its general government functions in general, special revenue, debt service and capital project funds. These "governmental" type funds focus on cash flows and current financial resources and they emphasize budgetary control, annual appropriations and fund balance amounts.

### **Fund Balances**

In 1998-99, combined general government revenues and other financing sources totaled \$118.7 million and expenditures and other financing uses totaled \$115.4 million. The \$3.3 million net increase resulted in a \$81.4 million combined fund balance at June 30, 1999. The addition to fund balance is \$9.2 million less than the prior year's addition of \$12.5 million. This result is due primarily to a leveling off of the economic expansion of recent years, increased capital outlay expenditures and the effect of the GASB 31 "unrealized gain/loss" on investments, discussed in the "Financial Policy & Control" section above. The General Fund by itself ended the fiscal year with a \$3.2 million addition to fund balance, compared to \$6.5 million in the prior year, which is a \$3.3 million decrease between fiscal years.

### **Revenues & Other Sources**

This year actual direct revenues only rose \$1.6 million from 1997-98 levels and most revenue categories performed close to budget. In contrast, 1997-98 direct revenues dramatically exceeded budget and rose \$8.6 million from 1996-97. General Fund revenue sources sensitive to the economy, such as sales tax, property tax and construction permits account for nearly half of this \$7.0 million reduction in the rate of increase.

As discussed in the "Financial Policy & Control" section above, GASB 31 "book" adjustments for "unrealized" investment gains and losses have significantly impacted reported revenue. There was an "unrealized investment gain" in 1997-98 that increased reported revenue by \$1.9 million and an "unrealized investment loss" in this fiscal year that decreased reported revenue by \$1.9 million. Together, these adjustments account for a \$3.8 million reduction in investment revenue from 1997-98 to 1998-99.

An upcoming critical issue is an expected action, within the next two to three years, by the Government Accounting Standards Board (GASB) that would require cities to set aside funds for retiree health benefits. In preparation, the City commissioned an actuarial study this year that estimated a \$49.0 million total liability for these benefits. Less the \$8.1 million the City has already reserved for this purpose, the current unfunded liability is \$40.9 million.

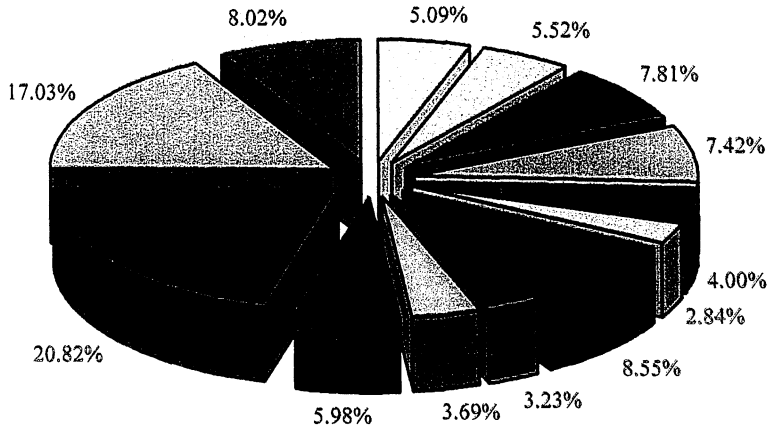
Other significant events include a \$1.9 million increase in federal Community Development Block Grant revenue for senior and low income housing projects, a two-year, \$2.1 million pavement management grant from Santa Clara County and a \$7.8 million bond issuance for the Golf Course.



# CITY OF PALO ALTO

## GENERAL GOVERNMENTAL REVENUES AND OTHER FINANCING SOURCES

For the year ended June 30, 1999



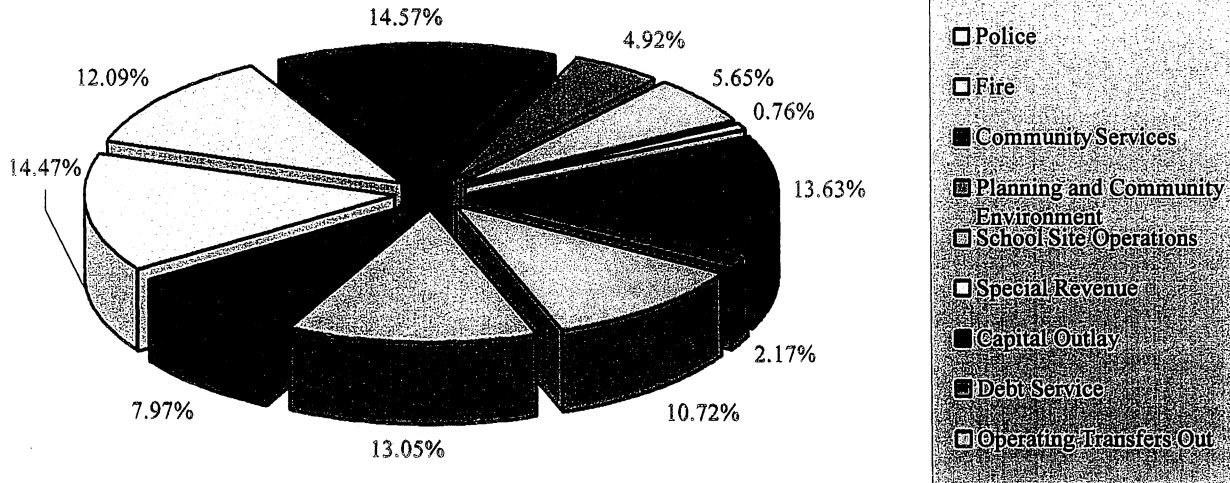
- Sales Tax
- Property Tax
- Utility Users Tax
- Transient Occupancy Tax
- Other Taxes and Fines
- Service Fees and Permits
- Joint Service Agreements
- Revenue from Other Agencies
- Rental Income
- Interest Earnings
- Other Revenue
- Net Bond Proceeds
- Operating Transfers In

Revenues (\$000)	1999 Actual	% of Total	Increase (Decrease) from 1998
Sales Tax	20,225	17.03	\$ 214
Property Tax	9,521	8.02	618
Utility Users Tax	6,039	5.09	259
Transient Occupancy Tax	6,551	5.52	705
Other Taxes and Fines	9,278	7.81	593
Service Fees and Permits	8,810	7.42	(174)
Joint Service Agreements	4,751	4.00	244
Revenue from Other Agencies	3,374	2.84	1,642
Rental Income	10,155	8.55	81
Interest Earnings	3,837	3.23	(614)
Other Revenue	4,376	3.69	(1,978)
<b>Total Direct Revenues</b>	<b>86,917</b>	<b>73.20</b>	<b>1,590</b>
<b>Net Bond Proceeds</b>	<b>7,101</b>	<b>5.98</b>	<b>7,101</b>
<b>Operating Transfers In</b>	<b>24,715</b>	<b>20.82</b>	<b>890</b>
<b>Total Revenues</b>	<b>118,733</b>	<b>100.00</b>	<b>\$ 9,581</b>

# CITY OF PALO ALTO

## GENERAL GOVERNMENTAL EXPENSES AND OTHER USES

*For the year ended June 30, 1999*



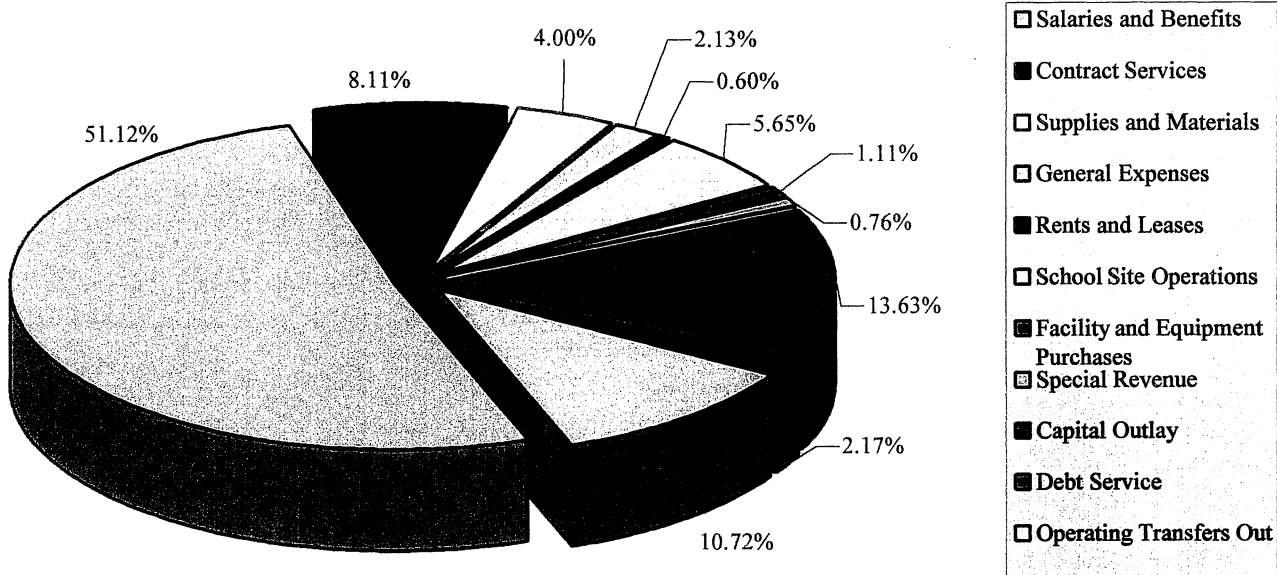
Expenditures	1999 Actual	% of Total	Increase (Decrease) from 1998
Administration (A)	\$ 15,066	13.05	\$ 2,079
Public Works	9,202	7.97	1,030
Police	16,705	14.47	612
Fire	13,949	12.09	849
Community Services	16,820	14.57	1,770
Planning and Community Environment	5,674	4.92	842
School Site Operations	6,520	5.65	222
Special Revenue	877	0.76	(46)
Capital Outlay	15,728	13.63	9,902
Debt Service	2,509	2.17	216
<b>Total Direct Expenditures</b>	<b>103,050</b>	<b>89.28</b>	<b>17,476</b>
Operating Transfers Out	12,369	10.72	1,272
<b>Total Expenditures and Operating Transfers Out</b>	<b>\$ 115,419</b>	<b>100.00</b>	<b>\$ 18,748</b>

(A) *Comprised of the following departments:*

City Council	197
City Manager	1,417
City Attorney	1,535
City Clerk	744
City Auditor	462
Administrative Services	8,937
Human Services	1,774

# CITY OF PALO ALTO

## GENERAL GOVERNMENTAL EXPENDITURES AND OTHER USES BY TYPE *For the year ended June 30, 1999*



Expenditures (\$000)	1999 Actual	% of Total	Increase (Decrease) from 1998
Salaries and Benefits	\$ 59,004	51.12	\$ 3,969
Contract Services	9,360	8.11	748
Supplies and Materials	4,621	4.00	1,939
General Expenses	2,453	2.13	(15)
Rents and Leases	698	0.60	11
School Site Operations	6,520	5.65	222
Facility and Equipment Purchases	1,280	1.11	530
Special Revenue	877	0.76	(46)
Capital Outlay	15,728	13.63	9,902
Debt Service	2,509	2.17	216
<b>Total Direct Expenditures</b>	<b>103,050</b>	<b>89.28</b>	<b>17,476</b>
<b>Operating Transfers Out</b>	<b>12,369</b>	<b>10.72</b>	<b>1,272</b>
<b>Total Expenditures</b>	<b>\$ 115,419</b>	<b>100.00</b>	<b>\$ 18,748</b>

**Expenditures & Other Uses**

General government direct expenditures for capital outlay in 1998-99 increased \$9.9 million or 164 percent from the prior fiscal year while other expenditure and use categories showed normal incremental growth. The flooding of February 1998 and other weather conditions had impeded infrastructure maintenance and contributed further to an existing backlog of capital projects of various kinds. In addition to increasing maintenance spending, the City completed a major renovation of the municipal golf course and management reviewed unspent capital project budgets more critically, encouraging departments to begin and complete their capital projects in a more timely manner. In addition, the City has placed a higher emphasis on information technology. Together with the preparation for Y2K discussed above in the "Spotlight On Technology" section, capital spending for this area increased significantly during 1998-99.

**PROPRIETARY HIGHLIGHTS**

The City of Palo Alto accounts for its businesslike operations in seven enterprise funds and four internal service funds. These "proprietary" type funds are intended to recover their full cost through customer or user charges. Unlike governmental funds, proprietary funds use the same accounting principles as private business. Thus, proprietary funds seek to determine whether the financial position of the fund is improved or diminished by operations and, therefore, emphasize sales, expenses, net income and retained earnings. Since Palo Alto's internal services funds allocate their costs to other city departments through user charges and their operations in 1998-99 showed no unusual events, the discussion below centers on the enterprise proprietary funds.

**Financial Results**

Enterprise funds provided \$164.1 million or 57 percent of the City's revenues for 1998-99. Compared to the prior year, combined enterprise revenues decreased 1.4 percent while expenditures decreased 2.7 percent. The larger reduction in expenses over revenues yielded 1998-99 net income of \$29.6 million for a 5.0 percent increase over 1997-98 performance. Combined retained earnings rose to \$339.4 million, an 8.7 percent increase from the prior year amount. Palo Alto has reserved portions of retained earnings for all enterprise funds, except the Storm Drainage Fund, to supplement regular budgets when unusual events such as unseasonable weather conditions, affect revenues or expenses negatively. The combined "rate stabilization reserves" (RSRs) of \$72.4 million represent 44 percent of FY98-99 revenues, providing generous protection from unexpected revenue and expense fluctuations.

**Electric & Gas Deregulation**

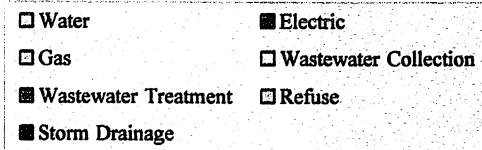
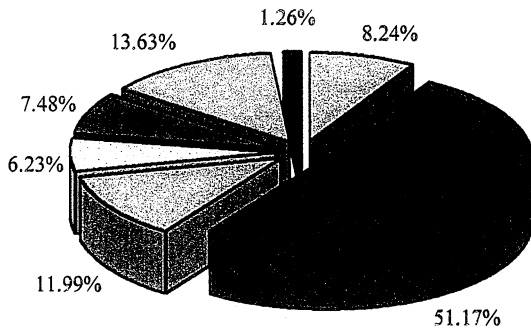
The City continues to respond to the deregulation of the electric and natural gas industries that permits other utility companies to supply electricity and natural gas to Palo Alto customers. Conversely, Palo Alto's electric and gas enterprise fund utilities now have the right to sell their services outside of Palo Alto. The City is evaluating its rate setting methodologies, accounting practices and outside sales opportunities to more effectively compete in the deregulated market. During 1998-99, the City divided the electric and gas enterprise funds into two subfunds each, one for supply services and the other for distribution services. Palo Alto's electric and gas utilities have positioned themselves to provide customers with a high level of service, reliability and low rates and are expected to maintain significant market share.

# CITY OF PALO ALTO

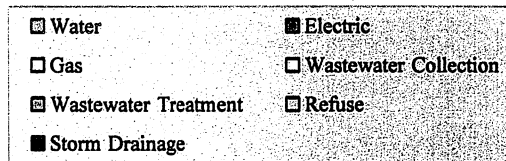
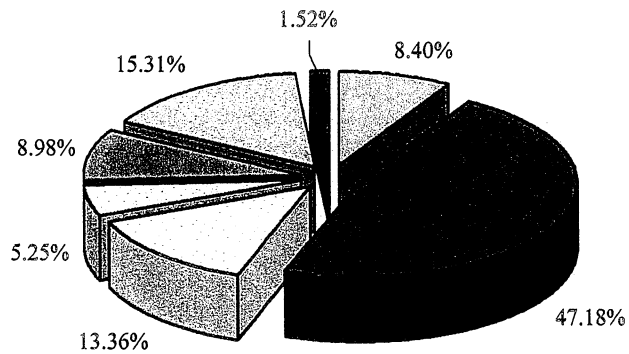
## ENTERPRISE FUNDS

For the year ended June 30, 1999

REVENUES BY FUND



EXPENSES & NET TRANSFERS BY FUND



**Enterprise Funds (\$000)**

Water  
Electric  
Gas  
Wastewater Collection  
Wastewater Treatment  
Refuse  
Storm Drainage

**Revenues**

\$ 13,513  
83,949  
19,665  
10,214  
12,268  
22,362  
2,087

**Expenses & Net Transfers**

\$ 11,292  
63,439  
17,965  
7,058  
12,079  
20,573  
2,043

**Total**

**\$ 164,058**

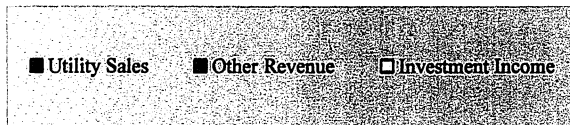
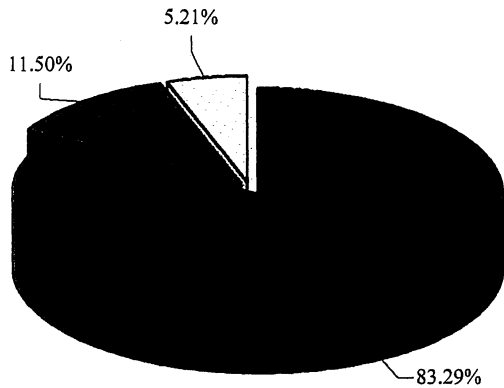
**\$ 134,449**

# CITY OF PALO ALTO

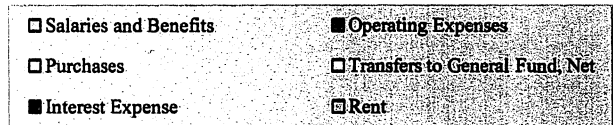
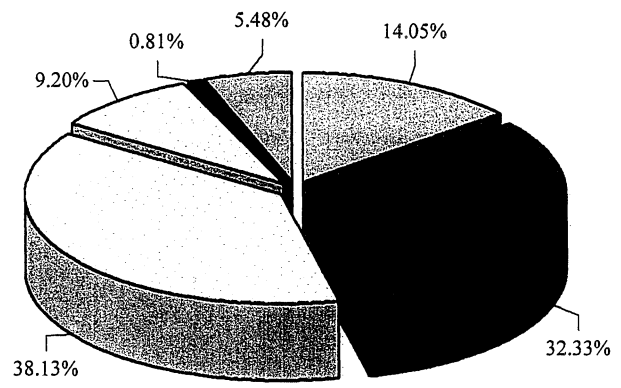
## ENTERPRISE FUNDS

For the year ended June 30, 1999

**REVENUES BY CATEGORY**



**EXPENSES & NET TRANSFERS BY CATEGORY**



**Revenues (\$000)**

Utility Sales  
Other Revenue  
Investment Income

**Total Revenues**

	1999 Actual	% of Total	Increase (Decrease) from 1998
Utility Sales	\$ 136,636	83.29	\$ (3,918)
Other Revenue	18,867	11.50	3,076
Investment Income	8,555	5.21	(1,447)
<b>Total Revenues</b>	<b>\$ 164,058</b>	<b>100.00</b>	<b>\$ (2,289)</b>

**Expenses & Net Transfers (\$000)**

Salaries and Benefits  
Operating Expenses  
Purchases  
Transfers to General Fund, Net  
Interest Expense  
Rent

**Total Expenses**

Salaries and Benefits	\$ 18,895	14.05	\$ (69)
Operating Expenses	43,474	32.33	2,678
Purchases	51,262	38.13	(6,516)
Transfers to General Fund, Net	12,370	9.20	(253)
Interest Expense	1,084	0.81	369
Rent	7,364	5.48	89
<b>Total Expenses</b>	<b>\$ 134,449</b>	<b>100.00</b>	<b>\$ (3,702)</b>

**Bond Issuance**

During 1998-99, the City issued \$17.7 million in Utility Revenue Bonds to refinance two existing bond issues totaling \$10.3 million and to finance rehabilitation of two incinerators for the Wastewater Treatment Fund. The new bonds are allocated between the Storm Drainage, Wastewater Collection and Wastewater Treatment Funds.

**Refuse Fund Contract**

Palo Alto's long-time refuse collection and hauling contractor was sold to another company during this past year. The City successfully renegotiated the existing contract at a small increase in cost to include additional routes, curbside mixed paper recycling and a ten-year term dependent upon performance.

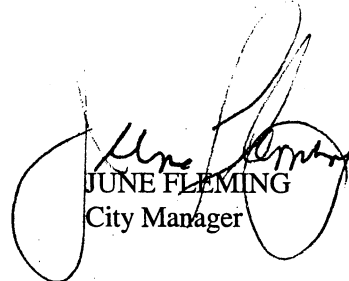
**SUMMARY**

When awarding the highest level credit rating to the City of Palo Alto, Moody's and Standard & Poor's cited the diversity that characterizes the City's services, geography, job market and revenue sources. They concluded that the financial condition of the City of Palo Alto is excellent, with more than adequate reserves, and that its future economic prospects are positive, despite the leveling off of the current economic boom.

This Comprehensive Annual Financial Report reflects the hard work dedication, talent and commitment of the staff members of the Administrative Services Department. This document could not have been accomplished without their efforts. Each contributor deserves sincere appreciation. Special acknowledgment should be given to the City Council Finance Committee for its support and interest in directing the financial affairs of the City in a responsible, professional and progressive manner.

Respectfully submitted,

  
CARL YEATS  
Director, Administrative Services

  
JUNE FLEMING  
City Manager







# CITY OF PALO ALTO

## City Officials

*June 30, 1999*

### City Council

Gary Fazzino, *Mayor*

Lanie Wheeler, *Vice Mayor*

Sandy Eakins

Dena Mossar

Joseph Huber

Victor Ojakian

Liz Kniss

Dick Rosenbaum

Micki Schneider



#### *Finance Committee*

Joseph Huber, *Chair*

Liz Kniss

Dena Mossar

Vic Ojakian

#### *Policy and Services Committee*

Sandy Eakins, *Chair*

Dick Rosenbaum

Micki Schneider

Lanie Wheeler



### Council-Appointed Officers

June Fleming

*City Manager*

Ariel Pierre Calonne

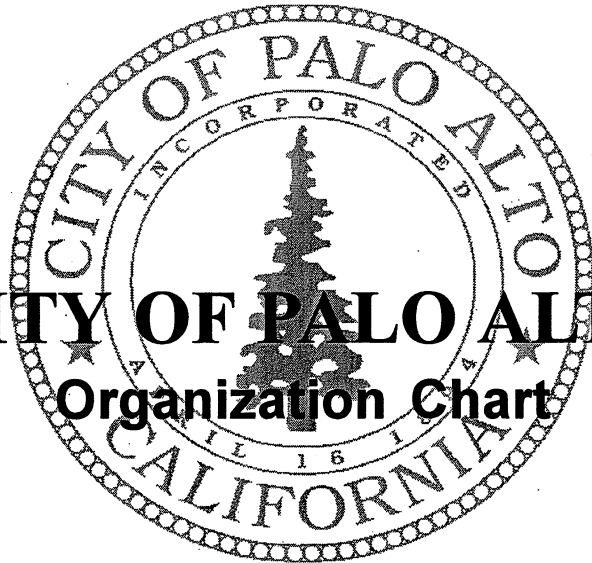
*City Attorney*

Donna Rogers

*City Clerk*

William Vinson

*City Auditor*



# CITY OF PALO ALTO

## Organization Chart

Palo Alto Residents

City Council

**CITY ATTORNEY**  
Ariel Pierre Calonne

**CITY MANAGER**  
June Fleming

**CITY AUDITOR**  
William Vinson

**CITY CLERK**  
Donna Rogers

**Assistant City Manager**  
Emily Harrison

**Community Services Department**  
Paul Thiltgen, Director

**Administrative Services Department**  
Carl Yeats, Director

**Fire Department**  
Ruben Grijalva, Chief

**Human Resources Department**  
Jay Rounds, Director

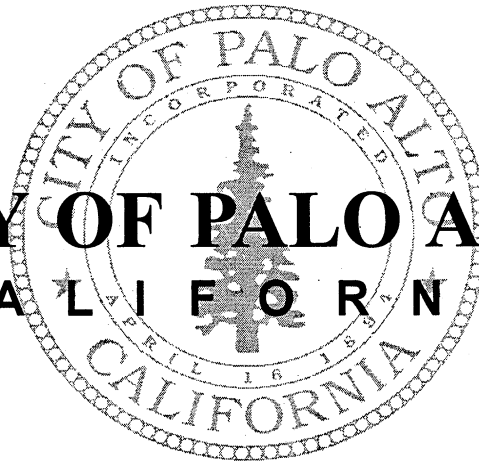
**Police Department**  
Patrick Dwyer, Chief

**Planning and Community  
Environment Department**  
Ed Gawf, Director

**Utilities Department**  
John Ulrich, Director

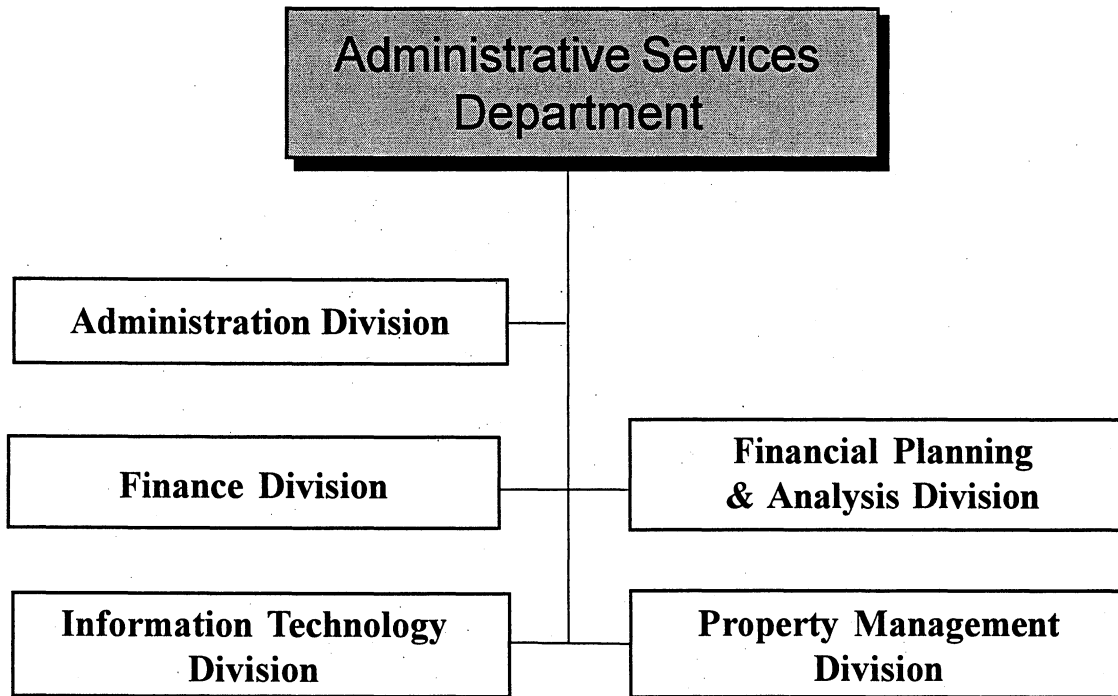
**Public Works Department**  
Glenn Roberts, Director

# CITY OF PALO ALTO CALIFORNIA



## *Organizational Chart*

for the



### **Mission Statement**

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

# 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, 1998

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.



*Douglas R. Ellsworth*  
President

*Jeffrey L. Esser*  
Executive Director

# California Society of Municipal Finance Officers

Certificate of Award

*Outstanding Financial Reporting 1997-98*

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.*

*March 1, 1999*

  
Chair, Professional & Technical Standards Committee



*Dedicated to Excellence in Municipal Financial Management*





**ACCOUNTANCY CORPORATION**  
**1670 Riviera Avenue - Suite 100**  
**Walnut Creek, California 94596**  
**(925) 930-0902 • FAX (925) 930-0135**

## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council  
City of Palo Alto, California

We have audited the general purpose financial statements of the City of Palo Alto as of and for the years ended June 30, 1999 and 1998 as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the general purpose financial statements referred to above present fairly in all material respects the financial position of the City of Palo Alto at June 30, 1999 and 1998 and the results of its operations and the cash flows of its proprietary fund types for the years then ended, in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued reports dated November 17, 1999, on our consideration of the City of Palo Alto's internal control structure and on its compliance with laws and regulations.

As discussed in Note 18 to the financial statements, the City of Palo Alto has initiated a project to ensure that all mission critical systems and operations will be Y2K compliant in a timely manner. The project also includes coordination with significant third parties to assess their Y2K issues. The assessment of the costs of the Y2K compliance effort and the timetable for the planned completion of the internal Y2K modifications are management's estimates. The estimates were based on numerous assumptions as to future events. There can be no guarantee that these estimates will prove accurate, and actual costs could differ from those estimated if the assumptions prove inaccurate. Additionally, there can be no guarantee that significant third parties will successfully and timely convert their systems.

Our audits were made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and account group statements and schedules section listed in the 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 of Palo Alto. Such information has been subjected to the auditing procedures applied in our audits of the general purpose financial statements, and in our opinion is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

The statistical section listed in the Table of Contents was not audited by us, and we do not express an opinion on this information.

*Maze + Associates*

November 17, 1999



**CITY OF PALO ALTO, CALIFORNIA**  
**Financial Section**

This section contains the following subsections:

***General Purpose Financial Statements (GPFS):*** Also known as the combined financial statements, the GPFS subsection reflect a complete summary of the City's activities and encompass all fund types and account groups. They present a combined overview of financial position, operating results and cash flows for all funds and account groups for the completed fiscal year.

***Notes to the Financial Statements:*** The Notes subsection communicates 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. The GPFS and Notes together are "liftable" in that they 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.

***Supplemental Statements:*** Also known as combining financial statements, this subsection 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., for 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., for the Capital Projects Fund or to give more detailed information than is presented in the GPFS.

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**CITY OF PALO ALTO, CALIFORNIA**  
**General Purpose Financial Statements**

These statements provide an overview of the combined financial position and the operating results of all fund types and account groups. Individual funds utilized by the City are grouped in these statements as follows:

**GOVERNMENTAL FUND TYPE OPERATION**

These funds (general, special revenue, debt service and capital projects) are those through which governmental functions are typically funded with the emphasis on sources and uses of resources.

**PROPRIETARY FUND TYPE OPERATION**

These funds (enterprise and internal service) are used to account for activities similar to private industry with the emphasis on net income determination.

**FIDUCIARY FUND TYPE**

These funds account for assets held by the City in a trustee capacity or as an agent for others.

**ACCOUNT GROUPS**

Account groups are used to establish accounting control for the City's general fixed assets and unmatured principal of its general long-term obligations. Because these assets and liabilities are long-term they are neither spendable resources nor do they require current appropriation. They are accounted for separate from governmental fund types.

**CITY OF PALO ALTO  
COMBINED BALANCE SHEETS**

**ALL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 1999**

**WITH COMPARATIVE AMOUNTS FOR JUNE 30, 1998  
(In thousands of dollars)**

ASSETS	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
Cash and investments (Note 3):						
Available for operations	\$44,477	\$7,979	\$1,023	\$12,730	\$175,117	\$31,982
Restricted			1,578	639	9,003	
Receivables, net:						
Accounts	4,923	227			13,982	2
Special assessments			4,670			
Interest	1,087	107	23	2	2,398	361
Notes (Note 5)	479	9,226				
Interfund receivable (Note 4)	98					
Inventory of materials and supplies	1,691					226
Prepaid items					130	8
Deferred compensation plan investments						
Property, plant and equipment, net (Note 6)					237,788	9,668
Amount available in debt service funds						
Amount to be provided for retirement of general long-term debt						
<b>Total Assets</b>	<b>\$52,755</b>	<b>\$17,539</b>	<b>\$7,294</b>	<b>\$13,371</b>	<b>\$438,418</b>	<b>\$42,247</b>
<b>LIABILITIES</b>						
Accounts payable and accrued liabilities	\$2,112	\$373		\$799	\$8,004	\$515
Accrued salaries and benefits	1,434				531	1,502
Deferred revenue	72		\$4,670			
Deferred compensation payable						
Accrued compensated absences (Note 1F)						10,038
Accrued self-insurance (Note 15)						7,653
Landfill closure and postclosure care (Note 9)					6,871	
Interfund payable (Note 4)		98				
Due to bondholders						
Due to developers						
Long term debt (Note 7):						
Lease revenue bonds						
Certificates of participation						
Capital lease obligations						
Utility revenue bonds, net of unamortized issuance costs and discounts					24,368	
Special assessment debt with city commitment (Note 8)						
<b>Total Liabilities</b>	<b>3,618</b>	<b>471</b>	<b>4,670</b>	<b>799</b>	<b>39,774</b>	<b>19,708</b>
<b>FUND EQUITY AND OTHER CREDITS</b>						
Investment in general fixed assets						
Contributed capital (Note 1G)					59,288	6,479
Retained earnings (Note 10)					339,356	16,060
Fund balances (Note 10):						
Reserved	7,237	11,795	2,624	3,377		
Unreserved:						
Designated	41,900	5,714		9,195		
Undesignated		(441)				
<b>Total Fund Equity</b>	<b>49,137</b>	<b>17,068</b>	<b>2,624</b>	<b>12,572</b>	<b>398,644</b>	<b>22,539</b>
<b>Total Equity and Other Credits</b>	<b>49,137</b>	<b>17,068</b>	<b>2,624</b>	<b>12,572</b>	<b>398,644</b>	<b>22,539</b>
<b>Total Liabilities, Equity and Other Credits</b>	<b>\$52,755</b>	<b>\$17,539</b>	<b>\$7,294</b>	<b>\$13,371</b>	<b>\$438,418</b>	<b>\$42,247</b>

See accompanying notes to financial statements

FIDUCIARY FUND TYPES	ACCOUNT GROUPS		TOTALS (Memorandum Only)	
	Trust and Agency	General Fixed Assets	General Long- Term Obligations	1999
\$9,271			\$282,579	\$260,175
			11,220	3,813
			19,134	20,575
			4,670	5,195
116			4,094	3,719
			9,705	7,086
			98	514
			1,917	2,170
			138	222
				58,612
	\$113,548		361,004	340,036
		\$2,624	2,624	2,192
		15,842	15,842	10,519
<u>\$9,387</u>	<u>\$113,548</u>	<u>\$18,466</u>	<u>\$713,025</u>	<u>\$714,828</u>
\$15			\$11,818	\$10,046
			3,467	2,823
			4,742	5,801
				58,612
			10,038	9,677
			7,653	7,650
			6,871	7,238
			98	514
388			388	400
443			443	
				625
		\$12,480	12,480	5,215
		791	791	1,186
			24,368	17,915
		5,195	5,195	5,685
<u>846</u>	<u></u>	<u>18,466</u>	<u>88,352</u>	<u>133,387</u>
	\$113,548		113,548	105,695
			65,767	64,733
			355,416	324,761
			25,033	29,590
1			56,810	51,049
8,540			8,099	5,613
<u>8,541</u>	<u></u>	<u></u>	<u>511,125</u>	<u>475,746</u>
<u>8,541</u>	<u>113,548</u>	<u></u>	<u>624,673</u>	<u>581,441</u>
<u>\$9,387</u>	<u>\$113,548</u>	<u>\$18,466</u>	<u>\$713,025</u>	<u>\$714,828</u>

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**CITY OF PALO ALTO  
COMBINED STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES**

**ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

**WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 1998**  
(In thousands of dollars)

	GOVERNMENTAL FUND TYPES				FIDUCIARY	TOTALS	
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	(Memorandum Only)	
						1999	1998
<b>REVENUES</b>							
Property taxes	\$9,521					\$9,521	\$8,903
Special assessments			\$874			874	857
Sales taxes	20,225					20,225	20,011
Utility users' tax	6,039					6,039	5,780
Transient occupancy tax	6,551					6,551	5,846
Other taxes and fines	7,255	\$1,149				8,404	7,828
Fire protection and emergency communication services	4,751					4,751	4,507
From other agencies	872	2,189	253	\$60		3,374	1,732
Service fees and permits	8,810					8,810	8,984
Return on investment	3,167	467	94	109	\$425	4,262	4,981
Rental income	10,155					10,155	10,074
Other	2,623	1,752		1	92	4,468	6,387
<b>Total Revenues</b>	<b>79,969</b>	<b>5,557</b>	<b>1,221</b>	<b>170</b>	<b>517</b>	<b>87,434</b>	<b>85,890</b>
<b>EXPENDITURES</b>							
Current operations:							
City Council	197					197	151
City Manager	1,417					1,417	988
City Attorney	1,535					1,535	1,380
City Clerk	744					744	813
City Auditor	462					462	418
Administrative Services	8,937					8,937	7,400
Human Resources	1,774				43	1,817	1,837
Public Works	9,202					9,202	8,172
Planning and Community Environment	5,674					5,674	4,832
Public Safety - Police	16,705				33	16,738	16,135
Public Safety - Fire	13,949					13,949	13,100
Community Services	16,820				24	16,844	15,050
School site operations	6,520					6,520	6,298
Capital outlay		877		15,728		16,605	6,749
Debt service:							
Principal retirement			1,553			1,553	1,405
Interest and fiscal charges			956			956	888
<b>Total Expenditures</b>	<b>83,936</b>	<b>877</b>	<b>2,509</b>	<b>15,728</b>	<b>100</b>	<b>103,150</b>	<b>85,616</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(3,967)</b>	<b>4,680</b>	<b>(1,288)</b>	<b>(15,558)</b>	<b>417</b>	<b>(15,716)</b>	<b>274</b>
<b>OTHER FINANCING SOURCES (USES)</b>							
Bond proceeds (Note 7)			1,376	6,374		7,750	
Payment to bond escrow agent (Note 7)			(649)			(649)	
Operating transfers in (Note 4)	14,246	340	993	9,136		24,715	23,825
Operating transfers (out) (Note 4)	(7,046)	(3,308)		(2,015)	(41)	(12,410)	(11,097)
<b>Total Other Financing Sources (Uses)</b>	<b>7,200</b>	<b>(2,968)</b>	<b>1,720</b>	<b>13,495</b>	<b>(41)</b>	<b>19,406</b>	<b>12,728</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES</b>	<b>3,233</b>	<b>1,712</b>	<b>432</b>	<b>(2,063)</b>	<b>376</b>	<b>3,690</b>	<b>13,002</b>
Fund balances at beginning of year	45,904	15,356	2,192	14,635	8,165	86,252	73,250
Residual equity transfers in							855
Residual equity transfers (out)							(855)
<b>Fund balances at end of year</b>	<b>\$49,137</b>	<b>\$17,068</b>	<b>\$2,624</b>	<b>\$12,572</b>	<b>\$8,541</b>	<b>\$89,942</b>	<b>\$86,252</b>

See accompanying notes to financial statements

**CITY OF PALO ALTO  
COMBINED STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**

**GENERAL, SPECIAL REVENUE, AND DEBT SERVICE FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(In thousands of dollars)**

	GENERAL			SPECIAL REVENUE		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>						
Property taxes	\$9,136	\$9,521	\$385			
Special assessments						
Sales taxes	20,300	20,225	(75)			
Utility users' tax	5,950	6,039	89			
Transient occupancy tax	6,350	6,551	201			
Other taxes and fines	6,686	7,255	569	\$1,125	\$1,149	\$24
Fire protection and emergency communication services	4,827	4,751	(76)			
From other agencies	858	872	14	889	2,189	1,300
Service fees and permits	8,711	8,810	99			
Return on investment	3,300	3,167	(133)	380	467	87
Rental income	9,907	10,155	248			
Other	2,348	2,623	275	634	1,752	1,118
<b>Total Revenues</b>	<u>78,373</u>	<u>79,969</u>	<u>1,596</u>	<u>3,028</u>	<u>5,557</u>	<u>2,529</u>
<b>EXPENDITURES</b>						
Current operations:						
City Council	201	197	4			
City Manager	1,632	1,417	215			
City Attorney	1,903	1,535	368			
City Clerk	839	744	95			
City Auditor	577	462	115			
Administrative Services	9,709	8,937	772			
Human Resources	1,953	1,774	179			
Public Works	10,277	9,202	1,075			
Planning and Community Environment	6,675	5,674	1,001			
Public Safety - Police	17,107	16,705	402			
Public Safety - Fire	14,463	13,949	514			
Community Services	17,767	16,820	947			
School site operations	6,767	6,520	247			
Capital outlay				2,701	877	1,824
Debt Service						
Principal retirement						
Interest and fiscal charges						
<b>Total Expenditures</b>	<u>89,870</u>	<u>83,936</u>	<u>5,934</u>	<u>2,701</u>	<u>877</u>	<u>1,824</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(11,497)</u>	<u>(3,967)</u>	<u>7,530</u>	<u>327</u>	<u>4,680</u>	<u>4,353</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Bond proceeds						
Payment to bond escrow agent						
Operating transfers in	14,439	14,246	(193)		340	340
Operating transfers (out)	(6,999)	(7,046)	(47)	(2,698)	(3,308)	(610)
<b>Total Other Financing Sources (Uses)</b>	<u>7,440</u>	<u>7,200</u>	<u>(240)</u>	<u>(2,698)</u>	<u>(2,968)</u>	<u>(270)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<u>(\$4,057)</u>	<u>3,233</u>	<u>\$7,290</u>	<u>(\$2,371)</u>	<u>1,712</u>	<u>\$4,083</u>
Fund balances at beginning of year		<u>45,904</u>			<u>15,356</u>	
Fund balances at end of year		<u>\$49,137</u>			<u>\$17,068</u>	

See accompanying notes to financial statements

DEBT SERVICE

<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
\$862	\$874	\$12
256	253	(3)
85	94	9
<u>1,203</u>	<u>1,221</u>	<u>18</u>
1,370	1,553	(183)
946	956	(10)
<u>2,316</u>	<u>2,509</u>	<u>(193)</u>
<u>(1,113)</u>	<u>(1,288)</u>	<u>(175)</u>
945	1,376 (649) 993	1,376 (649) 48
<u>945</u>	<u>1,720</u>	<u>775</u>
<u>(\$168)</u>	432	<u>\$600</u>
	<u>2,192</u>	
	<u>\$2,624</u>	

**CITY OF PALO ALTO  
COMBINED STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES**

**FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

**WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 1998**

(In thousands of dollars)

	Enterprise	Internal Service	TOTALS (Memorandum Only)	
			1999	1998
<b>OPERATING REVENUES</b>				
Sales of utilities:				
Customers	\$123,083		\$123,083	\$121,777
City departments	7,912		7,912	7,332
Wholesale	5,641		5,641	11,445
Wastewater treatment	7,403		7,403	6,936
Service connection charges and miscellaneous	1,511		1,511	770
Charges for services		\$36,547	36,547	32,721
Other revenues	9,953		9,953	8,085
<b>Total Operating Revenues</b>	<b>155,503</b>	<b>36,547</b>	<b>192,050</b>	<b>189,066</b>
<b>OPERATING EXPENSES</b>				
Purchase of utilities	51,262		51,262	57,778
Administration and general	10,065	2,919	12,984	10,474
Engineering (operating)	3,006		3,006	2,639
Resource management	2,722		2,722	3,618
Operations and maintenance	26,322	1,747	28,069	26,956
Rent	7,364		7,364	7,275
Depreciation and amortization	9,191	1,873	11,064	10,447
Claim payments and change in estimated self-insured liability		3,764	3,764	3,030
Compensated absences and other benefits		27,020	27,020	25,349
<b>Total Operating Expenses</b>	<b>109,932</b>	<b>37,323</b>	<b>147,255</b>	<b>147,566</b>
<b>Operating Income (Loss)</b>	<b>45,571</b>	<b>(776)</b>	<b>44,795</b>	<b>41,500</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Return on investment	8,555	1,321	9,876	11,785
Interest (expense)	(1,084)		(1,084)	(715)
Joint venture debt service	(10,940)		(10,940)	(11,433)
Gain (loss) on disposal of fixed assets	(123)	79	(44)	(32)
Other non-operating revenues		357	357	610
<b>Net Nonoperating Revenues (Expenses)</b>	<b>(3,592)</b>	<b>1,757</b>	<b>(1,835)</b>	<b>215</b>
<b>Income Before Operating Transfers</b>	<b>41,979</b>	<b>981</b>	<b>42,960</b>	<b>41,715</b>
Operating transfers in (Note 4)	547	65	612	619
Operating transfers (out) (Note 4)	(12,917)		(12,917)	(13,347)
<b>Net Income</b>	<b>29,609</b>	<b>1,046</b>	<b>30,655</b>	<b>28,987</b>
Retained earnings at beginning of year	309,747	15,014	324,761	295,774
<b>Retained earnings at end of year</b>	<b>\$339,356</b>	<b>\$16,060</b>	<b>\$355,416</b>	<b>\$324,761</b>

See accompanying notes to financial statements

**CITY OF PALO ALTO  
COMBINED STATEMENTS OF CASH FLOWS**

**ALL PROPRIETARY FUND TYPES  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

**WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 1998**  
(In thousands of dollars)

	Enterprise	Internal Service	TOTALS (Memorandum Only)	
			1999	1998
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Operating income (loss)	\$45,571	(\$776)	\$44,795	\$41,500
Adjustments to reconcile operating income (loss) to cash flows from operating activities:				
Depreciation and amortization	9,191	1,873	11,064	10,447
Other		357	357	610
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	369	24	393	(1,245)
Increase in interest receivable	(204)	17	(187)	(208)
Increase in inventory of materials and supplies		(9)	(9)	5
Increase in prepaid items	(88)	172	84	(35)
Decrease in accounts payable, accrued liabilities and accrued salaries and benefits	602	253	855	3,010
Increase (decrease) in accrued compensated absences		361	361	801
Increase in accrued self-insurance		3	3	(270)
Increase in accrued landfill closure liability	(367)		(367)	306
Net cash from operating activities	<u>55,074</u>	<u>2,275</u>	<u>57,349</u>	<u>54,921</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Operating transfers in	547	65	612	619
Operating transfers (out)	(12,917)		(12,917)	(13,347)
Residual equity transfer in				2,000
Residual equity transfer (out)				(2,000)
Net cash used in non capital financing activities	<u>(12,370)</u>	<u>65</u>	<u>(12,305)</u>	<u>(12,728)</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>				
Acquisition and construction of fixed assets	(19,709)	(3,449)	(23,158)	(20,643)
Proceeds from sale of fixed assets				121
Proceeds from bond issuance	17,735		17,735	
Bond issuance costs and underwriter's discount	(542)		(542)	
Payment to bond escrow agent	(9,929)		(9,929)	
Principal paid on long term debt	(895)		(895)	(840)
Interest paid on long term debt	(11,971)		(11,971)	(12,148)
Net cash used in capital financing activities	<u>(25,311)</u>	<u>(3,449)</u>	<u>(28,760)</u>	<u>(33,510)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment income received from cash and investments	8,555	1,321	9,876	11,785
Net cash provided by (used in) investing activities	<u>8,555</u>	<u>1,321</u>	<u>9,876</u>	<u>11,785</u>
Net Cash Flows	25,948	212	26,160	20,468
Cash and cash equivalents at beginning of year	<u>158,172</u>	<u>31,770</u>	<u>189,942</u>	<u>169,474</u>
Cash and cash equivalents at end of year	<u>\$184,120</u>	<u>\$31,982</u>	<u>\$216,102</u>	<u>\$189,942</u>
<b>FINANCIAL STATEMENT PRESENTATION:</b>				
Cash and investments available for operations	\$175,117	\$31,982	\$207,099	\$187,187
Restricted cash and investments	9,003		9,003	2,755
Cash and cash equivalents at end of year	<u>\$184,120</u>	<u>\$31,982</u>	<u>\$216,102</u>	<u>\$189,942</u>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES: Increase in contributed capital</b>				
	\$695	\$339	\$1,034	\$143

See accompanying notes to financial statements

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**CITY OF PALO ALTO, CALIFORNIA**  
**Index to Notes to General Purpose Financial Statements**

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**

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

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

**A. Reporting Entity**

The City is governed by a nine member council elected by City residents. The City is legally separate and fiscally independent which means it can issue debt, set and modify budgets and fees and sue or be sued. These financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government.

The financial statements of the City of Palo Alto include the financial activities of the City as well as the Palo Alto Public Improvement Corporation and the City of Palo Alto Golf Course Corporation, both of which provide financing of public capital improvements for the City. Their governing boards are composed of City Council members. While these are separate legal entities, their financial activities are integral to those of the City. Their financial activities have been aggregated and merged (termed "blended") with those of the primary government of the City in the accompanying financial statements.

**The Palo Alto Public Improvement Corporation** provides financing of public capital improvements for the City through the issuance of Certificates of Participation (COPs), a form of debt which allows investors to participate in a stream of future lease payments. Proceeds from the COPs are used to construct projects which are leased to the City. The lease payments are sufficient in timing and amount to meet the debt service requirements of the COPs. The Corporation is controlled by the City, which performs all accounting and administrative functions for the Corporation. The financial activities of the Corporation are included in the Golf Course and Civic Center Debt Service Funds, the Capital Projects Fund and general long term obligations account group.

**The City of Palo Alto Golf Course Corporation** provided financing of golf course improvements for the City through the issuance of Lease Revenue Bonds (Bonds), a form of debt which allows investors to participate in a stream of future lease payments. Proceeds from the Bonds were used to construct projects which were leased to the City. The lease payments were sufficient in timing and amount to meet the debt service requirements of the Bonds. On September 1, 1998 the City repaid its outstanding lease obligation and the Corporation retired the outstanding Bonds and shortly thereafter ceased operations. The Corporation was controlled by the City, which performed all accounting and administrative functions for the Corporation. The financial activities of the Corporation are included in the Golf Course Debt Service Fund and general long term obligations account group.

Financial statements for the above component units may be obtained from the City of Palo Alto, Administrative Services Department, 250 Hamilton Avenue, Palo Alto, CA 94301.



**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

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

**B. Fund Accounting**

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. These various funds are grouped as follows, in the general purpose financial statements:

**GOVERNMENTAL FUND TYPES**

**General Fund** is the general operating fund of the City. It is used to account for all financial resources 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 expendable trusts or major capital projects) that are legally restricted to expenditures for specific purposes.

**Debt Service Funds** are used to account for financial resources to be used for the payment of principal and interest on long-term obligations.

**Capital Projects 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).

**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 and expenses, including depreciation, of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (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, or to other governments, on a cost-reimbursement basis.

**FIDUCIARY FUND TYPES**

**Trust and Agency Funds** are used to account for assets held by the City as an agent or trustee for individuals, private organizations, other governments and/or other funds. These include agency and expendable trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Expendable trust funds are accounted for in the same manner as governmental funds.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

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

**C. *Basis of Accounting***

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the general purpose financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental fund types, expendable trust and agency funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Measurable means the amount of the transaction can be determined and available means the amount is collectible within the current period or soon enough thereafter (generally sixty days) to be used to pay liabilities of the current period. Amounts which could not be measured or were not available were not accrued as revenue in the current fiscal year.

Those revenues susceptible to accrual are property taxes, motor vehicle in lieu fees, utility users taxes, earned grant entitlements, special assessments, intergovernmental revenues, use of money and property revenue, and interest revenue. Sales taxes collected and held by the State at year end on behalf of the City also are recognized as revenue. Licenses and permits, state gas taxes, charges for services, forfeitures and miscellaneous revenue are not susceptible to accrual because they are not measurable until received in cash.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is principal and interest on general long-term debt, which is recognized when due. Financial resources usually are appropriated in other funds for transfer to a debt service fund in the period in which maturing debt principal and interest must be paid. Such amounts are not current liabilities of the debt service fund as their settlement will not require expenditure of existing fund assets.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred, except for revenues from utility customers, which are recognized based on cycle billings. Revenues for services provided but not billed at the end of a fiscal period are not material and are not accrued.

The City follows those Financial Accounting Standard Board Statements issued before November 30, 1989 which do not conflict with Governmental Accounting Standards Board Statements.

**D. *Measurement Focus***

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for on a spending or *financial flow* measurement focus, which means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of *available spendable resources*. Governmental fund types and expendable trust fund operating statements present increases and decreases in net current assets. Accordingly, they are said to present a summary of sources and uses of *available spendable resources* during a period.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

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

All proprietary fund types are accounted for on a cost of services or *capital maintenance* measurement focus, which means that all assets and all liabilities associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total assets.

**E. *Inventory of Materials and Supplies***

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

**F. *Compensated Absences***

The liability for compensated absences includes the vested portions of vacation, sick leave, and overtime compensation pay. The City's liability for accrued compensated absences is recorded in the General Benefits and Insurance Internal Service Fund. The 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. 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. The City had accumulated vacation and overtime compensation pay of \$6.244 million, and vested accumulated sick pay of \$3.794 million as of June 30, 1999.

**G. *Contributed Capital***

Contributed capital represents contributions from developers and other funds received by the proprietary funds to acquire capital assets. Changes in contributed capital were as follows (in thousands):

	Enterprise Funds	Internal Service Funds
Balance, June 30, 1997	\$58,593	\$5,997
Contributions from other funds	<u>          </u>	<u>143</u>
Balance, June 30, 1998	58,593	6,140
Contributions from developers	695	<u>          </u>
Contributions from other funds	<u>          </u>	<u>339</u>
Balance, June 30, 1999	<u>\$59,288</u>	<u>\$6,479</u>

**H. *Property Tax***

Santa Clara County assesses properties and bills, collects, and distributes property taxes to the City. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on January 1 of the preceding fiscal year.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

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

Secured property tax is due in two installments, on November 1 and March 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31. Collection of delinquent accounts is the responsibility of the County, which retains all penalties.

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the City in the fiscal year they are assessed, provided they become available as defined above.

**I. *Classification Changes***

For the year ended June 30, 1999, certain account classifications have been changed to improve financial statement presentation. For comparative purposes, prior year balances have been reclassified to conform to the June 30, 1999 presentation.

**J. *New Fund***

During the year ended June 30, 1999, the City established the Developer Deposits Agency Fund to account for performance deposits received from various developers.

**K. *Closed Fund***

The Deferred Compensation Agency Fund was closed during the year ended June 30, 1999.

**L. *Rounding***

All amounts included on the combined statements, footnotes, and combining statements and schedules are presented to the nearest thousands in accordance with the City's policy.

**M. *Total Columns on Combined Statements***

Although each of the City's funds is a separate accounting entity, the Combined Financial Statements also include total columns, which are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in cash flow in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation, since no interfund eliminations have been made in the aggregation of this data.

**NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING**

**A. *Budgets and Budgetary Accounting***

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.

2. Public hearings are conducted to obtain taxpayer comments.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

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

3. The budget is legally enacted through passage of a budget ordinance for all funds except for Trust and Agency Funds.
4. The City Manager is authorized to reallocate funds from a contingent account maintained in the General Fund in conformance with the adopted policies set by the City Council. Additional appropriations to departments in the General Fund, or to total appropriations for each other budgeted fund, or transfers of appropriations between funds, require approval by the City Council.
5. Expenditures may not legally exceed budgeted appropriations at the department level for the General Fund, and at the fund level for Special Revenue and Debt Service Funds.
6. Formal budgetary integration is employed as a management control device during the year in all funds except Trust and Agency Funds.
7. Budgets for governmental funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for all funds.
8. Expenditures for the Capital Projects Fund are budgeted and managed on a project length basis and budget to actual comparisons for these expenditures have been excluded from the accompanying financial statements.

**B. Reconciliation with Original Appropriations**

Budgeted expenditure amounts in the budgetary comparison statements are reconciled below with the amounts originally appropriated by City Council (in thousands):

Fund	Original Appropriations	Amendments (net)	Amended Budget
<b>General Fund</b>	\$89,073	\$797	\$89,870
<b>Special Revenue Funds:</b>			
Federal Revenue	673	377	1,050
Housing In-Lieu	175	1,125	1,300
Local Law Enforcement		351	351
<b>Debt Service Funds:</b>			
Terman Lease	454		454
Golf Course	386	(200)	186
Civic Center	816		816
Special Assessment Debt	1,016	(156)	860

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

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

**C. *Encumbrances***

Under encumbrance accounting, purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary integration in all budgeted funds. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities and are reappropriated in the following year. Unexpended appropriations lapse at year end and must be reappropriated in the following year.

**D. *Excess of Expenditures over Appropriations***

The funds below incurred expenditures and operating transfers in excess of their budgets in the amounts below as the result of unanticipated expenses. Sufficient resources were available within each fund to finance these excesses.

The Terman Lease and Golf Course Debt Service Funds expenditures exceeded budget in the amounts of \$9 thousand and \$184 thousand, respectively.

**NOTE 3 - CASH AND INVESTMENTS**

The City pools cash from all sources and all funds except Cash and Investments with Fiscal Agents so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time.

Investment income is allocated among funds on the basis of average month-end cash and investment balances in these funds.

**A. *Categorization of Credit Risk of Securities Instruments***

The City invests in individual investments and in investment pools. Individual investments are evidenced by specific identifiable pieces of paper called *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to maximize security, the City employs the Trust Department of a bank as the custodian of all its investments, regardless of their form.

The City categorizes its individual securities instruments in ascending order to reflect the relative risk of loss of these instruments. This risk is called Credit Risk, the lower the number, the lower the risk.

The three levels of risk prescribed by generally accepted accounting principles are described below:

**Category 1** - The City is the registered owner of securities held in book entry form by the bank's Trust Department. Securities instruments in this category are in the City's name and are in the possession of the Trust Department of the bank employed by the City solely for this purpose.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

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

*Category 2* - Securities instruments and book entry form securities in this category are held by the Bank's Trust Department as the City's agent in the City's name.

*Category 3* - None of the City's investments are in this category, which would include only City-owned securities instruments or book entry form securities which were not in the City's name and not held by the bank's Trust Department.

*Pooled Investments* - Pooled investments are not categorized because of their pooled, rather than individual, nature.

Investments are carried at fair market value (see E. below) and are categorized as follows at June 30 (in thousands):

	1999			1998
	Cash and Investments			
	Available for Operations	Restricted	Total	
<i>Category 1 Investments:</i>				
U.S. Treasury Obligations	\$3,005		\$3,005	\$15,108
U.S. Agency Obligations	255,448		255,448	215,087
<i>Category 2 Investments:</i>				
U.S. Treasury Obligations				170
U.S. Agency Obligations		\$755	755	761
<i>Pooled Investments (non Categorized):</i>				
Local Agency Investment Fund	17,335		17,335	18,796
California Asset Management Program		739	739	
Mutual funds (government securities)	3,511	9,726	13,237	7,888
Total Investments	279,299	11,220	290,519	257,810
Cash in banks and on hand	3,280		3,280	6,178
Total Cash and Investments	<u>\$282,579</u>	<u>\$11,220</u>	<u>\$293,799</u>	<u>\$263,988</u>

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

Cash and investments maturing in three months or less at the time of purchase are considered to be liquid assets for purposes of measuring cash flows.

**B. Cash Deposits**

Cash in banks is entirely insured (Category 1) or collateralized by the institution holding the deposit (Category 2). California law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the deposit or first trust deed mortgage notes with a value of 150% of the deposit as collateral for all municipal deposits. This collateral is considered to be held in the City's name and places the City ahead of general creditors of the institution. The City has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

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

The carrying amount of the City's cash deposits was \$3.280 million at June 30, 1999. Bank balances before reconciling items were \$4.238 million, of which \$100 thousand was insured (Category 1) and \$4.138 million was collateralized as discussed above (Category 2) at June 30, 1999.

**C. Market Risk and Investment Maturities**

Market risk is the risk that investments will decline in market value. The City limits market risk by limiting the types and maturities of its investments and by not borrowing against its investments. Investment yield is ranked after safety and liquidity in making investment decisions. All investments are held to maturity and maturities are matched to the City's projected cash flow needs. Investments at fair market value matured as follows at June 30 (in thousands):

	1999	1998
Available immediately	\$31,311	\$29,124
Maturities of less than one year	63,717	60,387
Maturities of one to five years	195,261	167,915
Maturities of five to eighteen years	230	384
Total Investments	\$290,519	\$257,810

**D. Authorized City Investments**

Investment instruments authorized for purchase include:

1. Securities of the U.S. Government or its agencies. No more than ten percent of the portfolio shall be invested in Farm Credit Securities, and no more than two percent of the portfolio shall be invested in the Guaranteed Portion of Small Business Administration Notes. These securities shall include Callable and Multi-step-up securities, limited to no more than twenty percent of the City's portfolio, provided that:
  - the potential call dates are known at the time of purchase;
  - the interest rates at which they "step-up" are known at the time of purchase; and
  - the entire face value of the security is redeemed at the call date.
2. Certificates of Deposit (or Time Deposits) with federally insured institutions. No more than ten percent of the City's portfolio may be invested in CD's. Rollovers are not permitted without specific instruction from authorized City staff.
3. Bankers Acceptance Notes with maturities less than two hundred seventy days. Purchases from any one bank may not exceed \$5 million, and total bankers acceptance notes may not exceed thirty percent of the City's investment portfolio.
4. Short-term Commercial Paper. Purchases of commercial paper may not exceed 180 days maturity or more than fifteen percent of the City's investment portfolio, and purchases from any one institution may not exceed \$3 million.
5. State of California Local Agency Investment Fund.



**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

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

6. Short-term Repurchase Agreements.
7. City of Palo Alto Bonds.
8. California Asset Management Program.
9. Money Market Deposit Accounts.
10. Mutual Funds which are limited essentially to the above investments, registered with the Federal Securities and Exchange Commission (SEC), and which are rated in the highest rating category by a nationally recognized rating service. No more than twenty percent of the City's portfolio may be invested in mutual funds, and no more than ten percent of the portfolio may be in any one Mutual Fund.

**E. *Investments Carrying Value***

The City's investments are carried at fair value, as required by generally accepted accounting principles. The City adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

**F. *Return on Investments***

The City's realized return on investments comprises only interest income; there were no realized gains or losses on sales of securities since all were held to maturity. Recognized return on investments during the fiscal year ended June 30, 1999 represented a return of 5.16% on the City's quarter-end average investment balances. This income is allocated among funds on the basis of their average month-end cash and investment balances.

The composition of the return on investments for all the City's funds was \$16.042 million in interest income less \$1.904 million representing the net loss recognized as a result of market value changes. These amounts total to \$14.138 million representing the total return on investments.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 4 - INTERFUND TRANSACTIONS**

**A. Operating Transfers Between City Funds**

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers, called operating transfers, is to reimburse a fund which has made an expenditure on behalf of another fund. Less often, a residual equity transfer may be made to open or close a fund. Operating transfers between City funds during fiscal year 1999 were as follows (in thousands):

<u>Fund Receiving Transfer</u>	<u>Fund Making Transfer</u>	<u>Amount Transferred</u>
<b>General Fund</b>	Street Improvement Special Revenue Fund	\$53
	Federal Revenue Special Revenue Fund	102
	Special Districts Special Revenue Fund	410
	Downtown Planned Community Special Revenue Fund	75
	Capital Project Fund	1,674
	Water Enterprise Fund	2,050
	Electric Enterprise Fund	7,353
	Gas Enterprise Fund	2,483
	Wastewater Collection Enterprise Fund	5
	Community Projects Donation Expendable Trust Fund	41
	Transportation Mitigation Special Revenue Fund	340
<b>Street Improvement Special Revenue Fund</b>		
<b>Debt Service Funds:</b>		
Golf Course	General Fund	177
Civic Center	General Fund	736
Civic Center	Special Districts Special Revenue Fund	80
<b>Capital Project Fund</b>	General Fund	6,133
	Street Improvement Special Revenue Fund	2,187
	Water Enterprise Fund	129
	Electric Enterprise Fund	457
	Gas Enterprise Fund	140
	Wastewater Collection Enterprise Fund	34
	Wastewater Treatment Enterprise Fund	20
	Refuse Enterprise Fund	15
	Storm Drain Enterprise Fund	21
<b>Enterprise Funds:</b>		
Water	Capital Projects Fund	28
Electric	Capital Projects Fund	182
Electric	Water Enterprise Fund	50
Electric	Gas Enterprise Fund	75
Electric	Wastewater Collection Enterprise Fund	25
Electric	Refuse Enterprise Fund	50
Electric	Storm Drain Enterprise Fund	10
Gas	Capital Projects Fund	42
Wastewater Collection	Capital Projects Fund	16
Wastewater Treatment	Capital Projects Fund	3
Refuse	Special Districts Special Revenue Fund	61
Refuse	Capital Projects Fund	5
<b>Vehicle Replacement and Maintenance</b>		
Internal Service Fund	Capital Projects Fund	65
		<u>\$25,327</u>

**B. Current Balances**

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. At June 30, 1999, the Federal Revenue Special Revenue Fund owed the General Fund \$98 thousand.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 5 - NOTES AND LOANS RECEIVABLE**

At June 30, 1999, the City's notes and loans receivable totaled (in thousands):

Palo Alto Housing Corporation and Affiliates:	
Oak Manor Townhouse	\$1,405
Emerson Street Project	375
Stevenson House	20
Alma Single Room Occupancy Development	2,222
Barker Hotel	1,400
Sheridan Apartments	2,450
Palo Alto Gardens	1,000
Home Rehabilitation Loans	354
Executive Relocation Assistance Loans	479
Total	<u><u>\$9,705</u></u>

**A. *Housing Loans***

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

**Oak Manor Townhouse**

On January 7, 1991, the City loaned \$2.1 million to assist in the acquisition of an apartment complex to be used to provide rental housing for low and very low income households. This loan bears interest at three percent, is due in annual installments until 2011 and is collateralized by a subordinated deed of trust. Under the terms of the loan agreement, loan payments are forgiven if the Corporation meets the objective of this project. During the year ended June 30, 1999 the City forgave the \$141 thousand annual loan payment due under the agreement.

**Emerson Street Project**

On November 8, 1994 the City loaned \$375 thousand for expenses necessary to acquire an apartment complex for the preservation of rental housing for low and very low income households in the City. This loan is collateralized by a first deed of trust. The loan bears no interest until 2009 after which the loan bears interest at three percent per year. The principal balance is due in 2034.

**Stevenson House**

On December 26, 1989, the City loaned \$20 thousand for repair costs of the Stevenson House complex. This loan bears interest at three percent per year and is collateralized by a deed of trust. Loan repayment is deferred until December 1999 when it is due in full.

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

**Alma Single Room Occupancy Development**

On December 13, 1996 the City loaned \$2.695 million to the Alma Place Association for the development of a 106 unit single room occupancy development. This loan bears interest at three percent and is collateralized by a first deed of trust. Loan payments are deferred until 2011. The principal balance is due in 2041. During fiscal 1998-99, the City received \$473 thousand in principal payments.

**Barker Hotel**

On April 12, 1994 the City loaned a total of \$2.07 million for the preservation, rehabilitation and expansion of a low income, single room occupancy hotel. This loan was funded by three sources: \$400 thousand from the Housing In-Lieu Special Revenue Fund, \$1 million from HOME Investment Partnership Program Funds, and \$670 thousand from Community Development Block Grant Funds. All three notes bear no interest and are collateralized by a deed of trust which is subordinated to private financing. Loan repayments are deferred until 2035. The City does not expect to collect the entire loan balance and has therefore recorded an allowance for doubtful accounts amounting to \$670 thousand to reduce the carrying value of the loans to \$1.4 million.

**Sheridan Apartments**

On December 8, 1998 the City loaned \$2.45 million to the Palo Alto Housing Corporation for the purchase and rehabilitation of a 57 unit apartment complex to be used for senior and low income housing. The loan is funded by \$1.625 million in Community Development Block Grant Funds, and \$825 thousand in Housing In-Lieu funds. The note bears interest at nine percent when available surplus cash from the project equals or exceeds twenty-five percent of interest calculated using nine percent. When available surplus cash falls below this level the note bears interest at three percent. The note is collateralized by a second deed of trust and an Affordability Reserve Account held by the Corporation. Annual loan payments are deferred until the Corporation accumulates \$1 million in an Affordability Reserve Account. The principal balance is due in 2023.

**Palo Alto Garden Apartments**

On April 22, 1999 the City loaned \$1 million to the Mid-Peninsula Housing Coalition for the purchase and rehabilitation of a 155 unit complex for the continuation of low income housing. This loan is funded by \$825 thousand in Community Development Block Grant funds and \$175 thousand in Housing In-Lieu funds. There are two notes which bear interest at three percent and are secured by second deeds of trust and a City Affordability Reserve Account held by the Coalition. Annual loan payments are deferred until certain criteria defined in the notes are reached. The principal balance is due in 2039.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

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

**Home Rehabilitation**

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

**B. Executive Relocation Assistance Loans**

The City Council may authorize a mortgage loan as part of a relocation assistance package to executive staff. The loans are secured by first deeds of trust and interest is adjusted annually based on the rate of return of the invested funds of the City for the year ending June 30 plus one quarter of 1%. Principal and interest payments are due bi-weekly. Employees must pay off any outstanding balance of their loans within a certain period of ending employment with the City. As of June 30, 1999, the City had one outstanding employee home loan due in 2023.

**NOTE 6 - PROPERTY, PLANT AND EQUIPMENT**

The General Fixed Assets Account Group provides accounting control over the cost of fixed assets used by the City's governmental funds. The General Fixed Assets Account Group is not a fund and its balances are not financial resources available for expenditure. Rather, they provide an historical accounting record of resources expended on general fixed assets. Public domain (infrastructure) general fixed assets, which include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems, have not been capitalized because these assets are immovable and of value only to the public. No depreciation has been provided on general fixed assets.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair market value on the date donated.

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

Proprietary fund fixed assets are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of proprietary fund fixed assets equitably among all customers over the life of these assets, so that each customer's bill includes a pro rata share of the cost of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of proprietary fund fixed assets.

Depreciation of all proprietary fund fixed assets is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the proprietary funds' balance sheet as a reduction in the book value of the fixed assets.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 6 - PROPERTY, PLANT AND EQUIPMENT (Continued)**

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

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

**A. General Fixed Assets**

Changes in the City's general fixed assets during the year ended June 30, 1999 were (in thousands):

	Balance June 30, 1998	Additions	Retirements	Balance June 30, 1999
<b>General Fixed Assets:</b>				
Land and improvements	\$51,274	\$5,448		\$56,722
Buildings and structures	49,121	2,336		51,457
Equipment	5,300	324	\$255	5,369
Total	\$105,695	\$8,108	\$255	\$113,548

Included in the general fixed assets account group at June 30, 1999 is \$8.023 million of construction in progress (capital improvements) expended in fiscal year 1998-99.

The City's practice is to perform physical inventory counts of fixed assets every two years on a rotational basis. In fiscal year 1996/97, a physical inventory was conducted of the City's general fixed assets which resulted in no material adjustments to the balances previously reported.

Included in general fixed assets land and improvements and equipment at June 30, 1999 are assets under capital leases amounting to \$6.321 million.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 6 - PROPERTY, PLANT AND EQUIPMENT (Continued)**

**B. Proprietary Fixed Assets**

Changes in the City's proprietary fund fixed assets during the year ended June 30, 1999 were (in thousands):

	Balance June 30, 1998	Additions	Retirements	Transfers	Balance June 30, 1999
<b>Enterprise Funds:</b>					
Land and improvements	\$1,541				\$1,541
Buildings and structures	11,287				11,287
Equipment	321,159	\$1,077	\$652	\$14,260	335,844
Construction in progress	16,135	19,335		(14,260)	21,210
Total	350,122	<u>\$20,412</u>	<u>\$652</u>		369,882
Less accumulated depreciation	(123,455)	<u>(\$9,168)</u>	<u>(\$529)</u>		(132,094)
Net fixed assets	<u>\$226,667</u>				<u>\$237,788</u>
<b>Internal Service Funds:</b>					
Equipment	\$19,030	<u>\$3,890</u>	<u>\$549</u>		\$22,371
Less accumulated depreciation	(11,356)	<u>(\$1,873)</u>	<u>(\$526)</u>		(12,703)
Net fixed assets	<u>\$7,674</u>				<u>\$9,668</u>

Also included in land and improvements in the Enterprise Funds is \$1.179 million 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.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 6 - PROPERTY, PLANT AND EQUIPMENT (Continued)**

**C. Construction in Progress and Completed Projects**

Construction in progress and projects completed in fiscal 1998-99 comprise (in thousands):

	<u>Project Authorization</u>	<u>Expended to June 30, 1999</u>	<u>Committed</u>
<b>Enterprise Funds:</b>			
Storm drainage structural and water quality improvements	\$2,435	\$492	\$131
Gas system extension replacements and improvements	2,089	4,367	27
Water system extension replacements and improvements	3,102	1,583	171
Electric distribution system improvements	2,710	1,106	37
Other electrical improvement projects	7,021	8,646	783
Water quality control plant equipment replacement and lab facilities	1,271	183	221
Sewer system rehabilitation and extensions	8,573	909	5,479
Sewer treatment system incinerator rehabilitation	7,460	617	6,268
Automated mapping	65	1	39
Other construction in progress	9,423	3,306	1,323
Total	<u>\$44,149</u>	<u>\$21,210</u>	<u>\$14,479</u>

Of the totals expended to June 30, 1999, costs amounting to \$14.260 million had been transferred from construction in progress to other fixed asset types for enterprise funds, respectively.

Allocations of enterprise fund administration and general expenses of \$3.451 million have been capitalized and included in amounts expended to June 30, 1999.

**NOTE 7 - GENERAL LONG TERM DEBT**

**A. The City's Long Term Debt**

The General Long Term Obligations Account Group provides accounting control over the principal of the City's general long term debt. This debt will be repaid out of governmental funds but is not accounted for in these funds because this part of the debt does not require an appropriation or expenditure in the current accounting period. Bond discounts and issuance costs of governmental fund types related to long-term debt issues are recorded as expenditures in the year of issuance.

Proprietary Fund (Enterprise and Internal Service) long-term debt is accounted for in the fund which will repay the debt because the fund is accounted for on the full-accrual basis in a similar manner to commercial operations. Bond discounts and issuance costs of Proprietary Funds' long-term debt issues are amortized over the life of the related debt. Gains or losses between the net book value of proprietary debt and funds placed in escrow to defease that debt are amortized over the remaining life of either the refunded debt or the refunding debt, whichever is shorter.



**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

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

The City's long-term debt issues and transactions, other than Special Assessment debt discussed in Note 8, were as follows (in thousands):

	Original Issue Amount	Balance June 30, 1998	Additions	Retirements and Refundings	Balance June 30, 1999
<b>General Long Term Debt:</b>					
<b>1978 Golf Course Lease Revenue Bonds,</b>					
5.00-6.00%, repaid 09/01/98	\$1,800	\$625		\$625	
<b>1992 Civic Center Certificates of Participation,</b>					
3.60-6.70%, due 03/01/2012	7,670	5,215		485	\$4,730
<b>1998 Golf Course Certificates of Participation,</b>					
4.00-5.00%, due 09/01/2018	7,750		\$7,750		7,750
<b>Terman School Capital Lease,</b>					
variable, due 11/09/2000	6,321	1,186		395	791
	<u>\$23,541</u>	<u>\$7,026</u>	<u>\$7,750</u>	<u>\$1,505</u>	<u>\$13,271</u>
<b>Enterprise Long Term Debt:</b>					
<b>Utility Revenue Bonds,</b>					
1990 Refunding, 5.7-6.8%, refunded 06/01/99	\$9,650	\$5,995		\$5,995	
1992 Series A, 6.3-6.375%, refunded 06/01/99	4,750	4,270		4,270	
1995 Series A, 5.0-6.25%, due 06/01/2020	8,640	8,120		190	\$7,930
1999 Refunding, 3.25-5.25%, due 06/01/24	17,735		\$17,735		17,735
Less: unamortized discount/issuance cost		(470)	(858)	(31)	(1,297)
	<u>\$40,775</u>	<u>\$17,915</u>	<u>\$16,877</u>	<u>\$10,424</u>	<u>\$24,368</u>

**B. Description of the City's Long Term Debt Issues**

**1978 Golf Course Corporation Lease Revenue Bonds** – The City issued Lease Revenue Bonds on March 13, 1978 to finance construction and other costs of improvement to the Palo Alto Municipal Golf Course. The Bonds were called and retired in full on September 1, 1998 from proceeds of the 1998 Golf Course Certificates of Participation and the Corporation was dissolved.

**1992 Civic Center Certificates of Participation** – The City issued Certificates of Participation on March 1, 1992 to refinance its 1983 Certificates of Participation and finance certain improvements of its Civic Center. Principal payments are payable annually on March 1 and interest payments semi-annually on March 1 and September 1, and are payable from lease revenues received by the Palo Alto Public Improvement Corporation from the City from available funds.

**1998 Golf Course Certificates of Participation** - In August 1998, the City's Public Improvement Corporation issued Golf Course Improvement Certificates of Participation, Series 1998 in the amount of \$7.75 million to refund the 1978 Golf Course Lease Revenue Bonds, and to finance various improvements at the Palo Alto Public Golf Course, including upgrading five fairways and various traps, trees and greens, constructing new storm drain facilities, replacing the existing irrigation system, upgrading the driving range, and installing new cart paths. Proceeds from the 1998 COPs, along with 1978 Bond reserve funds amounted to \$647,095 and were used to purchase US Government Securities. These securities were placed in an irrevocable trust with a Trustee to provide for the remaining debt service requirements on the 1978 Bonds. Accordingly, the 1978 Bonds are considered to be defeased and have been removed, along with the trust, from the accompanying financial statements. As a result of the refunding, aggregate debt service was decreased \$135,896, and an economic gain of \$9,069 was realized. The 1998 COPs are secured by lease revenues received by the Public Improvement Corporation from golf course revenues or other unrestricted revenues of the City. Principal and interest are payable semi-annually each March 1 and September 1 beginning in 1999.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

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

**Terman School Capital Lease** – The City is purchasing a site from the Palo Alto Unified School District on an installment basis for public purposes. The lease bears annual interest at the average annual rate of return earned on the District’s portfolio of investments for the fiscal year. Principal and interest payments are payable annually on November 9. The Lease is repayable from the Terman Lease Debt Service Fund.

**1990 Utility Revenue Refunding Bonds, Series A** – The City issued Utility Revenue Refunding Bonds on August 1, 1990 to refund the outstanding principal of the City’s 1985 Utility Revenue Bonds, Series A. The Bonds were refunded by proceeds from the 1999 Utility Revenue and Refunding Bonds, Series A and accordingly have been removed from these financial statements. At June 30, 1999 the balance outstanding on these bonds amounted to \$5.4 million.

**1992 Utility Revenue Bonds, Series A** – The City issued Utility Revenue Bonds on April 1, 1992 to finance certain extensions and improvements to the City’s Storm and Surface Water Management Enterprise. The Bonds were refunded by the 1999 Utility Revenue Refunding Bonds, Series A and accordingly have been removed from these financial statements. At June 30, 1999 the balance outstanding on these bonds amounted to \$4.16 million.

**1995 Utility Revenue Bonds, Series A** – The City issued Utility Revenue Bonds on February 1, 1995 to finance certain extensions and improvements to the City’s Storm Drainage and Surface Water System. The Bonds are special obligations of the City payable solely from and secured by a pledge of and lien upon the revenues derived by the City from the funds, services and facilities of all Enterprise Funds except the Refuse Fund. Principal payments are payable annually on June 1 and interest payments semi-annually on June 1 and December 1. A \$2.86 million 6.25% term bond will be due June 1, 2020.

**1999 Utility Revenue and Refunding Bonds, Series A** – The City issued Utility Revenue Bonds on June 1, 1999 to refund the 1990 Utility Revenue Refunding Bonds, Series A and the 1992 Utility Revenue Bonds, Series A, and to finance rehabilitation of the Wastewater Treatment System’s two sludge incinerators. A portion of the proceeds from the 1999 Bonds amounting to \$9.929 million was used to purchase US Government Securities. These securities were placed in irrevocable trusts with a Trustee to provide for the remaining debt service requirements on the 1990 and 1992 Bonds. Accordingly, the 1990 and 1992 Bonds are considered to be defeased and have been removed, along with the trusts, from the accompanying financial statements. As a result of the refunding, aggregate debt service was increased \$5.325 million, and an economic gain of \$178 thousand was realized.

In accordance with City policy, the difference between the amount deposited in escrow of \$9.929 million and the carrying value of the refunded bonds of \$9.403 million has been capitalized and included in unamortized discounts/issuance costs and amortized over the remaining life of the refunded debt.

The 1999 Bonds are special obligations of the City payable solely from and secured by a pledge of and lien upon certain net revenues derived by the City’s Sewer System and its storm and surface water system (the “Storm Drain System”). As of June 30, 1999, the 1999 Bonds had been allocated to and were repayable from net revenues of the following enterprise funds; Wastewater Collection (10.2%), Wastewater Treatment (64.6%) and Storm Drain (25.2%). Principal payments are payable annually on June 1 and interest payments semi-annually on June 1 and December 1. A \$3.125 million 5.25% term bond, and a \$5.12 million 5.25% term bond will be due June 1 2021 and 2024, respectively.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

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

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

For the Year Ending June 30	Certificates of Participation	Capital Lease	Utility Revenue Bonds	Totals
2000	\$1,501	\$458	\$1,899	\$3,858
2001	1,525	428	1,887	3,840
2002	1,521		1,893	3,414
2003	1,519		1,886	3,405
2004	1,367		1,888	3,255
Thereafter	10,648		37,798	48,446
	18,081	886	47,251	66,218
Less amount representing interest	5,601	95	21,586	27,282
Principal amount due	\$12,480	\$791	\$25,665	\$38,936

**D. Debt Call Provisions**

Long-term debt as of June 30, 1999 is callable on the following terms and conditions:

	Initial Call Date	
<b>General Long Term Debt:</b>		
1992 Certificates of Participation	03/01/2001	(4)
1998 Certificates of Participation	09/01/2008	(5)
<b>Special Assessment Bonds, with City's Commitment</b>		
1975 California Avenue Parking	07/02/1985	(1)
1977 University Avenue Parking	07/02/1987	(1)
1987 California Avenue Parking,	09/02/1995	(3)
1989 University Avenue Area Off-Street Parking,	09/01/1999	(2)
<b>Enterprise Long Term Debt:</b>		
<b>Utility Revenue Bonds -</b>		
1995 Series A	06/01/2004	(2)
1999 Refunding	06/01/2009	(2)

- (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.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

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

- (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 specified by the Trustee at par plus a premium of 1% beginning on the initial call date. The call price declines subsequent to the initial date.

**E. *Leasing Arrangements***

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

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

**F. *Debt without City's Commitment***

On December 15, 1996, the City acted as a financial intermediary in order to assist Lytton Gardens Health Care Center in issuing Insured Revenue Refunding Bonds. The Bonds are payable solely from revenues collected by Lytton Gardens Health Care Center. The City has not included these bonds in its general purpose financial statements since it is not legally or morally obligated for the repayment of the bonds. At June 30, 1999 the amount of Bonds outstanding was \$12.65 million.

**NOTE 8 - SPECIAL ASSESSMENT DEBT**

**A. *Special Assessment Debt with City Commitment***

Special assessment districts exist in the City to provide improvements to properties located in those districts. Properties are assessed for the cost of improvements; these assessments are payable over the term of the debt issued to finance the improvements. The total amount of the assessment is recorded as a receivable and a deferred revenue at the time the related debt is issued, and reduced as assessments are collected. The City is obligated to be the purchaser of last resort or to advance available City funds to repay this debt in the event of default by any of these districts. At June 30, 1999 all these districts were in compliance with the repayment and other requirements of their respective debt issues. The City accounts for resources available to pay special assessment debt in its Debt Service Funds. The special assessment debt is included in the General Long-Term Obligations Account Group.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 8 - SPECIAL ASSESSMENT DEBT (Continued)**

Special assessment debt with City commitment comprises the following issues (in thousands):

	Original Issue Amount	Balance June 30, 1998	Retirements	Balance June 30, 1999
1975 California Avenue Parking 7.00-7.50%, due 07/02/00	\$420	\$95	\$30	\$65
1977 University Avenue Parking 5.40-7.75%, due 07/02/02	791	300	50	250
1987 California Avenue Parking, 6.70-9.25%, due 09/02/2007	1,325	870	65	805
1989 University Avenue Area Off-Street Parking, 5.75-6.90%, due 09/01/06	6,420	4,420	345	4,075
	<u>\$8,956</u>	<u>\$5,685</u>	<u>\$490</u>	<u>\$5,195</u>

Special assessment debt service requirements, including principal and interest, are as follows (in thousands):

For the Year Ending June 30	Special Assessment Debt with City's Commitment
2000	\$862
2001	876
2002	852
2003	865
2004	798
Thereafter	2,499
	<u>6,752</u>
Less amount representing interest	1,557
Principal amount due	<u>\$5,195</u>

**B. Description of Special Assessment Debt with City's Commitment**

**1975 California Avenue District Offstreet Parking Assessment District Bonds** -- The City issued Special Assessment Bonds on January 2, 1975 to finance the acquisition of land and related improvements for the purpose of providing public parking in the City. Principal payments are payable annually on July 2 and interest payments semi-annually on January 2 and July 2.

**1977 University Avenue Area Offstreet Parking Assessment District Bonds** -- The City issued Special Assessment Bonds on June 2, 1977 to finance the acquisition of land and construction for the purpose of providing public parking in the City. Principal payments are payable annually on July 2 and interest payments semi-annually on January 2 and July 2.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 8 - SPECIAL ASSESSMENT DEBT (Continued)**

**1987 California Avenue Parking Assessment District Assessment Bonds** -- The City issued Special Assessment Bonds on April 13, 1987 to finance the acquisition of land and related improvements for the purpose of providing public parking in the City. Principal payments are payable annually on September 2 and interest payments semi-annually on March 2 and September 2.

**1989 University Avenue Area Off-street Parking Assessment District Refunding and Improvement Bonds** – The City issued Special Assessment Bonds on December 18, 1989 to advance refund all of the outstanding University Avenue Lot J Parking Garage Assessment District Bonds of 1984 and to provide funds for the acquisition of one floor of public parking in a parking structure. Principal payments are payable annually on September 1 and interest payments semi-annually on March 1 and September 1.

**C. *Special Assessment Debt with no City Commitment***

The California Avenue Parking Assessment District No. 92-13 issued Assessment Bonds of 1993, but the City has no legal or moral liability with respect to the payment of this debt, which is secured only by assessments on the properties in this District. Therefore, this debt is not included in general long-term debt of the City. At June 30, 1999, the District's outstanding debt amounted to \$1.825 million.

**NOTE 9 - 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 million were reported in fiscal 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 thousand. 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.

An updated cost estimate for the landfill closure and postclosure was performed during 1998. The estimates of these costs were based upon 1998 costs and are adjusted annually for inflation; the 1999 amount is \$7.887 million.

The \$6.871 million reported as landfill closure and postclosure care liability at June 30, 1999 represents 87.1% of the above estimate 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 1999. 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.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 9 - LANDFILL CLOSURE AND POSTCLOSURE CARE (Continued)**

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, 1999 with the establishment of the fully-funded liability for this purpose.

**NOTE 10 - FUND EQUITY**

**A. *Fund Equity***

Fund equity consists of reserved and unreserved amounts. Reserved fund equity represents that portion of a fund balance or retained earnings which has been appropriated for expenditure or is legally segregated for a specific future use. The remaining portion is unreserved.

A portion of unreserved fund balance may be designated to indicate plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans are subject to change and may never be legally authorized or result in expenditures.

Reserves are restrictions placed by outside entities, such as other governments, which restrict the expenditures of the reserved funds to the purpose intended by the entity which provided the funds. The City cannot modify or remove these restrictions or reserves.

Designations are imposed by City Council to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by Council action.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 10 - FUND EQUITY (Continued)**

**B. Governmental Funds**

At June 30, 1999, fund balance reservations and designations included (in thousands):

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Project Fund	Expendable Trust Fund
Reserved for:					
Encumbrances	\$5,067	\$2,569		\$3,205	
Notes	479	9,226			
Debt Service			\$2,624		
Debt proceeds				172	
Inventory of materials and supplies	1,691				
<b>Total Reserved Fund Balance</b>	<b>\$7,237</b>	<b>\$11,795</b>	<b>\$2,624</b>	<b>\$3,377</b>	
Unreserved; designated for:					
Unrealized gain on investment	\$7				\$1
Reappropriations	670	\$1,034		\$9,195	
Capital and special revenue projects		4,680			
Budget stabilization	20,591				
Emergencies	5,966				
Infrastructure	14,666				
<b>Total Unreserved/Designated Fund Balances</b>	<b>\$41,900</b>	<b>\$5,714</b>		<b>\$9,195</b>	<b>\$1</b>

Reserve for **encumbrances** represents the portion of fund balance set aside for open purchase orders.

Reserves for **notes and inventory** are the portions of fund balance set aside to indicate these items do not represent available, spendable resources even though they are a component of assets.

Reserve for **debt service** is the portion of fund balance legally restricted for the payment of principal and interest on long term liabilities.

Reserve for **debt proceeds** is the portion of fund balance legally restricted for the expenditure of bond proceeds on authorized project costs.

Designated for **unrealized gain on investments** is the portion of fund balance for gains or losses on investments resulting from changes in fair market values recognized for financial statement purposes but not realized, since these investments have not been sold.

Designated for **reappropriations** is the portion of fund balance set aside for subsequent years' appropriations.

Designated for **capital and special revenue projects** is the portion of fund balance for use on capital outlay projects.



**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 10 - FUND EQUITY (Continued)**

Designated for **budget stabilization** is the portion of fund balance to be used to supplement the regular budget when unexpected events such as state government action, a downturn in the economy or a natural disaster reduces revenue or creates obligations that significantly impact the current year budget.

Designated for **emergencies** is the portion of fund balance to be used for fund expenditures in emergency situations.

Designated for **infrastructure** is the portion of fund balance to be used for financing future capital improvements.

**C. Internal Service Funds**

At June 30, 1999, internal service fund retained earnings reservations and designations included (in thousands):

Reserved retained earnings-	
Commitments and reappropriations	\$2,668
Unreserved:	
Designated for future catastrophic losses	5,427
Undesignated	<u>7,965</u>
Total	<u>\$16,060</u>

Reserve for **commitments and reappropriations** represents the portion of fund balance set aside for open purchase orders.

Designated for **future catastrophic losses** is the portion of fund balance to be used for unforeseen future losses.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 10 - FUND EQUITY (Continued)**

**D. Enterprise Funds**

At June 30, 1999, enterprise fund retained earnings reservations and designations included (in thousands):

	Water	Electric	Gas	Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Total
Reserved retained earnings:								
Rate stabilization								
Supply		\$19,184	\$7,445					\$26,629
Distribution		5,413	8,936					14,349
Operations	\$9,547			\$9,678	\$3,372	\$7,923	\$91	30,611
	9,547	24,597	16,381	9,678	3,372	7,923	91	71,589
Emergency plant replacement	854	2,316	715	404	1,279			5,568
Calaveras		71,072						71,072
Reappropriations	498	4,425	592	2,622	410	1,492	194	10,233
Commitments	523	2,121	401	5,640	1,836	771	81	11,373
Restricted bond proceeds							2,271	2,271
Underground loan		600						600
Conservation loan			634					634
Refuse Water Resources Board						590		590
Shasta rewind loan		867						867
Central Valley Project		990						990
Public benefit program		2,172						2,172
<b>Total</b>	11,422	109,160	18,723	18,344	6,897	10,776	2,637	177,959
Unreserved retained earnings	23,918	81,086	30,910	16,889	2,645	4,781	1,168	161,397
<b>Total retained earnings</b>	<u>\$35,340</u>	<u>\$190,246</u>	<u>\$49,633</u>	<u>\$35,233</u>	<u>\$9,542</u>	<u>\$15,557</u>	<u>\$3,805</u>	<u>\$339,356</u>

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

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 11 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

The City maintains seven enterprise funds. These funds are intended to be self-supporting, through user fees charged for services rendered. Segment information for these funds for the year ended June 30, 1999 follows (in thousands):

	Water	Electric	Gas	Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Total
Operating revenues	\$12,937	\$78,970	\$18,744	\$9,383	\$11,841	\$21,556	\$2,072	\$155,503
Depreciation and amortization	752	4,251	1,088	980	1,652	184	284	9,191
Operating income	3,930	33,920	3,443	2,498	70	1,379	331	45,571
Operating transfers in	28	392	42	16	3	66		547
Operating transfers (out)	(2,224)	(7,810)	(2,698)	(64)	(20)	(65)	(31)	(12,912)
Net income	2,221	20,510	1,700	3,156	189	1,789	44	29,609
Property, plant & equipment:								
Additions	3,413	6,970	3,564	2,280	2,464	115	1,606	20,412
Retirements	152	395	70	35				652
Net working capital	11,422	109,159	18,795	18,345	14,456	10,776	1,726	184,679
Total assets	44,291	211,737	53,809	46,470	42,770	23,689	15,652	438,418
Bonds and contracts, net of bond discount, payable from operating revenues				1,681	10,925		11,762	24,368
Total equity	43,346	207,384	52,966	44,662	30,924	15,557	3,805	398,644

**NOTE 12 - PENSION PLANS**

**A. CALPERS Safety and Miscellaneous Employees Plans**

Substantially all permanent City employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS) an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The City's employees participate in the separate Safety (police and fire) and Miscellaneous (all other) Employee Plans. Benefit provisions under both Plans are established by State statute and City resolution. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CALPERS. The City contributes these amounts and has no pension benefit obligation.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 12 - PENSION PLANS (Continued)**

The Plans' provisions and benefits in effect at June 30, 1999, are summarized as follows:

	Safety		
	Police	Fire	Miscellaneous
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50	50	50
Monthly benefits, as a % of annual salary	2% - 2.7%	2% - 2.7%	1.426% - 2.418%
Required employee contribution rates	9%	9%	7%
Required employer contribution rates	18.825%	14.707%	4.609%
Actuarially required contributions (in thousands)	\$1,173	\$1,625	\$1,977

The City's labor contracts require it to pay employee contributions as well as its own.

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the City's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this Method is the level amount the employer must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarial accrued liability. The City does not have a net pension obligation since it pays these actuarially required contributions monthly.

CALPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 8.25% is assumed, including inflation at 3.5%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and ten percent of the net balance is amortized annually.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 12 - PENSION PLANS (Continued)**

The Plans' actuarial value (which differs from market value) and funding progress over the past three years is set forth below at their actuarial valuation date of June 30 (in thousands):

**Safety Police Plan:**

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	(Unfunded) Overfunded Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as a % of Payroll
1995	\$41,030	\$38,601	(\$2,429)	94.1%	\$5,325	45.6%
1996	46,058	42,921	(3,137)	93.2%	5,460	57.4%
1997	49,945	48,828	(1,117)	97.8%	5,508	20.3%

**Safety Fire Plan:**

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	(Unfunded) Overfunded Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as a % of Payroll
1995	\$59,318	\$56,381	(\$2,937)	95.0%	\$8,765	33.5%
1996	65,714	63,090	(2,624)	96.0%	9,685	27.1%
1997	70,224	71,957	1,733	102.5%	9,878	-17.5%

**Miscellaneous Plan:**

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	(Unfunded) Overfunded Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as a % of Payroll
1995	\$126,484	\$128,631	\$2,147	101.7%	\$39,794	(5.4%)
1996	137,747	146,654	8,907	106.5%	37,592	(23.7%)
1997	151,939	173,858	21,919	114.4%	38,849	(56.4%)

Audited annual financial statements and ten year trend information are available from CALPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 12 - PENSION PLANS (Continued)**

The market value of the net assets in the Plans held for Pension Benefits changed as follows during the year ended June 30, 1997 (in thousands):

	<u>Safety</u>		<u>Miscellaneous</u>
	<u>Police</u>	<u>Fire</u>	
<b>Net Assets Beginning of Year</b>	\$42,921	\$63,090	\$146,654
<b>Additions to Plan Assets:</b>			
Employer Contributions	813	1,132	2,262
Plan Member Contributions	501	681	2,809
Net Investment Income	6,616	9,821	23,335
Transfer from Surplus Account	210		4,092
<b>Deductions to Plan Assets:</b>			
Benefits Paid	(2,202)	(2,767)	(4,830)
Lump Sum Payments			(12)
Refunds of Contributions	(31)		(452)
<b>Net Assets End of Year</b>	<u>\$48,828</u>	<u>\$71,957</u>	<u>\$173,858</u>

Additional disclosures will be included when made available by PERS.

Actuarially required contributions which were equal to net pension costs, for fiscal years 1999, 1998, and 1997 were, \$9.878, \$8.723, and \$8.198 million, respectively. The City made these contributions as required, together with certain immaterial amounts required as the result of the payment of overtime and other additional employee compensation.

**NOTE 13 - RETIREE HEALTH 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 1999, expenditures for retiree health care for approximately 456 eligible retired employees totaled \$1.066 million, including administrative fees. The premium is based upon an average annual cost of coverage per retiree of \$2 thousand.

In the fiscal year ended June 30, 1993, the City received a \$6.1 million 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 funding of retiree health benefits to the extent that actual health care premium costs exceed 1.5% 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 1998-99, the \$1.061 million premium represented 1.6% of gross Citywide payroll. This resulted in \$43 thousand or 0.1% of the premium, being expended from the Trust Fund.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 13 - RETIREE HEALTH BENEFITS (Continued)**

The Retiree Health Benefit Expendable Trust Fund's fund balance consists of the following for the fiscal year ended June 30 (in thousands):

	1999	1998
Fund balance, beginning of year	\$7,631	\$7,135
Interest earnings	397	496
Benefits expenditures	(43)	
Fund balance, end of year	\$7,985	\$7,631

**NOTE 14 - DEFERRED COMPENSATION PLAN**

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

In fiscal 1999 the City amended its Deferred Compensation Plan document to provide for the administration and management of employee deferred compensation plan assets. These agreements incorporate changes in the laws governing deferred compensation plan assets which now require plan assets to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries.

Since the assets held under these new plans are not the City's property and are not subject to claims by general creditors of the City, they have been excluded from these financial statements.

**NOTE 15 - RISK MANAGEMENT**

**A. Coverage**

The City provides dental coverage to employees through programs which are administered by a service agent. The City is self-insured for the dental coverage.

The City has a workers' compensation insurance policy with coverage up to the statutory limit set by the State of California. The City retains the risk for the first \$250 thousand in losses for each accident and employee under this policy.

The City also has public employee dishonesty insurance with a \$5 thousand deductible and coverage up to \$1 million per loss. The City's property and machinery insurance policy has various deductibles and various coverages based on the kind of machinery.

The City is a member of the Authority for California Cities Excess Liability (ACCEL) which provides general liability, including auto liability, insurance coverage up to \$20 million per occurrence. The City retains the risk for the first \$1 million in losses for each occurrence under this policy.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 15 - RISK MANAGEMENT (Continued)**

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

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

During the fiscal year ended June 30, 1999 the City contributed \$399 thousand to ACCEL for current year coverage.

Audited financial statements are available from ACCEL at 160 Spear Street, San Francisco, California 94105.

**B. Claims Liability**

The City provides for the uninsured portion of claims and judgments in the General Benefits and Insurance Internal Service Fund. Claims and judgments, including a provision for claims incurred but not reported, are recorded when a loss is deemed probable of assertion and the amount of the loss is reasonably determinable. As discussed, above, the City has a coverage for such claims, but it has retained the risk for the deductible, or uninsured portion of these claims.

The City's liability for uninsured claims is limited to dental, general liability, and workers' compensation claims, as discussed above, and was estimated by management based on prior years claims experience as follows (in thousands):

	Year Ended June 30	
	1999	1998
Beginning Balance	\$7,650	\$7,920
Liability for current and prior fiscal year claims and claims incurred but not reported (IBNR)	2,777	2,586
Claims paid	(2,774)	(2,856)
Ending Balance	\$7,653	\$7,650

**NOTE 16 - JOINT VENTURES**

**A. General**

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



**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 16 - JOINT VENTURES (Continued)**

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

**B. Northern California Power Agency**

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

During the year ended June 30, 1999, the City incurred expenses totaling \$10.345 million for purchased power and assessments earned by NCPA.

The City's interest in NCPA projects and reserves, as computed by NCPA, was \$3.848 million at June 30, 1999. This amount represents the City's portion of funds which resulted from the settlement with third parties of issues with financial consequences and reconciliations of several prior years' budgets for programs. It is recognized that all the funds credited to the City are linked to the collection of revenue from the City's ratepayers, or to the settlement of disputes relating to electric power supply and that the money was collected from the City's ratepayers to pay power bills. Additionally, the NCPA Commission identified and approved the funding of specific reserves for working capital, accumulated employees post-retirement medical benefits, and billed property taxes for the geothermal project. The Commission also identified a number of contingent liabilities that may or may not be realized, the cost of which in most cases is difficult to estimate at this time. One such contingent liability is the steam field depletion which will require funding to cover debt service and operational costs in excess of the expected value of the electric power. The General Operating Reserve is intended to minimize the number and amount of individual reserves needed for each project, protect NCPA's financial condition and maintain its credit worthiness. These funds are available on demand, but the City has left them with NCPA as a reserve against these contingencies identified by NCPA.

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

***Geothermal Projects***

A purchased power agreement with NCPA obligated the City for 6.158% and 6.158%, respectively, of the operating costs and debt service of the two NCPA 110-megawatt geothermal steam powered generating plants, Project Number 2 and Project Number 3.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 16 - JOINT VENTURES (Continued)**

The City's participation in the Geothermal Project was sold to Turlock Irrigation District in October 1984. Accordingly, the City is liable for payment of outstanding geothermal related debt only in the event that Turlock fails to make specified payments. Total outstanding debt of the NCPA Geothermal Project at June 30, 1999 is \$428.093 million. The City's participation in this project was 6.158%, or \$26.362 million.

NCPA's Geothermal Project has experienced a greater than originally anticipated decline in steam production from geothermal wells on its leasehold property. Results of the continuing well analysis program indicate that the potential productive capacity of the geothermal steam reservoir is less than originally estimated. Therefore, NCPA has modified the operations of the Geothermal Project to reduce the average annual output from past levels. As a result, the per unit cost of energy generated by the projects will be higher than anticipated.

NCPA will continue to monitor the wells while pursuing alternatives for improving and extending reservoir performance, including supplemental water reinjection, plant equipment modifications, and changes in operating methodology. NCPA, along with other steam field operators, has observed a substantial increase in steam production in the vicinity of reinjection wells and is attempting to increase water reinjection at strategic locations. NCPA, other steam developers, and the Lake County Sanitation District are constructing a wastewater pipeline project that will greatly increase the amount of water available for reinjection.

***Calaveras Hydroelectric Project***

In July 1981, NCPA agreed with Calaveras County Water District to purchase the output of the North Fork Stanislaus River Hydroelectric Development Project and to finance its construction. Debt service payments to NCPA began in February, 1990 when the project was declared substantially complete and power was delivered to the participants. Under its power purchase agreement with NCPA, the City is obligated to pay 22.92% of this Project's debt service and operating costs. At June 30, 1999, the book value of this Project's plant, equipment and other assets was \$559.573 million, while its long term debt totaled \$550.398 million and other liabilities totaled \$9.175 million. The City's share of the Project's long term debt amounted to \$126.511 million at that date.

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.

**NOTE 16 - JOINT VENTURES (Continued)**

***Geothermal Public Power Line***

In 1983, NCPA, Sacramento Municipal Utility District, the City of Santa Clara and the Modesto Irrigation District (joint owners) initiated studies for a Geothermal Public Power Line (GPPL) which would carry power generated at several existing and planned geothermal plants in the Geysers area to a location where the joint owners could receive it for transmission to their load centers. NCPA has an 18.5% share of this Project and the City has a 11.074% participation in NCPA's share. In 1989, the development of the proposed Geothermal Public Power Line was discontinued because NCPA was able to contract for sufficient transmission capacity to meet its needs in the Geysers. However, because the project financing provided funding for an ownership interest in a PG&E transmission line, a central dispatch facility and a performance bond pursuant to the Interconnection Agreement with PG&E, as well as an ownership interest in the proposed GPPL, NCPA issued \$16,000,000 in long-term, fixed-rate revenue bonds in November 1989 to defease the remaining variable rate refunding bonds used to refinance this project. The City is obligated to pay its 11.074% share of the related debt service, but debt service costs are covered through NCPA billing mechanisms that allocate the costs to members based on use of the facilities and services.

At June 30, 1999, the book value of this Project's plant, equipment and other assets was \$10.104 million, while its long term debt totaled \$10.104 million. The City's share of the Project's long term debt amounted to \$1.119 million at that date.

***Northwest Power Purchase Contract***

The City's participation with other NCPA members in a long-term contract for purchase of power from the Washington Water Power Company was approved in 1993. At that date the City did not have a share of the Project's long term debt. On February 1, 1997, the NCPA issued \$18,310,000 in Northwest Resource Revenue Bonds. The proceeds will be used to finance a portion of a payment to be made under the Northwest Power Purchase Contract and costs of issuance of the debt. Under the NCPA Agreement for Financing Electric Capacity, the City is obligated to pay 13.61% of this debt service. At June 30, 1999 the book value of this Project's plant, equipment and other assets was \$11.343 million, while its long term debt totaled \$10.465 million and other liabilities totaled \$0.878 million. The City's share of the Project's long-term debt amounted to \$1.424 million at that date.

***NCPA Financial Information***

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

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

The City is a member of a joint powers agreement with 14 other entities in the Transmission Agency of Northern California (TANC). TANC's purpose is to provide electrical transmission or other facilities for the use of its members. While governed by its members, none of TANC's obligations are those of its members unless expressly assumed by them. The City is obligated to pay 4% of TANC's debt-service and operating costs.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 16 - JOINT VENTURES (Continued)**

According to the 1985 Project Agreement with TANC for the development of the California-Oregon Transmission Project (COTP) and subsequent related project agreements, the City is obligated to pay its share of the project's costs, including debt service and is entitled to the use of a percentage of the project's transmission or transfer capacity. TANC has issued two series of Revenue Bonds and Commercial Paper Notes totaling \$444.294 million as of June 30, 1999. The City's share of this debt is \$17.772 million.

Construction of the COTP was complete as of June 30, 1993. The transmission line was energized March 24, 1993. Because funding of certain project participants' shares in the project was needed pending approval of their applications for participation, TANC issued \$93,781,238 of Commercial Paper debt backed by a Letter of Credit. The City's share of the Commercial Paper was \$2.395 million at June 30, 1999, which is included in the share of debt discussed above. Shares and obligations of the existing participants could increase pending final project subscription.

Because the investor owned utilities that had planned on being participants in the project did not receive Certificates of Public Convenience and Necessity from the California Public Utilities Commission, they were unable to participate. Accordingly, the remaining participants' percentage participation in the project increased substantially.

***TANC Financial Information***

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

**NOTE 17 - COMMITMENTS AND CONTINGENCIES**

***Palo Alto Unified School District*** – The City leases the former Cubberley School site and eleven extended day care sites from the Palo Alto Unified School District (PAUSD). 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 2004 with an option for an additional ten year term. The City's rent for the facilities is \$4.963 million per year plus insurance, repairs and maintenance work to be completed, which are not to exceed \$250 thousand per year. This lease 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, 1999 amounted to \$5.2 million.

Future minimum annual lease and covenant payments are as follows (in thousands):

Year ending June 30:	
2000	\$5,382
2001	5,570
2002	5,764
2003	5,966
2004	<u>6,175</u>
Total	<u><u>\$28,857</u></u>

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 17 - COMMITMENTS AND CONTINGENCIES (Continued)**

***Palo Alto Sanitation Company-*** The City has a contract 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 33.63% for collection services and 95% for the bin rentals in fiscal 1998-99. During this period, the City made payments of approximately \$7.169 million for services rendered by PASCO.

***City of Palo Alto Regional Water Quality Control Plant-*** The cities of Palo Alto, Mountain View and Los Altos (the Partners) participate jointly in the cost of maintaining and operating the City of Palo Alto Regional Water Quality Control Plant and related system (the Plant). The City is the owner and administrator of the Plant which provides the transmission, treatment and disposal of sewage for the Partners. The cities of Mountain View and Los Altos are entitled to use a portion of the capacity of the Plant for a specified period of time. Each partner has the right to rent unused capacity from/to the other partners. The expenses of operations and maintenance are paid quarterly by each partner based on its pro rata share of treatment costs. Additionally, joint system revenues are shared by the partners in the same ratio as expenses are paid. The amended agreement has a term of fifty years beginning from the original signing in October 1968, but may be terminated by any partner upon ten years' notice to the other partners. All sewage treatment property, plant and equipment are included in the Wastewater Enterprise Fund's property, plant and equipment balance at June 30, 1999. 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 reimburses its proportionate capacity share of design, construction, and operation costs to Sunnyvale.

On December 1, 1992, the Sunnyvale Financing Authority issued \$24,160,000 in revenue bonds to finance the design and construction costs of the SMaRT Station. 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, 1999 is \$4.462 million. During the year ended June 30, 1999, the City paid \$397 thousand as its portion of current debt service.

**CITY OF PALO ALTO, CALIFORNIA**  
**Notes to General Purpose Financial Statements**

**NOTE 17 - COMMITMENTS AND CONTINGENCIES (Continued)**

***Deregulation of Electric Industry-*** Effective January 1, 1998, Pacific Gas and Electric (PG&E), Southern California Edison and San Diego Gas & Electric Company turned 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 had the option of continuing its transmission service through its existing contracts or converting to transmission service offered by the ISO. This restructuring also introduced a Power Exchange through which the City will have the option of buying and selling electric power and energy.

***Litigation*** – The City is subject to litigation arising in the normal course of business. In the opinion of the City Attorney there is no pending litigation which is likely to have a material adverse effect on the financial position of the City.

***Sales Tax Adjustment*** – On April 14, 1999 the State Board of Equalization informed the City that it had been allocated and paid \$594 thousand in sales and use taxes in error and that the City was obligated to refund these taxes from future sales tax revenues. The City is in the process of challenging the Board's finding. However, as of June 30, 1999, the issue had not been settled and the refund had not been returned.

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

**NOTE 18 - YEAR 2000 ISSUE**

Like other entities around the world, the City could be adversely affected if the computer systems it uses and those used by significant vendors, etc., do not properly process and calculate date-related information and data. This is commonly known as the "Year 2000 Issue."

The City conducted a study of its computer systems to evaluate the Year 2000 viability of the various systems and to determine which might need to be replaced or modified. As a result of this study and further evaluation, the City has determined which systems are to be replaced or modified and this work is in process. Testing and validation of the systems is expected to be completed on time.

The City has made inquiries of its significant vendors, the majority of whom have indicated they do not expect to experience any interruption of operations.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the City is or will be fully Year 2000 ready, that the City's remediation efforts will be successful in whole or in part, or that parties with whom the City does business with will be Year 2000 ready.

## GENERAL FUND

The General Fund is used for all general revenues of the City not specifically levied or collected for other City funds and the related expenditures. The general fund accounts for all financial resources of a governmental unit which are not accounted for in another fund.

**CITY OF PALO ALTO  
GENERAL FUND**

**COMPARATIVE BALANCE SHEETS  
JUNE 30, 1999 AND 1998  
(In thousands of dollars)**

	1999	1998
<b>ASSETS</b>		
Cash and investments available for operations	\$44,477	\$38,781
Receivables, net:		
Accounts	4,923	6,072
Interest	1,087	879
Notes	479	689
Interfund receivable	98	514
Inventory of materials and supplies	1,691	1,953
Total Assets	\$52,755	\$48,888
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$2,112	\$1,525
Accrued salaries and benefits	1,434	982
Deferred revenue	72	477
Total Liabilities	3,618	2,984
<b>FUND BALANCES</b>		
Reserved for:		
Encumbrances	5,067	4,071
Notes	479	689
Inventory of materials and supplies	1,691	1,953
Unreserved, designated for:		
Unrealized gain on investments	7	450
Reappropriations	670	965
Streets and sidewalks/school site projects		263
Budget stabilization	20,591	19,050
Emergencies	5,966	5,875
Infrastructure	14,666	12,588
Total Fund Balances	49,137	45,904
Total Liabilities and Fund Balances	\$52,755	\$48,888



**CITY OF PALO ALTO  
GENERAL FUND**

**SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

**WITH COMPARATIVE ACTUAL AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 1998**  
(In thousands of dollars)

	1999		Variance	1998
	Budget	Actual	Favorable (Unfavorable)	Actual
<b>REVENUES</b>				
Taxes:				
Property taxes	\$9,136	\$9,521	\$385	\$8,903
Sales taxes	20,300	20,225	(75)	20,011
Utility users' tax	5,950	6,039	89	5,780
Transient occupancy tax	6,350	6,551	201	5,846
Other taxes and fines	6,686	7,255	569	6,694
<b>Total taxes</b>	<b>48,422</b>	<b>49,591</b>	<b>1,169</b>	<b>47,234</b>
Fire protection and emergency communication services	4,827	4,751	(76)	4,507
From other agencies	858	872	14	667
Service fees and permits	8,711	8,810	99	8,984
Return on investment	3,300	3,167	(133)	3,759
Rental income	9,907	10,155	248	10,074
Other revenues	2,348	2,623	275	2,848
<b>Total Revenues</b>	<b>78,373</b>	<b>79,969</b>	<b>1,596</b>	<b>78,073</b>
<b>EXPENDITURES</b>				
Current:				
City Council	201	197	4	151
City Manager	1,632	1,417	215	988
City Attorney	1,903	1,535	368	1,380
City Clerk	839	744	95	813
City Auditor	577	462	115	418
Administrative Services	9,709	8,937	772	7,400
Human Resources	1,953	1,774	179	1,837
Public Works	10,277	9,202	1,075	8,172
Planning and Community Environment	6,675	5,674	1,001	4,832
Public Safety - Police	17,107	16,705	402	16,093
Public Safety - Fire	14,463	13,949	514	13,100
Community Services	17,767	16,820	947	15,050
School Site Operations	6,767	6,520	247	6,298
<b>Total Expenditures</b>	<b>89,870</b>	<b>83,936</b>	<b>5,934</b>	<b>76,532</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(11,497)</b>	<b>(3,967)</b>	<b>7,530</b>	<b>1,541</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	14,439	14,246	(193)	12,755
Operating transfers (out)	(6,999)	(7,046)	(47)	(7,822)
<b>Total Other Financing Sources (Uses)</b>	<b>7,440</b>	<b>7,200</b>	<b>(240)</b>	<b>4,933</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<b>(\$4,057)</b>	<b>3,233</b>	<b>\$7,290</b>	<b>6,474</b>
Fund balance at beginning of year		45,904		38,575
Residual equity transfer in				855
<b>Fund balance at end of year</b>		<b>\$49,137</b>		<b>\$45,904</b>



## SPECIAL REVENUE FUNDS

These funds account for the proceeds derived from specific revenue sources that are legally restricted to expenditures for specified purposes.

### STREET IMPROVEMENT

This fund accounts for revenues received from state gas tax, allocations must be spent on the construction and maintenance of the road network system of the City.

### FEDERAL REVENUE

This fund accounts for grant funds received under the Community Development Act of 1974 and HOME Investment Grant Programs, for activities approved and subject to federal regulations.

### HOUSING IN-LIEU

This fund accounts for revenues from commercial and residential developers to provide housing under the City's Below Market Rate program.

### SPECIAL DISTRICTS

This fund accounts for revenues from parking permits and for maintenance of various parking lots within the City's parking districts.

### TRANSPORTATION MITIGATION

This fund accounts for revenues from fees or contributions required for transportation mitigation issues encountered as a result of City development.

### LOCAL LAW ENFORCEMENT

This fund accounts for revenues received in support of City's law enforcement program.

### DOWNTOWN PLANNED COMMUNITY

This fund accounts for revenues received from contributions and fees that will be used to implement downtown improvements.

**CITY OF PALO ALTO  
SPECIAL REVENUE FUNDS**

**COMBINING BALANCE SHEETS  
JUNE 30, 1999**

**WITH COMPARATIVE AMOUNTS FOR JUNE 30, 1998  
(In thousands of dollars)**

	<u>Street Improvement</u>	<u>Federal Revenue</u>	<u>Housing In-Lieu</u>	<u>Special Districts</u>
<b>ASSETS</b>				
Cash and investments available for operations	\$2,868	\$21	\$2,376	\$746
Receivables, net	29	148	50	
Interest receivable	38		31	10
Notes, net		2,999	6,227	
Total Assets	<u>\$2,935</u>	<u>\$3,168</u>	<u>\$8,684</u>	<u>\$756</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities		\$185	\$154	\$33
Deferred revenue				
Interfund payables		98		
Total Liabilities		<u>283</u>	<u>154</u>	<u>33</u>
<b>FUND BALANCES</b>				
Reserved for:				
Encumbrances	\$2,067	161	150	
Notes		2,999	6,227	
Unreserved, designated for:				
Special revenue projects			2,153	723
Reappropriations	868	166		
Unrealized gain on investments				
Undesignated		(441)		
Total Fund Balances	<u>2,935</u>	<u>2,885</u>	<u>8,530</u>	<u>723</u>
Total Liabilities and Fund Balances	<u>\$2,935</u>	<u>\$3,168</u>	<u>\$8,684</u>	<u>\$756</u>

<u>Transportation Mitigation</u>	<u>Local Law Enforcement</u>	<u>Downtown Planned Community</u>	<u>TOTALS</u>	
			<u>1999</u>	<u>1998</u>
\$1,751	\$201	\$16	\$7,979	\$9,487
			227	126
24	4		107	126
			9,226	6,397
<u>\$1,775</u>	<u>\$205</u>	<u>\$16</u>	<u>\$17,539</u>	<u>\$16,136</u>
	\$1		\$373	\$137
				129
			98	514
	1		471	780
	191		2,569	2,250
			9,226	6,397
\$1,775	13	\$16	4,680	5,385
			1,034	3,777
				40
			(441)	(2,493)
<u>1,775</u>	<u>204</u>	<u>16</u>	<u>17,068</u>	<u>15,356</u>
<u>\$1,775</u>	<u>\$205</u>	<u>\$16</u>	<u>\$17,539</u>	<u>\$16,136</u>

**CITY OF PALO ALTO  
SPECIAL REVENUE FUNDS**

**COMBINING STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 1998

(In thousands of dollars)

	<u>Street Improvement</u>	<u>Federal Revenue</u>	<u>Housing In-Lieu</u>	<u>Special Districts</u>
<b>REVENUES</b>				
Other taxes and fines	\$1,149			
From other agencies:				
Community Development Block Grant		\$1,875		
Federal Urban Aid				
Local Law Enforcement Block Grant				
State of California	99			
TDA grant	29			
Other revenue from other agencies		18		
Total from other agencies	128	1,893		
Return on investment	136	26	\$163	\$36
Other:				
Great Western Bank - loan payoff		9		
Housing In-Lieu - residential			243	
Housing In-Lieu - commercial			493	
Traffic Mitigation - transportation				
University Avenue Parking				434
California Avenue Parking				92
Other fees			50	94
Total other		9	786	620
Total Revenues	1,413	1,928	949	656
<b>EXPENDITURES FOR SPECIAL REVENUE PROJECTS</b>		243	471	
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	1,413	1,685	478	656
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	340			
Operating transfers (out)	(2,240)	(102)		(551)
Total Other Financing Sources (Uses)	(1,900)	(102)		(551)
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES</b>	(487)	1,583	478	105
Fund balances at beginning of year	3,422	1,302	8,052	618
Fund balances at end of year	<u>\$2,935</u>	<u>\$2,885</u>	<u>\$8,530</u>	<u>\$723</u>

Transportation Mitigation	Local Law Enforcement	Downtown Planned Community	TOTALS	
			1999	1998
			\$1,149	\$1,134
			1,875	594
	\$31		31	
	137		236	138
			29	
			18	25
	168		2,189	757
\$91	13	\$2	467	599
			9	2
			243	707
			493	1,362
337			337	546
			434	504
			92	118
			144	266
337			1,752	3,505
428	181	2	5,557	5,995
	163		877	923
428	18	2	4,680	5,072
			340	3
(340)		(75)	(3,308)	(3,275)
(340)		(75)	(2,968)	(3,272)
88	18	(73)	1,712	1,800
1,687	186	89	15,356	13,556
\$1,775	\$204	\$16	\$17,068	\$15,356

**CITY OF PALO ALTO  
SPECIAL REVENUE FUNDS**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL**

**FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

(In thousands of dollars)

	<u>STREET IMPROVEMENT</u>			<u>FEDERAL REVENUE</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES</b>						
Other taxes and fines	\$1,125	\$1,149	\$24			
From other agencies:						
Community Development Block Grant				\$733	\$1,875	\$1,142
Local Law Enforcement Block Grant						
State of California		99	99			
TDA grant		29	29			
Other revenue from other agencies				20	18	(2)
Total from other agencies		128	128	753	1,893	1,140
Return on investment	174	136	(38)	15	26	11
Other:						
Great Western Bank - loan payoff				10	9	(1)
Housing In-Lieu - residential						
Housing In-Lieu - commercial						
Traffic Mitigation - transportation						
University Avenue Parking						
California Avenue Parking						
Other fees						
Total other				10	9	(1)
Total Revenues	1,299	1,413	114	778	1,928	1,150
<b>EXPENDITURES FOR SPECIAL REVENUE PROJECTS</b>				1,050	243	807
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	1,299	1,413	114	(272)	1,685	1,957
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfers in		340	340			
Operating transfers (out)	(1,572)	(2,240)	(668)	(178)	(102)	76
Total Other Financing Sources (Uses)	(1,572)	(1,900)	(328)	(178)	(102)	76
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	(273)	(487)	(214)	(450)	1,583	2,033
Fund balances at beginning of year		3,422			1,302	
Fund balances at end of year		\$2,935			\$2,885	



HOUSING IN-LIEU			SPECIAL DISTRICTS			TRANSPORTATION MITIGATION		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$50	\$163	\$113	\$26	\$36	\$10	\$105	\$91	(\$14)
7	243 493	243 486				40	337	297
50	50		398 84 45	434 92 94	36 8 49			
57	786	729	527	620	93	40	337	297
107	949	842	553	656	103	145	428	283
1,300	471	829						
(1,193)	478	1,671	553	656	103	145	428	283
			(533)	(551)	(18)	(340)	(340)	
			(533)	(551)	(18)	(340)	(340)	
(\$1,193)	478	\$1,671	\$20	105	\$85	(\$195)	88	\$283
	8,052			618			1,687	
	\$8,530			\$723			\$1,775	

(Continued)

**CITY OF PALO ALTO  
SPECIAL REVENUE FUNDS**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(In thousands of dollars)**

	<u>LOCAL LAW ENFORCEMENT</u>			<u>DOWNTOWN PLANNED COMMUNITY</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES</b>						
Other taxes and fines						
From other agencies:						
Community Development Block Grant						
Local Law Enforcement Block Grant		\$31	\$31			
State of California	\$136	137	1			
TDA grant						
Other revenue from other agencies						
Total from other agencies	<u>136</u>	<u>168</u>	<u>32</u>			
Return on investment	<u>10</u>	<u>13</u>	<u>3</u>		<u>\$2</u>	<u>\$2</u>
Other:						
Great Western Bank - loan payoff						
Housing In-Lieu - residential						
Housing In-Lieu - commercial						
Traffic Mitigation - transportation						
University Avenue Parking						
California Avenue Parking						
Other fees						
Total other						
Total Revenues	<u>146</u>	<u>181</u>	<u>35</u>		<u>2</u>	<u>2</u>
<b>EXPENDITURES FOR SPECIAL REVENUE PROJECTS</b>	<u>351</u>	<u>163</u>	<u>188</u>			
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(205)</u>	<u>18</u>	<u>223</u>		<u>2</u>	<u>2</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfers in						
Operating transfers (out)				(\$75)	(75)	
Total Other Financing Sources (Uses)				<u>(75)</u>	<u>(75)</u>	
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<u>(\$205)</u>	<u>18</u>	<u>\$223</u>	<u>(\$75)</u>	<u>(73)</u>	<u>\$2</u>
Fund balances at beginning of year		<u>186</u>			<u>89</u>	
Fund balances at end of year		<u>\$204</u>			<u>\$16</u>	

TOTALS

<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
\$1,125	\$1,149	\$24
733	1,875	1,142
	31	31
136	236	100
	29	29
20	18	(2)
889	2,189	1,300
380	467	87
10	9	(1)
	243	243
7	493	486
40	337	297
398	434	36
84	92	8
95	144	49
634	1,752	1,118
3,028	5,557	2,529
2,701	877	1,824
327	4,680	4,353
	340	340
(2,698)	(3,308)	(610)
(2,698)	(2,968)	(270)
<u>(\$2,371)</u>	1,712	<u>\$4,083</u>
	<u>15,356</u>	
	<u>\$17,068</u>	



## DEBT SERVICE FUNDS

Debt Service Funds are used to account for the payment of interest and principal on the general long-term debt of the City and its related entities.

### TERMAN LEASE

This fund accounts for revenues received to provide payment of principal and interest on the long-term lease of the former Terman School with the Palo Alto Unified School District.

### GOLF COURSE

This fund accounts for revenues received from the General Fund to provide payment of principal and interest associated with general obligation debt issued for the City's golf course.

### CIVIC CENTER CERTIFICATES OF PARTICIPATION

This fund accounts for revenues received from the General Fund to provide payment of the Civic Center Certificate of Participation as they become due.

### SPECIAL ASSESSMENT DEBT

This fund accumulate monies for payments of special assessment improvement bonds which are financed by assessments placed on property owners within the University Avenue and California Avenue Parking districts.

**CITY OF PALO ALTO  
DEBT SERVICE FUNDS**

**COMBINING BALANCE SHEETS  
JUNE 30, 1999**

**WITH COMPARATIVE AMOUNTS FOR JUNE 30, 1998  
(In thousands of dollars)**

	Terman Lease	Golf Course	Civic Center	Special Assessment Debt	TOTALS	
					1999	1998
<b>ASSETS</b>						
Cash and investments available for operations	\$325			\$698	\$1,023	\$1,107
Restricted cash and investments		\$739	\$839		1,578	1,057
Special assessment receivable				4,670	4,670	5,195
Interest receivable	5		18		23	28
<b>Total Assets</b>	<b>\$330</b>	<b>\$739</b>	<b>\$857</b>	<b>\$5,368</b>	<b>\$7,294</b>	<b>\$7,387</b>
<b>LIABILITIES</b>						
Deferred revenue				\$4,670	\$4,670	\$5,195
<b>Total Liabilities</b>				<b>4,670</b>	<b>4,670</b>	<b>5,195</b>
<b>FUND BALANCES</b>						
Reserved for debt service	\$330	\$739	\$857	698	2,624	2,191
Unreserved, designated for unrealized gain on investments						1
<b>Total Fund Balances</b>	<b>330</b>	<b>739</b>	<b>857</b>	<b>698</b>	<b>2,624</b>	<b>2,192</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$330</b>	<b>\$739</b>	<b>\$857</b>	<b>\$5,368</b>	<b>\$7,294</b>	<b>\$7,387</b>

**CITY OF PALO ALTO  
DEBT SERVICE FUNDS**

**COMBINING STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

**WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 1998**  
(In thousands of dollars)

	Terman Lease	Golf Course	Civic Center	Special Assessment Debt	TOTALS	
					1999	1998
<b>REVENUES</b>						
Special assessments				\$874	\$874	\$857
From other agencies	\$253				253	250
Return on investment	18	\$31	\$45		94	93
<b>Total Revenues</b>	<u>271</u>	<u>31</u>	<u>45</u>	<u>874</u>	<u>1,221</u>	<u>1,200</u>
<b>EXPENDITURES</b>						
Debt service:						
Principal retirement	395	183	485	490	1,553	1,405
Interest and fiscal charges	68	187	331	370	956	888
<b>Total Expenditures</b>	<u>463</u>	<u>370</u>	<u>816</u>	<u>860</u>	<u>2,509</u>	<u>2,293</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(192)</u>	<u>(339)</u>	<u>(771)</u>	<u>14</u>	<u>(1,288)</u>	<u>(1,093)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Bond proceeds		1,376			1,376	
Payment to bond escrow agent		(649)			(649)	
Operating transfers in		177	816		993	935
<b>Total Other Financing Sources (Uses)</b>		<u>904</u>	<u>816</u>		<u>1,720</u>	<u>935</u>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES</b>	<u>(192)</u>	<u>565</u>	<u>45</u>	<u>14</u>	<u>432</u>	<u>(158)</u>
Fund balances at beginning of year	522	174	812	684	2,192	2,350
Fund balances at end of year	<u>\$330</u>	<u>\$739</u>	<u>\$857</u>	<u>\$698</u>	<u>\$2,624</u>	<u>\$2,192</u>

**CITY OF PALO ALTO  
DEBT SERVICE FUNDS**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(In thousands of dollars)**

	TERMAN LEASE			GOLF COURSE		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>						
Special assessments						
From other agencies	\$256	\$253	(\$3)			
Return on investment	28	18	(10)	\$9	\$31	\$22
Total Revenues	<u>284</u>	<u>271</u>	<u>(13)</u>	<u>9</u>	<u>31</u>	<u>22</u>
<b>EXPENDITURES</b>						
Debt Service						
Principal retirement	395	395			183	(183)
Interest and fiscal charges	59	68	(9)	186	187	(1)
Total Expenditures	<u>454</u>	<u>463</u>	<u>(9)</u>	<u>186</u>	<u>370</u>	<u>(184)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(170)</u>	<u>(192)</u>	<u>(22)</u>	<u>(177)</u>	<u>(339)</u>	<u>(162)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Bond proceeds					1,376	1,376
Payment to bond escrow agent					(649)	(649)
Operating transfers in				177	177	
Total Other Financing Sources (Uses)				<u>177</u>	<u>904</u>	<u>727</u>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	<u>(\$170)</u>	<u>(192)</u>	<u>(\$22)</u>	<u>565</u>	<u>\$565</u>	
Fund balances at beginning of year		<u>522</u>			<u>174</u>	
Fund balances at end of year		<u>\$330</u>			<u>\$739</u>	



CIVIC CENTER			SPECIAL ASSESSMENT DEBT			TOTALS		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
			\$862	\$874	\$12	\$862	\$874	\$12
\$48	\$45	(\$3)				256	253	(3)
						85	94	9
48	45	(3)	862	874	12	1,203	1,221	18
485	485		490	490		1,370	1,553	(183)
331	331		370	370		946	956	(10)
816	816		860	860		2,316	2,509	(193)
(768)	(771)	(3)	2	14	12	(1,113)	(1,288)	(175)
768	816	48				945	1,376 (649) 993	1,376 (649) 48
768	816	48				945	1,720	775
	45	\$45	\$2	14	\$12	(\$168)	432	\$600
	812			684			2,192	
	\$857			\$698			\$2,624	



**CAPITAL PROJECTS FUND**

The Capital Projects Fund is utilized to account for resources used for the acquisition and construction of capital facilities by the City, with the exception of those assets financed by proprietary funds.

**CITY OF PALO ALTO  
CAPITAL PROJECTS FUND**

**COMPARATIVE BALANCE SHEETS  
JUNE 30, 1999 AND 1998  
(In thousands of dollars)**

	<u>1999</u>	<u>1998</u>
<b>ASSETS</b>		
Cash and investments available for operations	\$12,730	\$15,162
Restricted cash and investments	639	
Interest receivable	<u>2</u>	<u>          </u>
Total Assets	<u>\$13,371</u>	<u>\$15,162</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	<u>\$799</u>	<u>\$527</u>
Total Liabilities	<u>799</u>	<u>527</u>
<b>FUND BALANCE</b>		
Reserved for:		
Encumbrances	3,205	12,039
Debt proceeds	172	
Unreserved:		
Designated for reappropriations	<u>9,195</u>	<u>2,596</u>
Total Fund Balance	<u>12,572</u>	<u>14,635</u>
Total Liabilities and Fund Balance	<u>\$13,371</u>	<u>\$15,162</u>

**CITY OF PALO ALTO  
CAPITAL PROJECTS FUND**

**COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEARS ENDED JUNE 30, 1999 AND 1998**

(In thousands of dollars)

	<u>1999</u>	<u>1998</u>
<b>REVENUES</b>		
From other agencies:		
Hewlett Packard Foundation	\$50	\$50
Stanford University	<u>10</u>	<u>8</u>
Total from other agencies	<u>60</u>	<u>58</u>
Return on investment	109	
Other revenues	<u>1</u>	<u>1</u>
Total Revenues	170	59
<b>EXPENDITURES</b>		
Capital outlay	<u>15,728</u>	<u>5,826</u>
Total Expenditures	<u>15,728</u>	<u>5,826</u>
<b>DEFICIENCY OF REVENUES OVER/UNDER EXPENDITURES</b>		
	<u>(15,558)</u>	<u>(5,767)</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Bond proceeds	6,374	
Operating transfers in	9,136	10,132
Operating transfers (out)	<u>(2,015)</u>	
Total Other Financing Sources (Uses)	<u>13,495</u>	<u>10,132</u>
<b>EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>		
	(2,063)	4,365
Fund balance at beginning of year	14,635	11,125
Residual equity transfer (out)		<u>(855)</u>
Fund balance at end of year	<u>\$12,572</u>	<u>\$14,635</u>



## ENTERPRISE FUNDS

Enterprise funds account for City operations which are financed and operated in a manner similar to private enterprise. Costs of providing service to the public are covered by user charges, grant funds, and impact fees.

### WATER SERVICES

This fund accounts for all financial transactions relating to the City's Water service. Services are on a user charge basis to residents and business owners located in Palo Alto.

### ELECTRIC SERVICES

This fund accounts for all financial transactions relating to the City's Electric service. Services are on a user charge basis to residents and business owners located in Palo Alto.

### GAS SERVICES

This fund accounts for all financial transactions relating to the City's Gas service. Services are on a user charge basis to residents and business owners located in Palo Alto.

### WASTEWATER COLLECTION

This fund accounts for all financial transactions relating to the City's Wastewater Collection. Collections are on a user charge basis to residents and business owners located in Palo Alto.

### WASTEWATER TREATMENT

This fund accounts for all financial transactions relating to the City's Wastewater Treatment. Services are on a user charge basis to residents and business owners located in Palo Alto.

### REFUSE SERVICES

This fund accounts for all financial transactions relating to the City's Refuse service. Services are on a user charge basis to residents and business owners located in Palo Alto.

### STORM DRAINAGE SERVICES

This fund accounts for all financial transactions relating to the City's Storm Drain service. Services are on a user charge basis to residents and business owners located in Palo Alto.

**CITY OF PALO ALTO  
ENTERPRISE FUNDS**

**COMBINING BALANCE SHEETS  
JUNE 30, 1999**

**WITH COMPARATIVE AMOUNTS FOR JUNE 30, 1998  
(In thousands of dollars)**

	<u>Water</u>	<u>Electric</u>	<u>Gas</u>	<u>Wastewater Collection</u>
<b>ASSETS</b>				
Current Assets:				
Cash and investments:				
Available for operations	\$10,561	\$104,871	\$18,147	\$16,931
Restricted				7
Accounts receivable, net	1,661	7,206	1,240	1,219
Interest receivable	145	1,435	251	232
Prepaid items				130
<b>Total Current Assets</b>	<b>12,367</b>	<b>113,512</b>	<b>19,638</b>	<b>18,519</b>
Noncurrent Assets:				
Property, plant and equipment, net	31,924	98,225	34,171	27,951
<b>Total Noncurrent Assets</b>	<b>31,924</b>	<b>98,225</b>	<b>34,171</b>	<b>27,951</b>
<b>Total Assets</b>	<b>\$44,291</b>	<b>\$211,737</b>	<b>\$53,809</b>	<b>\$46,470</b>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable and accrued liabilities	\$891	\$4,148	\$766	\$92
Accrued salaries and benefits	54	205	77	35
Current portion of revenue bonds				47
Accrued landfill closure liability				
<b>Total Current Liabilities</b>	<b>945</b>	<b>4,353</b>	<b>843</b>	<b>174</b>
Long-term liabilities:				
Revenue bonds, net of unamortized discount and issuance costs				1,634
<b>Total Liabilities</b>	<b>945</b>	<b>4,353</b>	<b>843</b>	<b>1,808</b>
<b>FUND EQUITY</b>				
Contributed capital	8,006	17,138	3,333	9,429
Retained earnings	35,340	190,246	49,633	35,233
<b>Total Fund Equity</b>	<b>43,346</b>	<b>207,384</b>	<b>52,966</b>	<b>44,662</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$44,291</b>	<b>\$211,737</b>	<b>\$53,809</b>	<b>\$46,470</b>



Wastewater Treatment	Refuse	Storm Drainage	TOTALS	
			1999	1998
\$7,609	\$16,871	\$127	\$175,117	\$155,417
7,309		1,687	9,003	2,755
644	1,815	197	13,982	14,351
113	222		2,398	2,194
			130	42
<u>15,675</u>	<u>18,908</u>	<u>2,011</u>	<u>200,630</u>	<u>174,759</u>
<u>27,095</u>	<u>4,781</u>	<u>13,641</u>	<u>237,788</u>	<u>226,667</u>
<u>27,095</u>	<u>4,781</u>	<u>13,641</u>	<u>237,788</u>	<u>226,667</u>
<u>\$42,770</u>	<u>\$23,689</u>	<u>\$15,652</u>	<u>\$438,418</u>	<u>\$401,426</u>
\$822	\$1,216	\$69	\$8,004	\$7,513
99	45	16	531	420
298		200	545	895
	6,871		6,871	7,238
<u>1,219</u>	<u>8,132</u>	<u>285</u>	<u>15,951</u>	<u>16,066</u>
<u>10,627</u>		<u>11,562</u>	<u>23,823</u>	<u>17,020</u>
<u>11,846</u>	<u>8,132</u>	<u>11,847</u>	<u>39,774</u>	<u>33,086</u>
21,382			59,288	58,593
9,542	15,557	3,805	339,356	309,747
<u>30,924</u>	<u>15,557</u>	<u>3,805</u>	<u>398,644</u>	<u>368,340</u>
<u>\$42,770</u>	<u>\$23,689</u>	<u>\$15,652</u>	<u>\$438,418</u>	<u>\$401,426</u>

**CITY OF PALO ALTO  
ENTERPRISE FUNDS**

**COMBINING STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN RETAINED EARNINGS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 1998

(In thousands of dollars)

	Water	Electric	Gas	Wastewater Collection
<b>OPERATING REVENUES</b>				
Sales of utilities:				
Customers	\$12,076	\$64,713	\$17,607	\$8,566
City departments	545	1,790	383	125
Wholesale		5,641		
Wastewater treatment				
Service connection charges and miscellaneous	182	623	645	61
Other operating revenues	134	6,203	109	631
<b>Total Operating Revenues</b>	<b>12,937</b>	<b>78,970</b>	<b>18,744</b>	<b>9,383</b>
<b>OPERATING EXPENSES</b>				
Purchase of utilities	4,114	25,478	10,226	4,275
Administration and general	1,486	3,849	1,599	408
Engineering (operating)	142	678	148	105
Resource management	151	2,156	415	
Operations and maintenance	1,604	6,549	1,677	1,037
Rent	758	2,089	148	80
Depreciation and amortization	752	4,251	1,088	980
<b>Total Operating Expenses</b>	<b>9,007</b>	<b>45,050</b>	<b>15,301</b>	<b>6,885</b>
<b>Operating Income</b>	<b>3,930</b>	<b>33,920</b>	<b>3,443</b>	<b>2,498</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Return on investment	576	4,979	921	831
Interest (expense)				(125)
Joint venture debt service		(10,940)		
Loss on disposal of fixed assets	(84)	(31)	(8)	
<b>Net Nonoperating Revenues (Expenses)</b>	<b>492</b>	<b>(5,992)</b>	<b>913</b>	<b>706</b>
<b>Income Before Operating Transfers</b>	<b>4,422</b>	<b>27,928</b>	<b>4,356</b>	<b>3,204</b>
Operating transfers in	28	392	42	16
Operating transfers (out)	(2,229)	(7,810)	(2,698)	(64)
<b>Net Income</b>	<b>2,221</b>	<b>20,510</b>	<b>1,700</b>	<b>3,156</b>
Retained earnings at beginning of year	33,119	169,736	47,933	32,077
<b>Retained earnings at end of year</b>	<b>\$35,340</b>	<b>\$190,246</b>	<b>\$49,633</b>	<b>\$35,233</b>

Wastewater Treatment	Refuse	Storm Drainage	TOTALS	
			1999	1998
	\$18,162	\$1,959	\$123,083	\$121,777
\$4,331	630	108	7,912	7,332
			5,641	11,445
7,403			7,403	6,936
			1,511	770
107	2,764	5	9,953	8,085
<u>11,841</u>	<u>21,556</u>	<u>2,072</u>	<u>155,503</u>	<u>156,345</u>
	7,169		51,262	57,778
1,177	1,132	414	10,065	7,953
1,111	398	424	3,006	2,639
			2,722	3,618
7,831	7,005	619	26,322	25,230
	4,289		7,364	7,275
1,652	184	284	9,191	8,746
<u>11,771</u>	<u>20,177</u>	<u>1,741</u>	<u>109,932</u>	<u>113,239</u>
70	1,379	331	45,571	43,106
427	806	15	8,555	10,002
(291)	(397)	(271)	(1,084)	(715)
			(10,940)	(11,433)
			(123)	(141)
<u>136</u>	<u>409</u>	<u>(256)</u>	<u>(3,592)</u>	<u>(2,287)</u>
206	1,788	75	41,979	40,819
3	66		547	619
(20)	(65)	(31)	(12,917)	(13,242)
189	1,789	44	29,609	28,196
<u>9,353</u>	<u>13,768</u>	<u>3,761</u>	<u>309,747</u>	<u>281,551</u>
<u>\$9,542</u>	<u>\$15,557</u>	<u>\$3,805</u>	<u>\$339,356</u>	<u>\$309,747</u>

**CITY OF PALO ALTO  
ENTERPRISE FUNDS**

**COMBINING STATEMENTS OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

**WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 1998  
(In thousands of dollars)**

	Water	Electric	Gas	Wastewater Collection	Wastewater Treatment
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Operating income (loss)	\$3,930	\$33,920	\$3,443	\$2,498	\$70
Adjustments to reconcile operating income (loss) to cash flows from operating activities:					
Depreciation and amortization	752	4,251	1,088	980	1,652
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	(296)	800	11	(23)	(67)
(Increase) decrease in interest receivable	9	(218)	15	(20)	5
(Increase) decrease in prepaid items		42		(130)	
Increase (decrease) in accounts payable, accrued liabilities and accrued salaries and benefits	32	235	(46)	30	342
Increase in accrued landfill closure					
Net Cash From Operating Activities	4,427	39,030	4,511	3,335	2,002
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Operating transfers in	28	392	42	16	3
Operating transfers (out)	(2,229)	(7,810)	(2,698)	(64)	(20)
Net Cash From Noncapital Financing Activities	(2,201)	(7,418)	(2,656)	(48)	(17)
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>					
Acquisition and construction of fixed assets	(3,158)	(6,969)	(3,523)	(1,879)	(2,460)
Proceeds from bond issuance				1,814	11,446
Bond issuance costs and underwriter's discount				(50)	(343)
Payment to bond escrow agent				(1,764)	(3,837)
Principal paid on long term debt				(188)	(407)
Interest paid on long term debt		(10,940)		(115)	(270)
Cash Flows From Capital Financing Activities	(3,158)	(17,909)	(3,523)	(2,182)	4,129
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Interest on pooled investments	576	4,979	921	831	427
Net Cash From Investing Activities	576	4,979	921	831	427
Net Cash Flows	(356)	18,682	(747)	1,936	6,541
Cash and cash equivalents at beginning of year	10,917	86,189	18,894	15,002	8,377
Cash and cash equivalents at end of year	\$10,561	\$104,871	\$18,147	\$16,938	\$14,918
<b>FINANCIAL STATEMENT PRESENTATION:</b>					
Cash and investments available for operations	\$10,561	\$104,871	\$18,147	\$16,931	\$7,609
Restricted cash and investments				7	7,309
Cash and cash equivalents at end of year	\$10,561	\$104,871	\$18,147	\$16,938	\$14,918
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Increase in contributed capital	\$255		\$41	\$399	

Refuse	Storm Drainage	TOTALS	
		1999	1998
\$1,379	\$331	\$45,571	\$43,106
184	284	9,191	8,746
(51)	(5)	369	(1,237)
(6)	11	(204)	(210)
		(88)	145
171	(162)	602	2,889
(367)		(367)	306
<u>1,310</u>	<u>459</u>	<u>55,074</u>	<u>53,745</u>
66		547	619
(65)	(31)	(12,917)	(13,242)
<u>1</u>	<u>(31)</u>	<u>(12,370)</u>	<u>(12,623)</u>
(114)	(1,606)	(19,709)	(18,540)
	4,475	17,735	
	(149)	(542)	
	(4,328)	(9,929)	
	(300)	(895)	(840)
(397)	(249)	(11,971)	(12,148)
<u>(511)</u>	<u>(2,157)</u>	<u>(25,311)</u>	<u>(31,528)</u>
806	15	8,555	10,002
806	15	8,555	10,002
1,606	(1,714)	25,948	19,596
<u>15,265</u>	<u>3,528</u>	<u>158,172</u>	<u>138,576</u>
<u>\$16,871</u>	<u>\$1,814</u>	<u>\$184,120</u>	<u>\$158,172</u>
\$16,871	\$127	\$175,117	\$155,417
	1,687	9,003	2,755
<u>\$16,871</u>	<u>\$1,814</u>	<u>\$184,120</u>	<u>\$158,172</u>

\$695

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## INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for special activities and services performed by a designated City department for other departments on a cost reimbursement basis.

### VEHICLE REPLACEMENT AND MAINTENANCE

This fund accounts for the maintenance and replacement of vehicles and equipment used by all City departments. The source of revenue is an accumulation of resources.

### COMPUTER EQUIPMENT REPLACEMENT

This fund accounts for the maintenance and replacement of computer equipment used by all City departments. The source of revenue is an accumulation of resources.

### PRINTING AND MAILING SERVICES

This fund accounts for central duplicating, printing and mailing services provided to all City departments. Source of revenue for this fund is on reimbursement of costs for services and supplies purchased by other departments.

### GENERAL BENEFITS AND INSURANCE

This fund accounts for the administration of compensated absences and health benefits, and the City's self-insured workers' compensation and general liability programs.

**CITY OF PALO ALTO  
INTERNAL SERVICE FUNDS  
COMBINING BALANCE SHEETS  
JUNE 30, 1999**

**WITH COMPARATIVE AMOUNTS FOR JUNE 30, 1998  
(In thousands of dollars)**

	Vehicle Replacement and Maintenance	Computer Equipment Replacement	Printing and Mailing Services	General Benefits and Insurance	TOTALS	
					1999	1998
<b>ASSETS</b>						
Current Assets						
Cash and investments available for operations	\$4,559	\$2,595	\$426	\$24,402	\$31,982	\$31,770
Accounts receivable, net				2	2	26
Interest receivable	60	37	6	258	361	378
Prepaid items				8	8	180
Inventory of materials and supplies	226				226	217
<b>Total Current Assets</b>	<b>4,845</b>	<b>2,632</b>	<b>432</b>	<b>24,670</b>	<b>32,579</b>	<b>32,571</b>
Property, plant and equipment, net	9,333	299	36		9,668	7,674
<b>Total Assets</b>	<b>\$14,178</b>	<b>\$2,931</b>	<b>\$468</b>	<b>\$24,670</b>	<b>\$42,247</b>	<b>\$40,245</b>
<b>LIABILITIES</b>						
Current Liabilities						
Accounts payable and accrued liabilities	\$354	\$75	\$15	\$71	\$515	\$343
Accrued salaries and benefits	16		5	1,481	1,502	1,421
Accrued compensated absences - current				6,724	6,724	6,253
Accrued self insurance - current				2,857	2,857	2,887
<b>Total Current Liabilities</b>	<b>370</b>	<b>75</b>	<b>20</b>	<b>11,133</b>	<b>11,598</b>	<b>10,904</b>
Long-term Liabilities						
Accrued compensated absences				3,314	3,314	3,424
Accrued self insurance				4,796	4,796	4,763
<b>Total Long-term Liabilities</b>				<b>8,110</b>	<b>8,110</b>	<b>8,187</b>
<b>Total Liabilities</b>	<b>370</b>	<b>75</b>	<b>20</b>	<b>19,243</b>	<b>19,708</b>	<b>19,091</b>
<b>FUND EQUITY</b>						
Contributed capital	4,283	2,000	196		6,479	6,140
Retained earnings	9,525	856	252	5,427	16,060	15,014
<b>Total Fund Equity</b>	<b>13,808</b>	<b>2,856</b>	<b>448</b>	<b>5,427</b>	<b>22,539</b>	<b>21,154</b>
<b>Total Liabilities and Fund Equity</b>	<b>\$14,178</b>	<b>\$2,931</b>	<b>\$468</b>	<b>\$24,670</b>	<b>\$42,247</b>	<b>\$40,245</b>



**CITY OF PALO ALTO  
INTERNAL SERVICE FUNDS**

**COMBINING STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN RETAINED EARNINGS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

**WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 1998**  
(In thousands of dollars)

	Vehicle Replacement and Maintenance	Computer Equipment Replacement	Printing and Mailing Services	General Benefits and Insurance	TOTALS	
					1999	1998
<b>OPERATING REVENUES</b>						
Charges for services	\$4,199	\$958	\$793	\$30,597	\$36,547	\$32,721
<b>OPERATING EXPENSES</b>						
Administration and general	442	711	845	921	2,919	2,521
Operations and maintenance	1,747				1,747	1,726
Depreciation and amortization	1,817	44	12		1,873	1,701
Claim payments and change in estimated self-insured liability				3,764	3,764	3,030
Compensated absences and other benefits				27,020	27,020	25,349
<b>Total Operating Expenses</b>	<b>4,006</b>	<b>755</b>	<b>857</b>	<b>31,705</b>	<b>37,323</b>	<b>34,327</b>
<b>Total Operating Income (Loss)</b>	<b>193</b>	<b>203</b>	<b>(64)</b>	<b>(1,108)</b>	<b>(776)</b>	<b>(1,606)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Return on investment	275	128	20	898	1,321	1,783
Gain on disposal of fixed assets	79				79	109
Other nonoperating revenues	59	5	8	285	357	610
<b>Total Nonoperating Revenues</b>	<b>413</b>	<b>133</b>	<b>28</b>	<b>1,183</b>	<b>1,757</b>	<b>2,502</b>
<b>Income (Loss) Before Operating Transfers</b>	<b>606</b>	<b>336</b>	<b>(36)</b>	<b>75</b>	<b>981</b>	<b>896</b>
Operating transfers in	65				65	
Operating transfers (out)						(105)
<b>Net Income (Loss)</b>	<b>671</b>	<b>336</b>	<b>(36)</b>	<b>75</b>	<b>1,046</b>	<b>791</b>
Retained earnings at beginning of year	8,854	520	288	5,352	15,014	14,223
<b>Retained earnings at end of year</b>	<b>\$9,525</b>	<b>\$856</b>	<b>\$252</b>	<b>\$5,427</b>	<b>\$16,060</b>	<b>\$15,014</b>

**CITY OF PALO ALTO  
INTERNAL SERVICE FUNDS**

**COMBINING STATEMENTS OF CASH FLOWS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

**WITH COMPARATIVE AMOUNTS FISCAL YEAR ENDED JUNE 30, 1998  
(In thousands of dollars)**

	Vehicle Replacement and Maintenance	Computer Equipment Replacement	Printing and Mailing Services	General Benefits and Insurance	TOTALS	
					1999	1998
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Operating income (loss)	\$193	\$203	(\$64)	(\$1,108)	(\$776)	(\$1,606)
Adjustments to reconcile operating income (loss) to cash flows from operating activities:						
Depreciation and amortization	1,817	44	12		1,873	1,701
Other	59	5	8	285	357	610
Changes in assets and liabilities:						
Decrease (increase) in accounts receivable	4			20	24	(8)
Decrease (increase) in interest receivable	14	(3)	1	5	17	2
Decrease (increase) in prepaid items				172	172	(180)
Increase in inventory	(9)				(9)	5
Increase (decrease) in accounts payable, accrued liabilities and accrued salaries and benefits	225	(18)	6	40	253	121
Decrease in accrued compensated absences				361	361	801
Increase in accrued self-insurance				3	3	(270)
Net Cash From Operating Activities	<u>2,303</u>	<u>231</u>	<u>(37)</u>	<u>(222)</u>	<u>2,275</u>	<u>1,176</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Operating transfer in	65				65	
Operating transfer (out)						(105)
Residual equity transfer in						2,000
Residual equity transfer (out)						(2,000)
Net Cash From Noncapital Financing Activities	<u>65</u>				<u>65</u>	<u>(105)</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>						
Acquisition and construction of fixed assets	(3,303)	(146)			(3,449)	(2,103)
Proceeds from sale of fixed assets						121
Net Cash From Capital Financing Activities	<u>(3,303)</u>	<u>(146)</u>			<u>(3,449)</u>	<u>(1,982)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Interest and dividends on pooled investments	275	128	20	898	1,321	1,783
Net Cash From Investing Activities	<u>275</u>	<u>128</u>	<u>20</u>	<u>898</u>	<u>1,321</u>	<u>1,783</u>
Net Cash Flows	(660)	213	(17)	676	212	872
Cash, cash equivalents and investments at beginning of year	5,219	2,382	443	23,726	31,770	30,898
Cash, cash equivalents and investments at end of year	<u>\$4,559</u>	<u>\$2,595</u>	<u>\$426</u>	<u>\$24,402</u>	<u>\$31,982</u>	<u>\$31,770</u>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:</b>						
Increase in contributed capital	<u>\$339</u>				<u>\$339</u>	<u>\$143</u>

## FIDUCIARY FUNDS

Fiduciary funds are used to account for assets held by the City acting in a fiduciary capacity for other entities and individuals. The funds are operated to carry out the specific actions required by the trust agreements, ordinances and other governing regulations.

**Expendable Trust Funds** account for assets held by the City in a trustee capacity under formal trust agreements.

### COMMUNITY PROJECTS DONATIONS

This fund accounts for community projects on behalf of the City residents. The source of revenues are donations.

### ASSETS SEIZURE

This fund accounts for seized property and funds associated with drug trafficking. Under California Assembly Bill No. 4162, the monies are released to the City for specific expenditures related to law enforcement activities.

### HUMAN SERVICE PROJECTS

This fund, formerly called the Child Care Fund, accounts for Child Care and Family Resource projects benefiting the community.

### RETIREE HEALTH BENEFIT

This fund accounts for retiree health benefits up to the amount 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 two agency funds.

### CALIFORNIA AVENUE PARKING ASSESSMENT DISTRICT

This fund accounts for receipts and disbursements associated with the 1993 Parking District No. 92-13 Assessment Bonds.

### DEFERRED COMPENSATION

This fund accounts for assets and liabilities of the City sponsored deferred compensation plan established under Internal Revenue Code section 457.

### DEVELOPER DEPOSITS

This fund accounts for receipts and disbursements associated with performance deposits received from various developers.

**CITY OF PALO ALTO  
TRUST AND AGENCY FUNDS**

**COMBINING BALANCE SHEETS  
JUNE 30, 1999**

**WITH COMPARATIVE AMOUNTS FOR JUNE 30, 1998  
(In thousands of dollars)**

	EXPENDABLE TRUST FUNDS			
	Community Projects Donation	Assets Seizure	Human Services Projects	Retiree Health Benefit
<b>ASSETS</b>				
Cash and investments available for operations	\$184	\$78	\$302	\$7,876
Restricted cash and investments				
Deferred compensation plan investments				
Interest receivable	2	1	4	109
Total Assets	\$186	\$79	\$306	\$7,985
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities		\$6	\$9	
Deferred compensation payable				
Due to bondholders				
Due to developers				
Total Liabilities		6	9	
<b>FUND BALANCE</b>				
Unreserved, designated for unrealized gain on investment				\$1
Unreserved, undesignated	\$186	73	297	7,984
Total Fund Balances	186	73	297	7,985
Total Liabilities and Equity	\$186	\$79	\$306	\$7,985

AGENCY FUNDS			TOTALS	
California Avenue Parking Assessment District	Deferred Compensation	Developer's Deposits	1999	1998
\$388		\$443	\$9,271	\$8,451
				1
				58,612
			116	114
<u>\$388</u>		<u>\$443</u>	<u>\$9,387</u>	<u>\$67,178</u>
			\$15	\$1
				58,612
\$388			388	400
		\$443	443	
<u>388</u>		<u>443</u>	<u>846</u>	<u>59,013</u>
			1	59
			8,540	8,106
			8,541	8,165
<u>\$388</u>		<u>\$443</u>	<u>\$9,387</u>	<u>\$67,178</u>

**CITY OF PALO ALTO  
EXPENDABLE TRUST FUNDS**

**COMBINING STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

**WITH COMPARATIVE AMOUNTS FOR THE FISCAL YEAR ENDED JUNE 30, 1998  
(In thousands of dollars)**

	Community Projects Donations	Assets Seizure	Human Services Projects	Retiree Health Benefit	TOTALS	
					1999	1998
<b>REVENUES</b>						
Return on Investment	\$9	\$3	\$16	\$397	\$425	\$530
Other	65	27			92	33
Total Revenues	<u>74</u>	<u>30</u>	<u>16</u>	<u>397</u>	<u>517</u>	<u>563</u>
<b>EXPENDITURES</b>						
Public Safety - Police	14	19			33	42
Community Services			24		24	
Human Resources - Benefits				43	43	
Total Expenditures	<u>14</u>	<u>19</u>	<u>24</u>	<u>43</u>	<u>100</u>	<u>42</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	60	11	(8)	354	417	521
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfers (out)	(41)				(41)	
Total Other Financing Sources (Uses)	<u>(41)</u>				<u>(41)</u>	
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES	19	11	(8)	354	376	521
Fund balance at beginning of year	<u>167</u>	<u>62</u>	<u>305</u>	<u>7,631</u>	<u>8,165</u>	<u>7,644</u>
Fund balance at end of year	<u>\$186</u>	<u>\$73</u>	<u>\$297</u>	<u>\$7,985</u>	<u>\$8,541</u>	<u>\$8,165</u>

**CITY OF PALO ALTO  
AGENCY FUNDS**

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(In thousands of dollars)**

	<u>Balance June 30, 1998</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 1999</u>
<hr/> <u>California Avenue Parking Assessment District</u>				
ASSETS				
Cash and investments available for operations	\$400	\$85	\$97	\$388
LIABILITIES				
Due to bondholders	\$400	\$85	\$97	\$388
<hr/> <u>Deferred Compensation</u>				
ASSETS				
Deferred compensation plan investments:				
The Hartford	\$34,091		\$34,091	
ICMA	23,791		23,791	
Great Western Savings	730		730	
Total assets	<u>\$58,612</u>		<u>\$58,612</u>	
LIABILITIES				
Deferred compensation payable	<u>\$58,612</u>		<u>\$58,612</u>	
<hr/> <u>Developer's Deposits</u>				
ASSETS				
Cash and investments available for operations		\$443		\$443
LIABILITIES				
Due to developers		\$443		\$443
<hr/> <u>Total Agency Funds</u>				
ASSETS				
Cash and investments available for operations	\$400	\$528	\$97	\$831
Deferred Compensation Payable	58,612		58,612	
Total assets	<u>\$59,012</u>	<u>\$528</u>	<u>\$58,709</u>	<u>\$831</u>

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**GENERAL FIXED ASSETS ACCOUNT GROUP**

The General Fixed Assets Account Group is used to record and account for all City property and equipment which is not accounted for in an enterprise or internal service fund.

**CITY OF PALO ALTO  
SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS  
BY SOURCE**

**FOR THE FISCAL YEAR ENDED JUNE 30, 1999  
(In thousands of dollars)**

	<u>Balance June 30, 1998</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 1999</u>
<b>General Fixed Assets:</b>				
Land and improvements	\$51,274	\$5,448		\$56,722
Buildings and structures	49,121	2,336		51,457
Equipment	<u>5,300</u>	<u>324</u>	<u>(\$255)</u>	<u>5,369</u>
Total General Fixed Assets	<u>\$105,695</u>	<u>\$8,108</u>	<u>(\$255)</u>	<u>\$113,548</u>
<b>Investments in General Fixed Assets by Source:</b>				
Balances prior to July 1, 1994	\$97,626			\$97,626
General Fund	5	\$31		36
Capital Projects Fund	<u>8,064</u>	<u>8,077</u>	<u>(\$255)</u>	<u>15,886</u>
Total Investment in General Fixed Assets	<u>\$105,695</u>	<u>\$8,108</u>	<u>(\$255)</u>	<u>\$113,548</u>

**CITY OF PALO ALTO  
SCHEDULE OF GENERAL FIXED ASSETS  
BY FUNCTION AND ACTIVITY  
AS OF JUNE 30, 1999**

**WITH COMPARATIVE TOTALS FOR JUNE 30, 1998**

(In thousands of dollars)

<u>FUNCTION AND ACTIVITY</u>	<u>Land and Improvements</u>	<u>Buildings and Structures</u>	<u>Equipment</u>	<u>TOTALS</u>	
				<u>1999</u>	<u>1998</u>
<b>ADMINISTRATION:</b>					
City Clerk and Council			\$55	\$55	\$55
City Manager			11	11	11
Administrative Services			1,297	1,297	1,453
General Government	\$1,782	\$14,853	1,550	18,185	17,573
<b>Total administration</b>	<b>1,782</b>	<b>14,853</b>	<b>2,913</b>	<b>19,548</b>	<b>19,092</b>
<b>PUBLIC SAFETY:</b>					
Police			58	58	66
Fire	392	5,188	207	5,787	5,736
Communications			629	629	603
Animal Services	37	330	33	400	400
<b>Total public safety</b>	<b>429</b>	<b>5,518</b>	<b>927</b>	<b>6,874</b>	<b>6,805</b>
<b>LIBRARIES</b>	245	2,881	234	3,360	3,354
<b>PARKS, RECREATION AND CULTURE</b>	33,012	19,530	1,295	53,837	46,949
<b>PARKING FACILITIES</b>	3,012	8,675		11,687	11,687
<b>OPEN SPACE</b>	18,242			18,242	17,808
<b>Total General Fixed Assets</b>	<b>\$56,722</b>	<b>\$51,457</b>	<b>\$5,369</b>	<b>\$113,548</b>	<b>\$105,695</b>

**CITY OF PALO ALTO  
SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS  
BY FUNCTION AND ACTIVITY**

**FOR THE YEAR ENDED JUNE 30, 1999  
(In thousands of dollars)**

<u>FUNCTION AND ACTIVITY</u>	<u>Balance June 30, 1998</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 1999</u>
<b>ADMINISTRATION:</b>				
City Clerk and Council	\$55			\$55
City Manager	11			11
Administrative Services	1,453	\$46	(\$202)	1,297
General Government	17,573	632	(20)	18,185
<b>Total administration</b>	<u>19,092</u>	<u>678</u>	<u>(222)</u>	<u>19,548</u>
<b>PUBLIC SAFETY:</b>				
Police	66		(8)	58
Fire	5,736	51		5,787
Communications	603	26		629
Animal Services	400			400
<b>Total public safety</b>	<u>6,805</u>	<u>77</u>	<u>(8)</u>	<u>6,874</u>
<b>LIBRARIES</b>	3,354	6		3,360
<b>PARKS, RECREATION AND CULTURE</b>	46,949	6,913	(25)	53,837
<b>PARKING FACILITIES</b>	11,687			11,687
<b>OPEN SPACE</b>	17,808	434		18,242
<b>Total General Fixed Assets</b>	<u>\$105,695</u>	<u>\$8,108</u>	<u>(\$255)</u>	<u>\$113,548</u>

## STATISTICAL SECTION

The statistical section contains comprehensive statistical data which relates to physical, economic, social and political characteristics of the City. It is intended to provide users with a broader and more complete understanding of the City and its financial affairs than is possible from the financial statements and supporting schedules included in the financial section.

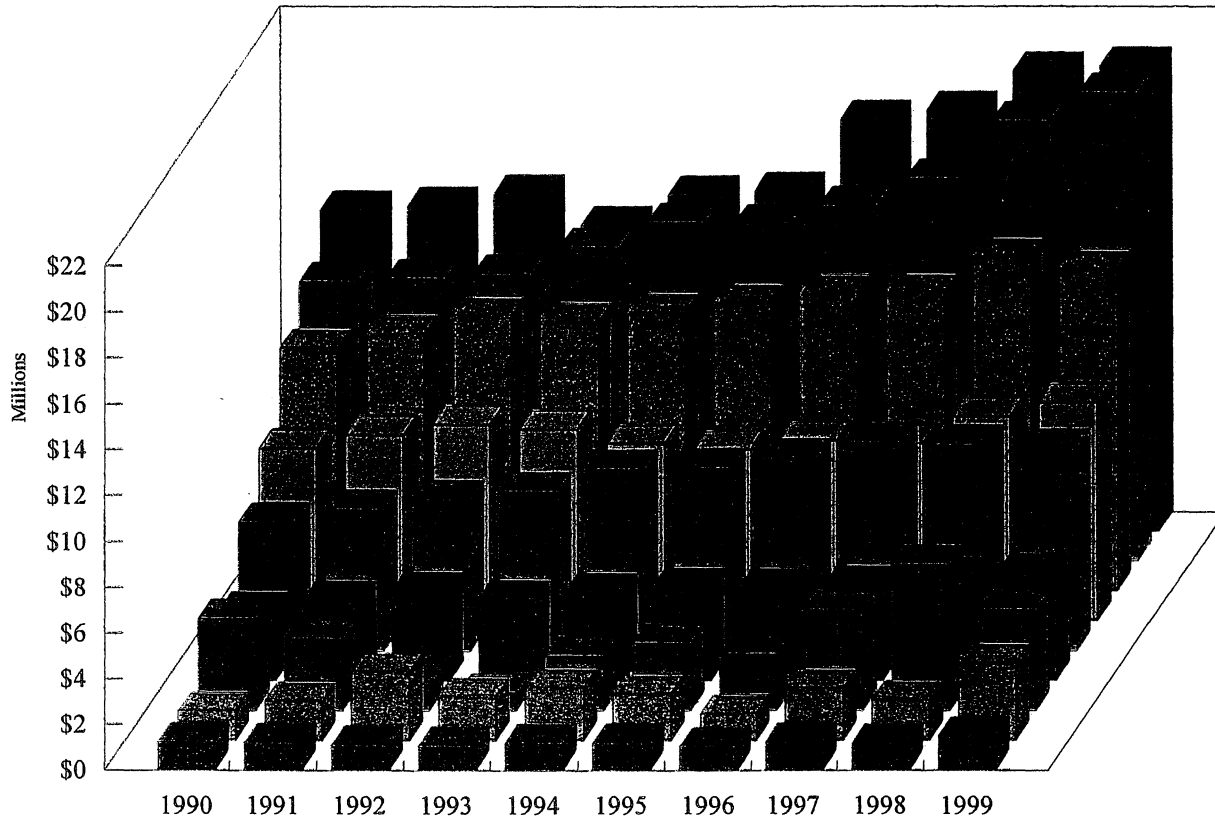
In this section, readers will find comparative information related to the City's revenue sources, expenditures, property tax valuations, levies and collections, general obligation bonded debt, utility revenue debt service, demographics and pension plan funding. Where available, the comparative information is presented for the last ten fiscal years.

In addition, this section presents information related to the City's legal debt margin computation, principal taxpayers, notary and security bond coverages, and other miscellaneous statistics pertaining to services provided by the City.

In contrast to the financial section, the statistical section information is not usually subject to independent audit.

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**CITY OF PALO ALTO  
GENERAL GOVERNMENT REVENUES BY SOURCE  
ALL GOVERNMENTAL FUND TYPES  
LAST TEN FISCAL YEARS  
(IN THOUSANDS)**

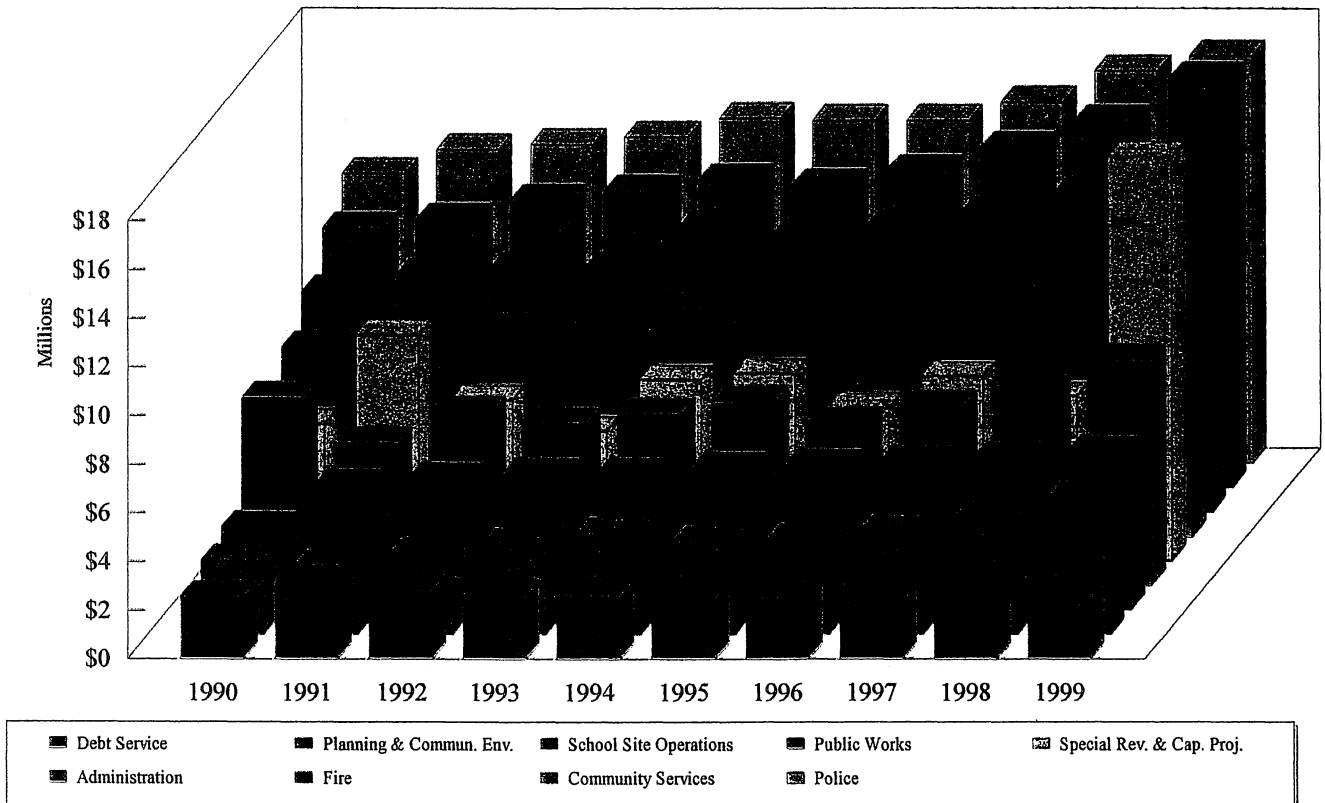


■ Fines, Forfeits & Penalties	■ From Other Agencies	■ Other	■ Fire Prot. & Emerg. Comm. Svcs.	■ Service, Fees & Permits
■ Property Taxes	■ Interest and Rentals	■ Other Taxes	■ Sales Taxes	

Fiscal Year	Sales Taxes	Property Taxes	Other Taxes	Service Fees & Permits	Fines, Forfeits & Penalties	Interest & Rentals	Fire Protection & Emergency Communication Services	From Other Agencies	Other	Total
1990	\$13,987	\$7,512	\$12,158	\$5,615	\$1,251	\$10,567	\$3,029	\$1,269	\$4,038	\$59,426
1991	14,140	8,109	12,317	6,168	1,222	11,190	3,561	1,711	3,110	61,528
1992	14,692	8,555	12,493	6,570	1,097	12,001	3,908	2,982	1,127	63,425
1993	13,322	8,367	13,663	6,923	1,068	11,725	3,565	1,910	750	61,293
1994 (1)	14,635	7,737	14,763	7,915	1,180	12,132	3,884	2,295	2,381	66,922
1995	14,765	7,485	14,682	7,955	1,179	12,528	4,097	2,007	2,938	67,636
1996	17,895	7,854	15,469	8,380	1,032	12,953	4,073	1,144	2,445	71,245
1997	18,277	7,735	16,654	9,087	1,219	12,966	4,193	2,239	4,380	76,750
1998	20,011	8,903	19,150	8,984	1,161	14,525	4,507	1,732	6,354	85,327
1999	20,225	9,521	20,393	8,810	1,475	13,992	4,751	3,374	4,376	86,915

NOTES (1) 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.

**CITY OF PALO ALTO**  
**GENERAL GOVERNMENT EXPENDITURES BY FUNCTION**  
**ALL GOVERNMENTAL FUND TYPES**  
**LAST TEN FISCAL YEARS**  
**(IN THOUSANDS)**



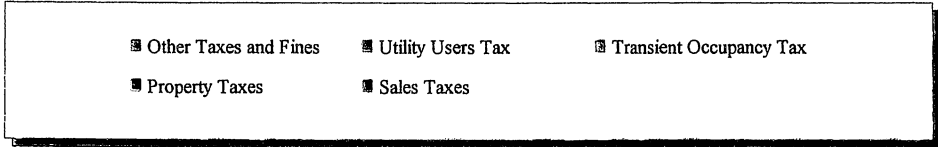
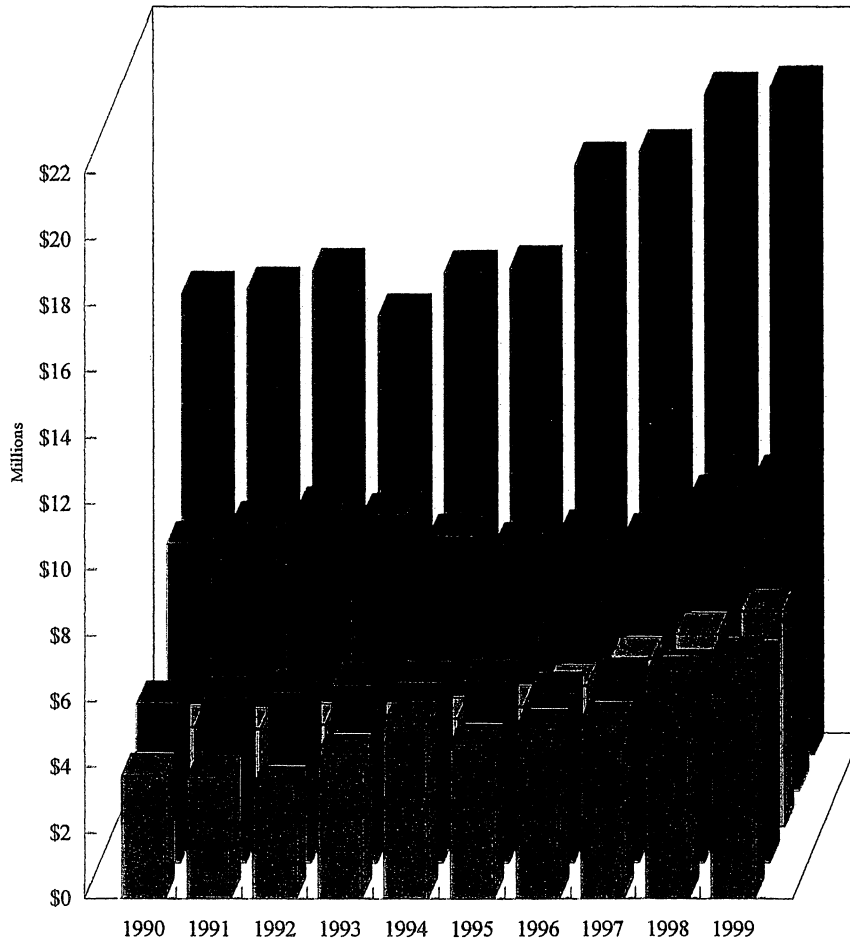
Fiscal Year	Admin- istration (1)	Public Works	Planning & Community Environment	Police	Fire	Community Services	School Site Operations	Special Revenue & Capital Projects	Debt Service	Total
1990	\$7,788	\$7,729	\$3,065	\$11,881	\$9,067	\$10,674	\$3,434	\$5,641	\$2,547	\$61,826
1991	7,830	5,871	2,881	12,867	9,762	11,025	5,164	9,303	3,139	67,842
1992	8,519	7,129	3,313	13,076	10,027	11,816	5,469	6,609	2,765	68,723
1993	8,809	6,673	3,757	13,380	10,040	12,183	5,632	5,342	2,541	68,357
1994 (2)	9,343	7,058	4,160	14,150	11,718	12,651	5,645	7,450	2,569	74,744
1995	10,340	7,517	3,842	14,058	11,437	12,435	5,884	7,722	2,415	75,650
1996	11,133	6,614	3,901	14,066	11,739	13,019	5,992	6,296	2,490	75,250
1997	11,689	7,339	4,320	14,804	12,292	13,972	6,086	7,581	2,319	80,402
1998	12,987	8,172	4,832	16,093	13,100	15,050	6,298	6,749	2,293	85,574
1999	15,066	9,202	5,674	16,705	13,949	16,820	6,520	16,605	2,509	103,050

NOTES: (1) Comprised of the following departments: City Council, City Manager, City Attorney, City Clerk  
City Auditor, Administrative Services and Human Resources.

(2) 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.



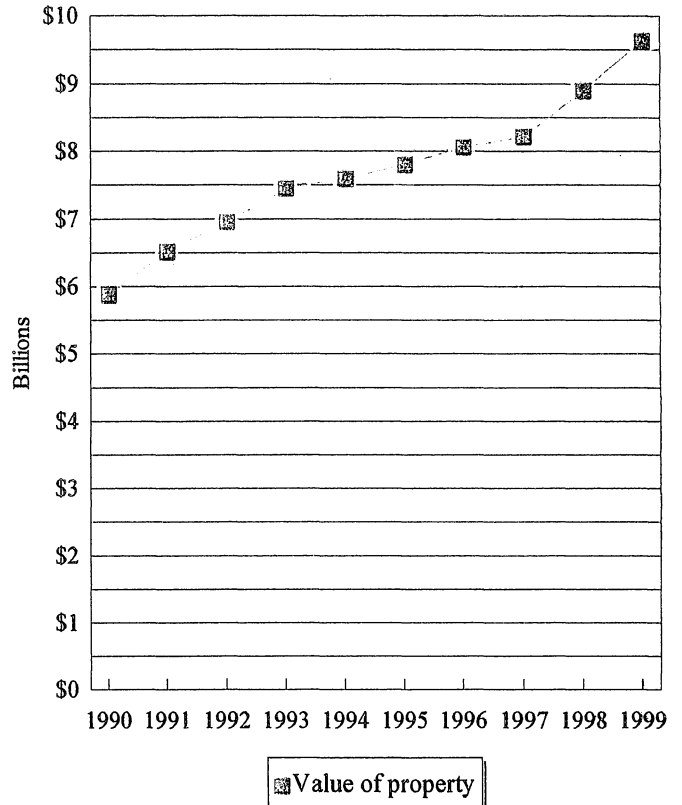
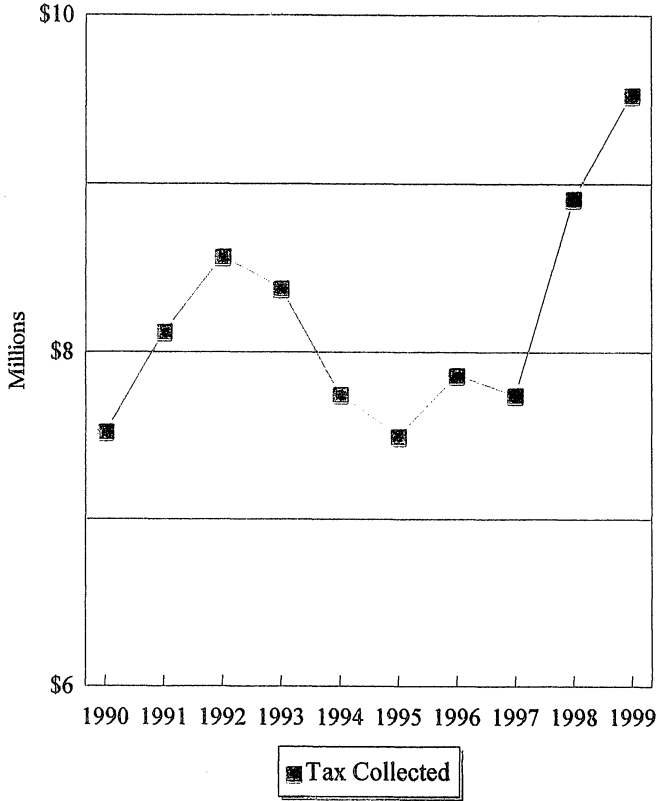
**CITY OF PALO ALTO  
GENERAL FUND TAX REVENUES BY SOURCE  
LAST TEN FISCAL YEARS  
(IN THOUSANDS)**



Fiscal Year	Sales Taxes	Property Taxes	Transient Occupancy Tax	Utility Users Tax	Other Taxes and Fines	Total
1990	\$13,987	\$7,512	\$3,040	\$4,833	\$3,733	\$29,372
1991	14,140	8,109	2,969	4,967	3,637	30,185
1992	14,692	8,555	3,104	5,149	3,358	31,500
1993	13,322	8,367	3,109	5,362	4,333	30,160
1994	14,635	7,737	3,301	5,455	5,277	31,128
1995	14,765	7,485	3,643	5,482	4,633	31,375
1996	17,895	7,854	4,279	5,098	5,092	35,126
1997	18,277	7,735	5,107	5,509	5,299	36,628
1998	20,011	8,903	5,846	5,780	6,694	40,540
1999	20,225	9,521	6,551	6,039	7,355	42,336

SOURCE: City of Palo Alto, Administrative Services Department, Comprehensive Annual Financial Reports.

**CITY OF PALO ALTO  
PROPERTY TAX LEVIES AND COLLECTIONS  
LAST TEN FISCAL YEARS  
(IN THOUSANDS)**

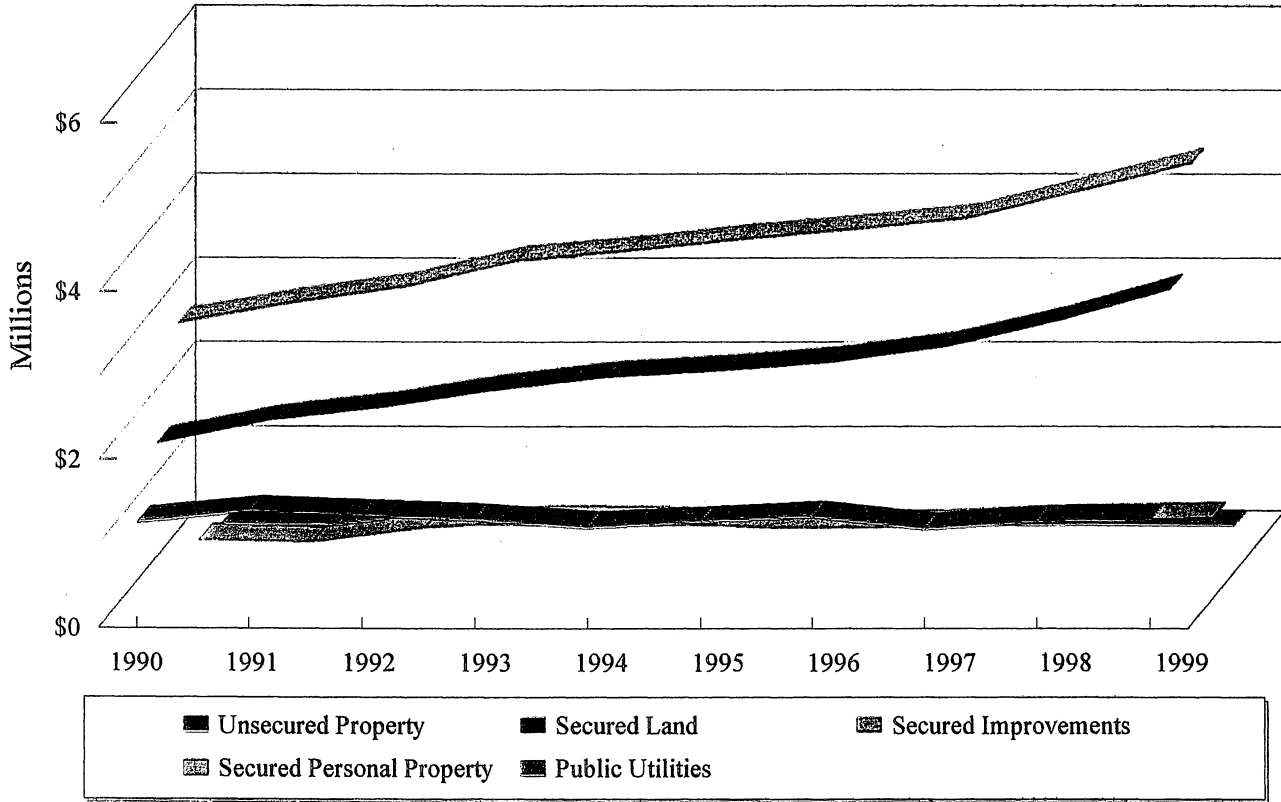


Fiscal Year	Total Tax Levy	Current Tax Collections	Delinquent Tax Collections	Total Property Tax Collected	Assessed Value of Property Subject to Basic County Wide Tax Rate
1990	\$7,509	\$7,356	\$156	\$7,512	\$5,864,061
1991	8,192	7,970	139	8,109	6,501,973
1992	8,617	8,372	183	8,555	6,949,429
1993	8,373	8,148	219	8,367	7,443,688
1994	7,310	7,310	427	7,737	7,592,131
1995	7,485	7,485	(A)	7,485	7,795,396
1996	7,854	7,854	(A)	7,854	8,058,927
1997	7,735	7,735	(A)	7,735	8,206,532
1998	8,903	8,903	(A)	8,903	8,885,623
1999	9,521	9,521	(A)	9,521	9,623,868

SOURCE: County of Santa Clara Assessor's Office

NOTES: (A) Effective with the fiscal year 1993-94, the City is on the Teeter Plan, under which the County of Santa Clara pays the full tax levy due. All prior delinquent taxes were also received in this fiscal year. Assessed value of property is considered to be an estimate of full market value.

**CITY OF PALO ALTO  
 ASSESSED VALUE OF TAXABLE PROPERTY  
 LAST TEN FISCAL YEARS  
 (IN THOUSANDS)**



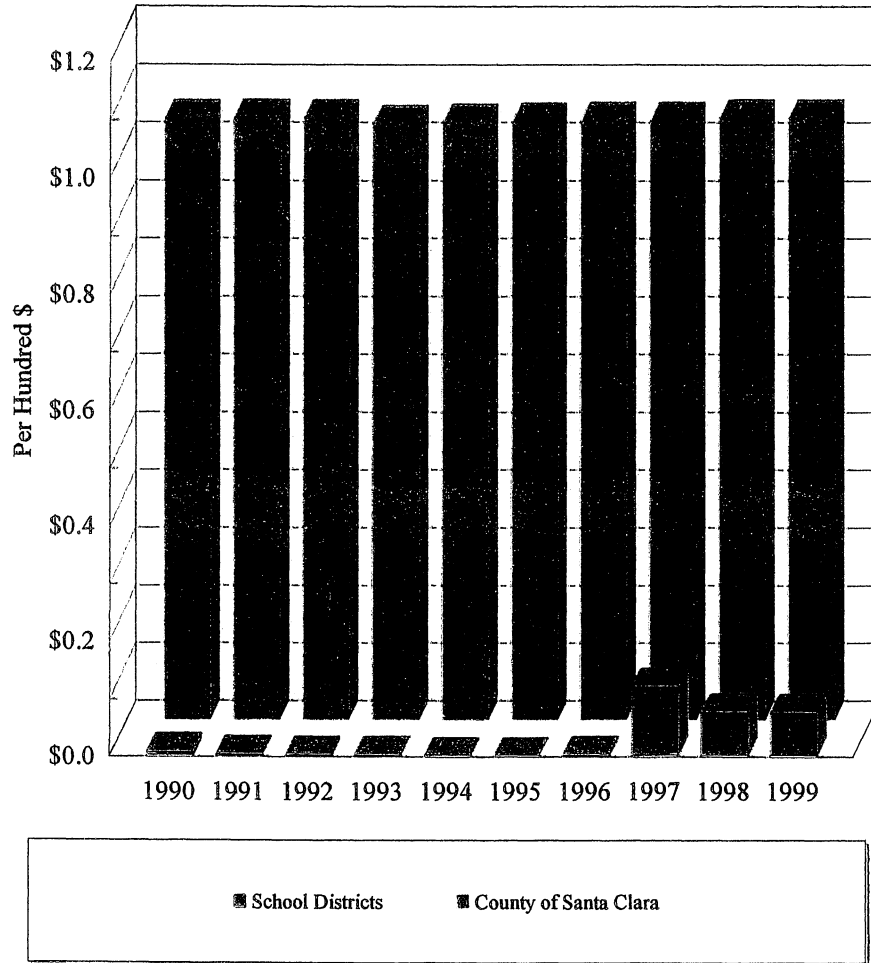
Fiscal Year	Net Local Secured Roll			Subtotal Net Local Secured Roll	Public Utilities	Unsecured Property	Less	Total Assessed Value
	Land	Improvements	Personal Property				Exemptions Net of State Aid	
1990	\$1,897,944	\$3,019,530	\$134,389	\$5,051,863	\$8,138	\$1,248,028	\$443,968	\$5,864,061
1991	2,168,956	3,253,018	107,494	5,529,468	10,139	1,384,622	422,256	6,501,973
1992	2,324,109	3,446,205	275,237	6,045,551	13,666	1,340,081	449,869	6,949,429
1993	2,533,275	3,758,000	356,415	6,647,690	3,200	1,290,140	497,342	7,443,688
1994	2,687,134	3,876,127	353,803	6,917,064	1,425	1,188,354	514,712	7,592,131
1995	2,764,558	4,018,251	281,479	7,064,288	1,508	1,262,254	532,654	7,795,396
1996	2,865,710	4,129,805	277,037	7,272,552	2,508	1,325,835	541,968	8,058,927
1997	3,045,477	4,259,209	340,073	7,644,759	2,410	1,173,563	614,200	8,206,532
1998	3,353,027	4,585,725	381,091	8,319,843	2,652	1,265,100	701,972	8,885,623
1999	3,729,475	4,920,111	394,610	9,044,196	2,842	1,279,315	702,485	9,623,868

SOURCE: County of Santa Clara Assessor's Office

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.

\* The State Constitution requires property to be assessed at one hundred percent of the most recent purchase price, plus an increment of no more than two percent annually, plus any local over-rides. These values are considered to be full market values.

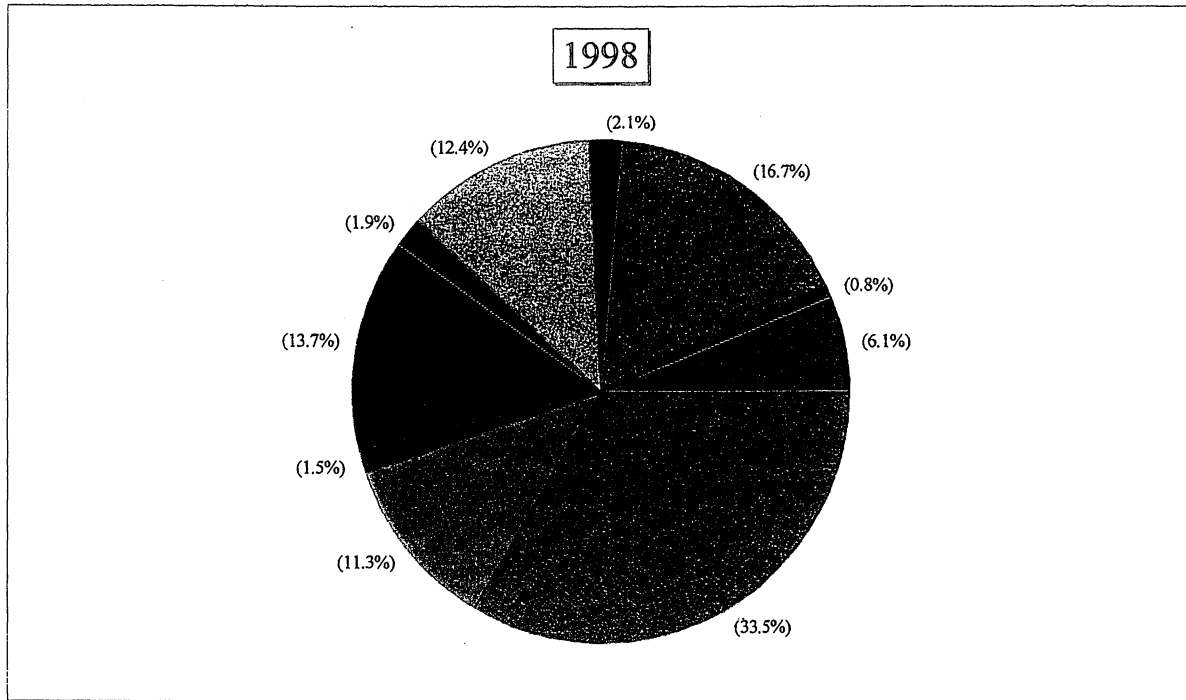
**CITY OF PALO ALTO  
PROPERTY TAX RATES  
ALL OVERLAPPING GOVERNMENTS  
PER \$100 OF ASSESSED VALUE  
LAST TEN FISCAL YEARS**



<u>Fiscal Year</u>	<u>County of Santa Clara</u>	<u>School Districts</u>	<u>Total</u>
1990	\$1.0380	\$0.0080	\$1.0460
1991	1.0390	0.0040	1.0430
1992	1.0390	0.0020	1.0410
1993	1.0290	0.0030	1.0320
1994	1.0310	0.0000	1.0310
1995	1.0330	0.0000	1.0330
1996	1.0340	0.0030	1.0370
1997	1.0340	0.1210	1.1550
1998	1.0388	0.0764	1.1152
1999	1.0388	0.0757	1.1145

Source: County of Santa Clara, Tax Rates and Information

**CITY OF PALO ALTO  
TAXABLE TRANSACTIONS BY TYPE OF BUSINESS  
LAST SEVEN CALENDAR YEARS  
(IN MILLIONS)**



**RETAIL STORES**

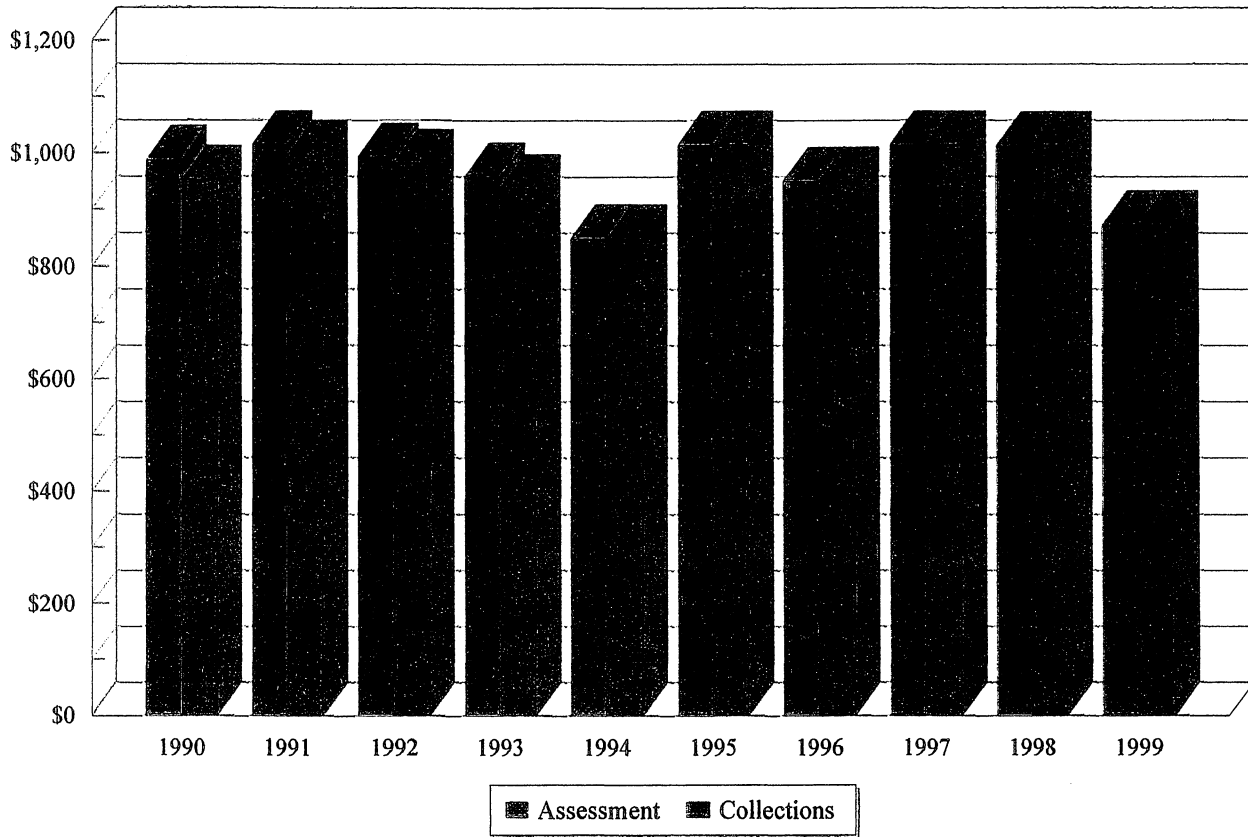
Calendar Year	Apparel Stores	Drug Stores	General Merch.	Food Stores	Packaged Liquor Stores(*)	Eating/ Drinking Places	Home Furniture & Appliances	Bldg. Mtrl. & Farm Implmt.(*)	Auto Dirs., Auto Supplies	Service Stations	Other Retail Stores	Retail Stores Total(*)	All Other Outlets	Total All Outlets(*)
1992	\$79	\$12	\$201	\$34	\$3	\$125	\$34	\$8	\$79	\$27	\$147	\$749	\$503	\$1,252
1993	90	11	203	28	3	131	36	7	79	28	157	773	486	1,259
1994	98	11	211	27	3	134	36	8	94	27	163	812	482	1,294
1995	89	11	229	27	4	151	40	12	129	28	178	898	557	1,455
1996	97	11	245	29	4	165	43	16	157	32	186	985	542	1,527
1997	99	21	282	34	4	196	33	8	193	28	169	1,067	588	1,655
1998	101	14	276	35	5	206	32	6	226	24	187	1,112	554	1,666

\* Amounts represent totals or categories less than one tenth of one percent and is not displayed in the charts above

**SALES TAX RATES  
FOR THE CALENDAR YEAR ENDED DECEMBER 31, 1998**

State General Fund	6.00%
County Transportation Fund (Transportation Development Act)	0.25%
County Transportation Fund	1.00%
City	<u>1.00%</u>
	8.25%

**CITY OF PALO ALTO**  
**SPECIAL ASSESSMENT BILLINGS AND COLLECTIONS**  
**LAST TEN FISCAL YEARS**  
**(IN THOUSANDS)**



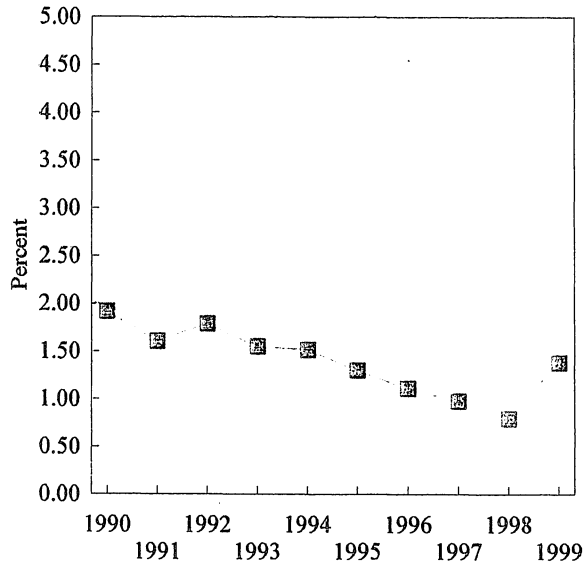
Fiscal Year	County Assessment Due	Current Assessment Collected	Delinquent & Penalties Collected	Special Assessment Billings and Collections
1990	\$989	\$954	\$36	\$990
1991	1,016	997	23	1,020
1992	994	984	14	998
1993	959	939	11	950
1994	850	850	14	864
1995	1,016	1,016	(A)	1,016
1996	952	952	(A)	952
1997	1,016	1,016	(A)	1,016
1998	1,015	1,015	(A)	1,015
1999	874	874	(A)	874

SOURCE:

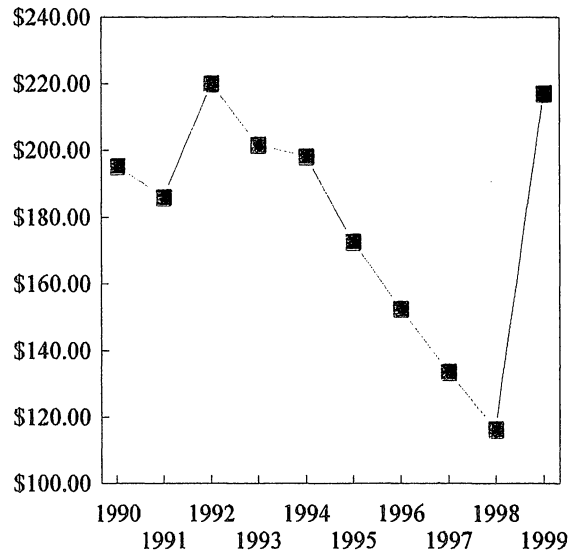
NOTE:

(A) 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**  
**RATIO OF NET GENERAL OBLIGATION BONDED DEBT**  
**TO ASSESSED VALUE AND NET GENERAL OBLIGATION**  
**BONDED DEBT PER CAPITA**  
**LAST TEN FISCAL YEARS**



■ Debt per Assessed Value



■ Debt per Capita

Fiscal Year	Population	Assessed Value (in Thousands)	Bonded Debt (in Thousands) (1)	Net Bonded Debt to Assessed Valuation	Net Bonded Debt Per Capita
1990	57,400	\$5,864,061	\$11,198	0.191%	\$195.09
1991	56,000	6,501,973	10,397	0.160%	185.66
1992	56,330	6,949,429	12,376	0.178%	219.71
1993	57,300	7,443,688	11,541	0.155%	201.41
1994	58,100	7,592,131	11,498	0.151%	197.90
1995	58,580	7,795,396	10,103	0.130%	172.47
1996	58,500	8,058,927	8,916	0.111%	152.41
1997	59,900	8,206,532	7,981	0.097%	133.24
1998	60,500	8,885,623	7,026	0.079%	116.13
1999	61,200	9,623,868	13,271	0.138%	216.85

**CITY OF PALO ALTO**  
**COMPUTATION OF LEGAL DEBT MARGIN**  
**JUNE 30, 1999**  
(In Thousands)

1998-99 ASSESSED VALUATION:		<u>\$9,623,868</u>
Debt limit - 15% of assessed value		\$1,443,580
Amount of debt applicable to debt limit:		
Certificates of participation	12,480	
Capital lease obligations	791	
Special assessment debt with governmental commitment	<u>5,195</u>	
Total	18,466	
Less amount of debt not applicable to debt limit	<u>0</u>	
Total amount of debt applicable to debt limit		<u>18,466</u>
Legal debt margin		<u><u>\$1,425,114</u></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.
- (2) Special assessments debt excludes Cambridge Ave. parking debt because there is no government commitment. (\$1,885)



**CITY OF PALO ALTO**  
**COMPUTATION OF DIRECT AND OVERLAPPING BONDED DEBT**  
**JUNE 30, 1999**  
**(In Thousands)**

1998-1999 Assessed Valuation	<u>\$9,623,868</u>		
		Percentage Applicable To City of Palo Alto	June 30, 1999 Bonded Debt
Direct and Overlapping Bonded Debt			
<b>OVERLAPPING TAX AND ASSESSMENT DEBT:</b>			
Palo Alto Unified School District		89.681	\$108,061
Other School Districts and School Authorities		7.720	2,393
City of Palo Alto Special Assessment Bonds		100.000	7,020 (1)
Special Districts		13.852	<u>3,261</u>
Total overlapping tax and assessment debt			<u>120,735</u>
<b>DIRECT AND OVERLAPPING LEASE OBLIGATION DEBT:</b>			
Santa Clara County General Fund Obligations		7.525	45,449
Santa Clara County Board of Education Certificates of Participation		7.525	1,517
Other School Districts and School Authorities		23.391	8,080
City of Palo Alto General Fund Obligations		100.00	13,271
Santa Clara Valley Water District Certificates of Participation		7.525	9,761
Other Special Districts, (net of El Camino Hospital - 100% self supporting)		13.239	<u>9,977</u>
Total gross direct and overlapping lease obligation debt			<u>88,055</u>
<b>NET COMBINED TOTAL DEBT</b>			<u><u>\$208,790</u></u>

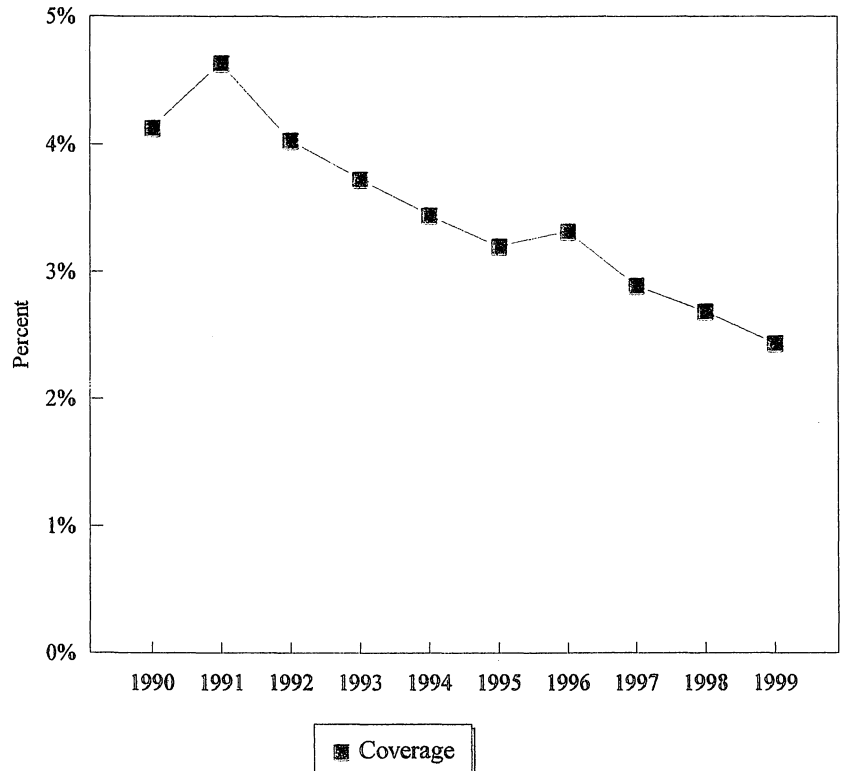
(1) Includes California Avenue and University Avenue Parking Assessment Bonds.

Ratios to Assessed Valuation:

Gross Direct Debt	\$13,271	0.14%
Total Gross Debt		2.17%
Total Net Debt		2.17%

Source: California Municipal Statistics, Inc.

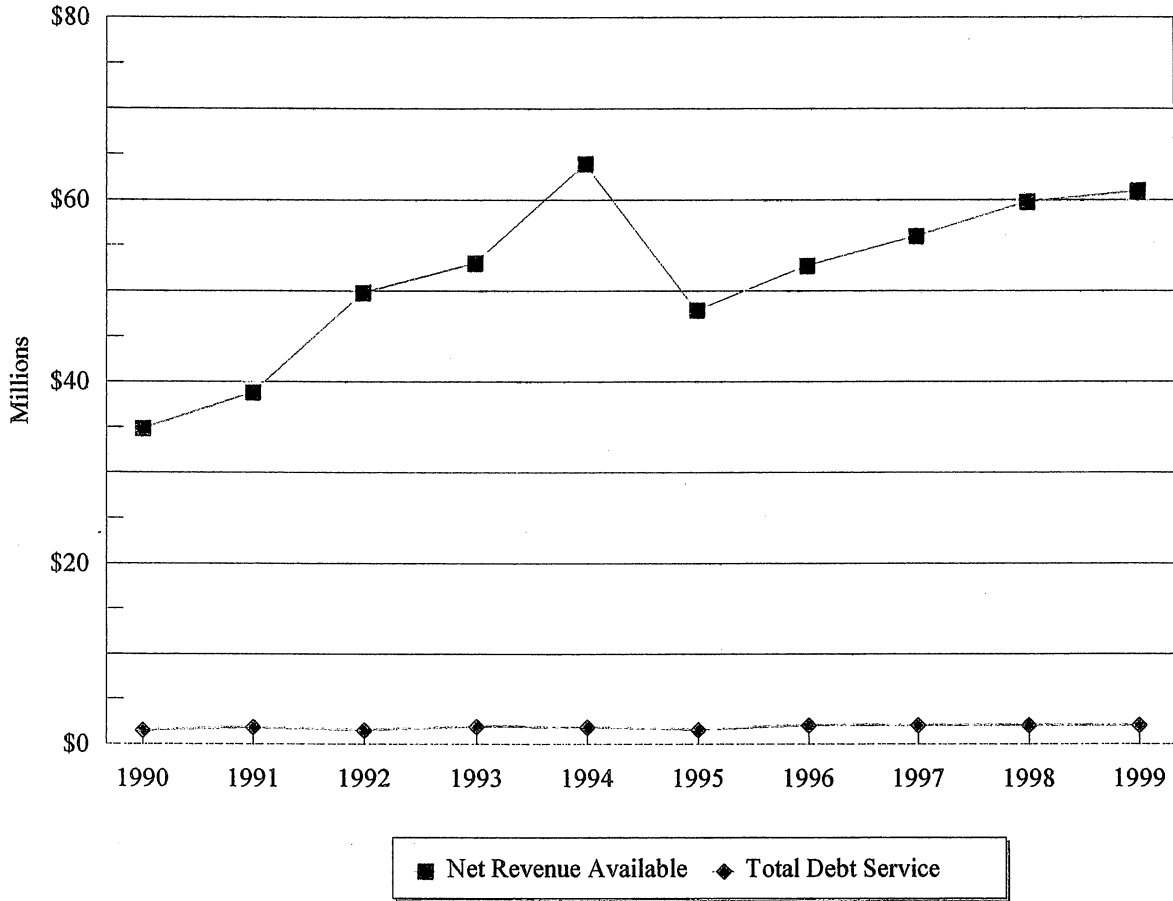
**CITY OF PALO ALTO  
 RATIO OF ANNUAL DEBT SERVICE EXPENDITURES  
 FOR GENERAL BONDED DEBT TO TOTAL GENERAL EXPENDITURES  
 LAST TEN FISCAL YEARS  
 (IN THOUSANDS)**



Fiscal Year	Total General Expenditures	Debt Service			Ratio
		Principal	Interest	Total	
1990	\$61,826	\$1,112	\$1,435	\$2,547	4.12%
1991	67,842	1,289	1,850	3,139	4.63%
1992	68,723	1,151	1,614	2,765	4.02%
1993	68,357	1,274	1,267	2,541	3.72%
1994	74,744	1,305	1,264	2,569	3.44%
1995	75,650	1,245	1,170	2,415	3.19%
1996	75,250	1,365	1,125	2,490	3.31%
1997	80,402	1,355	964	2,319	2.88%
1998	85,574	1,405	888	2,293	2.68%
1999	103,050	1,553	956	2,509	2.43%

NOTE: (1) Includes general, special revenue, debt services and capital project funds.

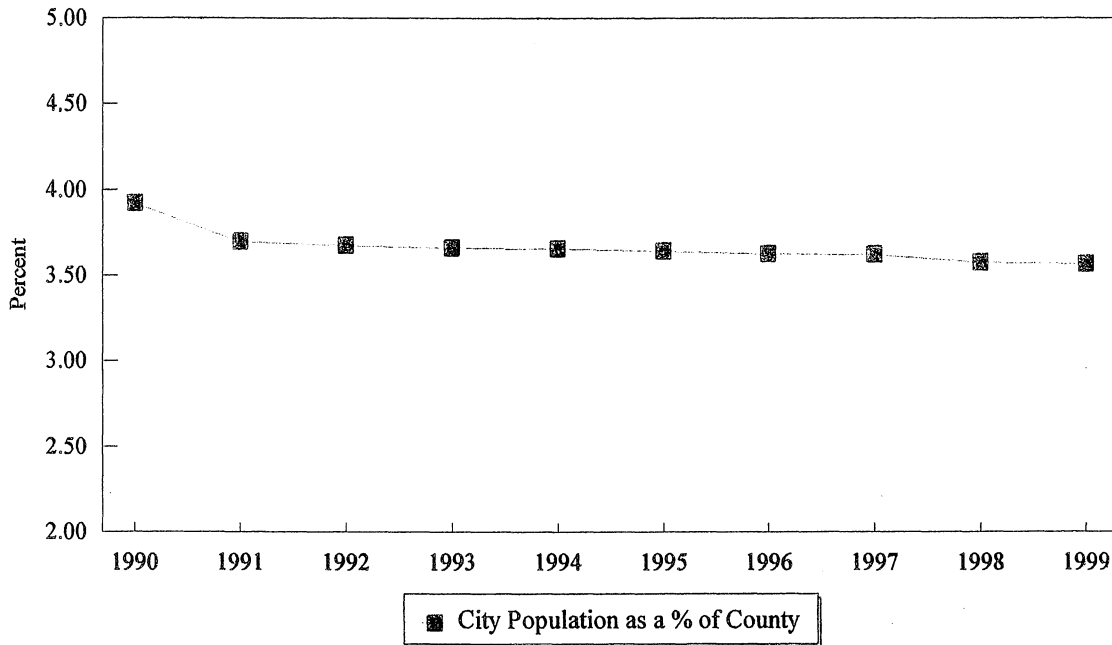
**CITY OF PALO ALTO**  
**REVENUE BOND COVERAGE**  
**WATER, ELECTRIC, GAS, WASTEWATER COLLECTION,**  
**WASTEWATER TREATMENT AND STORM DRAINAGE FUNDS**  
**LAST TEN FISCAL YEARS**  
**(IN THOUSANDS)**



Fiscal Year	Gross Revenue	Direct Operating Expenditures (1)	Net Revenue Available for Debt Service (2)	Debt Service			Coverage
				Principal	Interest	Total	
1990	\$104,948	\$70,090	\$34,858	\$565	\$935	\$1,500	23.24
1991	109,115	70,302	38,813	950	922	1,872	20.73
1992	115,659	65,861	49,798	690	829	1,519	32.78
1993	119,274	66,212	53,062	735	1,159	1,894	28.02
1994	132,317	68,371	63,946	875	945	1,820	35.14
1995	124,537	76,693	47,844	555	997	1,552	30.83
1996	120,828	68,096	52,732	755	1,308	2,063	25.56
1997	133,081	77,107	55,974	801	1,263	2,064	27.12
1998	144,195	84,415	59,780	840	1,214	2,054	29.10
1999	141,696	80,748	60,948	895	1,163	2,058	29.62

NOTES:  
(1) 1993-94 excludes electric rebate.  
(2) Excludes depreciation and amortization expense.

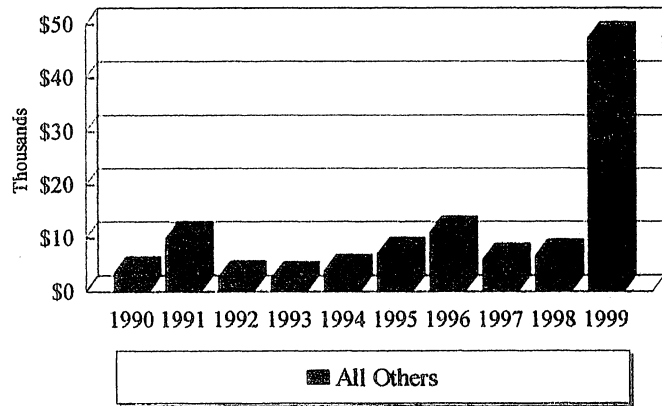
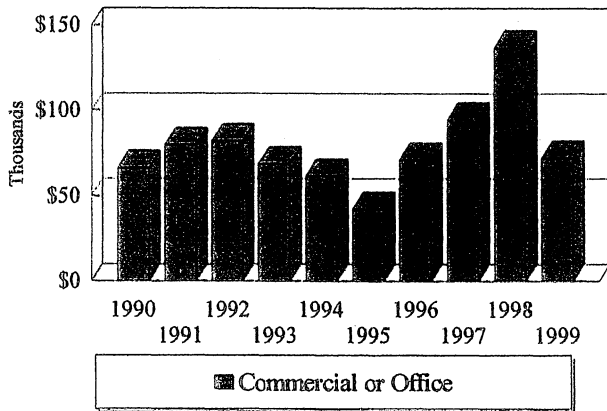
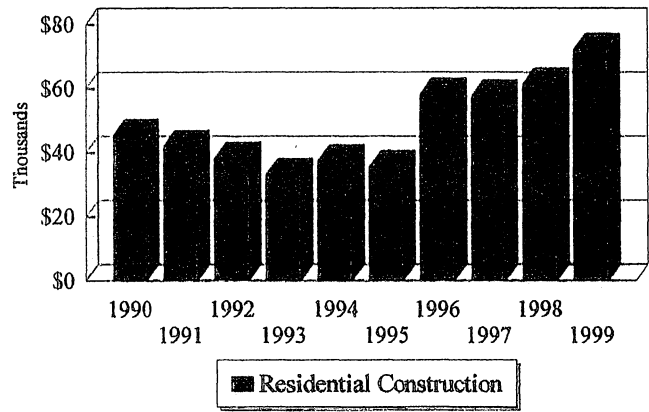
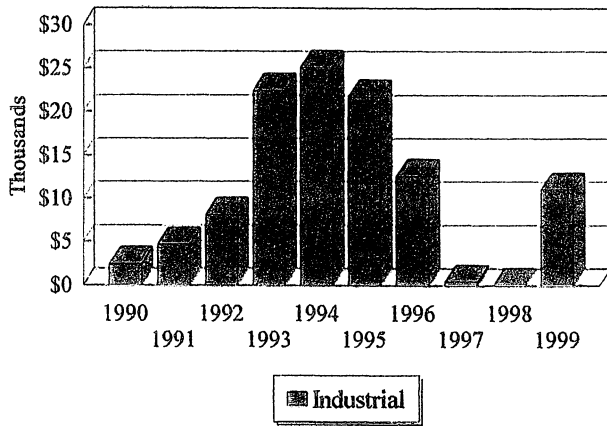
**CITY OF PALO ALTO  
DEMOGRAPHIC STATISTICS  
LAST TEN FISCAL YEARS**



Fiscal Year	City Size Square Miles	Street Miles	City Population	County Population (1)	City Population % of County	School Population (3)	Unemployment Rate
1990	25.98	193.12	57,400	1,463,500	3.92%	7,443	2.30%
1991	25.98	193.12	56,000	1,513,100	3.70%	7,496	3.90%
1992	25.98	193.12	56,330	1,531,700	3.68%	7,756	4.50%
1993	25.98	193.12	57,300	1,563,800	3.66%	7,970	3.80%
1994	25.98	193.12	58,100	1,587,800	3.66%	8,334	3.30%
1995	25.98	193.12	58,580	1,607,700	3.64%	8,419	2.80%
1996	25.98	193.12	58,500	1,612,300	3.63%	9,122	1.90%
1997	25.98	193.12	59,900	1,653,100	3.62%	9,407	1.50%
1998	25.98	193.12	60,500	1,689,900	3.58%	9,719	1.50%
1999	25.98	193.12	61,200	1,715,400	3.57%	9,946	1.70%

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

**CITY OF PALO ALTO  
CONSTRUCTION ACTIVITY  
LAST TEN FISCAL YEARS  
(IN THOUSANDS)**



Fiscal Year	Property Values	Industrial		Commercial or Office		Residential		All Others	
		Number of Permits	Valuation	Number of Permits	Valuation	Number of Permits	Valuation	Number of Permits	Valuation
1990	\$5,864,061	7	\$249	331	\$66,373	1,195	\$43,378	53	\$3,474
1991	6,501,973	6	470	342	79,998	1,088	41,862	70	9,935
1992	6,949,429	11	814	355	82,088	1,087	38,101	63	2,692
1993	7,443,688	7	2,244	388	68,923	1,079	33,065	65	2,506
1994	7,592,131	23	2,509	377	61,492	1,081	37,284	96	3,823
1995	7,795,396	20	2,169	364	42,302	1,032	35,563	72	7,055
1996	8,058,927	10	1,256	400	71,015	1,194	58,262	89	11,052
1997	8,206,532	2	41	375	94,444	1,095	57,617	106	5,874
1998	8,885,623	0	0	374	136,761	1,154	61,316	80	6,704
1999	9,623,868	10	1,103	320	72,359	1,167	71,989	106	47,325

SOURCE: Planning and Community Environment Department  
City of Palo Alto

**CITY OF PALO ALTO  
INSURANCE COVERAGE  
JUNE 30, 1999**

TYPE	COVERAGE (Deductible)	LIMITS	COMPANY	EXPIRATION DATE
PROPERTY LOSS				
Blanket	All real & personal property (\$10,000 deductible)	\$190,314,645	Federal Insurance Company	07/01/1999
Boiler & Machinery	All real & personal property: (Deductibles are: \$50,000 - all distribution transformers \$10,000 - all other objects)			
Flood Insurance	All real property 1305 Middlefield Road (\$1,000 deductible)	\$500,000	American Reliable Insurance Company	02/04/2000
FINANCIAL LOSS				
Employee Blanket	Position bond - faithful performance per loss (\$5,000 deductible)	\$1,000,000	Hartford Fire Insurance	07/01/1999
Trustees Errors and Omissions	Trustees errors and omissions (\$15,000 deductible)	\$1,000,000	National Union Fire Insurance	07/01/1999
UMBRELLA EXCESS				
	City is a member of an insurance pool participating with a number of other California cities. (\$1,000,000 self insured retention)	\$9,000,000 per occurrence \$27,000,000 aggregate	ACCEL Group	07/01/1999
	First excess layer (\$10,000,000 deductible)	\$10,000,000 per occurrence	Insurance Company of Pennsylvania	07/01/1999
SPECIAL LIABILITY				
Volunteers Accident	Each Occurrence Medical - Each Person (\$25 deductible)	\$5,000	North Atlantic Life Insurance Company	01/01/2000
Special Events	Bodily Injury	\$1,000,000 per occurrence	General Star Indemnity Co.	01/01/2001
EMPLOYEE BENEFIT				
Travel Accident	Indemnity, based on salary	\$1,500,000 per accident	Life Insurance Co. of North America	06/01/1999
EMPLOYEE HEALTH PLAN	The City participates in the California Public Employees' Medical and Health Care Act (PEMHCA) program to provide medical benefits to employees and retirees.			
WORKERS' COMPENSATION	City is self-insured for first \$250,000 of liability			
EXCESS WORKERS' COMPENSATION	Excess Workers' Compensation Employers Liability	\$2,000,000	Employers' Reinsurance Corporation	07/01/1999

**CITY OF PALO ALTO**  
**TOP TEN PROPERTY TAXPAYERS**  
**JUNE 30, 1999**  
(In thousands of dollars)

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Assessed Valuation</u>	<u>Percent of Total Assessed Valuation</u>
Leland Stanford Jr. University	University and Ancillary	\$1,631,031	16.95
Space Systems/Loral, Inc.	Research and Development	193,128	2.01
Sun Microsystems, Inc.	Computers and Electronics	69,742	0.72
Harbor Investment Partners	Offices, Banks and Clinics	53,705	0.56
Digital Equipment Corporation	Computers and Electronics	44,422	0.46
Embarcadero Place Associates	Offices, Banks and Clinics	43,350	0.45
Cowper-Hamilton Associates	Offices, Banks and Clinics	37,699	0.39
Hyatt Equities, L.L.C.	Offices, Banks and Clinics	23,101	0.24
Stanford Square Limited Partners	Offices, Banks and Clinics	22,200	0.23
University Avenue Partners & Associates	Offices, Banks and Clinics	<u>21,180</u>	<u>0.22</u>
Totals		<u><u>\$2,139,558</u></u>	<u><u>22.23</u></u>
1998/99 Local Secured Assessed Valuation:		<u><u>\$9,623,868</u></u>	

Source: Center for Urban Analysis, County of Santa Clara

**CITY OF PALO ALTO  
MISCELLANEOUS STATISTICS  
JUNE 30, 1999**

DISCOVERED	1769	NUMBER OF HOUSING UNITS	25,708
DATE OF INCORPORATION	April 16, 1894	COMMERCIAL AND INDUSTRIAL SPACE	27.1 Million Square Feet
INCORPORATED AS CHARTER CITY	July 1, 1909	MUNICIPAL UTILITY PLANTS:	
FORM OF GOVERNMENT	Council-Manager	WATER	
POPULATION	61,200	Million CCF Sold, 19,322 Accounts	6.1
LAND AREA	25.98 Square Miles	Miles of Mains	220
CITY MAINTAINED TREES	39,832	WASTEWATER	
<u>POLICE PROTECTION:</u>		Million Gallons Processed	9,426
NUMBER OF STATION(S)	1	Accounts	21,975
NUMBER OF FULL TIME POSITIONS	171	Miles of Sanitary Sewer Lines	219
NUMBER OF POLICE PATROL VEHICLES	27	ELECTRIC	
<u>FIRE PROTECTION:</u>		Million KWH Sold, 27,674 Accounts	1,124
NUMBER OF STATION(S)	8	Pole Miles, 202 Trench Miles	183
NUMBER OF FULL TIME POSITIONS	127	GAS	
NUMBER OF FIRE APPARATUS	24	Million Therms Sold, 23,322 Accounts	41
NUMBER OF FIRE HYDRANTS	1,699	Miles of Gas Mains	169
<u>COMMUNITY SERVICES</u>			
ACRES- DOWNTOWN PARKS	142		
ACRES- OPEN SPACE	3,997		
PARKS	36		
GOLF COURSE	1		
TENNIS COURTS	51		
ATHLETIC CENTER	1		
COMMUNITY CENTERS	4		
THEATERS	3		
CULTURAL CENTER	1		
JUNIOR MUSEUM AND ZOO	1		
SWIMMING POOLS	3		
NATURE CENTERS	2		
LIBRARIES	6		



## SINGLE AUDIT SECTION

This section provides an overview of grant awards received from the federal government. The Single Audit Act Amendments of 1996 require local governments to report and audit federal funds separately from their general financial statements.



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## SUMMARY OF FINDINGS AND QUESTIONED COSTS

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

We have audited the general purpose financial statements of the City of Palo Alto, California, for the year ended June 30, 1999 and have issued our unqualified report thereon dated November 17, 1999. These general purpose financial statements are the responsibility of the City's management. 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; *Government Auditing Standards*, issued by the Comptroller General of the United States and the Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non profit Organizations*. We performed a Single Audit as requested by the City to comply with the provisions of the Single Audit Act Amendments of 1996 and OMB A-133 and are required to present the following summary:

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### *Audit of General Purpose Financial Statements*

Our audit did not disclose any reportable conditions, or material weaknesses or instances of noncompliance material to the general purpose financial statements. However we did communicate matters to the City Council in our separate Memorandum on Internal Controls dated November 17, 1999.

### *Audit of Major Programs*

Our audit did not disclose any reportable conditions or material weaknesses in internal controls over major programs. We have issued an unqualified opinion on compliance with the requirements applicable to major programs.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

### *Identification of Major Programs*

The Department of Housing and Urban Development Community Development Block Grant (CFDA #14.218) and U.S. Department of Transportation Highway Planning and Construction Grant Intermodal Surface Transportation Efficiency Act (CFDA #20.205) programs are major programs.

### *Dollar Threshold Used to Distinguish Between Type A and Type B Programs*

The threshold for Type A programs was \$300,000.

### *Organizational Risk Evaluation*

The City was assessed as a low risk auditee based on prior years reporting results, our overall knowledge of the City and other criteria specified by the Office of Management and Budget.

## FINDINGS RELATED TO FINANCIAL STATEMENTS

There were no findings required to be reported under Generally Accepted Government Auditing Standards.

## FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

There were no findings or questioned costs required to be reportable under OMB Circular A-133 section .510(a).

*Maye + Associates*

November 17, 1999

CITY OF PALO ALTO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

Program Name	Grantor/ Pass-Through Entity Grant Number	Catalog of Federal Domestic Assistance Number	Program Expenditures
<b>Department of Housing and Urban Development</b>			
Community Development Block Grant Program			
Program Expenditures	B-98-MC-06-0020	14.218	\$122,000
Subgrants:			
Alliance for Community Care			11,824
Mid Peninsula Citizens for Fair Housing			16,600
Emergency Housing Consortium			8,000
Urban Ministry of Palo Alto			62,000
Catholic Charities- OMBUDSMAN			10,000
Palo Alto Housing Corporation:			
Information & Referral			32,000
Arastradero Park			144,468
Outreach and Escort Inc.			5,450
Loan Receivable			<u>2,295,000</u>
		14.218	<u>2,707,342</u>
<b>Federal Emergency Management Administration</b>			
Federal Public Assistance Program	DR#1203 FIPS#085-55282	83.544	<u>767,138</u>
<b>U.S. Department of Transportation, Highway Planning and Construction Grant (Passed through California Department of Transportation)</b>			
Intermodal Surface Transportation Efficiency Act	STPLN-5100 (2)	20.205	<u>131,948</u>
<b>Department of Justice</b>			
Local Law Enforcement Block Grant		16.592	<u>10,547</u>
<b>TOTAL FEDERAL FINANCIAL AWARDS</b>			<u><u>\$3,616,975</u></u>

See Notes to Schedule of Expenditures of Federal Awards

## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

### ***Note 1 Reporting Entity***

The financial statements of the City of Palo Alto and the Schedule of Expenditure of Federal Awards include the financial activities of the City as well the separate legal entities described below, since they are governed by the City Council sitting in a separate capacity or they provide services exclusively to the City.

The City's general purpose financial statements include the financial activities of the City, the Palo Alto Regional Quality Control Plant, the Palo Alto Golf Course Corporation, and the Palo Alto Public Improvement Corporation, all of which are controlled by and dependent on the City. While these are separate legal entities, City Council serves in separate session as their governing body and their financial activities are integral to those of the City. Their financial activities have been aggregated and merged (termed "blended") with those of the City in the accompanying financial statements.

Financial statements for the above component units can be obtained from the City of Palo Alto, 250 Hamilton Avenue, Palo Alto, CA 94301.

The financial statements exclude the Palo Alto Cable Cooperative Franchise, as it is administered by a board separate from and independent of the City.

### ***Note 2 Basis of Accounting***

Basis of accounting refers to *when* revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All governmental funds and agency funds are accounted for using the modified accrual basis of accounting.

Expenditures of Federal Awards reported on the Schedule are recognized when incurred. An exception to this rule is expenditures of federal awards for loan programs. The City operates the Community Development Block Grant loan program under which it must insure participants maintain compliance with program requirements on an on going basis. OMB Circular A-133 section .205(b) requires that expenditures for the above program include the balance of loans outstanding plus cash received from the program.

### ***Note 3 - Direct and Pass-Through Federal Awards***

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

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and City Council  
City of Palo Alto, California

We have audited the general purpose financial statements of City of Palo Alto as of and for the year ended June 30, 1999, and have issued our report thereon dated November 17, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### *Compliance*

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

### *Internal Control Over Financial Reporting*

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However we did communicate other matters to City Council in our separate Memorandum on Internal Controls dated November 17, 1999.

This report is intended for the information of the City Council, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Maze & Associates*

November 17, 1999





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## **REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM**

Honorable Mayor and City Council  
City of Palo Alto, California

### ***Compliance***

We have audited the compliance of the City of Palo Alto with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1999. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Palo Alto complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 1999.

### ***Internal Control Over Compliance***

City management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

***Report on Schedule of Expenditures of Federal Awards***

We have audited the general purpose financial statements of City of Palo Alto as of and for the year ended June 30, 1999, and have issued our report thereon dated November 17, 1999. Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the City of Palo Alto taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and in our opinion is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

This report is intended for the information of the City Council, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Mage & Associates*

November 17, 1999



***Comprehensive  
Annual  
Financial Report***

