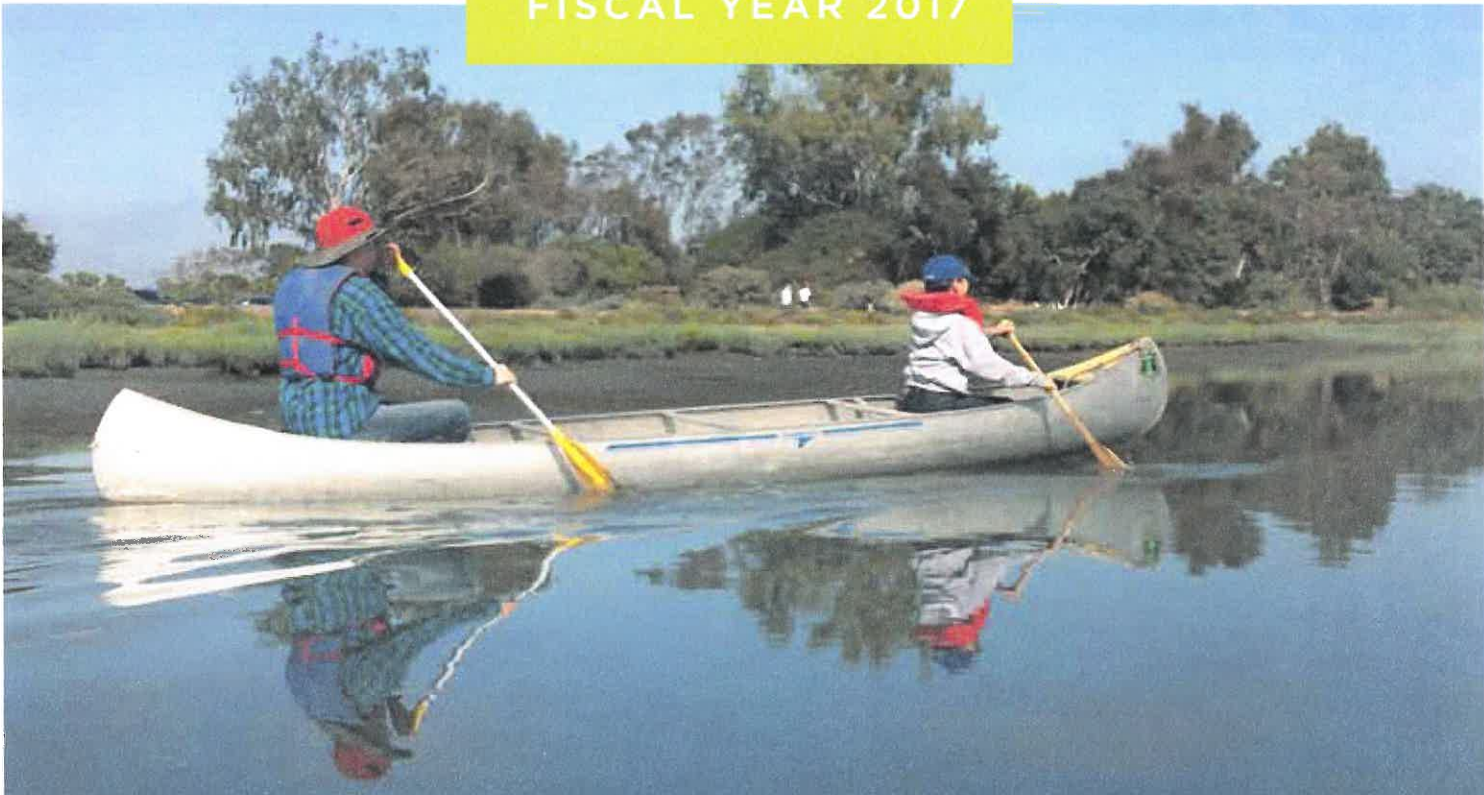


FISCAL YEAR 2017



# COMPREHENSIVE ANNUAL FINANCIAL REPORT

PUBLIC TRUST

FUTURE PARTNERSHIP

IMAGINE

ENTERPRISE HISTORY

PEOPLE

LIVABLE DIVERSITY

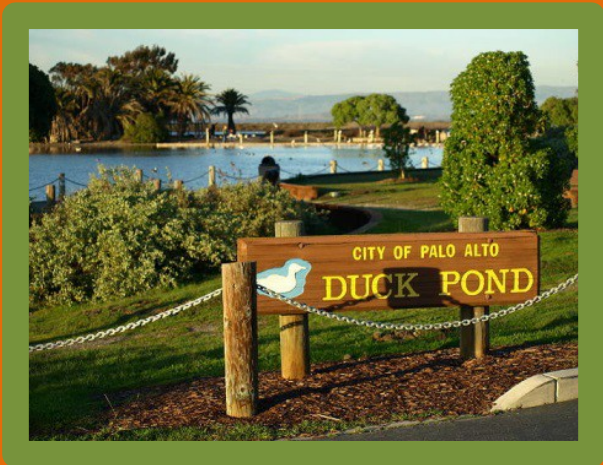
DEMOCRACY

COMMUNITY SUSTAINABLE

INCLUSIVE



CITY OF PALO ALTO



**CITY OF PALO ALTO, CALIFORNIA**



**CITY OF  
PALO  
ALTO**

**2016-2017  
Comprehensive  
Annual  
Financial Report  
Fiscal Year Ended  
June 30, 2017**

*Prepared by:  
Administrative Services Department*



**CITY OF PALO ALTO**  
**For the Year Ended June 30, 2017**

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**For the Year Ended June 30, 2017**

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# City of Palo Alto

Office of the City Manager

## Transmittal Letter.....

**November 14, 2017**

**THE HONORABLE CITY COUNCIL**

**Palo Alto, California**

Attention: Finance Committee

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**YEAR ENDED JUNE 30, 2017**

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

I am pleased to present the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2017 in accordance with Article III, Section 16 and Article IV, Section 13 of the City of Palo Alto Charter. The format and content of this CAFR complies with the principles and standards of accounting and financial reporting adopted by the Governmental Accounting Standards Board (GASB), and contains all information needed for readers to gain a reasonable understanding of City of Palo Alto financial affairs. Management takes sole responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. The objective of internal controls is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The City of Palo Alto's financial statements have been audited by Macias Gini & O'Connell LLP, Certified Public Accountants. The goal of the audit is to obtain reasonable assurance that the financial statements are free of material misstatements and are fairly presented in conformity with generally accepted accounting principles (GAAP). Macias Gini & O'Connell issued an unmodified opinion for the fiscal year ended June 30, 2017. Their report is presented as the first component of the financial section of this report.

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

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

**CITY OF PALO ALTO PROFILE**

Palo Alto was incorporated in 1894 and named after a majestic coastal redwood tree which lives along the San Francisquito Creek where early Spanish explorers settled. Located between the cities of San Francisco and San Jose, Palo Alto is a largely built-out community of approximately 67,000 residents. Palo Alto delivers a full range of municipal services and public utilities under the Council-Manager form of government, and offers an outstanding quality of life for its residents. It covers an area of twenty-six square miles, and has dedicated almost one-half of the area to open spaces of parks and wildlife preserves. Public facilities include five libraries, four community centers, a cultural arts center, an adult and children’s theater, a junior museum and zoo, and a golf course. The City provides a diverse array of services for seniors and youth, an extensive continuing education program, concerts, exhibits, team sports and special events. The independent Palo Alto Unified School District (PAUSD) has achieved state and national recognition for the excellence of its programs.

**City Council:** Council consists of nine members elected at-large for four year staggered terms. At the first meeting of each calendar year, Council elects a Mayor and Vice-Mayor from its membership, with the Mayor having the duty of presiding over Council meetings. Council is the appointing authority for the positions of City Manager and three other officials, the City Attorney, City Clerk, and City Auditor, all of whom report to Council. Effective January 1, 2019, Council will be reduced from nine to seven members.

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

**FISCAL/ECONOMIC CONDITIONS AND OUTLOOK**

**Employment Trends:** The City of Palo Alto is located in the heart of Silicon Valley and is adjacent to Stanford University, one of the premier institutions of higher education in the nation which has produced much of the talent that founded many successful high-tech companies in Palo Alto and Silicon Valley. With varied and relatively stable employers such as Stanford University, Stanford Medical Center, Palo Alto Medical Foundation, Palo Alto Unified School District, Stanford Shopping Center and businesses such as Hewlett-Packard, VMware, Tesla, Palantir and Space Systems Loral, Palo Alto has enjoyed diverse employment and revenue bases. The City’s unemployment rate ended the year at 2.8 percent, 0.1 percent higher than the prior year. This compares to Santa Clara County’s unemployment rate of 4.0 percent, and the state’s unemployment rate of 5.7 percent.

**Real Estate Market:** In its most recent annual report, the Santa Clara County Assessor’s Office noted that Santa Clara County’s 2016/2017 assessment roll increased 7.9 percent, from \$388 billion to \$419 billion - “assessment roll growth during the past four years has exceeded the growth for the preceding ten years.” The assessment roll growth was balanced throughout the County, with the highest growth rates in Santa Clara and Mountain View. Palo Alto’s assessment roll growth rate was 8.6 percent, compared to 8.1 percent in the prior report. Property sales and new construction were the primary factors contributing to the robust growth. With its highly regarded school district, well-educated and high-income population, cultural amenities, and the presence of Stanford University, the City’s real



estate activity continues to experience a pattern of high demand and short supply. The result of this continued pattern is reflected in the substantial increase in FY 2017 property tax revenue.

**Local Trends:** National, state, regional and local economic indicators point toward continuously improving economic growth. Economically sensitive revenue sources such as transient occupancy tax and documentary transfer tax remain strong, while sales tax revenue has levelled off. The robust local economy and job growth are also driving increases in other revenues, such as permit and license fees.

Looking forward, funding sources are sufficient to cover projected FY 2018 and FY 2019 expenses, as written in the City’s Adopted Budget. The Council adopted a General Fund budget with expenses of \$210.4 million for FY 2018, an increase of 8.4 percent, from the prior year Adopted Budget. The increase is driven by increased investment in infrastructure and increased salary and benefits. Over a year ago, staff identified an anticipated gap in available funds in the General Fund during the FY 2017 budget process. Council asked staff to make some short term adjustments to balance the FY 2017 budget, with the goal of making structural adjustments in FY 2018. The budget permanently addresses this gap while maintaining the General Fund Budget Stabilization Reserves at the Council approved level of 18.5 percent of expenditures. The structural fixes recommended in this budget also position the City to address future needs expected to occur in FY 2019 and beyond.

Pension and healthcare costs continue to dominate the conversation about long-term future costs. The most recent actuarial valuations show unfunded liabilities for pension and healthcare of \$561 million. The City has proactively taken steps over the past several years to mitigate increased costs by increasing employee contributions to the CalPERS retirement plan and capping the City’s share of healthcare premiums. Implementation of a second tier retirement plan in 2011 and adoption of the state-mandated third tier pension benefit plan in 2013 also helps mitigate future pension cost increases. New labor agreements include a provision for employees to start paying part of the City’s share of pension contributions in addition to the employee’s share. Further pension cost sharing with employees could be necessary to fund future cost increases. Council has approved the concept of funding a Section 115 Trust that is separate from CalPERS and would act as a mitigation reserve if the City were unable to meet its annual required contribution due to budget constraints in a given year. During this fiscal year the General Fund contributed \$2.1 million to the Section 115 trust with the plan to have the other funds provide funding during FY 2018.

As economic growth continues to flourish in this area of Silicon Valley, it also exacerbates the challenges of increased traffic and congestion, affordable housing, and demand for services. These issues were reflected in the setting of Council priorities for 2017:

- Housing
- Infrastructure
- Healthy City, Healthy Community
- Transportation
- Budget and Finance



In keeping with these priorities, Council has approved implementation of strategies to address traffic congestion in the City: parking management (Residential Preferential Parking program, parking technology enhancements, garage wayfinding signage), CalTrain Grade Separation, transportation demand management (Transportation Management Association, enhanced shuttle services, CalTrain GoPass



program for employees), and short and long-term parking supply strategies (valet parking, construction of new garages). Recent budgets reflect longer-term goals of the City Council and positions the City to be able to address increases in pension costs and new labor agreement negotiations, while highlighting the need to address the future year costs to complete the Infrastructure Plan.

Council approved a \$125.8 million Infrastructure Plan (IP), which includes projects such as a new Public Safety Building, replacement of two Fire Stations, a Bike and Pedestrian plan, and two parking garages. The Plan was recently updated for scope increases and cost escalations, resulting in a revised Infrastructure Plan of \$196 million. These projects will be funded partially by debt to be repaid with an increase in the transient occupancy tax (TOT) rate which went into effect in January 2015, TOT from newly opened hotels, and from other sources such as impact fees and Stanford University Medical Center development agreement monies totaling \$170 million. Staff is tasked with closing the funding gap in the upcoming FY 2019 budget process. Separately, as a result of sound fiscal management and reserve policies, General Fund surpluses from FY 2012 through FY 2016 totaling \$36.9 million were transferred to the Infrastructure Reserve. For FY 2018, additional funds will be proposed for transfers from the FY 2017 surplus amount. The funds from prior fiscal years have been allocated, but the FY 2017 surplus can be used to close the current gap.

Rate increases will take effect in FY 2018 for electric, fiber optics, gas, water, storm drain, and refuse services. Increases are necessary due to higher revenue requirements resulting from the prolonged drought and water conservation measures, higher electric and gas wholesale purchase costs, and expanded recycling services.

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

During the development of the FY 2017 budget, staff identified a gap in revenues and expenses in the near term. With the agreement of the Finance Committee and City Council, only a near term forecast was produced for the FY 2018 budget process as staff focused on addressing this gap on an ongoing basis. This near term forecast articulated a need to realign General Fund revenues and expenses as expense growth was outpacing revenues. As such, the FY 2018 budget took a two year approach to balancing the General Fund ultimately resulting in an anticipated ongoing forecast of slight surpluses in the General Fund. The City maintains a General Fund Budget Stabilization Reserve (BSR) level of 15 to 20 percent of the General Fund operating budget, with a targeted goal of 18.5 percent. Council approval is required to set this reserve balance lower than 15 percent. As of June 30, 2017 the BSR balance is \$48.1 million. Staff will bring forward recommendations for use of the BSR as part of the FY 2017 year-end close process with the goal to maintain the 18.5 percent targeted goal.

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



**SIGNIFICANT EVENTS AND ACCOMPLISHMENTS**



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

- Awarded gold level status as a Bicycle Friendly Community by the League of American Bicyclists based on a strong commitment to bicycling evidenced by major streets with bike lanes, high ratio of bike network mileage to road network mileage, and Bike to Work events;
- Earned a spot on the national Top 10 utility solar list compiled by the Smart Electric Power Alliance in recognition of third place for “Watts per Customer” installed in 2015; and
- Awarded Tree Line USA award by the National Arbor Day Foundation in recognition of the Utilities exceeding the standard criteria for quality tree care, annual worker training, tree planting and public education, a tree-based energy conservation program, and an Arbor Day celebration.

**Awards:** During the past year, the City received an award for the prior fiscal year CAFR from the Government Finance Officers Association (GFOA) for “excellence in financial reporting.” The 2017 CAFR will be submitted to the GFOA award program to be considered for this distinguished financial reporting award.

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

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

Respectfully submitted,

LALO PEREZ,  
Chief Financial Officer

JAMES KEENE,  
City Manager

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

**City Council**  
Gregory Scharff, **Mayor**  
Liz Kniss, **Vice-Mayor**  
Tom DuBois  
Eric Filseth  
Adrian Fine  
Karen Holman  
Lydia Kou  
Greg Tanaka  
Cory Wolbach

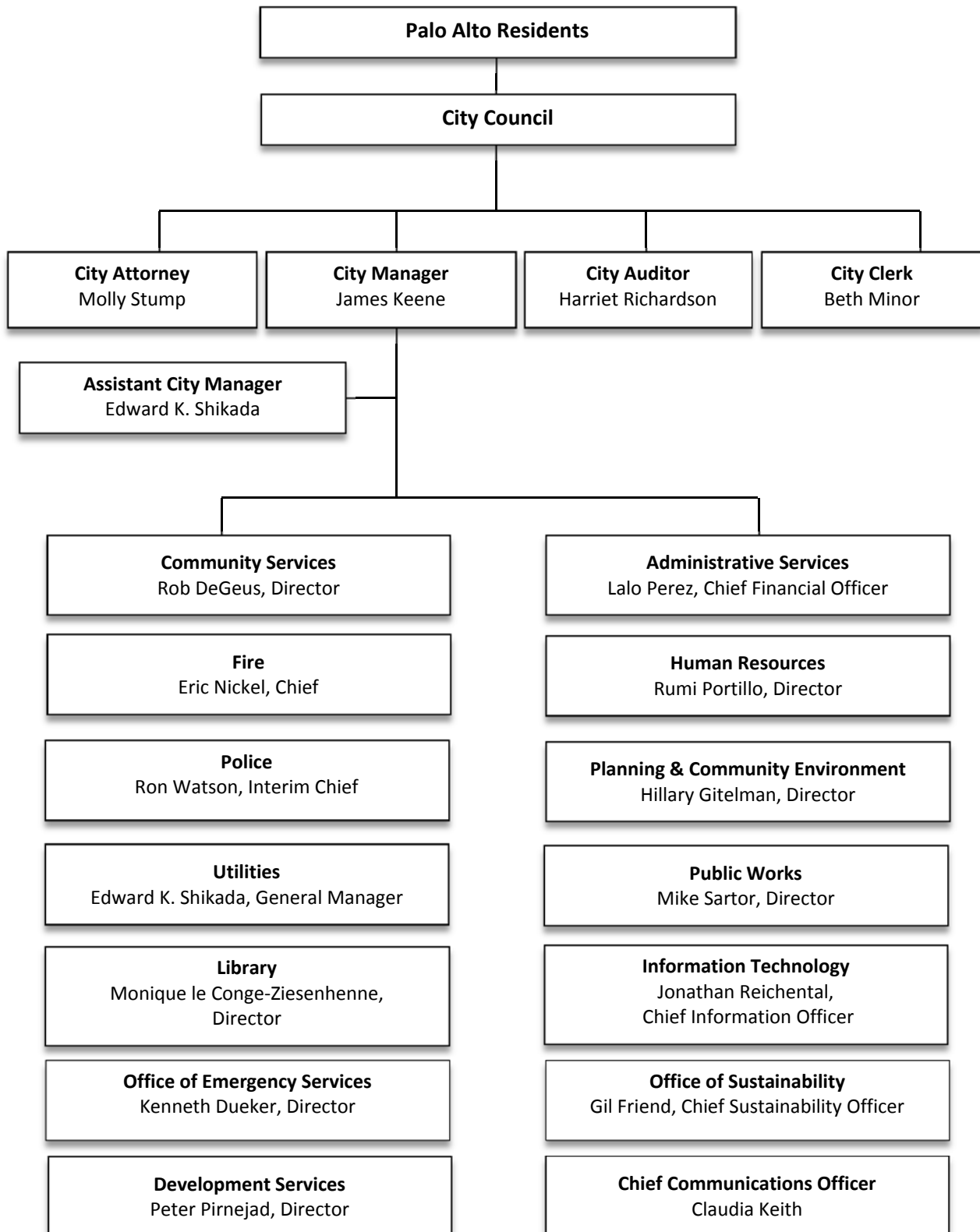
**Finance Committee**  
Eric Filseth, **Chair**  
Adrian Fine  
Karen Holman  
Greg Tanaka

**Policy and Services Committee**  
Cory Wolbach, **Chair**  
Liz Kniss  
Tom DuBois  
Lydia Kou

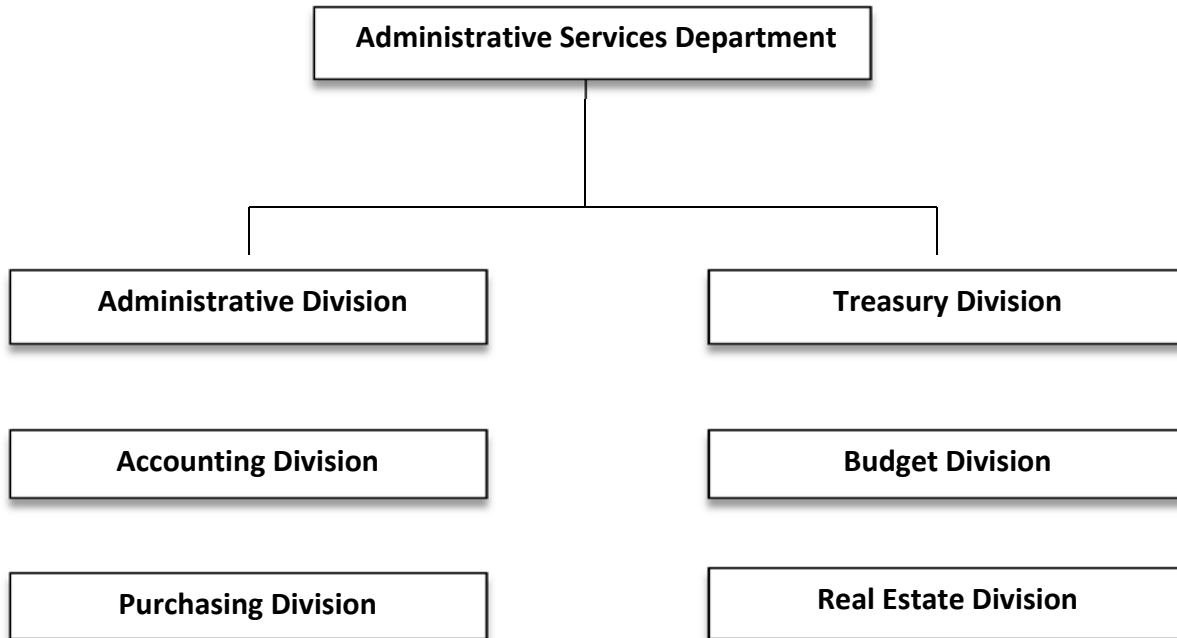
**Council-Appointed Officers**  
  
**City Manager**  
James Keene  
  
**City Attorney**  
Molly Stump  
  
**City Clerk**  
Beth Minor  
  
**City Auditor**  
Harriet Richardson



# City of Palo Alto Organization .....



# Administrative Services Organization .....



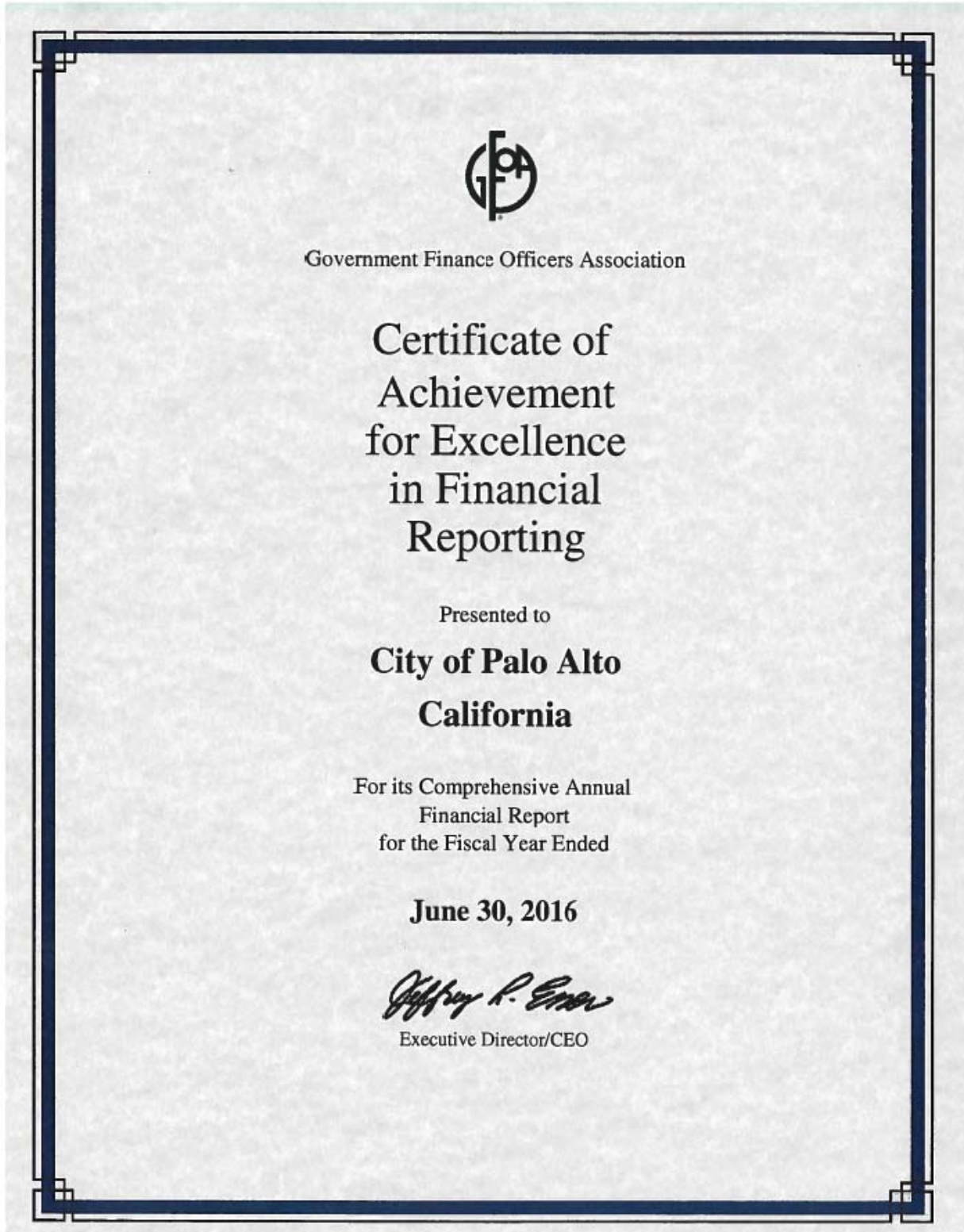
### Mission Statement

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





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





## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Palo Alto, California (City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

### *Auditor's Responsibility*

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

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

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

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

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, statistical section and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California  
November 14, 2017

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# Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) provides an overview of the City of Palo Alto's financial performance for the fiscal year ended June 30, 2017. To obtain a complete understanding of the City's financial condition, this document should be read in conjunction with the accompanying Transmittal Letter and Basic Financial Statements.

## Financial Highlights

- The assets and deferred outflows of resources of the City of Palo Alto (City) exceeded its liabilities and deferred inflows of resources at the close of Fiscal Year (FY) 2017 by \$1,226.6 million. Of this amount, \$200.5 million represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- At the close of FY 2017, the City's governmental funds reported combined fund balances of \$234.7 million, a decrease of \$11 million from prior year. Approximately 20.5 percent of this amount, or \$48.1 million, is unassigned fund balance and available for spending at the government's discretion.
- At the end of the current fiscal year, unrestricted fund balance (the total of the committed, assigned and unassigned components of fund balance) for the General Fund was \$55.4 million, or 30 percent of total general fund expenditures, including transfers.
- The City's total outstanding long-term debt decreased by \$3.3 million during the current fiscal year due to scheduled debt retirement in the amount of \$6.5 million offset by a new State Water Resources loan of \$3.2 million.

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

The CAFR is presented in six sections:

- An introductory section that includes the Transmittal Letter and general information
- Management's Discussion and Analysis
- The Basic Financial Statements that include the Government-wide and Fund Financial Statements, along with the Notes to these statements
- Supplementary Information
- Statistical Information
- Single Audit

## ***Basic Financial Statements***

The Basic Financial Statements contain the Government-wide Financial Statements, the Fund Financial Statements and the Notes to these financial statements. This report also includes supplementary information intended to furnish additional detail to support the Basic Financial Statements.

For certain entities and funds, the City acts solely as a depository agent. For example, the City has several Assessment Districts for which it produces fiduciary statements detailing the cash balances and activities of these districts. These entities are independent, and their balances are excluded from the City's government-wide financial statements.



## **Government-wide Financial Statements**

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

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

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

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

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

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

**Business-type Activities** - All of the City's enterprise activities are reported as business-type activities, including Water, Electric, Fiber Optics, Gas, Wastewater Collection, Wastewater Treatment, Refuse, Storm Drainage and Airport. Unlike governmental services, these services are intended to recover all or a significant portion of their costs through user fees and charges, except for the Airport which is currently supported by a long-term advance from the General Fund, as discussed in Note 4.

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

## **Fund Financial Statements**

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



The Fund Financial Statements display the City's operations in more detail than the Government-wide Financial Statements. Their focus is primarily on the short-term activities of the City's General Fund and other major funds such as Capital Projects, Water Services, Electric Services, Fiber Optics, Gas Services, Wastewater Collection Services, Wastewater Treatment Services, Refuse Services, Storm Drainage Services and Airport.

Budget and actual financial comparison information is presented only for the General Fund. Fund Financial Statements include Governmental, Enterprise, Internal Service and Agency Funds.

### ***Governmental Funds***

Governmental Fund Financial Statements are prepared on the modified accrual basis of accounting, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are presented only in the Government-wide Financial Statements. In FY 2017, the City had two major governmental funds, the General Fund and the Capital Projects Fund. Data from the other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the Supplemental section of this report.

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

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

### ***Proprietary Funds***

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

Since the City's Internal Service Funds provide goods and services exclusively to the City's governmental and business-type activities, their activities are only reported in total at the fund level. Internal Service Funds, such as Technology and General Benefits, cannot be considered major funds because their revenues are derived from other City funds. Revenues between funds are eliminated in the Government-wide Financial Statements, and any related profits or losses in Internal Service Funds are returned to the activities in which they were created, along with any residual net assets of the Internal Service Funds.

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



***Fiduciary Funds***

The City is the fiduciary agent for certain assessment districts such as the University Avenue Area Off-Street Parking Assessment District. In this role, the City holds money collected from property owners and awaiting transfer to the districts' bond trustees. The City's fiduciary activities are reported in the separate Statement of Fiduciary Net Position and the supplemental Agency Funds Statement of Changes in Assets and Liabilities. These activities are excluded from the City's other financial statements because the City cannot utilize these assets to finance its own operations.

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

***Notes to the Financial Statements***

The Notes provide additional information that is necessary to acquire a full understanding of the data provided in the Government-wide and Fund Financial Statements. The Notes to the financial statements can be found on pages 47-102 of this report.

***Other Information***

The Required Supplementary Information related to the City's pension plans is included after the Notes to the Financial Statements on pages 103-106. The combining statements referred to earlier in connection with non-major Governmental Funds and Internal Service Funds, are presented immediately following the Required Supplementary Information. Combining statements and individual fund statements and schedules can be found on pages 107-132 of this report.

### Financial Analysis of Government-wide Financial Statements

This section focuses on the City's net position and changes in net position of its governmental and business-type activities for the fiscal year ending June 30, 2017. As noted earlier, the City's total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$1,226.6 million at the end of the fiscal year, an improvement in net position of \$35.8 million.

#### CONDENSED STATEMENT OF NET POSITION As of June 30, 2017 (in millions)

	Governmental Activities		Business-type Activities		Government-wide Totals	
	2017	2016	2017	2016	2017	2016
Cash and investments	\$ 288.8	\$ 295.0	\$ 243.3	\$ 244.7	\$ 532.1	\$ 539.7
Other assets	63.7	62.3	44.7	35.3	108.4	97.6
Capital assets	522.5	496.0	595.2	576.8	1,117.7	1,072.8
<b>Total Assets</b>	<b>875.0</b>	<b>853.3</b>	<b>883.2</b>	<b>856.8</b>	<b>1,758.2</b>	<b>1,710.1</b>
Unamortized loss from refunding	-	-	0.3	0.3	0.3	0.3
Pension related	52.8	21.2	19.2	9.4	72.0	30.6
<b>Total Deferred Outflows of Resources</b>	<b>52.8</b>	<b>21.2</b>	<b>19.5</b>	<b>9.7</b>	<b>72.3</b>	<b>30.9</b>
Net pension liabilities	273.5	230.1	103.8	89.5	377.3	319.6
Long-term debt	69.3	71.5	67.0	68.1	136.3	139.6
Other liabilities	51.8	48.1	30.9	24.0	82.7	72.1
<b>Total Liabilities</b>	<b>394.6</b>	<b>349.7</b>	<b>201.7</b>	<b>181.6</b>	<b>596.3</b>	<b>531.3</b>
Pension related	5.8	13.7	1.7	5.1	7.5	18.8
<b>Total Deferred Inflows of Resources</b>	<b>5.8</b>	<b>13.7</b>	<b>1.7</b>	<b>5.1</b>	<b>7.5</b>	<b>18.8</b>
<b>Net Position</b>						
Net investment in capital assets	453.9	425.2	532.0	512.9	985.9	938.1
Restricted	36.1	47.9	4.1	4.1	40.2	52.0
Unrestricted	37.3	37.9	163.2	162.8	200.5	200.7
<b>Total Net Position</b>	<b>\$ 527.3</b>	<b>\$ 511.0</b>	<b>\$ 699.3</b>	<b>\$ 679.8</b>	<b>\$ 1,226.6</b>	<b>\$ 1,190.8</b>

The largest portion of the City's net position (80.4 percent) is its investment in capital assets such as land, buildings, infrastructure and vehicles, less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.





## *Management's Discussion and Analysis*

The restricted portion of the City's net position (3.3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$200.5 million, representing 16.3 percent of the City's net position, is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the City is able to report positive unrestricted net positions both for the government as a whole and for its separate governmental and business-type activities, except for the following three funds:

- Wastewater Treatment Fund \$0.4 million deficit due to pension related items;
- Airport Fund \$2.6 million deficit due to cumulative operating losses; and
- Printing and Mailing Services Fund \$0.3 million deficit due to pension related items.

Components of the \$35.8 million increase in total net position are discussed in the following sections for governmental activities and business-type activities.

### Governmental Activities – Net Position

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

<b>GOVERNMENTAL ACTIVITIES</b>			
<i>Net Position at June 30</i>			
(in millions)			
	<u>2017</u>	<u>2016</u>	<u>Increase/ (Decrease)</u>
Cash and investments	\$ 288.8	\$ 295.0	\$ (6.2)
Other assets	63.7	62.3	1.4
Capital assets	522.5	496.0	26.5
<b>Total Assets</b>	<b><u>875.0</u></b>	<b><u>853.3</u></b>	<b><u>21.7</u></b>
Pension related	52.8	21.2	31.6
<b>Total Deferred Outflows of Resources</b>	<b><u>52.8</u></b>	<b><u>21.2</u></b>	<b><u>31.6</u></b>
Net pension liabilities	273.5	230.1	43.4
Long-term debt	69.3	71.5	(2.2)
Other liabilities	51.8	48.1	3.7
<b>Total Liabilities</b>	<b><u>394.6</u></b>	<b><u>349.7</u></b>	<b><u>44.9</u></b>
Pension related	5.8	13.7	(7.9)
<b>Total Deferred Inflows of Resources</b>	<b><u>5.8</u></b>	<b><u>13.7</u></b>	<b><u>(7.9)</u></b>
Net investment in capital assets	453.9	425.2	28.7
Restricted	36.1	47.9	(11.8)
Unrestricted	37.3	37.9	(0.6)
<b>Total Net Position</b>	<b><u>\$ 527.3</u></b>	<b><u>\$ 511.0</u></b>	<b><u>\$ 16.3</u></b>

The City's Governmental Activities total net position increased \$16.3 million to \$527.3 million as of June 30, 2017. This increase was a result of the following:

- Cash decreased \$6.2 million due to a higher spending in the Capital Projects Fund and an increase in salary and benefit costs associated with the implementation of new employee bargaining agreements, and sharp increases in CalPers retirement and OPEB related costs.
- Capital assets net of depreciation increased \$26.5 million due to major capital projects such as Golf Course improvements, a new public safety building, and street and sidewalk improvements throughout the City.
- Deferred Outflows of Resources related to pensions increased \$31.6 million due to higher net difference between the projected and actual earnings on the pension plan investments.
- Net pension liability increased \$43.4 million due to higher unfunded liability reported in the latest valuation study by CalPERS.
- Other liabilities increased \$3.7 million mainly due to higher accrued salary based on the number of pay days falling in the current fiscal year and an increase in deferred revenues related to Development Services activities.

**Management's Discussion and Analysis**

- Net investment in capital assets increased \$28.7 million to \$453.9 million. Restricted net position decreased \$11.8 million to \$36.1 million due primarily to expenditure of remaining proceeds of Stanford development agreement funds. Unrestricted net position remained almost unchanged from prior year. Unrestricted net position represents current net assets available to finance subsequent year operations and other expenditures approved by City Council.
- Long-term debt decreased \$2.2 million due to scheduled debt repayments.

**Governmental Activities – Revenues**

The table below shows that Governmental Activities revenues totaled \$181.2 million in FY 2017, a decrease of \$12.1 million from prior year revenues of \$193.3 million.

**GOVERNMENTAL ACTIVITIES**  
**Revenues for the Year Ended June 30**  
(in millions)

<u>Revenues by Source</u>	<u>2017</u>	<u>2016</u>	<u>Increase/ (Decrease)</u>
<b>Program Revenues:</b>			
Charges for services	\$ 57.3	\$ 67.4	\$ (10.1)
Operating grants and contributions	2.0	2.2	(0.2)
Capital grants and contributions	1.9	0.3	1.6
<b>Total Program Revenues</b>	<b><u>61.2</u></b>	<b><u>69.9</u></b>	<b><u>(8.7)</u></b>
<b>General Revenues:</b>			
Property tax	44.0	41.2	2.8
Sales tax	29.9	30.0	(0.1)
Utility user tax	14.2	12.4	1.8
Transient occupancy tax	23.4	22.4	1.0
Documentary transfer tax	7.5	6.3	1.2
Other tax	1.5	1.6	(0.1)
Investment earnings	(0.7)	8.6	(9.3)
Rents and miscellaneous	0.2	0.9	(0.7)
<b>Total General Revenues</b>	<b><u>120.0</u></b>	<b><u>123.4</u></b>	<b><u>(3.4)</u></b>
<b>Total Revenues</b>	<b><u>\$ 181.2</u></b>	<b><u>\$ 193.3</u></b>	<b><u>\$ (12.1)</u></b>

Program Revenues such as charges for services, operating grants and contributions, and capital grants and contributions are generated from or restricted to each activity. Total Program Revenues decreased \$8.7 million from the prior year due to the following major factors:

- \$3.3 million decrease in housing in-lieu fees because of lower development activity compared to the prior year.

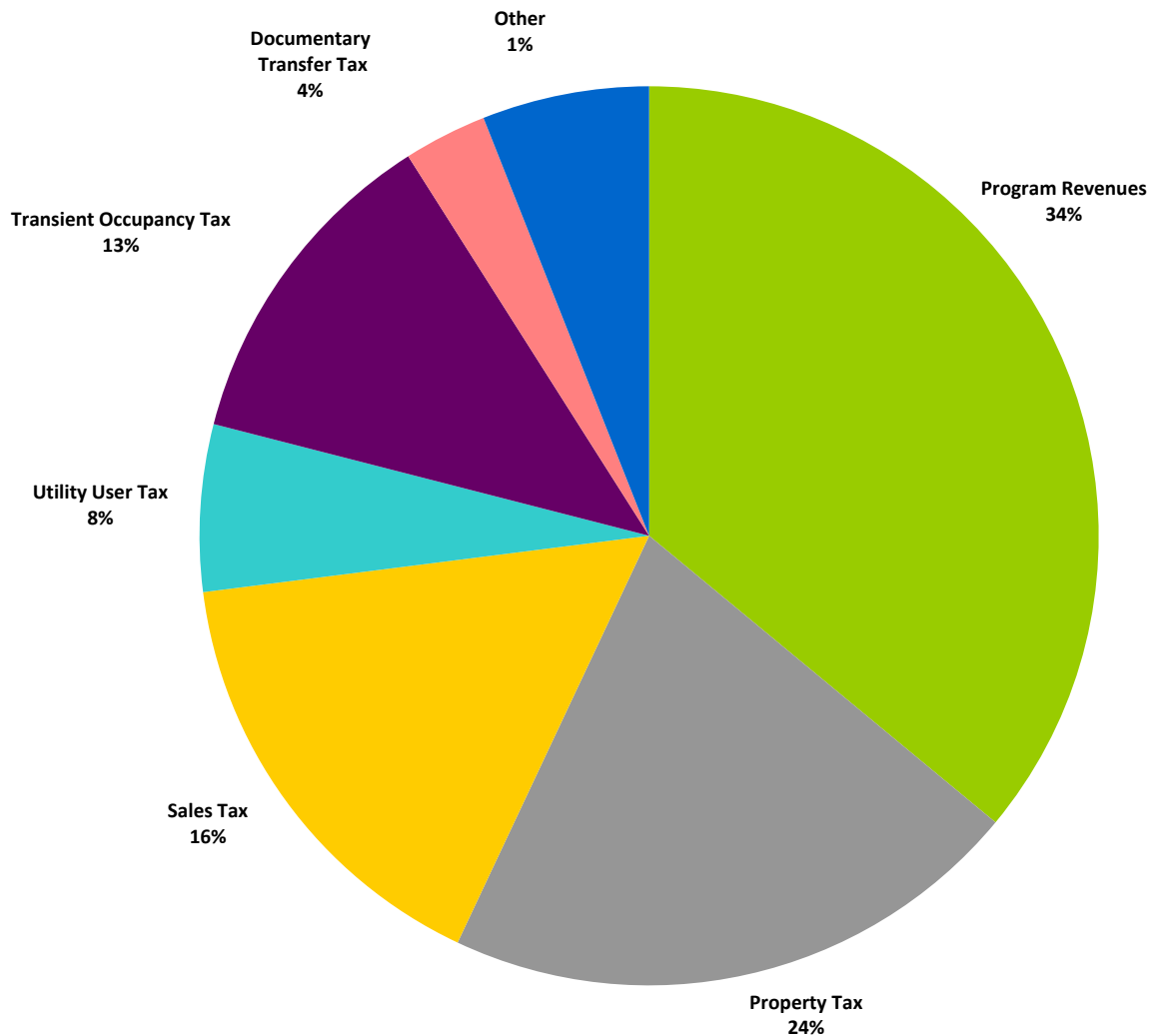


- \$1.2 million decrease in Golf Course related fees because the course was closed the entire year due to renovations.
- One-time receipt of \$1.7 million in FY 2016 from sale of former City Manager's residence.
- \$0.7 million decrease in revenue from Stanford University for fire services due to contract amendments.

General Revenues decreased \$3.4 million, or 2.8 percent, from the prior year primarily due to lower investment earnings with the recognition of unrealized losses on the investments per GASB Statement 31. Further analysis of general revenues can be found in the Financial Analysis of Governmental Funds section of the MD&A.

**Governmental Activities – Revenues by Source**

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



**Governmental Activities – Expenses**

The table below presents a comparison of FY 2017 and FY 2016 expenses by function, along with interest and other expenses. Total Governmental Activities functional expense was \$183.2 million in FY 2017, an increase of \$18.3 million.

**GOVERNMENTAL ACTIVITIES**  
**Expenses and Change in Net Position for the Year Ended June 30**  
**(in millions)**

<u>Activities</u>	<u>2017</u>	<u>2016</u>	<u>Increase/ (Decrease)</u>
City Council	\$ 0.3	\$ 0.4	\$ (0.1)
City Manager	2.0	2.7	(0.7)
City Attorney	2.1	2.5	(0.4)
City Clerk	0.8	0.6	0.2
City Auditor	0.8	0.4	0.4
Administrative Services	11.9	10.6	1.3
Human Resources	2.3	2.2	0.1
Public Safety	73.3	56.6	16.7
Planning and Community Environment	10.9	10.2	0.7
Development Services	11.1	11.2	(0.1)
Public Works	25.5	24.6	0.9
Community Services	27.9	28.5	(0.6)
Library	11.4	10.8	0.6
Interest and Other Expense	2.9	3.6	(0.7)
<b>Total Functional Expense</b>	<b><u>183.2</u></b>	<b><u>164.9</u></b>	<b><u>18.3</u></b>
Excess (Shortfall) of Revenues over			
Functional Expenses before Transfers	(2.0)	28.4	(30.4)
Transfers in	<u>18.3</u>	<u>18.7</u>	<u>(0.4)</u>
Change in Net Position	16.3	47.1	(30.8)
Net Position, Beginning	<u>511.0</u>	<u>463.9</u>	<u>47.1</u>
<b>Net Position, Ending</b>	<b><u>\$ 527.3</u></b>	<b><u>\$ 511.0</u></b>	<b><u>\$ 16.3</u></b>



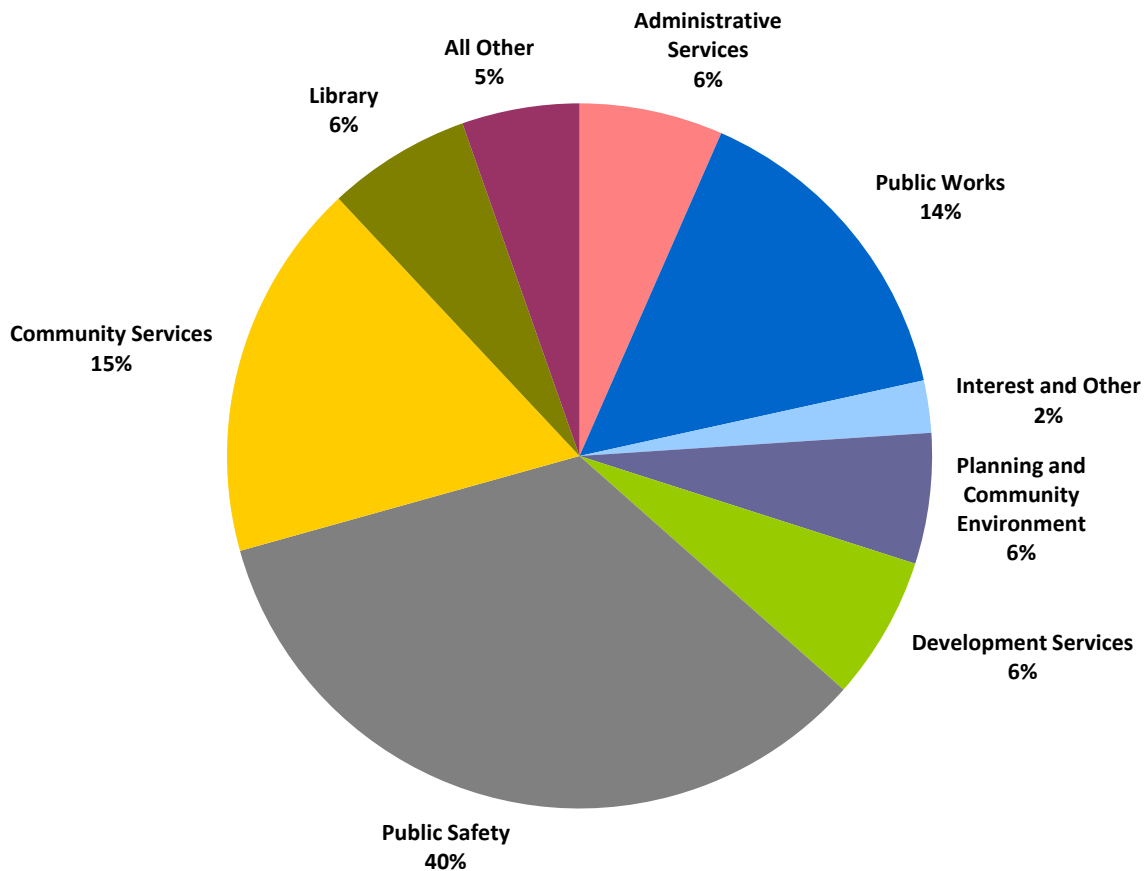


In addition to the variances at the fund level which are explained in the Financial Analysis of Governmental Funds section of the MD&A, year over year variances in Functional expenses at the government-wide level are due to the following:

- Change in pension related adjustments to defer current year contributions and expense prior year contributions as required by GASB 68 (\$6.8 million); and
- Capital asset activities such as depreciation and asset retirements (\$1.5 million).

**Governmental Activities – Functional Expenses**

The functional expenses chart below includes only current year expenses. It does not include capital outlays, as those are added to the City’s capital assets. Functions which comprise 1 percent or less of total expenses are combined into the All Other category in the chart below. All Other includes City Council, City Manager, City Attorney, City Clerk, City Auditor and Human Resources.



**Business-type Activities – Net Position**

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

<b>BUSINESS-TYPE ACTIVITIES</b>			
<b>Net Position at June 30</b>			
(in millions)			
	<u>2017</u>	<u>2016</u>	<u>Increase/ (Decrease)</u>
Cash and investments	\$ 243.3	\$ 244.7	\$ (1.4)
Other assets	44.7	35.3	9.4
Capital assets	<u>595.2</u>	<u>576.8</u>	<u>18.4</u>
<b>Total Assets</b>	<b><u>883.2</u></b>	<b><u>856.8</u></b>	<b><u>26.4</u></b>
Unamortized loss from refunding	0.3	0.3	-
Deferred pension contribution	<u>19.2</u>	<u>9.4</u>	<u>9.8</u>
<b>Total Deferred Outflows of Resources</b>	<b><u>19.5</u></b>	<b><u>9.7</u></b>	<b><u>9.8</u></b>
Net pension liabilities	103.8	89.5	14.3
Long-term debt	67.0	68.1	(1.1)
Other liabilities	<u>30.9</u>	<u>24.0</u>	<u>6.9</u>
<b>Total Liabilities</b>	<b><u>201.7</u></b>	<b><u>181.6</u></b>	<b><u>20.1</u></b>
Difference between expected and actual earnings on investments	<u>1.7</u>	<u>5.1</u>	<u>(3.4)</u>
<b>Total Deferred Outflows of Resources</b>	<b><u>1.7</u></b>	<b><u>5.1</u></b>	<b><u>(3.4)</u></b>
<b>Net Position</b>			
Net investment in capital assets	532.0	512.9	19.1
Restricted	4.1	4.1	0.0
Unrestricted	<u>163.2</u>	<u>162.8</u>	<u>0.4</u>
<b>Total Net Position</b>	<b><u>\$ 699.3</u></b>	<b><u>\$ 679.8</u></b>	<b><u>\$ 19.5</u></b>

The City's Business-type Activities total net position increased \$19.5 million to \$699.3 million as of June 30, 2017.

Other assets increased \$9.4 million due to higher account balances in the Electric and Wastewater Treatment funds.

Capital assets increased \$18.4 million to \$595.2 million in FY 2017 primarily due to capital improvements in the Wastewater Collection, Electric, and Storm Drain Funds. These capital improvements contributed to \$19.1 million in net investment in capital assets to \$532.0 million.

Unrestricted net position of \$163.2 million, an increase of \$0.4 million from the prior year, represents liquid assets available to finance day-to-day operations and other expenditures approved by Council. This amount includes rate stabilization reserves (RSR) of \$50.1 million and operations reserves of \$59.6 million, along with the Electric special projects (Calaveras) reserve of \$51.8 million, and the hydro stabilization reserve of \$11.4 million. The positive balances in these reserves are offset by the GASB 68 adjustment pension reserve of \$86.3 million. Additional detail is included in Note 10.

**Business-type Activities – Revenues**

The table below presents the revenues for each of the City's Business-type Activities or Enterprise Funds. The City operates the Water, Electric, Fiber Optics, Gas, Wastewater Collection, Wastewater Treatment, Refuse, Storm Drainage and Airport Funds.

<b>BUSINESS-TYPE ACTIVITIES</b>			
<b>Revenues for the Year Ended June 30</b>			
<b>(in millions)</b>			
<b>Revenues by Source</b>	<b>2017</b>	<b>2016</b>	<b>Increase/ (Decrease)</b>
<b>Program Revenues:</b>			
Charges for services	\$ 304.5	\$ 272.9	\$ 31.6
Operating grants and contributions	0.5	0.7	(0.2)
Capital grants and contributions	4.3	1.1	3.2
<b>Total Program Revenues</b>	<b>309.3</b>	<b>274.7</b>	<b>34.6</b>
<b>General Revenues:</b>			
Investment earnings	(0.5)	7.3	(7.8)
<b>Total General Revenues</b>	<b>(0.5)</b>	<b>7.3</b>	<b>(7.8)</b>
<b>Total Revenues</b>	<b>\$ 308.8</b>	<b>\$ 282.0</b>	<b>\$ 26.8</b>

Business-type Activities revenues totaled \$308.8 million, an increase of \$26.8 million from the prior year. Program revenues increased \$34.6 million year over year. Revenues for all funds were higher year over year with the exception of the Wastewater Treatment Fund. All utility rates were increased at the beginning of the fiscal year and water and electric commodity consumptions were also higher compared to the prior year.

Investment earnings decreased due to the unrealized losses which resulted from adjusting investments to market value at year-end, as required by GASB 31.

**Business-type Activities – Expenses**

The table below presents a comparison of the FY 2017 and FY 2016 expenses for the City's Business-type Activities. Encumbrances and reappropriations are not included.

**BUSINESS-TYPE ACTIVITIES**  
**Expenses and Change in Net Position for the Year Ended June 30**  
**(in millions)**

<u>Business-type Activities</u>	<u>2017</u>	<u>2016</u>	<u>Increase/ (Decrease)</u>
Water	\$ 37.5	\$ 35.1	\$ 2.4
Electric	128.6	120.3	8.3
Fiber Optics	2.1	2.1	0.0
Gas	26.8	20.9	5.9
Wastewater Collection	16.4	15.2	1.2
Wastewater Treatment	23.5	22.5	1.0
Refuse	30.7	30.4	0.3
Storm Drainage	4.1	3.7	0.4
Airport	1.3	1.0	0.3
<b>Total Functional Expense</b>	<b><u>271.0</u></b>	<b><u>251.2</u></b>	<b><u>19.8</u></b>
Excess of Revenues over Functional Expenses before Transfers	37.8	30.7	7.1
Transfers out	<u>(18.3)</u>	<u>(18.7)</u>	<u>0.4</u>
Change in Net Position	19.5	12.0	7.5
Net Position, Beginning	<u>679.8</u>	<u>667.8</u>	<u>12.0</u>
<b>Net Position, Ending</b>	<b><u>\$ 699.3</u></b>	<b><u>\$ 679.8</u></b>	<b><u>\$ 19.5</u></b>

Business-type Activities expenses increased \$19.8 million for a total of \$271.0 million. Year over year expenses were significantly affected by the following events:

- Water Fund expenses increased \$2.4 million due to increased wholesale water rates to cover the cost of upgrades and improvements to the water supply distribution system.
- Electric Fund expenses increased \$8.3 million due to higher surplus energy costs offset by lower electric purchase costs.
- Gas Fund expenses increased \$5.9 million due mainly to higher commodity prices.



## FUND FINANCIAL STATEMENTS

### **Financial Analysis of Governmental Funds**

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

#### **Governmental Funds**

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

As of June 30, 2017, the City's Governmental Funds reported combined fund balances of \$234.7 million, a decrease of \$11 million from the prior year. Approximately 20.5 percent, or \$48.1 million, constitutes unassigned fund balance, which is available for spending at the government's discretion and other purposes. The remainder of the fund balance is either non-spendable, restricted, committed, or assigned to indicate that it is: 1) not in spendable form (\$9.2 million); 2) restricted for particular purposes (\$35.3 million); 3) committed for particular purposes (\$71.6 million); or 4) assigned for particular purposes (\$70.5 million).

Governmental Fund revenues decreased \$10.5 million, or 5.4 percent, from the prior year to \$181.4 million. Revenues in the General Fund decreased \$1.4 million (mainly a result of unrealized losses on investments), and Capital Projects Fund revenue decreased by \$2.6 million. Other Governmental Funds revenue decreased by \$6.4 million due to reduced developer impact and housing-in-lieu fees.

Governmental Fund expenditures were \$206.0 million, an increase of \$19.8 million from the prior year. General Fund expenditures increased \$12.8 million, Capital Projects Fund expenditures increased by \$13.4 million, and Non-major Fund expenditures decreased by \$6.4 million. Details of significant changes are discussed in the following sections.

#### **General Fund Balance Sheet**

The General Fund is the primary operating fund of the City. At the end of the current fiscal year, fund balance of the General Fund was \$63.1 million, compared to \$66.9 million in the prior year. The fund balance has been classified as \$7.7 million non-spendable, \$7.3 million assigned, and \$48.1 million unassigned. The unassigned amount is designated by the Council for Budget Stabilization Reserve (BSR) and other purposes.

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

The City's General Fund revenues totaled \$164.4 million in FY 2017. This represents a decrease of \$1.4 million, or 0.8 percent, compared to the prior year. The year over year change in significant revenue sources is noted in the following table.

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

<u>Revenues by Source</u>	<u>2017</u>	<u>2016</u>	<u>Increase/ (Decrease)</u>
Property tax	\$ 39.4	\$ 36.6	\$ 2.8
Sales tax	29.9	30.0	(0.1)
Utility user tax	14.2	12.5	1.7
Transient occupancy tax	23.5	22.4	1.1
Documentary transfer tax	7.5	6.3	1.2
Charges for services	22.3	23.9	(1.6)
Permits and licence	7.4	7.9	(0.5)
Rental income	15.7	15.8	(0.1)
All other	<u>4.5</u>	<u>10.4</u>	<u>(5.9)</u>
<b>Total Revenues</b>	<b><u>\$ 164.4</u></b>	<b><u>\$ 165.8</u></b>	<b><u>\$ (1.4)</u></b>

Property tax revenue increased by \$2.8 million, or 7.7 percent, due to increased property assessment roll growth. Sales tax receipts were flat compared to the prior fiscal year with more retail customers switching to online purchases

Utility user tax revenues were \$1.7 million higher compared to the prior year due to increased receipts from the telephone segment of the tax. Transient occupancy tax (TOT) ended the year \$1.1 million, or 4.9 percent, higher than prior year due to higher room rates, newly opened hotels that performed better than expected, and a revenue from Airbnb rentals. Also, FY 2016 and FY 2017 reflects two full years of the Council approved 2 percent increase in the TOT rate from 12 percent to 14 percent.

Documentary transfer tax increased \$1.2 million to \$7.5 million as the real estate market continues to be strong.

All other revenue decreased from prior year by \$5.9 million primarily due to \$2.5 million in unrealized losses on investments. The prior year revenues included \$1.7 million from the sale of a former City Manager's residence which was co-owned with the City.

**Expenditures**

General Fund expenditures totaled \$158 million for FY 2017 compared to \$145.2 in the prior year. This amount excludes encumbrances and reappropriations. The majority of increases were related to higher salary and benefit costs with the implementation of new bargaining agreements. In addition, the benefit costs, especially CalPers retirement and retiree health costs, were substantially higher compared to the prior year. Lastly, the General Fund Cost Allocation Plan was revised which allocated higher costs to non-general fund departments, lowering overall expenditures in the Administrative departments. The year over year change for major functions is noted in the following table.

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

<u>Expenditures by Function</u>	<u>2017</u>	<u>2016</u>	<u>Increase/ (Decrease)</u>
Administrative Services	\$ 5.0	\$ 3.5	\$ 1.5
Public Works	13.6	12.3	1.3
Planning and Community Environment	9.1	9.1	0.0
Development Services	10.9	10.6	0.3
Police	39.6	35.2	4.4
Fire	31.4	28.3	3.1
Community Services	25.2	24.3	0.9
Library	9.0	8.0	1.0
Non-Departmental	5.9	5.7	0.2
All other	<u>8.3</u>	<u>8.2</u>	<u>0.1</u>
<b>Total Expenditures</b>	<b><u>\$ 158.0</u></b>	<b><u>\$ 145.2</u></b>	<b><u>\$ 12.8</u></b>

Administrative Services expenditures variance of \$1.5 million was mainly related to changes in the General Fund Cost Allocation plan as discussed above.

Police expenditures increased \$4.4 million due to \$3 million higher personnel costs resulting from negotiated salary adjustments and higher retirement contributions, and increased \$1.4 million in expenditures for contract services related to the Track Watch program.

Fire expenditures increased \$3.1 million due to \$2 million salary and overtime and \$1.6 million pension costs, and was offset by lower expenditures in other categories. Public Works costs were \$1.3 million higher in the current year mainly due to salary and benefit costs.



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

Original budget compared to final budget

Revenues were originally budgeted at \$164.3 million and were revised downward by \$0.5 million. Revenue categories that were adjusted are shown in the table below.

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

<u>Budgeted Revenues</u>	<u>Adopted Budget</u>	<u>Final Budget</u>	<u>Increase/ (Decrease)</u>
Property tax	\$ 39.0	\$ 39.0	\$ -
Sales tax	29.2	29.2	0.0
Utility user tax	12.4	12.4	0.0
Transient occupancy tax	23.1	23.1	0.0
Documentary transfer tax	6.7	6.7	0.0
All other	53.9	53.4	(0.5)
	<u>164.3</u>	<u>163.8</u>	<u>(0.5)</u>
Charges to other funds	10.8	10.8	-
Prior year encumbrances and appropriations	-	7.5	7.5
<b>Total Budgeted Revenues</b>	<b><u>\$ 175.1</u></b>	<b><u>\$ 182.1</u></b>	<b><u>\$ 7.0</u></b>

In FY 2017, there were no major changes to the Adopted Budget general fund revenues. These were minor changes in the all other revenue categories based on the grants received after the budget adoption.

Actual revenues of \$166.9 million were \$3.1 million higher than final budgeted revenues of \$163.8 million due to the following:

- \$1.2 million higher than anticipated sales and property tax proceeds;
- \$1.9 million higher than expected utility user tax; and
- All other revenue categories also reported favorable variances except for Charges for Services (\$1.8 million) and Permits and Licenses (\$0.8 million) categories offsetting the favorable results.

Expenditures were originally budgeted at \$170.5 million and were revised upward by \$7.9 million, including prior year encumbrances and reappropriations of \$7.5 million, for a final budgeted amount of \$178.4 million.

<b>GENERAL FUND</b>				
<i>Budgeted Expenditures for the Year Ended June 30</i>				
(in millions)				
<u>Budgeted Expenditures</u>	<u>Adopted Budget</u>	<u>Final Budget</u>	<u>Increase/ (Decrease)</u>	<u>Actuals, plus Encumbrances</u>
Community Services	25.4	26.7	1.3	26.6
Fire	39.1	40.6	1.5	40.6
Police	28.9	32.2	3.3	32.2
Library	9.0	9.3	0.3	9.3
Planning and Community Environment	8.8	10.7	1.9	10.7
Public Works	16.2	17.5	1.3	17.5
Development Services	12.2	12.4	0.2	11.7
Non-departmental	10.1	7.1	(3.0)	6.3
All other	20.8	21.9	1.1	21.3
<b>Total Budgeted Expenditures</b>	<b><u>\$ 170.5</u></b>	<b><u>\$ 178.4</u></b>	<b><u>\$ 7.9</u></b>	<b>176.2</b>
Less: Charges to Other Funds				(10.4)
Less: Encumbrances/reappropriations				(7.8)
<b>Net General Fund Expenditures</b>				<b><u>\$ 158.0</u></b>

The final budgeted expenditure amount of \$178.4 million compares to the actual expenditures plus encumbrances/reappropriations of \$176.2 million, a difference of \$2.1 million, of which \$7.8 million is encumbrances and reappropriations carried forward to FY 2018. The lower than budgeted expenditures were primarily due to vacancy and benefits savings higher than expected.

Transfers out were originally budgeted at \$23.6 million, with the final budget number at \$30.4 million, an increase of \$6.8 million. The increase was due primarily to the additional \$4.6 million transferred to the Capital Improvement Fund, and \$2.1 million transferred to the General Benefits Internal Service Fund to set-up a Public Agency Retirement Services (PARS) account for supplemental retirement expenses.

**Capital Projects Fund**

Capital Projects Fund expenditures and other uses were \$39.6 million in FY 2017, an increase of \$13.4 million from the prior year driven by higher construction costs for the Golf Course reconfiguration and Baylands Athletic Center in addition to Lucie Stern Building Improvements that were ongoing during FY 2017. This level of expenditure is consistent with the City's effort to rehabilitate and maintain its existing infrastructure.

**Non-major Funds**

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

**Financial Analysis of Enterprise Funds**

At June 30, 2017, the City's Enterprise Funds reported total net position of \$696.4 million, an increase of \$19.5 million or 2.9 percent from the prior year. The increase of \$7.4 million was primarily from the Electric, Water and Airport Funds. Further analysis is noted in the following section. Unrestricted net position for the Enterprise Funds totaled \$160.3 million, a \$0.4 million increase from FY 2016.

Following is a table which compares the year over year change in net position for each of the Enterprise Funds.

<b>ENTERPRISE FUNDS</b>			
<b>Change in Net Position for the Year Ended June 30</b>			
<b>(in millions)</b>			
<b>Fund Name</b>	<b>2017</b>	<b>2016</b>	<b>Increase/ (Decrease)</b>
Water	\$ 6.5	\$ 4.7	\$ 1.8
Electric	(1.2)	(8.3)	7.1
Fiber Optics	2.2	3.0	(0.8)
Gas	2.4	3.4	(1.0)
Wastewater Collection	1.5	1.6	(0.1)
Wastewater Treatment	(0.1)	1.7	(1.8)
Refuse	3.3	2.6	0.7
Storm Drainage	2.5	3.3	(0.8)
Airport	2.4	0.1	2.3
<b>Total Change in Net Position</b>	<b>\$ 19.5</b>	<b>\$ 12.1</b>	<b>\$ 7.4</b>

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

- Water change in net position was positive as customer revenue increased \$5.3 million based on a combination of rate changes and higher consumption with the end of drought conditions. The increase was offset by higher wholesale commodity costs.
- Electric change in net position increased \$7.1 million. Revenues were higher due to a 11 percent rate increase in the current fiscal year. In addition, wholesale electricity costs were lower due to higher hydroelectric generation with the end of drought conditions.
- Wastewater Treatment decreased its change in net position by \$1.8 million due to engineering services for a recycled water feasibility study and charges from the Vehicle Maintenance Fund for use of a flatbed crane truck.
- Airport change in net position increased \$2.3 million due to higher revenue resulting from a \$2.3 million federal grant reimbursement for capital improvement projects.

## CAPITAL ASSETS

GASB 34 requires that the City record all its capital assets, including infrastructure and intangible assets. Infrastructure includes roads, bridges, signals and similar assets used by the entire population. The table below shows capital assets and the amount of accumulated depreciation for these assets for Governmental and Business-type Activities. Further detail can be found in Note 6 to the financial statements.

<b>CAPITAL ASSETS AT JUNE 30</b> (in millions)			
	<u>2017</u>	<u>2016</u>	<u>Increase/ (Decrease)</u>
<b>Governmental Activities</b>			
<b>Capital Assets</b>			
Land and improvements	\$ 78.5	\$ 78.5	\$ -
Street trees	14.9	15.1	(0.2)
Construction in progress	62.7	46.5	16.2
Buildings and improvements	225.4	220.9	4.5
Intangible assets	3.8	3.8	0.0
Equipment	11.9	12.9	(1.0)
Roadway network	324.8	308.6	16.2
Recreation and open space network	35.2	33.1	2.1
Less accumulated depreciation	(253.3)	(239.8)	(13.5)
<b>Internal Service Fund Assets</b>			
Construction in progress	3.2	1.8	1.4
Equipment	56.9	55.4	1.5
Less accumulated depreciation	(41.5)	(40.8)	(0.7)
<b>Total Governmental Activities</b>	<u><b>\$ 522.5</b></u>	<u><b>\$ 496.0</b></u>	<u><b>\$ 26.5</b></u>
<b>Business-type Activities</b>			
Land	\$ 5.0	\$ 5.0	\$ -
Construction in progress	110.3	93.9	16.4
Buildings and improvements	56.9	56.9	-
Infrastructure	0.6	-	0.6
Transmission, distribution and treatment systems	765.8	746.7	19.1
Less accumulated depreciation	(343.4)	(325.7)	(17.7)
<b>Total Business-type Activities</b>	<u><b>\$ 595.2</b></u>	<u><b>\$ 576.8</b></u>	<u><b>\$ 18.4</b></u>

Governmental Activities' capital assets net of depreciation increased by \$26.5 million from the prior year. The increase was primarily due to Golf Course improvements, and street and sidewalk improvements throughout the City.



Council approved a \$125.8 million Infrastructure Plan (IP) in June 2014, which includes projects such as a new Public Safety Building, replacement of two Fire Stations, a Bike and Pedestrian plan, and two parking garages. Funding for these projects will come from a variety of sources, including TOT revenues, Stanford University Medical Center development agreement, grant revenue, and developer impact fees. As part of the FY 2018 Adopted Capital Budget, the IP was updated for cost escalations, primarily attributable to new preliminary estimates for construction costs for the Public Safety Building and the two parking garages, resulting in a revised IP of \$196 million excluding costs for salaries and benefits and public art.

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

- Golf Course reconfiguration and Baylands Athletic Center - \$3.2 million
- Fire Station 3 replacement - \$6.5 million
- Charleston Arastradero Corridor - \$3.6 million

Business-type Activities' capital assets net of depreciation increased by \$18.4 million over FY 2016. The increase is due primarily to Wastewater Collection, Electric, and Storm Drain infrastructure improvements.

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

- Water main replacement for Water Fund - \$6.9 million
- Matadero Creek Storm Water Pump Station Project for Storm Drainage Fund - \$5.2 million
- Dewatering & loadout facility project for Wastewater Treatment Fund - \$9.6 million

The City depreciates its capital assets over their estimated useful lives, as required by GASB 34. The purpose of depreciation is to spread the cost of a capital asset over the years of its useful life so that an allocable portion of the cost of the asset is borne by all users. Additional information on capital assets and depreciable lives are in Note 6.

**DEBT ADMINISTRATION**

Each of the City's debt issues is discussed in detail in Note 7 to the financial statements. The City's debt as of June 30, 2017 is shown in the following table.

<b>LONG-TERM DEBT AT JUNE 30</b>			
(in millions)			
	<u>2017</u>	<u>2016</u>	<u>Increase/ (Decrease)</u>
<b>Governmental Activities</b>			
<b>General Long-Term Obligations</b>			
Certificates of Participation			
2002B Downtown Parking Improvements	\$ 1.0	\$ 1.1	\$ (0.1)
General Obligation Bonds			
2010	47.0	48.1	(1.1)
2013A	16.7	17.1	(0.4)
2011 Lease Purchase Agreement	0.8	1.3	(0.5)
Add: unamortized premium	3.8	3.9	(0.1)
<b>Total Governmental Activities</b>	<b><u>\$ 69.3</u></b>	<b><u>\$ 71.5</u></b>	<b><u>\$ (2.2)</u></b>
<b>Business-type Activities</b>			
<b>Enterprise Long-Term Obligations</b>			
Utility Revenue Bonds			
1995 Series A	\$ 1.8	\$ 2.4	\$ (0.6)
1999 Refunding	9.0	9.7	(0.7)
2009 Series A	28.7	29.7	(1.0)
2011 Refunding	11.3	12.3	(1.0)
Add: unamortized premium	0.7	0.8	(0.1)
Energy Tax Credit Bonds			
2007 Series A	0.5	0.6	(0.1)
Less: unamortized discount	(0.1)	(0.1)	-
State Water Resources Loan			
2007	5.4	5.9	(0.5)
2009	6.5	6.8	(0.3)
2017	3.2	-	3.2
<b>Total Business-type Activities</b>	<b><u>\$ 67.0</u></b>	<b><u>\$ 68.1</u></b>	<b><u>\$ (1.1)</u></b>

Long-term debt decreased a total of \$3.3 million due to scheduled debt repayments of \$6.3 million, and a \$3.2 million addition of State Water Resources Loan in FY 2017. As noted in the Statistical Section of the CAFR, the combined direct debt ratio to assessed valuation for the General Fund is 0.21 percent compared to the allowable legal debt margin of 15 percent.



### ***SPECIAL ASSESSMENT DISTRICT DEBT***

Special assessment districts throughout different parts of the City have also issued debt to finance infrastructure and facilities construction exclusively in their districts. As of June 30, 2017, the City had no special assessment district debt with City commitment outstanding.

### ***ECONOMIC OUTLOOK***

The economy of the City is discussed in the accompanying Transmittal Letter.

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

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



**CITY OF PALO ALTO**  
**Statement of Net Position**  
**June 30, 2017**  
**(Amounts in thousands)**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS:</b>			
Cash and investments available for operations (Note 3)	\$ 285,732	\$ 239,266	\$ 524,998
Receivables, net:			
Accounts and intergovernmental	18,409	39,632	58,041
Interest receivable	1,539	1,127	2,666
Notes and loans receivable (Note 5)	19,823	-	19,823
Internal balances (Note 4)	21	(21)	-
Net OPEB asset (Note 12)	19,419	-	19,419
Due from other government agencies	-	3,600	3,600
Inventory of materials and supplies, prepaids and deposits	4,542	315	4,857
Restricted cash and investments with fiscal agents (Note 3)	3,021	4,073	7,094
Capital assets (Note 6):			
Nondepreciable	162,784	115,260	278,044
Depreciable, net of accumulated depreciation	359,673	479,954	839,627
Total assets	<u>874,963</u>	<u>883,206</u>	<u>1,758,169</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Unamortized loss from refunding	-	281	281
Pension related	52,767	19,250	72,017
Total deferred outflows of resources	<u>52,767</u>	<u>19,531</u>	<u>72,298</u>
<b>LIABILITIES:</b>			
Accounts payable and accruals	12,179	23,493	35,672
Accrued salaries and benefits	1,637	707	2,344
Unearned revenue	4,087	-	4,087
Accrued compensated absences (Note 1):			
Due in one year	5,416	-	5,416
Due in more than one year	6,062	-	6,062
Claims payable (Note 14):			
Due in one year	5,286	-	5,286
Due in more than one year	17,184	-	17,184
Landfill post-closure liability (Note 9):			
Due in more than one year	-	6,704	6,704
Net pension liabilities (Note 11):	273,493	103,826	377,319
Long-term debt (Note 7):			
Due in one year	2,314	4,363	6,677
Due in more than one year	66,981	62,669	129,650
Total liabilities	<u>394,639</u>	<u>201,762</u>	<u>596,401</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Pension related	5,802	1,681	7,483
<b>NET POSITION (Note 10):</b>			
Net Investment in capital assets	453,878	532,063	985,941
Restricted for:			
Transportation, infrastructure and other	30,643	-	30,643
Debt service	3,939	4,073	8,012
Nonexpendable - Eyerly Family	1,499	-	1,499
Total restricted net position	<u>36,081</u>	<u>4,073</u>	<u>40,154</u>
Unrestricted	37,330	163,158	200,488
Total net position	<u>\$ 527,289</u>	<u>\$ 699,294</u>	<u>\$ 1,226,583</u>

See accompanying notes to the basic financial statements.

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**CITY OF PALO ALTO**  
**Statement of Activities**  
**For the Year Ended June 30, 2017**  
**(Amounts in thousands)**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
<b>Governmental Activities:</b>							
City Council	\$ 329	\$ -	\$ -	\$ -	\$ (329)	\$ -	\$ (329)
City Manager	1,975	-	31	-	(1,944)	-	(1,944)
City Attorney	2,140	-	-	-	(2,140)	-	(2,140)
City Clerk	762	-	-	-	(762)	-	(762)
City Auditor	847	-	-	-	(847)	-	(847)
Administrative Services	11,887	5,242	-	182	(6,463)	-	(6,463)
Human Resources	2,272	-	-	-	(2,272)	-	(2,272)
Public Works	25,539	878	-	1,717	(22,944)	-	(22,944)
Planning and Community Environment	10,918	6,067	937	-	(3,914)	-	(3,914)
Development Services	11,102	11,768	-	-	666	-	666
Public Safety	73,320	12,670	938	-	(59,712)	-	(59,712)
Community Services	27,866	20,472	62	30	(7,302)	-	(7,302)
Library	11,437	139	22	-	(11,276)	-	(11,276)
Interest on long-term debt	2,846	-	-	-	(2,846)	-	(2,846)
<b>Total Governmental Activities</b>	<b>183,240</b>	<b>57,236</b>	<b>1,990</b>	<b>1,929</b>	<b>(122,085)</b>	<b>-</b>	<b>(122,085)</b>
<b>Business-Type Activities:</b>							
Water	37,535	42,678	512	1,089	-	6,744	6,744
Electric	128,603	137,543	-	-	-	8,940	8,940
Fiber Optics	2,159	4,553	-	-	-	2,394	2,394
Gas	26,783	36,431	-	-	-	9,648	9,648
Wastewater Collection	16,405	17,748	-	804	-	2,147	2,147
Wastewater Treatment	23,498	23,649	-	-	-	151	151
Refuse	30,665	33,918	-	-	-	3,253	3,253
Storm Drainage	4,106	6,693	-	-	-	2,587	2,587
Airport	1,274	1,286	-	2,372	-	2,384	2,384
<b>Total Business-Type Activities</b>	<b>271,028</b>	<b>304,499</b>	<b>512</b>	<b>4,265</b>	<b>-</b>	<b>38,248</b>	<b>38,248</b>
<b>Total</b>	<b>\$ 454,268</b>	<b>\$ 361,735</b>	<b>\$ 2,502</b>	<b>\$ 6,194</b>	<b>(122,085)</b>	<b>38,248</b>	<b>(83,837)</b>
<b>General Revenues:</b>							
<b>Taxes:</b>							
Property tax					43,953	-	43,953
Sales tax					29,923	-	29,923
Utility user tax					14,240	-	14,240
Transient occupancy tax					23,477	-	23,477
Documentary transfer tax					7,491	-	7,491
Other taxes					1,498	-	1,498
Investment earnings					(711)	(449)	(1,160)
Miscellaneous					168	-	168
Transfers (Note 4)					18,344	(18,344)	-
<b>Total general revenues and transfers</b>					<b>138,383</b>	<b>(18,793)</b>	<b>119,590</b>
Change in net position					16,298	19,455	35,753
Net position, beginning of year					510,991	679,839	1,190,830
Net position, end of year					<b>\$ 527,289</b>	<b>\$ 699,294</b>	<b>\$ 1,226,583</b>

See accompanying notes to the basic financial statements.

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**CITY OF PALO ALTO**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2017**  
**(Amounts in thousands)**

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>				
Cash and investments available for operations (Note 3)	\$ 47,779	\$ 75,453	\$ 79,909	\$ 203,141
Receivables, net:				
Accounts and intergovernmental	17,418	298	237	17,953
Interest receivable	738	22	396	1,156
Notes and loans receivable (Note 5)	496	-	19,327	19,823
Advance to other fund (Note 4)	2,915	-	-	2,915
Inventory of materials and supplies	4,298	-	-	4,298
Restricted cash and investments with fiscal agents (Note 3)	-	716	248	964
<b>Total assets</b>	<b>\$ 73,644</b>	<b>\$ 76,489</b>	<b>\$ 100,117</b>	<b>\$ 250,250</b>
<b>LIABILITIES AND FUND BALANCES:</b>				
<b>Liabilities:</b>				
Accounts payable and accruals	\$ 4,984	\$ 4,387	\$ 549	\$ 9,920
Accrued salaries and benefits	1,466	66	16	1,548
Unearned revenue	4,087	-	-	4,087
<b>Total liabilities</b>	<b>10,537</b>	<b>4,453</b>	<b>565</b>	<b>15,555</b>
<b>Fund balances (Note 10):</b>				
<b>Nonspendable:</b>				
Notes and loans receivable	496	-	-	496
Inventories	4,298	-	-	4,298
Advance to other fund	2,915	-	-	2,915
Eyerly family	-	-	1,499	1,499
<b>Restricted for:</b>				
Transportation mitigation	-	-	10,941	10,941
Federal revenue	-	-	5,028	5,028
Street improvement	-	-	866	866
Local law enforcement	-	-	239	239
Library bond project	-	716	-	716
Public benefit	-	-	13,569	13,569
Debt service	-	-	3,939	3,939
<b>Committed for:</b>				
Roth Building Rehabilitation	-	4,014	-	4,014
Cubberley Improvements	-	4,081	-	4,081
Developer impact fees	-	-	15,401	15,401
Housing in-lieu	-	-	43,781	43,781
Special districts	-	-	4,264	4,264
Downtown business	-	-	25	25
<b>Assigned for:</b>				
Capital projects	-	63,225	-	63,225
Other general government purposes	6,150	-	-	6,150
Reappropriations	1,130	-	-	1,130
<b>Unassigned for:</b>				
Budget Stabilization and other purposes	48,118	-	-	48,118
<b>Total fund balances</b>	<b>63,107</b>	<b>72,036</b>	<b>99,552</b>	<b>234,695</b>
<b>Total liabilities and fund balances</b>	<b>\$ 73,644</b>	<b>\$ 76,489</b>	<b>\$ 100,117</b>	<b>\$ 250,250</b>

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Reconciliation of the Balance Sheet of Governmental Funds to**  
**the Statement of Net Position - Governmental Activities**  
**June 30, 2017**  
**(Amounts in thousands)**

Total fund balances reported on the governmental funds balance sheet	\$ 234,695
<p>Amounts reported for governmental activities in the statement of net position are different from those reported in the governmental funds balance sheet because of the following:</p>	
<p>Deferred outflows and inflows of resources in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</p>	
Deferred outflows of resources	52,767
Deferred inflows of resources	(5,802)
<p>Capital assets used in governmental activities are not current assets or financial resources and therefore are not reported in the governmental funds (Note 6)</p>	
	522,457
<p>Internal service funds are used by management to charge the costs of activities such as insurance, equipment acquisition and maintenance, and certain employee benefits to individual funds. The assets and liabilities of the internal service funds are therefore included in governmental activities in the statement of net position (excludes capital assets, deferred outflows of resources, deferred inflows of resources and net pension liabilities reported herein)</p>	
	67,202
<p>Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds:</p>	
Interest payable	(1,242)
Net pension liabilities (Note 11)	(273,493)
Long-term debt (Note 7)	(69,295)
	527,289
Net position of governmental activities	\$ 527,289

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2017**  
**(Amounts in thousands)**

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Property tax	\$ 39,381	\$ -	\$ 4,572	\$ 43,953
Special assessments	-	-	97	97
Sales tax	29,923	-	-	29,923
Utility user tax	14,240	-	-	14,240
Transient occupancy tax	23,477	-	-	23,477
Documentary transfer tax	7,491	-	-	7,491
Other taxes and fines	2,167	-	1,500	3,667
Charges for services	22,267	-	-	22,267
From other agencies	2,758	1,747	938	5,443
Permits and licenses	7,437	-	3,086	10,523
Investment earnings	(1,193)	1,076	(233)	(350)
Rental income	15,692	-	6	15,698
Other revenue	760	122	4,103	4,985
<b>Total revenues</b>	<b>164,400</b>	<b>2,945</b>	<b>14,069</b>	<b>181,414</b>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
City Council	316	-	-	316
City Manager	1,896	-	-	1,896
City Attorney	2,049	-	-	2,049
City Clerk	724	-	-	724
City Auditor	822	-	-	822
Administrative Services	4,975	-	216	5,191
Human Resources	2,194	-	-	2,194
Public Works	13,578	-	907	14,485
Planning and Community Environment	9,054	-	1,514	10,568
Development Services	10,908	-	-	10,908
Police	39,597	-	148	39,745
Fire	31,419	-	-	31,419
Community Services	25,192	-	216	25,408
Library	8,953	-	-	8,953
Non-Departmental	5,906	-	660	6,566
Capital outlay	-	39,643	-	39,643
<b>Debt service:</b>				
Principal	406	-	1,660	2,066
Interest and fiscal charges	26	-	3,006	3,032
<b>Total expenditures</b>	<b>158,015</b>	<b>39,643</b>	<b>8,327</b>	<b>205,985</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>6,385</b>	<b>(36,698)</b>	<b>5,742</b>	<b>(24,571)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in (Note 4)	19,222	38,397	712	58,331
Transfers out (Note 4)	(29,431)	(13)	(15,326)	(44,770)
<b>Total other financing sources (uses)</b>	<b>(10,209)</b>	<b>38,384</b>	<b>(14,614)</b>	<b>13,561</b>
<b>Change in fund balances</b>	<b>(3,824)</b>	<b>1,686</b>	<b>(8,872)</b>	<b>(11,010)</b>
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<b>66,931</b>	<b>70,350</b>	<b>108,424</b>	<b>245,705</b>
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ 63,107</b>	<b>\$ 72,036</b>	<b>\$ 99,552</b>	<b>\$ 234,695</b>

See accompanying notes to the basic financial statements.



**CITY OF PALO ALTO**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities - Governmental Activities**  
**For the Year Ended June 30, 2017**  
**(Amounts in thousands)**

Net change in fund balances - total governmental funds \$ (11,010)

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

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

Capital outlay added back to fund balance for current year additions	40,131
Depreciation expense is deducted from fund balance (depreciation expense is net of internal service fund depreciation of \$2,808 (Note 6), which has already been allocated through the internal service fund activities below	(15,042)
Disposal of capital assets	(760)

Pension contribution made subsequent to the measurement date is an expenditure in the governmental funds, but reported as a deferred outflows of resources in the government-wide financial statements	21,267
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Pension expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental fund:	(24,902)
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Principal payments on long-term liabilities are reported as expenditures in governmental funds when paid. The governmental activities, however, report principal payments as a reduction of long-term debt on the statement of net position. Interest accrued on long-term debt and amortization of premiums do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Therefore, the activities associated with long-term debt are as follows:

Principal paid during the year	2,066
Change in interest payable	28
Amortization of bond premium	158

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

	<u>4,362</u>
Change in net position of governmental activities	<u>\$ 16,298</u>

**CITY OF PALO ALTO**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2017**  
**(Amounts in thousands)**

	Budgeted Amounts		Actual, plus Encumbrances	Variance with Final Budget Positive (Negative)
	Adopted	Final		
<b>REVENUES:</b>				
Sales tax	\$ 29,150	\$ 29,150	\$ 29,923	\$ 773
Property tax	38,953	38,953	39,381	428
Transient occupancy tax	23,134	23,134	23,477	343
Documentary transfer tax	6,747	6,747	7,491	744
Utility user tax	12,379	12,377	14,240	1,863
Other taxes, fines and penalties	2,022	2,057	2,167	110
Charges for services	25,282	24,042	22,267	(1,775)
Permits and licenses	8,756	8,215	7,437	(778)
Investment earnings	975	1,001	1,296	295
Rental income	15,021	15,055	15,692	637
From other agencies	441	2,445	2,758	313
Other revenues	1,406	585	760	175
	164,266	163,761	166,889	3,128
Charges to other funds and departments	10,766	10,766	10,438	(328)
Prior year encumbrances	-	7,454	7,454	-
Total revenues	175,032	181,981	184,781	2,800
<b>EXPENDITURES:</b>				
Current:				
City Attorney	3,179	3,794	3,737	57
City Auditor	1,221	1,372	1,333	39
City Clerk	1,370	1,128	1,083	45
City Council	501	523	476	47
City Manager	3,381	3,424	3,339	85
Administrative Services	7,798	7,767	7,619	148
Community Services	25,390	26,711	26,573	138
Police	28,947	32,175	32,167	8
Fire	39,108	40,648	40,648	-
Human Resources	3,357	3,823	3,819	4
Library	8,992	9,273	9,266	7
Planning and Community Environment	8,768	10,749	10,732	17
Development Services	12,169	12,368	11,668	700
Public Works	16,224	17,486	17,475	11
Non-Departmental	10,139	7,139	6,335	804
Total expenditures	170,544	178,380	176,270	2,110
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>4,488</b>	<b>3,601</b>	<b>8,511</b>	<b>4,910</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	20,046	19,222	19,222	-
Transfers out	(23,622)	(30,389)	(29,431)	958
Total other financing sources (uses)	(3,576)	(11,167)	(10,209)	958
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, BUDGETARY BASIS</b>	<b>\$ 912</b>	<b>\$ (7,566)</b>	<b>(1,698)</b>	<b>\$ 5,868</b>
Adjustment to Budgetary Basis:				
Unrealized gain/loss on investments			(2,489)	
Current year encumbrances and reappropriations			7,817	
Prior year encumbrances and reappropriations			(7,454)	
<b>CHANGE IN FUND BALANCE, GAAP BASIS</b>			<b>(3,824)</b>	
<b>FUND BALANCE AT BEGINNING OF YEAR, GAAP BASIS</b>			<b>66,931</b>	
<b>FUND BALANCE AT END OF YEAR, GAAP BASIS</b>			<b>\$ 63,107</b>	

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Proprietary Funds**  
**Statement of Net Position**  
**June 30, 2017**  
**(Amounts in thousands)**

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
<b>ASSETS:</b>				
Current assets:				
Cash and investments available for operations (Note 3)	\$ 39,118	\$ 93,653	\$ 27,166	\$ 27,844
Accounts receivable, net of allowance of \$478	6,053	18,595	896	2,371
Interest receivable	176	456	123	125
Due from other government agencies	-	-	-	-
Inventory of materials and supplies	-	-	-	-
Restricted cash and investments with fiscal agents (Note 3)	3,260	-	-	813
Total current assets	<u>48,607</u>	<u>112,704</u>	<u>28,185</u>	<u>31,153</u>
Noncurrent assets:				
Due from other government agencies	-	-	-	-
Deposit	-	15	-	-
Prepaid expense	100	-	-	-
Capital assets (Note 6):				
Nondepreciable	21,409	25,889	1,965	4,265
Depreciable, net	99,461	165,514	6,074	97,602
Net OPEB asset (Note 12)	-	-	-	-
Total noncurrent assets	<u>120,970</u>	<u>191,418</u>	<u>8,039</u>	<u>101,867</u>
Total assets	<u>169,577</u>	<u>304,122</u>	<u>36,224</u>	<u>133,020</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>				
Unamortized loss from refunding	116	-	-	152
Pension related	2,497	6,356	476	2,676
Total deferred outflows of resources	<u>2,613</u>	<u>6,356</u>	<u>476</u>	<u>2,828</u>
<b>LIABILITIES:</b>				
Current liabilities:				
Accounts payable and accruals	4,791	8,174	424	1,280
Accrued salaries and benefits	93	242	16	95
Unearned revenue	-	-	-	-
Accrued compensated absences (Note 1)	-	-	-	-
Current portion of long term debt (Note 7)	1,573	100	-	597
Accrued claims payable (Note 14)	-	-	-	-
Total current liabilities	<u>6,457</u>	<u>8,516</u>	<u>440</u>	<u>1,972</u>
Noncurrent liabilities:				
Accrued compensated absences (Note 1)	-	-	-	-
Accrued claims payable (Note 14)	-	-	-	-
Advance from other fund (Note 4)	-	-	-	-
Landfill post-closure liability (Note 9)	-	-	-	-
Net pension liabilities (Note 11)	14,016	33,453	2,139	14,942
Long term debt, net of unamortized discounts/premiums (Note 7)	33,169	373	-	6,037
Total noncurrent liabilities	<u>47,185</u>	<u>33,826</u>	<u>2,139</u>	<u>20,979</u>
Total liabilities	<u>53,642</u>	<u>42,342</u>	<u>2,579</u>	<u>22,951</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Pension related	217	563	37	239
Total deferred inflows of resources	<u>217</u>	<u>563</u>	<u>37</u>	<u>239</u>
<b>NET POSITION (Note 10):</b>				
Net Investment in capital assets	86,244	190,930	8,039	95,385
Restricted for debt service	3,260	-	-	813
Unrestricted (deficit)	28,827	76,643	26,045	16,460
Total net position	<u>\$ 118,331</u>	<u>\$ 267,573</u>	<u>\$ 34,084</u>	<u>\$ 112,658</u>

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

See accompanying notes to the basic financial statements.

Business-Type Activities-Enterprise Funds						Governmental Activities - Internal Service Funds
Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Airport	Totals	
\$ 8,989	\$ 15,332	\$ 17,672	\$ 8,631	\$ 861	\$ 239,266	\$ 82,591
2,059	5,445	3,255	747	211	39,632	456
52	72	75	45	3	1,127	383
-	300	-	-	-	300	-
-	-	-	-	-	-	244
-	-	-	-	-	4,073	2,057
<u>11,100</u>	<u>21,149</u>	<u>21,002</u>	<u>9,423</u>	<u>1,075</u>	<u>284,398</u>	<u>85,731</u>
-	3,300	-	-	-	3,300	-
-	-	-	-	-	15	-
-	200	-	-	-	300	-
30,801	9,989	2,741	15,134	3,067	115,260	3,182
56,090	31,294	2,680	20,607	632	479,954	15,425
-	-	-	-	-	-	19,419
<u>86,891</u>	<u>44,783</u>	<u>5,421</u>	<u>35,741</u>	<u>3,699</u>	<u>598,829</u>	<u>38,026</u>
<u>97,991</u>	<u>65,932</u>	<u>26,423</u>	<u>45,164</u>	<u>4,774</u>	<u>883,227</u>	<u>123,757</u>
-	-	-	13	-	281	-
1,463	4,100	817	625	240	19,250	3,062
<u>1,463</u>	<u>4,100</u>	<u>817</u>	<u>638</u>	<u>240</u>	<u>19,531</u>	<u>3,062</u>
1,412	3,905	2,707	481	319	23,493	1,017
53	143	32	21	12	707	89
-	-	-	-	-	-	-
-	-	-	-	-	-	5,416
90	1,358	-	645	-	4,363	-
-	-	-	-	-	-	5,286
<u>1,555</u>	<u>5,406</u>	<u>2,739</u>	<u>1,147</u>	<u>331</u>	<u>28,563</u>	<u>11,808</u>
-	-	-	-	-	-	6,062
-	-	-	-	-	-	17,184
-	-	-	-	2,915	2,915	-
-	-	6,704	-	-	6,704	-
8,347	21,141	5,642	3,525	621	103,826	15,001
645	17,720	-	4,725	-	62,669	-
<u>8,992</u>	<u>38,861</u>	<u>12,346</u>	<u>8,250</u>	<u>3,536</u>	<u>176,114</u>	<u>38,247</u>
<u>10,547</u>	<u>44,267</u>	<u>15,085</u>	<u>9,397</u>	<u>3,867</u>	<u>204,677</u>	<u>50,055</u>
135	342	80	55	13	1,681	236
<u>135</u>	<u>342</u>	<u>80</u>	<u>55</u>	<u>13</u>	<u>1,681</u>	<u>236</u>
86,156	25,805	5,421	30,384	3,699	532,063	18,607
-	-	-	-	-	4,073	-
2,616	(382)	6,654	5,966	(2,565)	160,264	57,921
<u>\$ 88,772</u>	<u>\$ 25,423</u>	<u>\$ 12,075</u>	<u>\$ 36,350</u>	<u>\$ 1,134</u>	<u>696,400</u>	<u>\$ 76,528</u>

2,894  
\$ 699,294

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Proprietary Funds**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**For the Year Ended June 30, 2017**  
**(Amounts in thousands)**

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
<b>OPERATING REVENUES:</b>				
Sales to:				
Customers	\$ 39,223	\$ 110,173	\$ 3,537	\$ 33,605
City departments	1,768	3,780	867	1,136
Surplus energy	-	10,884	-	-
Service connection charges and miscellaneous	803	1,582	119	956
Charges for services	-	-	-	-
Other	884	11,124	30	734
Total operating revenues	<u>42,678</u>	<u>137,543</u>	<u>4,553</u>	<u>36,431</u>
<b>OPERATING EXPENSES:</b>				
Purchase of utilities:				
Retail purchase of utilities	20,075	60,375	-	12,563
Surplus energy	-	20,136	-	-
Administrative and general	4,767	6,531	538	3,991
Engineering (operating)	356	1,657	-	355
Resource management and energy efficiency	868	6,210	-	1,422
Operations and maintenance	5,291	11,805	1,236	4,321
Rent	1,721	5,121	73	583
Depreciation and amortization	2,739	7,733	334	3,154
Claims payments and changes in estimated self-insurance liability	-	-	-	-
Refund of charges for services	-	-	-	-
Compensated absences and other benefits	-	-	-	-
Total operating expenses	<u>35,817</u>	<u>119,568</u>	<u>2,181</u>	<u>26,389</u>
Operating income (loss)	6,861	17,975	2,372	10,042
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Investment earnings	(6)	(367)	-	(11)
Interest expense	(1,765)	(8,857)	-	(227)
Gain on disposal of capital assets	-	-	-	-
Loss on disposal of capital assets	(51)	(116)	-	(177)
Other nonoperating revenues	512	-	-	-
Total nonoperating revenues (expenses)	<u>(1,310)</u>	<u>(9,340)</u>	<u>-</u>	<u>(415)</u>
Income (loss) before transfers and capital contributions	5,551	8,635	2,372	9,627
Capital contributions	1,089	-	-	-
Transfers in (Note 4)	244	2,679	-	-
Transfers out (Note 4)	(401)	(12,543)	(118)	(7,256)
Change in net position	6,483	(1,229)	2,254	2,371
NET POSITION (DEFICIT), BEGINNING OF YEAR	<u>111,848</u>	<u>268,802</u>	<u>31,830</u>	<u>110,287</u>
NET POSITION (DEFICIT), END OF YEAR	<u>\$ 118,331</u>	<u>\$ 267,573</u>	<u>\$ 34,084</u>	<u>\$ 112,658</u>

Some amounts reported for Business-type Activities in the statement of activities are different because certain

Internal Service Fund activities are included with Business-type Activities

Change in net position reported in Business-type Activities

See accompanying notes to the basic financial statements.

Business-Type Activities-Enterprise Funds						Governmental Activities- Internal Service Funds
Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Airport	Totals	
\$ 17,052	\$ 14,187	\$ 29,453	\$ 6,222	\$ 714	\$ 254,166	\$ -
74	8,435	792	376	-	17,228	-
-	-	-	-	-	10,884	-
243	-	-	-	-	3,703	-
-	-	-	-	-	-	92,026
379	1,027	3,673	95	572	18,518	614
<u>17,748</u>	<u>23,649</u>	<u>33,918</u>	<u>6,693</u>	<u>1,286</u>	<u>304,499</u>	<u>92,640</u>
8,391	-	16,463	-	-	117,867	-
-	-	-	-	-	20,136	-
1,917	-	1,658	930	726	21,058	12,075
292	2,243	202	250	-	5,355	-
-	-	-	483	-	8,983	-
2,759	18,065	9,121	1,285	497	54,380	28,937
300	-	2,516	40	-	10,354	-
1,977	2,635	98	765	2	19,437	2,809
-	-	-	-	-	-	3,078
-	-	-	-	-	-	81
-	-	-	-	-	-	45,961
<u>15,636</u>	<u>22,943</u>	<u>30,058</u>	<u>3,753</u>	<u>1,225</u>	<u>257,570</u>	<u>92,941</u>
2,112	706	3,860	2,940	61	46,929	(301)
(88)	19	16	(11)	(1)	(449)	(359)
(43)	(482)	(565)	(336)	(56)	(12,331)	-
-	-	-	-	-	-	103
(786)	-	-	-	-	(1,130)	-
-	-	-	-	-	512	139
<u>(917)</u>	<u>(463)</u>	<u>(549)</u>	<u>(347)</u>	<u>(57)</u>	<u>(13,398)</u>	<u>(117)</u>
1,195	243	3,311	2,593	4	33,531	(418)
804	-	-	-	2,372	4,265	-
-	-	13	-	-	2,936	7,265
(465)	(335)	(29)	(133)	-	(21,280)	(2,482)
1,534	(92)	3,295	2,460	2,376	19,452	4,365
<u>87,238</u>	<u>25,515</u>	<u>8,780</u>	<u>33,890</u>	<u>(1,242)</u>		<u>72,163</u>
<u>\$ 88,772</u>	<u>\$ 25,423</u>	<u>\$ 12,075</u>	<u>\$ 36,350</u>	<u>\$ 1,134</u>		<u>\$ 76,528</u>

3  
\$ 19,455

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2017**  
**(Amounts in thousands)**

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
Cash flows from operating activities:				
Cash received from customers	\$ 39,310	\$ 117,052	\$ 3,624	\$ 34,295
Cash refunds to customers	-	-	-	-
Cash payments to suppliers for goods and services	(28,594)	(101,338)	(1,303)	(18,793)
Cash payments to employees	(4,812)	(6,609)	(523)	(4,036)
Internal activity- receipts (payments) from (to) other funds	1,768	3,780	867	1,136
Other receipts	884	11,124	30	734
Net cash provided by operating activities	<u>8,556</u>	<u>24,009</u>	<u>2,695</u>	<u>13,336</u>
Cash flows from noncapital financing activities:				
Receipt of loans from other funds	-	-	-	-
Interest subsidy received from Build America Bonds	512	-	-	-
Transfers in	244	2,679	-	-
Transfers out	(401)	(12,543)	(118)	(7,256)
Net cash provided by (used in) noncapital financing activities	<u>355</u>	<u>(9,864)</u>	<u>(118)</u>	<u>(7,256)</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(3,454)	(11,588)	(459)	(2,695)
Proceeds from sale of capital assets	-	-	-	-
Capital grants and contributions	1,089	-	-	-
Proceeds from debt issuance	-	-	-	-
Principal paid on long-term debt	(1,510)	(100)	-	(575)
Interest paid on long-term debt	(1,766)	(8,857)	-	(227)
Net cash used in capital and related financing activities	<u>(5,641)</u>	<u>(20,545)</u>	<u>(459)</u>	<u>(3,497)</u>
Cash flows from investing activities:				
Interest received	(23)	(361)	(21)	(31)
Net cash provided by (used in) investing activities	<u>(23)</u>	<u>(361)</u>	<u>(21)</u>	<u>(31)</u>
Net change in cash and cash equivalents	3,247	(6,761)	2,097	2,552
Cash and cash equivalents, beginning of year	39,131	100,414	25,069	26,105
Cash and cash equivalents, end of year	<u>\$ 42,378</u>	<u>\$ 93,653</u>	<u>\$ 27,166</u>	<u>\$ 28,657</u>
Financial statement presentation:				
Cash and investments available for operations	\$ 39,118	\$ 93,653	\$ 27,166	\$ 27,844
Restricted cash and investments with fiscal agent	3,260	-	-	813
Cash and cash equivalents, end of year	<u>\$ 42,378</u>	<u>\$ 93,653</u>	<u>\$ 27,166</u>	<u>\$ 28,657</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 6,861	\$ 17,975	\$ 2,372	\$ 10,042
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization	2,739	7,733	334	3,154
Other	-	-	-	-
Change in assets and liabilities:				
Accounts receivable	(716)	(5,587)	(32)	(266)
Inventory of materials and supplies	-	-	-	-
Deposit	8	34	-	-
Net OPEB asset	-	-	-	-
Deferred outflow of resources - pension plans	(1,279)	(3,183)	(275)	(1,349)
Accounts payable and accruals	(291)	3,932	6	451
Accrued salaries and benefits	(172)	(454)	(24)	(184)
Accrued compensated absences	-	-	-	-
Landfill closure and post-closure care	-	-	-	-
Accrued claims payable	-	-	-	-
Net Pension liability	1,916	4,560	362	2,001
Deferred inflow of resources - pension plans	(510)	(1,001)	(48)	(513)
Net cash provided by operating activities	<u>\$ 8,556</u>	<u>\$ 24,009</u>	<u>\$ 2,695</u>	<u>\$ 13,336</u>

See accompanying notes to the basic financial statements.

Business-Type Activities-Enterprise Funds						Governmental Activities- Internal Service Funds
Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Airport	Totals	
\$ 17,158	\$ 10,763	\$ 29,471	\$ 6,149	\$ 550	\$ 258,372	\$ 91,689
-	-	-	-	-	-	(81)
(11,268)	(16,782)	(28,354)	(1,841)	(340)	(208,613)	(29,882)
(1,944)	(242)	(1,700)	(935)	(707)	(21,508)	(52,894)
74	8,435	792	376	-	17,228	(3,907)
379	1,027	3,759	95	572	18,604	144
4,399	3,201	3,968	3,844	75	64,083	5,069
-	-	-	-	704	704	-
-	-	-	-	-	512	-
-	-	13	-	-	2,936	7,265
(465)	(335)	(29)	(133)	-	(21,280)	(2,482)
(465)	(335)	(16)	(133)	704	(17,128)	4,783
(10,266)	(2,975)	(227)	(4,683)	(2,648)	(38,995)	(4,961)
-	-	-	-	-	-	112
804	300	-	-	2,372	4,565	-
-	3,181	-	-	-	3,181	-
(85)	(1,318)	-	(610)	-	(4,198)	-
(42)	(483)	(565)	(334)	(57)	(12,331)	-
(9,589)	(1,295)	(792)	(5,627)	(333)	(47,778)	(4,849)
(74)	4	1	(15)	(3)	(523)	(399)
(74)	4	1	(15)	(3)	(523)	(399)
(5,729)	1,575	3,161	(1,931)	443	(1,346)	4,604
14,718	13,757	14,511	10,562	418	244,685	80,044
\$ 8,989	\$ 15,332	\$ 17,672	\$ 8,631	\$ 861	\$ 243,339	\$ 84,648
\$ 8,989	\$ 15,332	\$ 17,672	\$ 8,631	\$ 861	\$ 239,266	\$ 82,591
-	-	-	-	-	4,073	2,057
\$ 8,989	\$ 15,332	\$ 17,672	\$ 8,631	\$ 861	\$ 243,339	\$ 84,648
\$ 2,112	\$ 706	\$ 3,860	\$ 2,940	\$ 61	\$ 46,929	\$ (301)
1,977	2,635	98	765	2	19,437	2,809
-	-	-	-	-	-	139
(137)	(3,424)	18	(73)	(164)	(10,381)	(341)
-	-	-	-	-	-	124
-	17	-	-	-	59	-
-	-	-	-	-	-	2,243
(740)	(2,170)	(388)	(316)	(136)	(9,836)	(1,622)
474	3,251	(52)	217	157	8,145	1,010
(96)	(242)	(55)	(37)	(15)	(1,279)	(176)
-	-	-	-	-	-	256
-	-	86	-	-	86	-
-	-	-	-	-	-	(909)
1,092	3,099	655	475	166	14,326	2,326
(283)	(671)	(254)	(127)	4	(3,403)	(489)
\$ 4,399	\$ 3,201	\$ 3,968	\$ 3,844	\$ 75	\$ 64,083	\$ 5,069

See accompanying notes to the basic financial statements.



**CITY OF PALO ALTO**  
**Agency Funds**  
**Statement of Assets and Liabilities**  
**June 30, 2017**  
**(Amounts in thousands)**

	Agency Funds
<b>ASSETS:</b>	
Cash and investments available for operations (Note 3)	\$ 2,408
Restricted cash and investments with fiscal agents (Note 3)	2,556
Account receivable	579
Interest receivable	12
Total assets	\$ 5,555
<b>LIABILITIES:</b>	
Due to bondholders	\$ 4,564
Due to other governments	991
Total liabilities	\$ 5,555

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Index to the Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

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**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

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

**(a) Reporting Entity**

The City is governed by a 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. The accompanying basic financial statements present the financial activities of the City, which is the primary government presented, along with the financial activities of its component unit, which is an entity for which the City is financially accountable. Although a separate legal entity, a blended component unit is, in substance, part of the City's operations and is reported as an integral part of the City's financial statements. The City's component unit described below is blended.

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

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

**(b) Basis of Presentation**

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

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

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

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

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

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

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

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

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

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

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

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

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

The City also reports the following funds:

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

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

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

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

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

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

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

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

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

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

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

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

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

**(d) Basis of Accounting**

The government-wide and proprietary fund financial statements are reported using the *economic resources* measurement focus and the *full accrual* basis of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

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

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

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

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

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



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

**(e) Cash and Cash Equivalents**

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

**(f) Investments**

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

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

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

**(h) Prepaid items**

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

**(i) Compensated Absences**

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

During the fiscal year ended June 30, 2017, changes to the compensated absences liabilities were as follows (in thousands):

Beginning balance	\$ 11,222
Additions	6,308
Payments	<u>(6,052)</u>
Ending balance	<u>\$ 11,478</u>
Current portion	<u>\$ 5,416</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

**(j) Property Tax**

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

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

	<u>Secured</u>	<u>Unsecured</u>
Lien Dates	January 01	January 01
Levy Dates	October 01	July 01
Due Dates	50% on November 01 50% on February 01	Upon receipt of billing
Delinquent after	December 10 (for November) April 10 (for February)	August 31

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

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

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

**(l) Pensions**

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of the City’s California Public Employees’ Retirement System (CalPERS) Plans and additions to/deductions from the Plans’ fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**(m) Rounding**

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

**(n) Effects of New Pronouncements**

As of July 1, 2016, the City implemented the following GASB Statements:

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement addresses reporting by OPEB plans that administer benefits on behalf of governments.

In August 2015 GASB issued Statement No. 77, *Tax Abatement Disclosures*. The Statement defines tax abatement agreements and requires certain disclosures regarding the tax abatement in its financial statements.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The Statement addresses a practice issue regarding the scope and applicability of Statement No. 68 associated with pensions provided through certain cost-sharing multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. Such plans are not considered a state or local government pension plan and are used to provide benefits to both employees of state and local governments and employees of employers that are not state or local governments.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*. The Statement improves financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending requirements established in GASB Statement No. 14, *The Financial Reporting Entity*.

In March 2016, the GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68 and No. 73*. The Statement addresses issues raised with respect to GASB Statements No. 67, 68 and 73, regarding: (1) the presentation of payroll-related measures in required supplementary information; (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes; and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Implementation of these statements did not have a significant impact on the City in the fiscal year ended June 30, 2017.

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

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

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

employees of other governments. This statement is effective for the City's fiscal year ending June 30, 2018.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The statement provides recognition and measurement guidance for situations in which a government is a beneficiary of these agreements. This statement is effective for the City's fiscal year ending June 30, 2018.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. The Statement addresses accounting and reporting for certain Asset Retirement Obligations, and outlines criteria for determining the timing and procedures for recognizing a liability and deferred outflow of resources related to future asset retirement activities related to tangible assets. The statement requires that a recognition occur when the liability is incurred and reasonably estimable. This is effective for the City's fiscal year ending June 30, 2019.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The Statement establishes specific criteria for identifying activities that should be reported as fiduciary activities. The Statement also clarifies how business-type activities should report their fiduciary activities, and will be effective for the City's fiscal year ending June 30, 2020.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The Statement addressed various issues related to the implementation and application of certain GASB Statements. It addresses a variety of topics including issues related to blending of component units, goodwill, fair value measurement and application, and postemployment benefits. This statement will be effective for the City's fiscal year ending June 30, 2018.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The Statement provides criteria for accounting and financial reporting for debt extinguishments related to derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. This statement will be effective for the City's fiscal year ending June 30, 2018.

In June 2017, the GASB issued Statement No. 87, *Leases*. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment of provisions of the contract. The Statement also establishes a single model for lease accounting, and requires recognition of a lease liability and an intangible right-to-use lease asset, and it requires a lessor to recognize a lease receivable and deferred inflow of resources. It will be effective for the City's fiscal year ending June 30, 2021.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

**(o) Use of Estimates**

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

**NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING**

1. The City Manager submits proposed operating and capital budgets to the City Council for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain comments on the proposed budgets.
3. The Budget is approved with the adoption of a budget ordinance for all funds except Agency Funds.
4. Per the Palo Alto Municipal Code, only the City Manager is authorized to reallocate funds from contingency accounts maintained in the General Fund. Additional appropriations to departments in the General Fund, or to total appropriations for all other budgeted funds, or transfers of appropriations between funds, require approval by the City Council. Amendments to budgeted revenue and expenditures are added to or subtracted from the Adopted Budget and the resulting totals are reflected as Final Budget amounts.
5. As defined in the Palo Alto Municipal Code, expenditures may not exceed budgeted appropriations at the department level for the General Fund, and at the fund level for Enterprise, Special Revenue and Debt Service Funds.
6. Budgets for governmental funds are adopted on a basis consistent with generally accepted accounting principles (GAAP), except that unrealized gains or losses are not recognized as investment earnings on a budgetary basis and encumbrances are treated as budgetary expenditures when incurred.
7. Expenditures for the Capital Projects Fund are budgeted and maintained at a project level for the life of the project. Budget to actual comparisons for these expenditures have been excluded from the accompanying financial statements.

**NOTE 3 – CASH AND INVESTMENTS**

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

**Policies**

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

**Classification**

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

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
Cash and investments:				
Available for operations	\$ 285,732	\$ 239,266	\$ 2,408	\$ 527,406
Held with fiscal agents	3,021	4,073	2,556	9,650
Total cash and investments	<u>\$ 288,753</u>	<u>\$ 243,339</u>	<u>\$ 4,964</u>	<u>\$ 537,056</u>

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

The table below identifies the investment types that are authorized by the California Government Code (Code) and the City’s Investment Policy. The table also identifies certain provisions of the City’s Investment Policy that address interest rate risk, credit risk and concentration of credit risk. The table addresses investment of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City, rather than the general provisions of the City’s Investment Policy.

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

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

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

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

**Debt Agreements:**

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

(D) Utility Revenue Bonds 2011 Refunding and 1999 Refunding require a minimum credit quality rating of A-1/P-1 by Moody's and Standard & Poor's and maturing after no more than 360 days. Utility Revenue Bonds 1995 Series A limit the maximum maturity to 365 days.

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

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

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

**Fair Value Measurements**

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

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

The following is a summary of the fair value measurements of the City as of June 30, 2017 (in thousands):

Type of Investment	June 30, 2017	Level 2
Investments by fair value hierarchy		
U.S. Federal Agency Securities	\$ 351,825	\$ 351,825
U.S. Treasury Notes	12,933	12,933
Local Government Bonds	51,482	51,482
Negotiable Certificates of Deposit	46,390	46,390
Corporate Bonds	18,849	18,849
Total investments by fair value hierarchy	481,479	\$ 481,479
Investment not subject to fair value hierarchy		
Money Market Mutual Funds	10,206	
California Asset Management Program	3,272	
Local Agency Investment Fund	38,205	
Total investments not subject to fair value hierarchy	51,683	
Total investments measured at fair value	\$ 533,162	

**Local Agency Investment Fund**

The City is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. LAIF management calculates the fair value and cost of the entire LAIF pool. The City adjusts its cost basis invested in LAIF to fair value based on this ratio. The fair value of the City's position in the pool is the same as the value of the pool share. The balance available for withdrawal on demand is based on accounting records maintained by LAIF, which are recorded on an amortized cost basis. At June 30, 2017, LAIF had a weighted average maturity of 194 days.

**Fidelity Institutional Asset Management**

Money market mutual funds are available for withdrawal on demand and at June 30, 2017, had a weighted average maturity of 23 days.



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

**California Asset Management Program**

The City is a voluntary participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust). The Trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Sections 6500 et seq., or the “Act”) for the purpose of exercising the common power of its participants to invest certain proceeds of debt issues and surplus funds. The City’s investments are limited to investments permitted by subdivisions (a) to (n), inclusive, of Section 53601 of the California Government Code. The City reports its investments in CAMP at the fair value amounts provided by CAMP, which is the same as the value of the pool share. At June 30, 2017, the fair value approximated the City’s cost. CAMP had a weighted average maturity of 49 days at June 30, 2017.

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates may adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity its fair value is to changes in market interest rates. As of June 30, 2017, the City’s investments consisted of the following (in thousands):

Type of Investment	Maturities				Total
	Less Than One Year	One to Three Years	Three to Five Years	Over Five Years	
U.S. Federal Agency Securities	\$ 70,463	\$ 81,272	\$ 72,838	\$ 127,252	\$ 351,825
U.S. Treasury Notes	1,997	9,442	1,494	-	12,933
Local Government Bonds	-	6,291	19,903	25,288	51,482
Corporate Bonds	-	10,627	8,222	-	18,849
Money Market Mutual Funds	10,206	-	-	-	10,206
Negotiable Certificates of Deposit	2,451	15,809	21,327	6,803	46,390
California Asset Management Program	3,272	-	-	-	3,272
Local Agency Investment Fund	38,205	-	-	-	38,205
Total Investments	<u>\$ 126,594</u>	<u>\$ 123,441</u>	<u>\$ 123,784</u>	<u>\$ 159,343</u>	<u>533,162</u>
Cash in bank and on hand					3,894
Total Cash and Investments					<u>\$ 537,056</u>

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

At June 30, 2017, the City’s investments (including investments held by bond trustees) include U.S. Federal Agency Callable Securities in the amount of \$119 million that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above. These securities are subject to early redemption at par in a period of declining interest rates.

**Credit Risk**

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

Presented below is the actual rating as provided by Standard & Poor’s investment rating system as of June 30, 2017, for each investment type (in thousands):

Type of Investment	Rating	Total
U.S. Federal Agency Securities	AA+	\$ 351,825
Corporate Bonds	AAA	18,849
Local Government Bonds	AAA	51,482
Money Market Mutual Funds	AAAm	10,206
Total Investments		432,362
Not Applicable:		
U.S. Treasury Notes		12,933
Not Rated:		
California Asset Management Program		3,272
Local Agency Investment Fund		38,205
Negotiable Certificates of Deposit		46,390
Cash in bank and on hand		3,894
Total Cash and Investments		<u>\$ 537,056</u>

**Concentration of Credit Risk**

Investments in any one issuer, other than U.S. Treasury securities, mutual funds, and external investment pools, that represent 5 percent or more of total City portfolio investments are as follows at June 30, 2017 (in thousands):

Investments	Reporting Type	Fair Value at Year-End
Federal Home Loan Bank	U.S. Federal Agency Securities	\$ 111,275
Federal Agricultural Mortgage Corporation	U.S. Federal Agency Securities	105,973
Federal Farm Credit Bank	U.S. Federal Agency Securities	56,614
Federal National Mortgage Association	U.S. Federal Agency Securities	34,169
Federal Home Loan Mortgage Corporation	U.S. Federal Agency Securities	26,892

**Custodial Credit Risk**

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

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 4 – INTERFUND TRANSACTIONS**

**Transfers Between Funds**

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to subsidize a fund. Less often, a transfer may be made to open or close a fund. Transfers between City funds during FY 2017 were as follows (in thousands):

Fund Receiving Transfer	Fund Making Transfer	Amount Transferred
General Fund	Nonmajor Governmental Funds	\$ 461 A
	Electric Services Fund	12,035 A
	Gas Services Fund	6,726 A
Capital Projects Fund	General Fund	22,859 B
	Nonmajor Governmental Funds	14,865 B
	Water Services Fund	84 B
	Electric Services Fund	190 B
	Fiber Optics Fund	14 B
	Gas Services Fund	72 B
	Wastewater Collection Fund	50 B
	Internal Service Funds	263 B
Nonmajor Governmental Funds	General Fund	676 A
	Water Services Fund	5 A
	Electric Services Fund	11 A
	Fiber Optics Fund	1 A
	Gas Services Fund	4 A
	Wastewater Collection Fund	3 A
	Internal Service Funds	12 A
Water Services Fund	Gas Services Fund	122 B
	Wastewater Collection Fund	122 B
Electric Services Fund	General Fund	2,300 D
	Water Services Fund	136 B
	Gas Services Fund	136 B
	Fiber Optics Fund	102 D
	Internal Service Funds	5 C
Refuse Services Fund	Capital Projects Fund	13 C
Internal Service Funds	General Fund	3,596 E
	Water Services Fund	176 B
	Electric Services Fund	307 B
	Fiber Optics Fund	1 B
	Gas Services Fund	195 B
	Wastewater Collection Fund	290 B
	Wastewater Treatment Fund	335 B
	Refuse Services Fund	29 B
	Storm Drainage Services Fund	133 B
	Internal Service Funds	2,203 E
Total		<u>\$ 68,532</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

The reasons for these transfers are set forth below:

- (A) Transfer to fund governmental funds for services provided.
- (B) Allocation of funds to construct, purchase or maintain capital assets.
- (C) Transfer to refund replacement charges.
- (D) Transfer to fund Utility funds for services provided.
- (E) Transfer to fund Internal Service funds for services provided.

**Long-Term Interfund Advance**

On December 6, 2010, the City Council accepted an Airport Business Plan of the Palo Alto Airport (PAO) and approved creation of the Airport Enterprise Fund to facilitate the transition of PAO control from County of Santa Clara to the City. Council approved the following General Fund advances to the Airport Fund:

\$	610,000	Due June 2019
	325,000	Due July 2023
	760,000	Due July 2024
	515,601	Due July 2025
	704,150	Due July 2026

All advances bear interest equal to the average return yield on the City's investment portfolio. As of June 30, 2017, the total outstanding principal amount is \$2.9 million.

**Internal Balances**

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 5 – NOTES AND LOANS RECEIVABLE**

At June 30, 2017, the City's notes and loans receivable totaled (in thousands):

Palo Alto Housing Corporation:	
El Dorado Palace LLC	\$ 52
Tree House Apartments	5,344
Emerson Street Project	375
Alma Single Room Occupancy Development	2,222
Barker Hotel	2,111
Sheridan Apartments	2,222
Oak Court Apartments, L.P.	7,834
Mid-Peninsula Housing Coalition:	
Palo Alto Gardens Apartments	100
Community Working Group, Inc.	1,280
Opportunity Center Associates, L.P.	750
Home Rehabilitation Loans	46
Executive Relocation Assistance Loans	496
Below Market Rate Assessment Loans	53
Oak Manor Townhouse Water System	114
Lytton Gardens Assisted Living	101
Emergency Housing Consortium	75
Alma Gardens Apartments	1,150
2811-2825 Alma Street Acquisition	1,890
Palo Alto Family Housing, 801 Alma Street	6,422
Palo Alto Senior Housing Project - Stevenson House, LLC	1,000
MP Palo Alto Garden, LLC	619
Colorado Park Housing Corporation	204
	<hr/>
Total Notes and Loans	34,460
Less: Valuation Allowance	(14,637)
	<hr/>
Total Notes and Loans, Net	<u>\$ 19,823</u>

**Housing Loans**

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

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

**Tree House Apartments**

In March 2009, the City agreed to loan \$2.8 million to Tree House Apartments, L.P. (THA) for the purchase of the real property located at 488 West Charleston Road. The loan accrues simple interest at the rate of 3 percent per annum. The loan was funded with \$1.8 million of Community Development Block Grant (CDBG) funds and \$1.0 million of residential housing funds. An additional development loan in the amount of \$2.5 million was approved by the City on October 18, 2010. As of June 30, 2017, the outstanding balance for THA in aggregate is \$5.3 million. Principal and interest payments will be deferred, however if the borrower has earned extra income, and if it is acceptable to the other entities providing final permanent sources of funds, payment of interest and principal based on the City's proportionate share of the project's residual receipts from net operating income shall be made by the borrower. In no event shall full payment be made by the borrower later than concurrently with the expiration or earlier termination of the loan agreement, which is December 31, 2067.

**Emerson Street Project**

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

**Alma Single Room Occupancy Development**

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

**Barker Hotel**

On April 12, 1994, the City loaned a total of \$2.1 million for the preservation, rehabilitation and expansion of a low-income, single occupancy hotel. This loan was funded by three sources: \$400,000 from the Housing In-Lieu Fund, \$1 million from HOME Investment Partnership Program Funds, and \$670,000 from CDBG funds. All three notes bear no interest and are collateralized by a deed of trust, which is subordinated to private financing. Loan repayments are deferred until 2035.

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

**Sheridan Apartments**

On December 8, 1998, the City loaned \$2.5 million to PAHC for the purchase and rehabilitation of a 57-unit apartment complex to be used for senior and low-income housing. The loan was funded with \$1.6 million in CDBG funds, and \$825,000 of Housing In-Lieu funds. The note is collateralized by a second deed of trust and an affordability reserve account held by PAHC. The loan was amended in June 2017. It will not accrue interest between May 1, 2017 and March 1, 2030. The loan will be forgiven on June 30, 2030 if PAHC uses the funds that would otherwise have been due to the City for another affordable housing project.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

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

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

**Palo Alto Gardens Apartments**

On April 22, 1999, the City loaned \$1 million to Mid-Peninsula Housing Coalition (the Coalition) for the purchase and rehabilitation of a 155-unit complex for the continuation of low-income housing. The loan was funded with \$659,000 of CDBG funds and \$341,000 of Housing In-Lieu funds. The two notes bear interest at 3 percent and are secured by second deeds of trust and a City Affordability Reserve Account held by the Coalition. Principal and interest payments began in FY 2008. The principal balance of \$100,000 is due in 2039.

**Community Working Group, Inc.**

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

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

On July 19, 2004, the City loaned \$750,000 for a 55-year term to Opportunity Center Associates, L.P. for construction of 89 units of rental housing for extremely low-income and very low-income households. The loan was funded with \$750,000 of residential housing funds. The note bears 3 percent interest and is secured by a deed of trust. The loan remains outstanding and becomes due at the end of the 55-year term.

**Home Rehabilitation Loans**

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

**Executive Relocation Assistance Loans**

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

As of June 30, 2017, the City had one outstanding home loan from the current City Manager. The original purchase cost for the current City Manager's home was \$1.9 million and the City holds a 75 percent equity share. The loan balance owed as of June 30, 2017 is \$389,000. During FY 2011, the Council authorized a capital improvement loan of \$125,000. Loans for capital improvements are made on a dollar for dollar matching basis, with an equal equity contribution made by the City Manager. The loan balance owed as of June 30, 2017 was \$107,000.

**Below Market Rate Assessment Loans**

In December 2002, the City loaned \$53,000 to below market rate homeowners with low incomes and/or very limited assets for capital repairs, special assessments and improvements of their properties. The loans bear interest at 3 percent and are secured by a deed of trust on each property. Loan payments are deferred until 2032. In 2017, the City did not receive interest payments.

**Oak Manor Townhouse Water System**

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

**Lytton Gardens Assisted Living**

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

**Emergency Housing Consortium**

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

**Alma Garden Apartments**

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



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

**2811-2825 Alma Street Acquisition**

On October 9, 2011, the City agreed to loan \$1.3 million to PAHC to acquire properties on Alma Street for the purpose of developing an affordable rental housing project. On June 29, 2015, the City loaned PAHC an additional \$0.6 million, and entered into an Amended and Restated Acquisition and Development Agreement which combined the two loans for a total loan of \$1.9 million. The loan term expires on December 8, 2066 with an option to extend the term for an additional 44 years. The loan bears simple interest of 3 percent, however in the event of default interest will accrue at the lesser of 8 percent or the highest rate permitted by law. Principal and interest payments are payable during the term of the agreement on a “residual receipt” basis as described in the agreement. All principal and interest is due in the event of an unauthorized transfer, a default or the expiration of the term. As of June 30, 2017, the outstanding balance was \$1.9 million.

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

On February 14, 2011, the City agreed to loan Palo Alto Family, LP up to \$9.3 million for the purposes of predevelopment expenses and acquiring certain real property for the Alma Street Affordable Multi-Family Rental Housing Project. The loan bears simple interest of 3 percent. Principal and interest are due and payable during the term of the agreement on a “residual receipt” basis as described in the agreement. Except in the case of default, all remaining principal and interest shall be payable on the Restriction Termination Date as defined in the agreement. As of June 30, 2017, the outstanding amount is \$6.4 million.

**Palo Alto Senior Housing Project**

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

**Colorado Park Housing Corporation**

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

**MP Palo Alto Garden, LLC**

On March 14, 2017, the City loaned \$619,000 in CDBG funds for the rehabilitation of the property. The note bears 3% simple interest and shall be deferred until April 24, 2054. If there are no Events of Default prior to the end of the terms, the unpaid principal and interest will be treated as a grant and no repayment will be due to the City.

**El Dorado Palace, LLC**

On June 22, 2015, the City approved a loan to PAHC Housing Corporation in the amount of \$375,000 to increase the supply of affordable low income housing in the City. In June 2017, the City loaned \$52,000. The loan bears three percent (3%) interest, however in the event of default will accrue at the lesser of 8% or the highest rate permitted by law. The term of the loan shall expire 55 years unless the City agree to extend an additional 44 years.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 6 – CAPITAL ASSETS**

**Valuation**

Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed. The City’s policy is to capitalize all assets when costs are equal to or exceed \$5,000 and the useful life exceeds one year. Infrastructure assets are capitalized when costs are equal to or exceed \$100,000.

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

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

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

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

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

**General Capital Assets**

Changes in the City's general capital assets during the year ended June 30, 2017 were (in thousands):

	Balance July 1, 2016	Additions	Retirements	Transfers	Balance June 30, 2017
<i>Governmental activities</i>					
Nondepreciable capital assets:					
Land and improvements	\$ 78,481	\$ -	\$ -	\$ -	\$ 78,481
Street trees	15,077	203	(387)	-	14,893
Intangible assets - Easement	3,567	-	-	-	3,567
Construction in progress	46,527	39,772	(373)	(23,265)	62,661
Total nondepreciable capital assets	<u>143,652</u>	<u>39,975</u>	<u>(760)</u>	<u>(23,265)</u>	<u>159,602</u>
Depreciable capital assets:					
Buildings and structures	220,910	-	-	4,504	225,414
Intangible assets - Software	279	-	-	-	279
Equipment	12,859	156	(1,532)	408	11,891
Roadway network	308,572	-	-	16,245	324,817
Recreation and open space network	33,078	-	-	2,108	35,186
Total depreciable capital assets	<u>575,698</u>	<u>156</u>	<u>(1,532)</u>	<u>23,265</u>	<u>597,587</u>
Less accumulated depreciation:					
Buildings and structures	(79,225)	(6,022)	-	-	(85,247)
Intangible assets - Software	(265)	(9)	-	-	(274)
Equipment	(8,370)	(515)	1,532	-	(7,353)
Roadway network	(141,096)	(7,274)	-	-	(148,370)
Recreation and open space network	(10,873)	(1,222)	-	-	(12,095)
Total accumulated depreciation	<u>(239,829)</u>	<u>(15,042)</u>	<u>1,532</u>	<u>-</u>	<u>(253,339)</u>
Depreciable capital assets, net	<u>335,869</u>	<u>(14,886)</u>	<u>-</u>	<u>23,265</u>	<u>344,248</u>
Internal service fund capital assets					
Construction in progress	1,829	4,846	-	(3,493)	3,182
Equipment	55,412	116	(2,082)	3,493	56,939
Less accumulated depreciation	(40,775)	(2,809)	2,070	-	(41,514)
Net internal service fund capital assets	<u>16,466</u>	<u>2,153</u>	<u>(12)</u>	<u>-</u>	<u>18,607</u>
Governmental activities capital assets, net	<u>\$ 495,987</u>	<u>\$ 27,242</u>	<u>\$ (772)</u>	<u>\$ -</u>	<u>\$ 522,457</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

**Business-type Capital Assets**

Changes in the City's enterprise fund capital assets during the year ended June 30, 2017 were (in thousands):

	Balance July 1, 2016	Additions	Retirements	Transfers	Balance June 30, 2017
<i>Business-type activities</i>					
Nondepreciable capital assets:					
Land and improvements	\$ 4,973	\$ -	\$ -	\$ -	\$ 4,973
Construction in progress	93,970	38,549	-	(22,232)	110,287
Total nondepreciable capital assets	<u>98,943</u>	<u>38,549</u>	<u>-</u>	<u>(22,232)</u>	<u>115,260</u>
Depreciable capital assets:					
Buildings and structures	56,929	-	-	(73)	56,856
Infrastructure	-	-	-	633	633
Transmission, distribution and treatment systems	746,652	445	(2,944)	21,672	765,825
Total depreciable capital assets	<u>803,581</u>	<u>445</u>	<u>(2,944)</u>	<u>22,232</u>	<u>823,314</u>
Less accumulated depreciation:					
Buildings and structures	(11,576)	(1,001)	-	-	(12,577)
Infrastructure	-	(2)	-	-	(2)
Transmission, distribution and treatment systems	(314,141)	(18,454)	1,814	-	(330,781)
Total accumulated depreciation	<u>(325,717)</u>	<u>(19,457)</u>	<u>1,814</u>	<u>-</u>	<u>(343,360)</u>
Depreciable capital assets, net	<u>477,864</u>	<u>(19,012)</u>	<u>(1,130)</u>	<u>22,232</u>	<u>479,954</u>
Business-type activities capital assets, net	<u>\$ 576,807</u>	<u>\$ 19,537</u>	<u>\$ (1,130)</u>	<u>\$ -</u>	<u>\$ 595,214</u>

**Capital Asset Contributions**

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

**Depreciation Allocation**

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

<i>Governmental Activities</i>		<i>Business-type Activities</i>	
City Manager	\$ 19	Water	\$ 2,763
City Attorney	3	Electric	7,727
City Clerk	4	Fiber Optics	334
City Auditor	1	Gas	3,185
Administrative Services	3	Wastewater Collection	1,977
Community Services	2,134	Wastewater Treatment	2,633
Public Safety	323	Refuse	98
Public Works	10,066	Storm Drainage	738
Planning and Community Environment	169	Airport	2
Library	2,320		<u>\$ 19,457</u>
Internal Service Funds	2,809		
	<u>\$ 17,851</u>		

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

**Construction In Progress**

Construction in progress as of June 30, 2017 is comprised of the following (in thousands):

<u>Governmental Activities</u>	<u>Expended to June 30, 2017</u>
Golf Reconfig and Baylands Athletic Center	\$ 12,304
City Hall First Floor Renovation	4,449
Lucie Stern Buildings Mech/Electrical Improv	3,425
Traffic Signal Upgrades	3,125
Bicycle Boulevards Implementation Project	2,954
Highway 101 Pedestrian/Bicycle Overpass	2,772
Furniture/Technology for Library Bond Prj	2,470
Vehicle Replacement Fund	2,414
Charleston/Arastradero Corridor	1,873
Transportation and Parking Improvements	1,843
New Public Safety Building	1,418
Safe Routes To School	1,266
Park Trails	1,238
Parks Master Plan	1,184
Baylands Interpretive Center Improvements	1,126
Curb & Gutter Repairs	1,111
Stanford / PA Soccer Turf Replacement	1,004
Fire Station No. 3 Replacement Design	860
Newell Road Bridge/SFC Bridge Replacemen	834
Telephone Infrastructure and Network	768
Interior Finishes Construction	762
Benches/Signage/Fencing/Walkways	742
Embarcadero Corridor Improvements	690
Quarry Road	667
Library & Comm Center Temp Facilities	657
Other Construction In Progress	13,887
Total Governmental Activities Construction In Progress	<u>\$ 65,843</u>
<u>Business-type Activities</u>	<u>Expended to June 30, 2017</u>
Water system extension replacements and improvements	\$ 11,734
Gas system extension replacements and improvements	3,178
Sewer system rehabilitation and extensions	11,305
Electric distribution system improvements	9,880
Water quality control plant equipment replacement and lab facilities	954
Storm drainage structural and water quality improvements	4,128
Other electrical improvements projects	1,648
Other construction in progress	67,460
Total Business-type Activities Construction In Progress	<u>\$ 110,287</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

**Construction In Progress**

Allocations of business-type activity administration and general expenses of \$13.4 million have been capitalized and included in amounts expended to June 30, 2017.

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

- Golf Course reconfiguration and Baylands Athletic Center - \$3.2 million
- Fire Station Number 3 replacement – \$6.5 million
- Charleston Arastradero Corridor - \$3.6 million

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

- Water main Replacement for Water fund - \$6.9 million
- Matadero Creek Storm Water Pump Station Project for Storm Drainage Fund - \$5.2 million
- Dewatering & loadout facility project for Wastewater Treatment Fund - \$9.6 million

**Vehicle Registration Fees (VRF)**

In FY 2017, the City received VRF funds from the Santa Clara Valley Transportation Authority and expended the full amount on capital expenditures for Alma/Middlefield Resurfacing Project (Project PE-86070):

Starting VRF balance July 1, 2016	\$	5,500
VRF revenue		412,918
VRF interest		958
VRF expense		(419,376)
Ending VRF balance June 30, 2017	\$	-

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 7 – GENERAL LONG-TERM OBLIGATIONS**

**Long-Term Obligations**

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

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

	Original Issue Amount	Balance July 1, 2016	Additions	Retirements	Balance June 30, 2017	Current Portion
Governmental Activities Debt:						
<i>General Long-Term Obligations:</i>						
2002B Downtown Parking Improvements, Certificates of Participation, 6.50%, due 03/01/2022	\$ 3,555	\$ 1,135	\$ -	\$ 160	\$ 975	\$ 170
2010 General Obligation Bonds, 3.25% - 5%, due 08/01/2040	55,305	48,090	-	1,110	46,980	1,170
2011 Lease-Purchase Agreement	3,222	1,248	-	406	842	416
2013A General Obligation Bonds, 2 - 5%, due 08/01/2041	20,695	17,120	-	390	16,730	400
Add: Unamortized Premium	-	3,926	-	158	3,768	158
Total Governmental Activities Debt	<u>\$ 82,777</u>	<u>\$ 71,519</u>	<u>\$ -</u>	<u>\$ 2,224</u>	<u>\$ 69,295</u>	<u>\$ 2,314</u>

	Original Issue Amount	Balance July 1, 2016	Additions	Retirements	Balance June 30, 2017	Current Portion
Business-type Activities Debt:						
<i>Enterprise Long-Term Obligations:</i>						
<b>Utility Revenue Bonds</b>						
1995 Series A, 5.00-6.25%, due 06/01/2020	\$ 8,640	\$ 2,355	\$ -	\$ 535	\$ 1,820	\$ 570
1999 Refunding, 5.125-5.25%, due 06/01/2024	17,735	9,680	-	700	8,980	735
2009 Series A, 1.80-5.95%, due 06/01/2035	35,015	29,745	-	990	28,755	1,035
2011 Refunding, 3-4%, due 06/01/2035	17,225	12,315	-	1,045	11,270	1,085
Add: Unamortized Premium	-	770	-	70	700	-
<b>Energy Tax Credit Bonds</b>						
2007 Series A, 0%, Due 12/15/2021	1,500	600	-	100	500	100
Less: Unamortized Discount	-	(33)	-	(6)	(27)	-
<b>State Water Resources Loans</b>						
2007, 1.02%, due 06/30/2029	9,000	5,850	-	450	5,400	450
2009, 2.6%, due 11/30/2030	8,500	6,831	-	378	6,453	388
2017, 1.8%, due 3/30/2049	29,684	-	3,181	-	3,181	-
Total Business-type Activities Debt	<u>\$ 127,299</u>	<u>\$ 68,113</u>	<u>\$ 3,181</u>	<u>\$ 4,262</u>	<u>\$ 67,032</u>	<u>\$ 4,363</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 7 – GENERAL LONG-TERM OBLIGATIONS (Continued)**

**Description of Long-Term Debt Issues**

**2002B Downtown Parking Improvements Project Certificates of Participation (COPs)** – On January 16, 2002, the City issued \$3.6 million of COPs to finance the construction of certain improvements to the non-parking area contained in the City’s Bryant/Florence Garage complex. Principal payments are due annually on March 1 and interest payments semi-annually at 6.5 percent on March 1 and September 1, and are payable from lease revenues received by the Corporation from the City’s available funds.

**2010 General Obligation Bonds (GO bonds)** – On June 30, 2010, the City issued \$55.3 million of GO bonds to finance costs for constructing a new Mitchell Park Library and Community Center, as well as making substantial improvements to the Rinconada Library and the Downtown Library. Principal payments are due annually on August 1 and interest payments semi-annually on February 1 and August 1 from 3.25 percent to 5 percent, and are payable from property tax revenues.

On June 28, 2016, the City defeased \$2.3 million of 2010 GO bonds using funds from bond premiums received at time of issue by depositing the amount in an irrevocable trust account. The trust account assets and the liability for the defeased bonds are not included in the City’s financial statements. The economic gain associated with interest savings is estimated at \$0.9 million. The City legally remains the primary obligor on the \$2.3 million of defeased bonds until they are paid on August 1, 2020.

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

On June 28, 2016, the City defeased \$2.8 million of 2013A GO bonds using funds remaining at completion of the project by depositing the amount in an irrevocable trust account. The trust account assets and the liability for the defeased bonds are not included in the City’s financial statements. The economic gain associated with interest savings is estimated at \$0.7 million. The City legally remains the primary obligor on the \$2.8 million of defeased bonds until they are paid on August 1, 2023.

The City’s 2010 and 2013A GO bonds are payable from pledged ad valorem property taxes until the final maturity dates of the bonds on August 1, 2040 and August 1, 2041 respectively. For the fiscal year ended June 30, 2017, the City received \$4.6 million in ad valorem property taxes for principal of \$1.5 million and interest of \$2.9 million for both 2010 and 2013A GO bonds.

**2011 Lease-Purchase Agreement** – On August 2, 2011, the City entered into a master lease-purchase agreement with JP Morgan Chase Bank, N.A. to finance redemption of the 1998 Golf Course COPs. The lease is secured by a first priority security interest in twenty-one Fire Department emergency vehicles. Lease proceeds were \$3.2 million. Principal payments are due annually on September 1 and interest payments are due semi-annually on September 1 and March 1 at a rate of 2.49 percent, payable from General Fund revenues.



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 7 – GENERAL LONG-TERM OBLIGATIONS (Continued)**

**1995 Utility Revenue Bonds, Series A** – The City issued \$8.6 million of Utility Revenue Bonds on February 1, 1995 to finance certain extensions and improvements to the City’s Storm Drainage and Surface Water System. The Bonds are special obligations of the City payable solely from and secured by a pledge of and lien upon the revenues derived by the City from the funds, services and facilities of all Enterprise Funds except the Refuse Services Fund, Fiber Optics Fund and Airport Fund. Principal payments are payable annually on June 1 and interest payments semi-annually on June 1 and December 1. A \$2.9 million at 6.3 percent term bond is due June 1, 2020.

As required by the Indenture, the City established a debt service reserve fund for the Bonds (the “Reserve Account”), with a minimum funding level requirement in the Reserve Account (the “Reserve Requirement”). At the time it issued the Bonds, the City satisfied the Reserve Requirement with a deposit into the Reserve Account of a surety bond (the “Surety Bond”) in the amount of \$685,340 issued by Ambac Indemnity Corporation (renamed to Ambac Assurance Corporation in 1997).

The pledge of future Net Revenues for the above bonds ends upon repayment of the \$1.8 million principal and \$0.2 million interest as the remaining debt service on the bonds, which is scheduled to occur in FY 2020. For FY 2017, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$264.3 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$205.1 million. Net Revenues available for debt service amounted to \$59.2 million, which represented coverage of 86.8 times over the \$0.7 million in debt service.

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

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

As required by the Indenture, the City established a debt service reserve fund for the Bonds (the “Reserve Account”), with a minimum funding level requirement in the Reserve Account (the “Reserve Requirement”). At the time it issued the Bonds, the City satisfied the Reserve Requirement with a deposit into the Reserve Account of a surety bond (the “Surety Bond”) in the amount of \$1,647,300 issued by Ambac Indemnity Corporation (renamed to Ambac Assurance Corporation in 1997).

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 7 – GENERAL LONG-TERM OBLIGATIONS (Continued)**

The pledge of future Net Revenues for the above bonds ends upon repayment of the \$8.9 million principal and \$2.2 million interest as the remaining debt service on the bonds, which is scheduled to occur in FY 2024. For FY 2017, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$48.0 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$36.9 million. Net Revenues available for debt service amounted to \$11.1 million, which represents coverage of 9.17 times over the \$1.2 million in debt service.

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

The pledge of future Electric Fund Net Revenues ends upon repayment of the \$0.5 million remaining debt service on the bonds, which is scheduled to occur in FY 2022. For FY 2017, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$137.2 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$111.8 million. Net Revenues available for debt service amounted to \$25.4 million, which represented coverage of 253.4 times over the \$0.1 million in debt service.

**2009 Water Revenue Bonds, Series A** – On October 6, 2009, the City issued \$35.0 million of Water Revenue Bonds to finance certain improvements to the City’s water utility system. Principal payments are due annually on June 1, and interest payments are due semi-annually on June 1 and December 1 from 1.80 percent to 5.95 percent. The 2009 Revenue Bonds are secured by net revenues generated by the Water Services Fund. The 2009 Bonds were issued as bonds designated as “Direct Payment Build America Bonds” under the provisions of the American Recovery and Reinvestment Act of 2009 (“Build America Bonds”). The City expects to receive a cash subsidy payment from the United States Treasury equal to 35 percent of the interest payable on the 2009 Bonds. The lien of the 1995 Bonds on the Net Revenues is senior to the lien on Net Revenues securing the 2009 Bonds and the 2011 Bonds. The City received subsidy payments amounting to \$512 thousand, which represents 32.6 percent of the interest payments due on December 1 and June 1.

The pledge of future Net Revenues for the above bonds ends upon repayment of the \$28.8 million principal and \$17.4 million interest as the remaining debt service on the bonds, which is scheduled to occur in FY 2035. For FY 2017, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$42.7 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$33.1 million. Net Revenues available for debt service amounted to \$9.6 million, which represented coverage of 3.7 times over the \$2.6 million in debt service.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 7 – GENERAL LONG-TERM OBLIGATIONS (Continued)**

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

The pledge of future Net Revenues of the above bonds ends upon repayment of the \$11.2 million principal and \$1.8 million interest as remaining debt service on the bonds, which is scheduled to occur in FY 2035. For FY 2017, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$79.1 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$56.3 million. Net Revenues available for debt service amounted to \$22.8 million, which represented coverage of 15.6 times over the \$1.5 million in debt service.

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

Concurrently with the loan, the City entered into various other agreements including a cost sharing arrangement with the City of Mountain View. Pursuant to that agreement, City of Mountain View agreed to finance a portion of the project with a \$6 million loan repayable to the City. This loan has been recorded as “Due from other government agencies” in the accompanying financial statements.

**2009 State Water Resources Loan** – In October 2009, the City approved an \$8.5 million loan agreement with SWRCB to finance the City’s Ultraviolet Disinfection project. Principal and interest payments are payable annually on November 30.

**2017 State Water Resources Loan** - In June 2017, the SWRCB and the City executed agreement for an award up to \$30 million, 30 years 1.8% to finance the project replacing the sewage sludge “bio-solids” incinerators at the City’s Regional Water Quality Control Plant (RWQCP). In September 2017, due to the projected lower project costs, the agreement was amended to a lower loan amount of \$29.7 million. Under the terms of the contract, a portion of the loan amount, \$4 million, is anticipated to be forgiven, contingent on the City’s performance of its obligations under the agreement.

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 7 – GENERAL LONG-TERM OBLIGATIONS (Continued)**

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

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

For the Year Ending June 30	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2018	\$ 2,156	\$ 2,942	\$ 5,098	\$ 4,363	\$ 2,656	\$ 7,019
2019	2,251	2,844	5,095	4,533	2,484	7,017
2020	1,920	2,758	4,678	5,291	2,651	7,942
2021	1,985	2,674	4,659	5,562	2,523	8,085
2022	2,080	2,583	4,663	5,778	2,359	8,137
2023-2027	10,590	11,527	22,117	21,862	8,869	30,731
2028-2032	13,380	8,682	22,062	12,110	3,835	15,945
2033-2037	16,620	5,387	22,007	6,860	832	7,692
2038-2042	14,545	1,292	15,837	-	-	-
Total	\$ 65,527	\$ 40,689	\$ 106,216	\$ 66,359	\$ 26,209	\$ 92,568

**Debt Call Provisions**

Long-term debt as of June 30, 2017 is callable on the following terms and conditions:

	<u>Initial Call Date</u>	
<b>Governmental Activities Long-Term Debt</b>		
2002B Certificates of Participation	03/01/11	(2)
2010 General Obligation Bonds		
\$6.595 million due 08/01/2032	08/01/31	(3)
\$4.890 million due 08/01/2034	08/01/33	(3)
\$17.725 million due 08/01/2040	08/01/35	(3)
<b>Business-Type Activities Long-Term Debt</b>		
Utility Revenue Bonds		
1999 Refunding	06/01/09	(1)
2011 Refunding	06/01/21	(1)

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

**Leasing Arrangements**

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 7 – GENERAL LONG-TERM OBLIGATIONS (Continued)**

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

**Conduit Financing**

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 basic financial statements since it is not legally or morally obligated for the repayment of the bonds. At June 30, 2017, the outstanding bonds have been fully paid.

**NOTE 8 – SPECIAL ASSESSMENT DEBT**

**Special Assessment Debt with no City Commitment**

On February 29, 2012, the University Avenue Area Off-Street Parking Assessment District issued Limited Obligation Refunding Improvement Bonds (2012 Bonds), but the City has no legal or moral liability with respect to the payment of this debt, which is secured only by assessments on properties in this District. Therefore, this debt is not included in Governmental Activities long-term debt of the City. At June 30, 2017, the District's outstanding debt amounted to \$23.8 million. The proceeds from the 2012 Bonds, combined with available Assessment Funds, were used to redeem the outstanding University Avenue Area Off-Street Parking Assessment District Series 2001-A and Series 2002-A Bonds. On June 28, 2016, the District defeased \$1.6 million of the 2012 Bonds using funds remaining from completion of the project. The defeased debt will be paid on September 2, 2022.

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

The 126 acre Palo Alto Refuse Disposal Site (Palo Alto Landfill) was filled to capacity and stopped accepting waste in July 2011. State and federal laws and regulations require the City to construct a final cover to cap the waste, and to perform certain post-closure maintenance and monitoring activities at the site for a minimum of thirty years after closure. As of November 2015, the Palo Alto Landfill has been fully capped and subsequently converted to a pastoral park (Byxbee Park) that is open to the public. A final post-closure maintenance plan and cost estimate for the thirty year post-closure related activities was approved by state and local regulatory agencies in 2014. This cost estimate is adjusted annually for inflation at a percentage provided by the State. Landfill post-closure liabilities as of June 30, 2017 are \$6.7 million. The City is required by state and federal laws and regulations to fund post-closure maintenance activities by pledging future revenue received from Refuse customers through rate fees.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

**Net Position**

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

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

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

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

**Fund Balances**

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

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

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

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

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

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

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

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

As of June 30, 2017 total outstanding encumbrances and reappropriations related to governmental activities were \$7.8 million for the General Fund, \$21.9 million for the Capital Projects Fund, and \$0.5 million for the Special Revenue Funds. General Fund encumbrances are reserved for the following governmental activities: Planning & Community Environment \$1.6 million, Development Services \$0.7 million, Public Works \$0.9 million, Community Services \$0.9 million, Fire \$0.6 million, and the remaining City departments \$2 million.

**Enterprise Funds**

At June 30, 2017, Enterprise Fund unrestricted net position (in thousands) were as follows:

	Water	Electric	Fiber Optics	Gas	Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Airport	Total
Unrestricted										
Rate stabilization										
Supply	\$ -	\$ 9,011	\$ -	\$ 177	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,188
Distribution	4,069	-	25,422	6,363	342	(4,027)	9,567	2,044	(2,904)	40,876
	<u>4,069</u>	<u>9,011</u>	<u>25,422</u>	<u>6,540</u>	<u>342</u>	<u>(4,027)</u>	<u>9,567</u>	<u>2,044</u>	<u>(2,904)</u>	<u>50,064</u>
Operations										
Supply	-	12,890	-	-	-	-	-	-	-	12,890
Distribution	19,792	7,022	-	13,549	6,393	-	-	-	-	46,756
	<u>19,792</u>	<u>19,912</u>	<u>-</u>	<u>13,549</u>	<u>6,393</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>59,646</u>
Emergency plant replacement	-	-	1,000	-	-	1,980	-	-	-	2,980
Electric special projects	-	51,838	-	-	-	-	-	-	-	51,838
Reappropriations	3,458	5,652	1,200	3,859	449	804	-	-	67	15,489
Commitments	10,518	4,198	124	1,197	1,473	17,685	996	6,877	666	43,734
Underground loan	-	730	-	-	-	-	-	-	-	730
Notes and loans	-	-	-	-	-	559	-	-	-	559
Landfill corrective action	-	-	-	-	-	-	728	-	-	728
Hydro stabilization reserve	-	11,400	-	-	-	-	-	-	-	11,400
Public benefit program	-	681	-	-	-	-	-	-	-	681
CIP reserve	2,726	880	-	3,820	978	-	-	-	-	8,404
Geng Road Reserve	-	-	-	-	-	-	268	-	-	268
GASB 68 Pension reserve	(11,736)	(27,659)	(1,701)	(12,505)	(7,019)	(17,383)	(4,905)	(2,955)	(394)	(86,257)
Total	<u>\$ 28,827</u>	<u>\$ 76,643</u>	<u>\$ 26,045</u>	<u>\$ 16,460</u>	<u>\$ 2,616</u>	<u>\$ (382)</u>	<u>\$ 6,654</u>	<u>\$ 5,966</u>	<u>\$ (2,565)</u>	<u>\$ 160,264</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

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

**Internal Service Funds**

At June 30, 2017, Internal Service Funds unrestricted net position (in thousands) were as follows:

	Vehicle Replacement and Maintenance	Technology	Printing and Mailing Services	General Benefits	Workers' Compensation Insurance Program	General Liabilities Insurance Program	Retiree Health Benefits	Total
Unrestricted net position:								
Commitments	\$ 4,287	\$ 1,810	\$ 50	\$ 184	\$ 10	\$ 26	\$ -	\$ 6,367
Future catastrophic losses	-	-	-	-	3,136	1,797	-	4,933
Retiree health care	-	-	-	-	-	-	24,798	24,798
Capital projects	4,328	3,344	75	-	-	-	-	7,747
GASB68 pension reserve	(2,650)	(9,220)	(291)	-	13	-	-	(12,148)
Available	1,885	18,276	(130)	6,193	-	-	-	26,224
Total	<u>\$ 7,850</u>	<u>\$ 14,210</u>	<u>\$ (296)</u>	<u>\$ 6,377</u>	<u>\$ 3,159</u>	<u>\$ 1,823</u>	<u>\$ 24,798</u>	<u>\$ 57,921</u>

**Commitments** represent the portion of net position set aside for open purchase orders.

**Future catastrophic losses** represent the portion of net position to be used for unforeseen future losses.

**Retiree health care** represents the portion of net position set aside to defer future costs of retiree health care coverage.

**Capital projects** represent the portion of net position set aside for adopted capital projects.

**GASB68 pension reserve** is the portion of net position required to be set aside to meet defined benefit pension obligations.



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 11 – PENSION PLANS**

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

**Plan Descriptions** - Substantially all permanent City employees are eligible to participate in the City's separate Safety (police and fire) and Miscellaneous (all other) Plans, agent multiple-employer defined benefit pension plans administered by California Public Employees' Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. Benefits provisions under the Plans are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans including benefits provisions, assumptions and membership information. The reports can be found on the CalPERS website at: <http://www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/actuarial-reports/home.xml>

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

The Plans' provisions and benefits in effect at June 30, 2017, are summarized in the following table. Contribution rates are based on the Actuarial Valuation Report as of June 30, 2014.

	Safety Plan			
	Fire Fighters, Fire Chief Association, Police Officers,	Fire Fighters, Fire Chief Association	Police Officers, Police Management	Fire Fighters, Fire Chief Association, Police Officers,
	Prior to June 8, 2012	On or after June 8, 2012	On or after Dec. 8, 2012	On or after Jan 1, 2013
Hire Date				
Benefit formula <sup>1</sup>	3% at 55	3% at 55	3% at 50	2.7% at 57
Benefit vesting schedule	5 years service	5 years service	5 years service	5 years service
Benefit payment	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	50	55 <sup>1</sup>	55 <sup>1</sup>	57 <sup>1</sup>
Monthly benefit as % of eligible compensatic	3%	3%	3%	2.7%
Actuarially determined contribution rate - EE	9%	9%	9%	11.25%
Actuarially determined contribution rate - ER	45.426%	45.426%	45.426%	45.426%
	Miscellaneous Plan			
	Prior to July 17, 2010	On or after July 17, 2010	On or after Jan 1, 2013	
Hire Date				
Benefit formula	2.7% at 55 <sup>2</sup>	2% at 60 <sup>2</sup>	2% at 62 <sup>3</sup>	
Benefit vesting schedule	5 years service	5 years service	5 years service	
Benefit payments	monthly for life	monthly for life	monthly for life	
Retirement age	55 <sup>2</sup>	60 <sup>2</sup>	62 <sup>3</sup>	
Monthly benefit as % of eligible compensatic	2.70%	2.0% - 2.418%	2%	
Actuarially determined contribution rate - EE	8%	7%	6.25%	
Actuarially determined contribution rate - ER	28.890%	28.890%	28.890%	

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

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

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

**Employees Covered** – Based on the Actuarial Valuation Report as of June 30, 2016, the following employees were covered by the benefits terms for each Plan:

	Miscellaneous Plan	Safety Plan
Inactive employees or beneficiaries currently receiving benefits	1,061	417
Inactive employees entitled to but not yet receiving benefits	744	101
Active employees	821	174
Total	2,626	692

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

Further detail can be found in the Required Supplemental Information Schedule of Contributions.

In April 2017, the City established a Section 115 irrevocable trust with the Public Agency Retirement Services (PARS). The Council approved an initial deposit of \$2.1 million in General Fund proceeds into the General Fund subaccount of the City’s PARS Trust Account. The Trust Account allows more control and flexibility in investment allocations compared to City’s portfolio which is restricted by State regulations to fixed income instruments. As of June 30, 2017, the City reported the account balance of \$2.1 million as restricted cash in the General Benefits, an Internal Service Fund.

**(b) Net Pension Liability**

The City’s net pension liability for both Plans is measured as the total pension liability, less the plan’s fiduciary net position. Net pension liability is measured as of June 30, 2016 (measurement date), using the Actuarial Valuation Report as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. At June 30, 2017, the City reported a net pension liability of \$377.3 million for both plans. A summary of principal assumptions and methods used to determine the net pension liability is as follows:

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

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

	Miscellaneous Plan	Safety Plan
Valuation Date	June 30, 2015	June 30, 2015
Measurement Date	June 30, 2016	June 30, 2016
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Actuarial Assumptions:		
Discount Rate	7.65%	7.65%
Inflation	2.75%	2.75%
Payroll Growth	3.00%	3.00%
Investment Rate of Return <sup>1</sup>	7.65%	7.65%
Retirement Age	Probabilities of retirement are based on the 2014 CalPERS Experience Study for the period 1997 to 2011.	
Mortality <sup>2</sup>	Derived using CalPERS membership data for all funds.	

<sup>1</sup> Net of pension plan investment expenses, including inflation.

<sup>2</sup> Mortality table used was developed based on CalPERS Experience Study for period 1997 to 2011. Pre- and post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

Further details of the Experience Study can be found on the CalPERS website.

**Discount Rate** – The discount rate used to measure the total pension liability was 7.65 percent for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each Plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans ran out of assets. Therefore, the current 7.65 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund for the June 30, 2016 measurement date. The stress test results are presented in a detailed report that can be obtained from the CalPERS website under GASB Statement No. 68 section.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound geometric returns were calculated over the short-term (first ten years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class for both Miscellaneous and Safety Plans. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 <sup>1</sup>	Real Return Years 11+ <sup>2</sup>
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	19.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	2.0	(0.55)	(1.05)

<sup>1</sup> An expected inflation of 2.5% used for this period.

<sup>2</sup> An expected inflation of 3.0% used for this period.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

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

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

	Total Pension Liability	Plan Net Position	Net Pension Liability
Balances calculated at July 1, 2016	\$ 683,974	\$ 477,782	\$ 206,192
Changes for the year:			
Service cost	12,582	-	12,582
Interest on total pension liability	51,531	-	51,531
Differences between expected and actual experiences	757	-	757
Contributions from employer	-	18,840	(18,840)
Contributions from employees	-	5,812	(5,812)
Net investment income	-	2,464	(2,464)
Benefit payments, including refunds of employee contributions	(34,825)	(34,825)	-
Administrative expense	-	(291)	291
Net changes	<u>30,045</u>	<u>(8,000)</u>	<u>38,045</u>
Balances reported at June 30, 2017	<u>\$ 714,019</u>	<u>\$ 469,782</u>	<u>\$ 244,237</u>

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

	Total Pension Liability	Plan Net Position	Net Pension Liability
Balances calculated at July 1, 2016	\$ 373,009	\$ 259,579	\$ 113,430
Changes for the year:			
Service cost	5,916	-	5,916
Interest on total pension liability	27,816	-	27,816
Differences between expected and actual experiences	(1,516)	-	(1,516)
Contributions from employer	-	9,403	(9,403)
Contributions from employees	-	2,059	(2,059)
Net investment income	-	1,259	(1,259)
Benefit payments, including refunds of employee contributions	(21,669)	(21,669)	-
Administrative expense	-	(157)	157
Net changes	<u>10,547</u>	<u>(9,105)</u>	<u>19,652</u>
Balances reported at June 30, 2017	<u>\$ 383,556</u>	<u>\$ 250,474</u>	<u>\$ 133,082</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** - The following table presents the net pension liability of the Plans as of the measurement date, calculated using the discount rate of 7.65 percent, compared to a discount rate that is 1 percentage point lower (6.65 percent) or 1 percentage point higher (8.65 percent). Amounts shown below are in thousands:

	Discount Rate - 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
<b>Miscellaneous Plan:</b>			
Plan's Net Pension Liability/(Asset)	\$ 334,439	\$ 244,237	\$ 169,179
<b>Safety Plan:</b>			
Plan's Net Pension Liability/(Asset)	\$ 181,270	\$ 133,082	\$ 93,171

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

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

For the year ended June 30, 2017, the City recognized a pension expense of \$23.9 million and \$11.9 million for the Miscellaneous and Safety Plan respectively. At June 30, 2017, the City reported pension related deferred outflows of resources and deferred inflows of resources for Miscellaneous Plan from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 20,644	\$ -
Change of assumptions	-	3,851
Difference between expected and actual experience	1,665	-
Net difference between projected and actual earnings on plan investments	25,746	-
Total	<u>\$ 48,055</u>	<u>\$ 3,851</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

At June 30, 2017, the City reported pension related deferred outflows of resources and deferred inflows of resources for Safety Plan from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 10,185	\$ -
Change of assumptions	-	2,605
Difference between expected and actual experience	31	1,027
Net difference between projected and actual earnings on plan investments	13,746	-
Total	<u>\$ 23,962</u>	<u>\$ 3,632</u>

The \$30.8 million reported as deferred outflows of resources relates to contributions paid by the City from July 1, 2016 through June 30, 2017 which is subsequent to the City’s measurement date of June 30, 2016 for both the Miscellaneous and Safety Plans. This amount will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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

Year Ended June 30,	Miscellaneous Plan	Safety Plan	Total
2018	\$ 1,227	\$ (483)	\$ 744
2019	3,883	622	4,505
2020	11,752	6,377	18,129
2021	6,698	3,629	10,327
	<u>\$ 23,560</u>	<u>\$ 10,145</u>	<u>\$ 33,705</u>

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 12 – 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. Employees who retire directly from the City are eligible for retiree health benefits if they retire on or after age 50 with 5 years of service and are receiving a monthly pension from CalPERS. Details of benefits provided to retirees are noted in the following tables:

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

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

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

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

<sup>4</sup> Effective 4/1/2014 City pays \$688 for employee, \$1,375 for employee +1, \$1,788 for family. Effective 1/1/2015 City pays \$708 for employee, \$1,415 for employee +1, \$1,840 for family.

<sup>5</sup> Effective 1/1/2015 City pays \$708 for employee, \$1,415 for employee +1, \$1,840 for family. Effective 1/1/2016 City pays \$743 for employee, \$1,485 for employee +1, \$1,931 for family.

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

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

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

<sup>2</sup> Maximum of 90% once employee completes 20 years of service.



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 12 – RETIREE HEALTH BENEFITS (Continued)**

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

**Funding Policy and Actuarial Assumptions**

The City’s policy is to prefund these benefits by accumulating assets in the Trust Fund discussed above pursuant to City Council Resolution. The annual required contribution (ARC) was determined as part of a June 30, 2015 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions include: (a) 7.25 percent investment rate of return, (b) 3.25 percent projected annual salary increase, (c) market value of assets, (d) inflation rate of 3 percent, and (e) health care cost trend data as noted in the following table:

<u>Year</u>	<u>Non-Medicare</u>	<u>Medicare</u>
2015	8.0%	8.3%
2016	7.5%	7.8%
2017	7.0%	7.2%
2018	6.5%	6.7%
2019	6.0%	6.1%
2020	5.5%	5.6%
2021+	5.0%	5.0%

The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. The calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing costs between the City and Plan members to that point. Actuarially determined amounts are subject to revision at least biennially as results are compared to past expectations and new estimates are made about the future. The City’s unfunded actuarial accrued liability for retiree health benefits is being amortized as a level percentage of projected payroll using a 30 year closed amortization period.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 12 – RETIREE HEALTH BENEFITS (Continued)**

Generally accepted accounting principles permit assets to be treated as other post employment benefit (OPEB) assets and deducted from the actuarial accrued liability when such assets are placed in an irrevocable trust or equivalent arrangement. During the year ended June 30, 2017, the City made contributions and amortized the Net OPEB asset to fund the current year annual required contribution (ARC). As a result, the City has calculated and recorded the Net OPEB Asset, representing the difference between the ARC, amortization and contributions, as presented below (in thousands):

Annual required contribution	\$ 16,365
Amortization of the Net OPEB Asset	2,096
Interest on the Net OPEB Asset	<u>(1,571)</u>
Annual OPEB Cost	<u>16,890</u>
Contributions made:	
Contributions to OPEB Trust	2,731
Contributions to Retirees	8,074
Implicit rate subsidy	2,203
City portion of current year premiums paid*	<u>1,639</u>
Total contributions made	<u>14,647</u>
Change in Net OPEB Asset	(2,243)
Net OPEB Asset, beginning of year	<u>21,662</u>
Net OPEB Asset, end of year	<u><u>\$ 19,419</u></u>

\* FY 2017 premiums for 929 retirees.

Shortly after year-end, the City contributed an additional \$4.4 million to the Trust.

The Plan’s annual OPEB cost and actual contributions for the past three years ended June 30 are set forth below (in thousands):

Fiscal Year	Annual OPEB Cost	Actual Contribution	Percentage of OPEB Cost	Net OPEB Obligation (Asset)
June 30, 2015	\$ 14,773	\$ 15,034	102%	\$ (22,871)
June 30, 2016	15,292	14,083	92%	(21,662)
June 30, 2017	16,890	14,647	87%	(19,419)

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 12 – RETIREE HEALTH BENEFITS (Continued)**

The Schedule of Funding Progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the actuarial studies is presented below (in thousands):

Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded Liability	Funded Ratio	Annual Covered Payroll	Unfunded Liability as a % of Payroll
June 30, 2011	\$ 168,053	\$ 44,774	\$ 123,279	26.6%	\$ 80,664	152.8%
June 30, 2013	203,642	60,070	143,572	29.5%	81,785	175.5%
June 30, 2015	234,795	78,578	156,217	33.5%	87,586	178.4%

**NOTE 13 – DEFERRED COMPENSATION PLAN**

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

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

**NOTE 14 – RISK MANAGEMENT**

**Coverage**

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

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

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

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

The City is a member of the Authority for California Cities Excess Liability (ACCEL), which provides excess general liability insurance coverage, including auto liability, up to \$100 million per occurrence. The City retains the risk for the first \$1.0 million in losses for each occurrence under this policy.

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

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

During the year ended June 30, 2017, the City paid \$0.9 million to ACCEL for current year coverage.

Audited financial statements are available from ACCEL at 100 Pine Street, 11<sup>th</sup> Floor, San Francisco, California 94110.

**Claims Liability**

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

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

	Year Ended June 30	
	2017	2016
Beginning balance	\$ 23,379	\$ 24,118
Liability for current and prior fiscal years claims and claims incurred but not reported (IBNR)	2,998	2,850
Claims paid	(3,907)	(3,589)
Ending balance	\$ 22,470	\$ 23,379
Current portion	\$ 5,286	\$ 5,237

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

**NOTE 15 – JOINT VENTURES**

**General**

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

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

**Northern California Power Agency**

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

During the year ended June 30, 2017, the City incurred expenses totaling \$60.4 million for purchased power and assessments earned by NCPA.

The City's interest in NCPA projects and reserves, as computed by NCPA, was \$9.2 million at June 30, 2017. This amount represents the City's portion of funds, which resulted from the settlement with third parties of issues with financial consequences and reconciliations of several prior years' budgets for programs. It is recognized that all the funds credited to the City are linked to the collection of revenue from the City's ratepayers, or to the settlement of disputes relating to electric power supply and that the money was collected from the City's ratepayers to pay power bills. Additionally, the NCPA Commission identified and approved the funding of specific reserves for working capital, accumulated employees' post-retirement medical benefits, and billed property taxes for the geothermal project. The Commission also identified a number of contingent liabilities that may or may not be realized, the cost of which in most cases is difficult to estimate at this time. One such contingent liability is the steam field depletion, which will require funding to cover debt service and operational costs in excess of the expected value of the electric power. The General Operating Reserve (GOR) is intended to minimize the number and amount of individual reserves needed for each project, protect NCPA's financial condition and maintain its credit worthiness. There are no funds on deposit with NCPA as a reserve against these contingencies identified by NCPA.

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

**Geothermal Projects**

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

The City's participation in the Geothermal Project was sold to Turlock Irrigation District in October 1984. Accordingly, the City is liable for payment of outstanding geothermal related debt only in the event that Turlock fails to make specified payments. Total outstanding debt of the NCPA Geothermal Project at June 30, 2017 is \$77.7 million. The City's participation in this project was 6.2 percent, or \$4.8 million.

**Calaveras Hydroelectric Project**

In July 1981, NCPA agreed with Calaveras County Water District to purchase the output of the North Fork Stanislaus River Hydroelectric Development Project and to finance its construction. Debt service payments to NCPA began in February 1990 when the project was declared substantially complete and power was delivered to the participants. Under its power purchase agreement with NCPA, the City is obligated to pay 22.9 percent of this Project's debt service and operating costs. At June 30, 2017, the book value of this Project's plant, equipment and other assets was \$412 million, while its long-term debt totaled \$333 million and other liabilities totaled \$65.5 million. The City's share of the Project's long-term debt amounted to \$77.2 million at that date.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

**Geothermal Public Power Line**

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

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

At June 30, 2017, the book value of this Project's plant, equipment and other assets was zero, and its long-term debt totaled zero.

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

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

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

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

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

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

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

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

**NOTE 16 – COMMITMENTS AND CONTINGENCIES**

**Palo Alto Unified School District** – The City leases 27 acres of the former Cubberley School site and twelve extended day care sites from Palo Alto Unified School District (PAUSD). The lease includes a mechanism for a joint planning process between the City and PAUSD to develop a long-term master plan for the Cubberley site. The City will pay \$1.86 million annually into a separate fund to be used for repairing, renovating and/or improving the infrastructure at the Cubberley site. The previous lease term expired on December 31, 2014, and the City and PAUSD reached an agreement to extend the lease agreement for an additional five (5) years, with a new expiration date of 12/31/2019. The City and PAUSD also agreed to distribute gains or losses of revenue that resulted from the Foothill College departure from Cubberley. The City’s rent and infrastructure payment for the facilities is \$7.3 million per year plus insurance, repairs and maintenance. Lease expenditures for the year ended June 30, 2017 amounted to \$7.5 million. Future minimum annual lease and infrastructure payments are as follows (in thousands):

Year Ending	Payment
June 30	<u>          </u>
2018	\$ 7,736
2019	7,912
2020	4,001
2021	-
	<u><u>\$ 19,649</u></u>



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

**GreenWaste of Palo Alto** – GreenWaste of Palo Alto is the City’s contractor for waste collection, transportation, and processing services. The agreement expires June 30, 2021. The base compensation for GreenWaste is adjusted annually based on CPI indicators stipulated in the contract. In FY 2017 payments to GreenWaste were \$10.5 million.

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

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

On December 1, 1992, the Sunnyvale Financing Authority issued \$24.6 million in revenue bonds to finance the design and construction costs of the SMaRT Station. In the fiscal year ended June 30, 2003, the 1992 bonds were refunded by issuing the 2003 Solid Waste Revenue Bonds in the amount of \$20.6 million. 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 21.3 percent of total debt service payments related to these bonds. During the year ended June 30, 2017, the City paid \$0.4 million as its portion of current debt service. As of June 30, 2017, the City has fully paid off its outstanding portion.

In FY 2008, the members agreed to finance an Equipment Replacement Project from existing reserves and proceeds from the Solid Waste Revenue Bond, Series 2007. The City has committed to repay 27.8 percent of the remaining debt service on the Bonds. The City’s portion of the Bonds amounts to \$0.7 million as of June 30, 2017. During the year ended June 30, 2017, the City paid \$0.2 million as its portion of current debt service.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

**UTILITIES ENERGY RESOURCE MANAGEMENT**

**Electric Power Supply Purchase Agreements** – The City has numerous power purchase agreements with power producers to purchase capacity and energy to supply a portion of its load requirements. As of June 30, 2017, the approximate minimum obligations for the contracts, assuming the energy is delivered over the next five years, are as follows:

Fiscal Year	Projected Obligation
2018	\$64.1 million
2019	\$65.7 million
2020	\$66.6 million
2021	\$65.8 million
2022	\$68.1 million

**Contractual Commitments beyond 2022 (Electricity)** – Several of the City’s purchase power and transmission contracts extend beyond the five-year summary presented above. These contracts expire between 2026 and 2051 and provide for power under various terms and conditions. The City estimates that its annual minimum commitments under the contracts, assuming the energy is delivered, ranges between \$67.1 million in 2023 and \$51.7 million in 2034. . The City’s largest single purchase power source is the Western Base Resource contract, whereby the City receives 12.31 percent of the amount of energy made available by Western, after meeting Central Valley Project use requirements, in any given year at a 12.31 percent share of their revenue requirement. The Western contract expires on December 31, 2024. The City expects to have the option to extend the Western contract for an additional 30-year period beyond 2024, although likely at a slightly lower share of the total energy output and revenue requirement.

**Gas Accord V** – The City is a party to the Gas Accord V, a natural gas transportation contract between Pacific Gas and Electric Company (PG&E) and its gas transportation customers. New rates are determined through a proceeding at the California Public Utilities Commission. A final CPUC decision on Pacific Gas and Electric Company’s (PG&E) Gas Transmission and Storage Case was issued June 2016. Although several appeals are underway, Palo Alto’s gas transmission rates increased by 230% and Palo Alto’s local transmission rates increased by \$2 million on August 1, 2016.

**San Francisco Public Utilities Commission** – The City purchases water to deliver to the customers of its water utility from the San Francisco Public Utilities Commission (SFPUC) under a contract terminating in 2034. The City’s wholesale water rate under this contract is determined by a ratemaking process under the authority of the SFPUC, with contractual limitations on the types of costs that may be allocated to wholesale water purchasers like the City. The City is prohibited from purchasing from other water suppliers under this contract, though it is not prohibited from using ground water. The City’s cost of water under this contract is projected to increase by 10% by 2021 as the SFPUC has nearly completed an upgrade to its regional water system facilities under its Water System Improvement Program (WSIP).

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2017**

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

**Litigation**

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

A class action lawsuit for refund of telephone users tax was filed against the City in August 2015. At this time, the City Attorney is of the opinion that a potential loss is neither probable nor can it be reasonably estimated.

A class action lawsuit for refund of allegedly illegal charges to gas and electrical customers was filed against the City in October 2016. At this time, the City Attorney is of the opinion that a potential loss is neither probable nor can it be reasonably estimated.

**Grant Programs**

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

**CITY OF PALO ALTO**  
**Required Supplementary Information (Unaudited)**  
**Last 3 Fiscal Years\***

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

Fiscal year	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>
Measurement Period	2015-16	2014-15	2013-14
<b>Total pension liability</b>			
Service cost	\$ 12,582	\$ 12,183	\$ 12,442
Interest	51,531	49,345	46,963
Changes of assumptions	-	(11,552)	-
Difference between expected and actual experience	757	3,507	-
Benefit payments, including refunds of employee contributions	(34,825)	(32,980)	(31,781)
<b>Net change in total pension liability</b>	<b>30,045</b>	<b>20,503</b>	<b>27,624</b>
<b>Total pension liability - beginning</b>	<b>683,974</b>	<b>663,471</b>	<b>635,847</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 714,019</b>	<b>\$ 683,974</b>	<b>\$ 663,471</b>
<b>Plan fiduciary net position</b>			
Contributions - employer	\$ 18,840	\$ 18,610	\$ 17,400
Contributions - employee	5,812	5,730	6,345
Net investment income	2,464	10,597	70,989
Benefit payments, including refunds of employee contributions	(34,825)	(32,980)	(31,781)
Administrative expense	(291)	(538)	-
<b>Net change in fiduciary net position</b>	<b>(8,000)</b>	<b>1,419</b>	<b>62,953</b>
<b>Plan fiduciary net position - beginning</b>	<b>477,782</b>	<b>476,363</b>	<b>413,410</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 469,782</b>	<b>\$ 477,782</b>	<b>\$ 476,363</b>
<b>Plan net pension liability/(asset) - Ending (a) - (b)</b>	<b>\$ 244,237</b>	<b>\$ 206,192</b>	<b>\$ 187,108</b>
<b>Plan fiduciary net position as a percentage of total pension liability</b>	<b>65.79%</b>	<b>69.85%</b>	<b>71.80%</b>
<b>Covered payroll</b>	<b>\$ 73,722</b>	<b>\$ 69,837</b>	<b>\$ 66,373</b>
<b>Plan net pension liability/(asset) as a percentage of covered employee payroll</b>	<b>331.29%</b>	<b>295.25%</b>	<b>281.90%</b>

**Notes to Schedule:**

**Benefit changes** - The figures above do not include any liability that may have resulted from plan changes which occurred after the June 30, 2014 valuation date. This applies for voluntary benefit changes as well as any offers of two years additional service credit (Golden Handshake).

**Changes in assumptions** - The discount rate was changed from 7.5 percent (net of administrative expense) in 2015 to 7.65 percent in 2016.

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

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

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

Fiscal Year	2016-17	2015-16	2014-15	2013-14
Contractually required contribution (actuarially determined)	\$ 20,644	\$ 18,808	\$ 17,958	\$ 16,209
Actual contribution	(20,644)	(18,808)	(17,958)	(16,209)
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 70,090	\$ 70,415	\$ 68,744	\$ 65,889
Contributions as percentage of covered-employee payroll	29.45%	26.71%	26.12%	24.60%

**Notes to Schedule:**

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2017 contribution rates are as follows:

ADC for fiscal year	June 30, 2017
Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry-Age Normal Cost Method
Asset valuation method	Actuarial value of assets
Inflation	2.75%
Salary increases	Varies by entry age and services
Payroll growth	3.00%
Investment rate of return	7.50%, net of pension plan investment and administrative expenses, includes inflation.

Retirement age   The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period 1997 to 2011.

Mortality   The probabilities of mortality are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. Pre-retirement and Post-retirement mortality rates include 20 years of projected mortality improvement using Scale BB published by the Society of Actuaries.

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

**CITY OF PALO ALTO**  
**Required Supplementary Information (Unaudited)**  
**Last 3 Fiscal Years\***

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

Fiscal year	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>
Measurement Period	2015-16	2014-15	2013-14
<b>Total pension liability</b>			
Service cost	\$ 5,916	\$ 5,959	\$ 6,221
Interest	27,816	27,047	26,113
Changes of assumptions	-	(6,327)	-
Difference between expected and actual experience	(1,516)	75	-
Benefit payments, including refunds of employee contributions	(21,669)	(21,148)	(19,985)
<b>Net change in total pension liability</b>	<b>10,547</b>	<b>5,606</b>	<b>12,349</b>
<b>Total pension liability - beginning</b>	<b>373,009</b>	<b>367,403</b>	<b>355,054</b>
<b>Total pension liability - ending (a)</b>	<b><u>\$ 383,556</u></b>	<b><u>\$ 373,009</u></b>	<b><u>\$ 367,403</u></b>
<b>Plan fiduciary net position</b>			
Contributions - employer	\$ 9,403	\$ 8,617	\$ 7,616
Contributions - employee	2,059	2,047	2,762
Net investment income	1,259	5,774	40,033
Benefit payments, including refunds of employee contributions	(21,669)	(21,148)	(19,985)
Administrative expense	(157)	(290)	-
<b>Net change in fiduciary net position</b>	<b>(9,105)</b>	<b>(5,000)</b>	<b>30,426</b>
<b>Plan fiduciary net position - beginning</b>	<b>259,579</b>	<b>264,579</b>	<b>234,153</b>
<b>Plan fiduciary net position - ending (b)</b>	<b><u>\$ 250,474</u></b>	<b><u>\$ 259,579</u></b>	<b><u>\$ 264,579</u></b>
<b>Plan net pension liability/(asset) - Ending (a) - (b)</b>	<b><u>\$ 133,082</u></b>	<b><u>\$ 113,430</u></b>	<b><u>\$ 102,824</u></b>
<b>Plan fiduciary net position as a percentage of total pension liability</b>	<b>65.30%</b>	<b>69.59%</b>	<b>72.01%</b>
<b>Covered payroll</b>	<b>\$ 21,822</b>	<b>\$ 21,912</b>	<b>\$ 21,896</b>
<b>Plan net pension liability/(asset) as a percentage of covered employee payroll</b>	<b>609.85%</b>	<b>517.66%</b>	<b>469.60%</b>

**Notes to Schedule:**

**Benefit changes** - The figures above do not include any liability that may have resulted from plan changes which occurred after the June 30, 2014 valuation date. This applies for voluntary benefit changes as well as any offers of two years additional service credit (Golden Handshake).

**Changes in assumptions** - The discount rate was changed from 7.5 percent (net of administrative expense) in 2015 to 7.65 percent in 2016.

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

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

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

Fiscal Year	2016-17	2015-16	2014-15	2013-14
Contractually required contribution (actuarially determined)	\$ 10,185	\$ 9,395	\$ 9,036	\$ 8,323
Actual contribution	(10,185)	(9,395)	(9,036)	(8,323)
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 23,247	\$ 23,229	\$ 22,860	\$ 24,886
Contributions as percentage of covered-employee payroll	43.81%	40.45%	39.53%	33.44%

**Notes to Schedule:**

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2017 contribution rates are as follows:

ADC for fiscal year	June 30, 2017
Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry-Age Normal Cost Method
Asset valuation method	Actuarial value of assets
Inflation	2.75%
Salary increases	Varies by entry age and services
Payroll growth	3.00%
Investment rate of return	7.50%, net of pension plan investment and administrative expenses, includes inflation.
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

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

**CITY OF PALO ALTO**  
**Non-major Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2017**  
**(Amounts in thousands)**

	Special Revenue Funds	Debt Service Funds	Permanent Fund	Total Other Governmental Funds
<b>ASSETS:</b>				
Cash and investments:				
Available for operations	\$ 74,774	\$ 3,643	\$ 1,492	\$ 79,909
Cash and investments with fiscal agents	-	248	-	248
Receivables, net:				
Accounts	206	31	-	237
Interest	372	17	7	396
Notes	19,327	-	-	19,327
Total assets	<u>\$ 94,679</u>	<u>\$ 3,939</u>	<u>\$ 1,499</u>	<u>\$ 100,117</u>
<b>LIABILITIES AND FUND BALANCES:</b>				
Liabilities:				
Accounts payable and accruals	\$ 549	\$ -	\$ -	\$ 549
Accrued salaries and benefits	16	-	-	16
Total liabilities	<u>565</u>	<u>-</u>	<u>-</u>	<u>565</u>
Fund balances:				
Nonspendable				
Eyerly family	-	-	1,499	1,499
Restricted				
Transportation mitigation	10,941	-	-	10,941
Federal revenue	5,028	-	-	5,028
Street improvement	866	-	-	866
Local law enforcement	239	-	-	239
Debt service	-	3,939	-	3,939
Public benefit	13,569	-	-	13,569
Committed				
Developer impact fee	15,401	-	-	15,401
Housing In-Lieu	43,781	-	-	43,781
Special districts	4,264	-	-	4,264
Downtown business	25	-	-	25
Total fund balances	<u>94,114</u>	<u>3,939</u>	<u>1,499</u>	<u>99,552</u>
Total liabilities and fund balances	<u>\$ 94,679</u>	<u>\$ 3,939</u>	<u>\$ 1,499</u>	<u>\$ 100,117</u>



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**CITY OF PALO ALTO**  
**Non-major Governmental Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2017**  
**(Amounts in thousands)**

	Special Revenue Funds	Debt Service Funds	Permanent Fund	Total Other Governmental Funds
<b>REVENUES:</b>				
Property tax	\$ -	\$ 4,572	\$ -	\$ 4,572
Special assessments	97	-	-	97
Other taxes and fines	1,500	-	-	1,500
From other agencies:				
Community Development Block Grants	803	-	-	803
State of California	135	-	-	135
Permits and licenses				
University Avenue Parking	2,271	-	-	2,271
California Avenue Parking	279	-	-	279
Other permits and licenses	536	-	-	536
Investment earnings	(165)	(66)	(2)	(233)
Rental income	6	-	-	6
Other:				
Housing In-Lieu - residential	2,234	-	-	2,234
Other fees	1,869	-	-	1,869
Total revenues	<u>9,565</u>	<u>4,506</u>	<u>(2)</u>	<u>14,069</u>
<b>EXPENDITURES:</b>				
Current:				
Administrative Services	216	-	-	216
Public Works	907	-	-	907
Planning and Community Environment	1,514	-	-	1,514
Police	148	-	-	148
Community Services	216	-	-	216
Non-Departmental	667	(11)	4	660
Debt service:				
Principal retirement	-	1,660	-	1,660
Interest and fiscal charges	-	3,006	-	3,006
Total expenditures	<u>3,668</u>	<u>4,655</u>	<u>4</u>	<u>8,327</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>5,897</u>	<u>(149)</u>	<u>(6)</u>	<u>5,742</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	479	233	-	712
Transfers out	(15,326)	-	-	(15,326)
Total other financing sources (uses)	<u>(14,847)</u>	<u>233</u>	<u>-</u>	<u>(14,614)</u>
Change in fund balances	(8,950)	84	(6)	(8,872)
FUND BALANCES, BEGINNING OF YEAR	<u>103,064</u>	<u>3,855</u>	<u>1,505</u>	<u>108,424</u>
FUND BALANCES, END OF YEAR	<u>\$ 94,114</u>	<u>\$ 3,939</u>	<u>\$ 1,499</u>	<u>\$ 99,552</u>

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## **NON-MAJOR GOVERNMENTAL FUNDS**

### **SPECIAL REVENUE FUNDS**

#### **Street Improvement**

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

#### **Federal Revenue**

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

#### **Housing In-Lieu**

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

#### **Special Districts**

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

#### **Transportation Mitigation**

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

#### **Local Law Enforcement**

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

#### **Asset Seizure**

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

#### **Developer Impact Fee**

This fund accounts for fees imposed on new developments to be used for parks, community centers and libraries.

#### **Downtown Business Development District**

The Downtown Business Development District Fund was established to account for the activities of the Palo Alto Downtown Business Development District, which was established to enhance the viability of the downtown business district.

#### **Public Benefit**

This fund accounts for the activities of the Stanford University Medical Center (SUMC) Development Agreement (DA) whereby SUMC will enhance and expand their facilities and the City will grant SUMC the right to develop the facilities in accordance with the DA.

**CITY OF PALO ALTO**  
**Non-major Special Revenue Funds**  
**Combining Balance Sheet**  
**June 30, 2017**  
**(Amounts in thousands)**

	<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	\$ 861	\$ 204	\$ 29,125	\$ 4,558
Receivables:				
Accounts	-	206	-	-
Interest	5	-	132	20
Notes	-	4,779	14,548	-
Total assets	<u>\$ 866</u>	<u>\$ 5,189</u>	<u>\$ 43,805</u>	<u>\$ 4,578</u>
<b>LIABILITIES AND FUND BALANCES:</b>				
Liabilities:				
Accounts payable and accruals	\$ -	\$ 160	\$ 24	\$ 302
Accrued salaries and benefits	-	1	-	12
Total liabilities	<u>-</u>	<u>161</u>	<u>24</u>	<u>314</u>
Fund balances:				
Restricted				
Transportation mitigation	-	-	-	-
Federal revenue	-	5,028	-	-
Street improvement	866	-	-	-
Local law enforcement	-	-	-	-
Public benefit	-	-	-	-
Committed				
Developer impact fee	-	-	-	-
Housing In-Lieu	-	-	43,781	-
Special districts	-	-	-	4,264
Downtown business	-	-	-	-
Total fund balances	<u>866</u>	<u>5,028</u>	<u>43,781</u>	<u>4,264</u>
Total liabilities and fund balances	<u>\$ 866</u>	<u>\$ 5,189</u>	<u>\$ 43,805</u>	<u>\$ 4,578</u>

<u>Transportation Mitigation</u>	<u>Local Law Enforcement</u>	<u>Asset Seizure</u>	<u>Developer Impact Fee</u>	<u>Downtown Business Development District</u>	<u>Public Benefit</u>	<u>Total Special Revenue Funds</u>
\$ 10,890	\$ 247	\$ 3	\$ 15,333	\$ 76	\$ 13,477	\$ 74,774
-	-	-	-	-	-	206
51	1	-	70	-	93	372
-	-	-	-	-	-	19,327
<u>\$ 10,941</u>	<u>\$ 248</u>	<u>\$ 3</u>	<u>\$ 15,403</u>	<u>\$ 76</u>	<u>\$ 13,570</u>	<u>\$ 94,679</u>
\$ -	\$ 12	\$ -	\$ -	\$ 51	\$ -	\$ 549
-	-	-	2	-	1	16
-	12	-	2	51	1	565
10,941	-	-	-	-	-	10,941
-	-	-	-	-	-	5,028
-	-	-	-	-	-	866
-	236	3	-	-	-	239
-	-	-	-	-	13,569	13,569
-	-	-	15,401	-	-	15,401
-	-	-	-	-	-	43,781
-	-	-	-	-	-	4,264
-	-	-	-	25	-	25
<u>10,941</u>	<u>236</u>	<u>3</u>	<u>15,401</u>	<u>25</u>	<u>13,569</u>	<u>94,114</u>
<u>\$ 10,941</u>	<u>\$ 248</u>	<u>\$ 3</u>	<u>\$ 15,403</u>	<u>\$ 76</u>	<u>\$ 13,570</u>	<u>\$ 94,679</u>

**CITY OF PALO ALTO**  
**Non-major Special Revenue Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2017**  
**(Amounts in thousands)**

	Street Improvement	Federal Revenue	Housing In-Lieu	Special Districts
<b>REVENUES:</b>				
Special assessments	\$ -	\$ -	\$ -	\$ -
Other taxes and fines	1,304	-	-	196
From other agencies:				
Community Development Block Grants	-	803	-	-
State of California	-	-	-	-
Permits and licenses				
University Avenue Parking	-	-	-	2,271
California Avenue Parking	-	-	-	279
Other permits and licenses	-	-	-	536
Investment earnings	(7)	-	68	11
Rental income	-	-	6	-
Other:				
Housing In-Lieu	-	-	2,234	-
Other fees	-	134	278	-
Total revenues	<u>1,297</u>	<u>937</u>	<u>2,586</u>	<u>3,293</u>
<b>EXPENDITURES:</b>				
Current:				
Administrative Services	-	-	-	216
Public Works	-	-	-	907
Planning and Community Environment	-	478	32	1,004
Police	-	-	68	-
Community Services	-	-	-	23
Non-Departmental	-	-	357	203
Total expenditures	<u>-</u>	<u>478</u>	<u>457</u>	<u>2,353</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>1,297</u>	<u>459</u>	<u>2,129</u>	<u>940</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	-	400
Transfers out	(1,764)	-	-	(780)
Total other financing sources (uses)	<u>(1,764)</u>	<u>-</u>	<u>-</u>	<u>(380)</u>
Change in fund balances	(467)	459	2,129	560
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>1,333</u>	<u>4,569</u>	<u>41,652</u>	<u>3,704</u>
<b>FUND BALANCES, END OF YEAR</b>	<u>\$ 866</u>	<u>\$ 5,028</u>	<u>\$ 43,781</u>	<u>\$ 4,264</u>

Transportation Mitigation	Local Law Enforcement	Asset Seizure	Developer Impact Fee	Downtown Business Development District	Public Benefit	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ 97	\$ -	\$ 97
-	-	-	-	-	-	1,500
-	-	-	-	-	-	803
-	135	-	-	-	-	135
-	-	-	-	-	-	2,271
-	-	-	-	-	-	279
-	-	-	-	-	-	536
(36)	-	-	(8)	(1)	(192)	(165)
-	-	-	-	-	-	6
-	-	-	-	-	-	2,234
369	-	-	1,088	-	-	1,869
333	135	-	1,080	96	(192)	9,565
-	-	-	-	-	-	216
-	-	-	-	-	-	907
-	-	-	-	-	-	1,514
-	80	-	-	-	-	148
-	-	-	160	-	33	216
-	-	-	-	107	-	667
-	80	-	160	107	33	3,668
333	55	-	920	(11)	(225)	5,897
-	-	-	79	-	-	479
(432)	-	-	-	-	(12,350)	(15,326)
(432)	-	-	79	-	(12,350)	(14,847)
(99)	55	-	999	(11)	(12,575)	(8,950)
11,040	181	3	14,402	36	26,144	103,064
\$ 10,941	\$ 236	\$ 3	\$ 15,401	\$ 25	\$ 13,569	\$ 94,114



**CITY OF PALO ALTO**  
**Non-major Special Revenue Funds**  
**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual**  
**For the Year Ended June 30, 2017**  
**(Amounts in thousands)**

	Street Improvement			Federal Revenue		
	Budget	Actual, plus Encumbrances	Variance Positive (Negative)	Budget	Actual, plus Encumbrances	Variance Positive (Negative)
<b>REVENUES:</b>						
Special assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes and fines	1,416	1,304	(112)	-	-	-
From other agencies:						
Community Development Block Grants	-	-	-	834	803	(31)
State of California	-	-	-	-	-	-
Permits and licenses						
University Avenue Parking	-	-	-	-	-	-
California Avenue Parking	-	-	-	-	-	-
Other permits and licenses	-	-	-	-	-	-
Investment earnings	13	(7)	(20)	-	-	-
Rental income	-	-	-	-	-	-
Other:						
Housing In-Lieu - residential	-	-	-	-	-	-
Other fees	-	-	-	100	134	34
Total revenues	<u>1,429</u>	<u>1,297</u>	<u>(132)</u>	<u>934</u>	<u>937</u>	<u>3</u>
<b>EXPENDITURES:</b>						
Current:						
Administrative Services	-	-	-	-	-	-
Public Works	-	-	-	-	-	-
Planning and Community Environment	-	-	-	1,186	554	632
Police	-	-	-	-	-	-
Community Services	-	-	-	-	-	-
Non-Departmental	-	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,186</u>	<u>554</u>	<u>632</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,429</u>	<u>1,297</u>	<u>(132)</u>	<u>(252)</u>	<u>383</u>	<u>635</u>
<b>OTHER FINANCING SOURCES (USES):</b>						
Transfers in	-	-	-	-	-	-
Transfers out	<u>(1,764)</u>	<u>(1,764)</u>	-	-	-	-
Total other financing sources (uses)	<u>(1,764)</u>	<u>(1,764)</u>	-	-	-	-
Change in fund balances, budgetary basis	<u>\$ (335)</u>	<u>(467)</u>	<u>\$ (132)</u>	<u>\$ (252)</u>	<u>383</u>	<u>\$ 635</u>
<b>Adjustment to Budgetary Basis:</b>						
Current year encumbrances/reappropriations		<u>-</u>			<u>76</u>	
CHANGE IN FUND BALANCE, GAAP BASIS		(467)			459	
FUND BALANCES, BEGINNING OF YEAR, GAAP BASIS		<u>1,333</u>			<u>4,569</u>	
FUND BALANCES, END OF YEAR, GAAP BASIS		<u>\$ 866</u>			<u>\$ 5,028</u>	

Housing In-Lieu			Special Districts			Transportation Mitigation		
Budget	Actual, plus Encumbrances	Variance Positive (Negative)	Budget	Actual, plus Encumbrances	Variance Positive (Negative)	Budget	Actual, plus Encumbrances	Variance Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	43	196	153	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	1,929	2,271	342	-	-	-
-	-	-	195	279	84	-	-	-
-	-	-	275	536	261	-	-	-
143	68	(75)	27	11	(16)	172	(36)	(208)
9	6	(3)	-	-	-	-	-	-
3,400	2,234	(1,166)	-	-	-	-	-	-
210	278	68	-	-	-	1,717	369	(1,348)
<u>3,762</u>	<u>2,586</u>	<u>(1,176)</u>	<u>2,469</u>	<u>3,293</u>	<u>824</u>	<u>1,889</u>	<u>333</u>	<u>(1,556)</u>
-	-	-	213	216	(3)	-	-	-
-	-	-	1,143	907	236	-	-	-
607	443	164	2,044	1,301	743	-	-	-
-	68	(68)	-	-	-	-	-	-
-	-	-	26	23	3	-	-	-
478	357	121	192	203	(11)	-	-	-
<u>1,085</u>	<u>868</u>	<u>217</u>	<u>3,618</u>	<u>2,650</u>	<u>968</u>	<u>-</u>	<u>-</u>	<u>-</u>
2,677	1,718	(959)	(1,149)	643	1,792	1,889	333	(1,556)
-	-	-	400	400	-	-	-	-
-	-	-	(780)	(780)	-	(432)	(432)	-
-	-	-	(380)	(380)	-	(432)	(432)	-
<u>\$ 2,677</u>	<u>1,718</u>	<u>\$ (959)</u>	<u>\$ (1,529)</u>	<u>263</u>	<u>\$ 1,792</u>	<u>\$ 1,457</u>	<u>(99)</u>	<u>\$ (1,556)</u>
	<u>411</u>			<u>297</u>			<u>-</u>	
	2,129			560			(99)	
	<u>41,652</u>			<u>3,704</u>			<u>11,040</u>	
	<u>\$ 43,781</u>			<u>\$ 4,264</u>			<u>\$ 10,941</u>	

**CITY OF PALO ALTO**  
**Non-major Special Revenue Funds**  
**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual**  
**For the Year Ended June 30, 2017**  
**(Amounts in Thousands)**

	Local Law Enforcement			Asset Seizure		
	Budget	Actual, plus Encumbrances	Variance Positive (Negative)	Budget	Actual, plus Encumbrances	Variance Positive (Negative)
REVENUES:						
Special assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes and fines	-	-	-	-	-	-
From other agencies:						
Community Development Block Grants	-	-	-	-	-	-
State of California	107	135	28	-	-	-
Permits and licenses						
University Avenue Parking	-	-	-	-	-	-
California Avenue Parking	-	-	-	-	-	-
Other permits and licenses	-	-	-	-	-	-
Investment earnings	-	-	-	-	-	-
Rental income	-	-	-	-	-	-
Other:						
Housing In-Lieu - residential	-	-	-	-	-	-
Other fees	-	-	-	-	-	-
Total revenues	107	135	28	-	-	-
EXPENDITURES:						
Current:						
Administrative Services	-	-	-	-	-	-
Public Works	-	-	-	-	-	-
Planning and Community Environment	-	-	-	-	-	-
Police	105	81	24	-	-	-
Community Services	-	-	-	-	-	-
Non-Departmental	-	-	-	-	-	-
Total expenditures	105	81	24	-	-	-
Excess (deficiency) of revenues over (under) expenditures	2	54	52	-	-	-
OTHER FINANCING SOURCES (USES):						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Change in fund balances, Budgetary basis	\$ 2	54	\$ 52	\$ -	-	\$ -
Adjustment to Budgetary Basis:						
Current year encumbrances/reappropriations		1			-	
CHANGE IN FUND BALANCE, GAAP BASIS		55			-	
FUND BALANCES, BEGINNING OF YEAR, GAAP BASIS		181			3	
FUND BALANCES, END OF YEAR, GAAP BASIS		\$ 236			\$ 3	

Developer Impact Fee			Downtown Business Improvement District			Public Benefit		
Budget	Actual, plus Encumbrances	Variance Positive (Negative)	Budget	Actual, plus Encumbrances	Variance Positive (Negative)	Budget	Actual, plus Encumbrances	Variance Positive (Negative)
\$ -	\$ -	\$ -	\$ 140	\$ 97	\$ (43)	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
215	(8)	(223)	2	(1)	(3)	663	(192)	(855)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
1,569	1,088	(481)	-	-	-	-	-	-
<u>1,784</u>	<u>1,080</u>	<u>(704)</u>	<u>142</u>	<u>96</u>	<u>(46)</u>	<u>663</u>	<u>(192)</u>	<u>(855)</u>
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
145	160	(15)	-	-	-	243	68	175
-	-	-	161	111	50	-	-	-
<u>145</u>	<u>160</u>	<u>(15)</u>	<u>161</u>	<u>111</u>	<u>50</u>	<u>243</u>	<u>68</u>	<u>175</u>
-	-	-	-	-	-	-	-	-
1,639	920	(719)	(19)	(15)	4	420	(260)	(680)
69	79	10	-	-	-	-	-	-
-	-	-	-	-	-	(12,350)	(12,350)	-
<u>69</u>	<u>79</u>	<u>10</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12,350)</u>	<u>(12,350)</u>	<u>-</u>
<u>\$ 1,708</u>	<u>999</u>	<u>\$ (709)</u>	<u>\$ (19)</u>	<u>(15)</u>	<u>\$ 4</u>	<u>\$ (11,930)</u>	<u>(12,610)</u>	<u>\$ (680)</u>
-	-	-	-	4	-	-	35	-
-	999	-	-	(11)	-	-	(12,575)	-
-	<u>14,402</u>	-	-	<u>36</u>	-	-	<u>26,144</u>	-
-	<u>\$ 15,401</u>	-	-	<u>\$ 25</u>	-	-	<u>\$ 13,569</u>	-

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## **NON-MAJOR GOVERNMENTAL FUNDS**

### **DEBT SERVICE FUNDS**

#### **Downtown Parking Improvement**

This fund accounts for revenues received from the General Fund to provide payment of principal and interest associated with the 2002B Downtown Parking Improvement Certificates of Participation as they become due.

#### **Library Projects**

This fund accounts for revenues received from property taxes to provide payment of principal and interest associated with the 2010 and 2013A General Obligation Bonds as they become due.

**CITY OF PALO ALTO**  
**Non-major Debt Service Funds**  
**Combining Balance Sheet**  
**June 30, 2017**  
**(Amounts in thousands)**

	Downtown Parking Improvement	Library Projects	Total Debt Service Funds
<b>ASSETS:</b>			
Cash and investments:			
Available for operations	\$ 14	\$ 3,629	\$ 3,643
Cash and investments with fiscal agents	237	11	248
Receivables:			
Accounts	-	31	31
Interest	-	17	17
Total assets	\$ 251	\$ 3,688	\$ 3,939
<b>FUND BALANCES:</b>			
Debt service	\$ 251	\$ 3,688	\$ 3,939

**CITY OF PALO ALTO**  
**Non-major Debt Service Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2017**  
**(Amounts in thousands)**

	Downtown Parking Improvement	Library Projects	Total Debt Service Funds
<b>REVENUES:</b>			
Property tax	\$ -	\$ 4,572	\$ 4,572
Investment earnings	1	(67)	(66)
Total revenues	<u>1</u>	<u>4,505</u>	<u>4,506</u>
<b>EXPENDITURES:</b>			
Current:			
Non-Departmental	-	(11)	(11)
Debt service:			
Principal retirement	160	1,500	1,660
Interest and fiscal charges	74	2,932	3,006
Total expenditures	<u>234</u>	<u>4,421</u>	<u>4,655</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(233)</u>	<u>84</u>	<u>(149)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers in	<u>233</u>	<u>-</u>	<u>233</u>
Total other financing sources (uses)	<u>233</u>	<u>-</u>	<u>233</u>
Change in fund balances	-	84	84
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>251</u>	<u>3,604</u>	<u>3,855</u>
<b>FUND BALANCES, END OF YEAR</b>	<u><u>\$ 251</u></u>	<u><u>\$ 3,688</u></u>	<u><u>\$ 3,939</u></u>



**CITY OF PALO ALTO**  
**Non-major Debt Service Funds**  
**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances -**  
**Budget and Actual**  
**For the Year Ended June 30, 2017**  
**(Amounts in thousands)**

	Downtown Parking Improvement			Library Projects		
	Budget	Actual, plus Encumbrances	Variance Positive (Negative)	Budget	Actual, plus Encumbrances	Variance Positive (Negative)
REVENUES:						
Special assessments	\$ -	\$ -	\$ -	\$ 4,655	\$ 4,572	\$ (83)
Investment earnings	-	1	1	-	(67)	(67)
Total revenues	-	1	1	4,655	4,505	(150)
EXPENDITURES:						
Current:						
Non-Departmental	-	-	-	-	(11)	11
Debt service:						
Principal retirement	150	160	(10)	1,445	1,500	(55)
Interest and fiscal charges	93	74	19	3,210	2,932	278
Total expenditures	243	234	9	4,655	4,421	234
Excess (deficiency) of revenues over (under) expenditures	(243)	(233)	10	-	84	84
OTHER FINANCING SOURCES (USES):						
Transfers in	243	233	(10)	-	-	-
Total other financing sources (uses)	243	233	(10)	-	-	-
Change in fund balances, Budgetary basis	\$ -	-	\$ -	\$ -	84	\$ 84
CHANGE IN FUND BALANCE, GAAP BASIS		-			84	
FUND BALANCES, BEGINNING OF YEAR		251			3,604	
FUND BALANCES, END OF YEAR		\$ 251			\$ 3,688	

**NON-MAJOR GOVERNMENTAL FUNDS**

**PERMANENT FUND**

**Eyerly Family**

This fund accounts for the revenues received from assets donated by Mr. and Mrs. Fred Eyerly for the City and or its citizenry.

**CITY OF PALO ALTO**  
**Non-major Permanent Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance -**  
**Budget and Actual**  
**For the Year Ended June 30, 2017**  
**(Amounts in thousands)**

	Eyerly Family Permanent Fund		
	Budget	Actual, plus Encumbrances	Variance Positive (Negative)
REVENUES:			
Investment earnings	\$ 27	\$ (2)	\$ (29)
Total revenues	27	(2)	(29)
EXPENDITURES:			
Current:			
Non-Departmental	-	4	(4)
Total expenditures	-	4	(4)
Excess (deficiency) of revenues over (under) expenditures	27	(6)	(33)
Change in fund balance	\$ 27	(6)	\$ (33)
CHANGE IN FUND BALANCE, GAAP BASIS		(6)	
FUND BALANCE, BEGINNING OF YEAR		1,505	
FUND BALANCE, END OF YEAR		\$ 1,499	

## **INTERNAL SERVICE FUNDS**

### **INTRODUCTION**

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

### **Vehicle Replacement and Maintenance**

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

### **Technology**

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

### **Printing and Mailing Services**

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

### **General Benefits**

This fund accounts for the administration of compensated absences and health benefits.

### **Workers' Compensation Insurance Program**

This fund accounts for the administration of the City's self-insured workers' compensation programs.

### **General Liabilities Insurance Program**

This fund accounts for the administration of the City's self-insured general liability programs.

### **Retiree Health Benefits**

This fund accounts for the retiree health benefits.

**CITY OF PALO ALTO**  
**Internal Service Funds**  
**Combining Statement of Fund Net Position**  
**June 30, 2017**  
**(Amounts in thousands)**

	Vehicle Replacement and Maintenance	Technology	Printing and Mailing Services	General Benefits	Workers' Compensation Insurance Program	General Liabilities Insurance Program	Retiree Health Benefits	Total Internal Services Funds
<b>ASSETS:</b>								
Current Assets:								
Cash and investments:								
Available for operations	\$ 10,313	\$ 23,724	\$ 35	\$ 16,311	\$ 20,187	\$ 6,664	\$ 5,357	\$ 82,591
Cash and investments with fiscal agents	-	-	-	2,057	-	-	-	2,057
Accounts receivable, net	12	-	-	13	431	-	-	456
Interest receivable	50	108	-	70	98	35	22	383
Inventory of materials and supplies	244	-	-	-	-	-	-	244
Total current assets	10,619	23,832	35	18,451	20,716	6,699	5,379	85,731
Noncurrent Assets:								
Capital assets:								
Nondepreciable	2,414	768	-	-	-	-	-	3,182
Depreciable, net	13,200	2,192	33	-	-	-	-	15,425
Net OPEB asset	-	-	-	-	-	-	19,419	19,419
Total noncurrent assets	15,614	2,960	33	-	-	-	19,419	38,026
Total assets	26,233	26,792	68	18,451	20,716	6,699	24,798	123,757
DEFERRED OUTFLOWS OF RESOURCES:								
Deferred pension contribution	752	2,196	48	-	66	-	-	3,062
Total deferred outflows of resources	752	2,196	48	-	66	-	-	3,062
LIABILITIES:								
Current Liabilities:								
Accounts payable and accruals	94	323	38	469	41	52	-	1,017
Accrued salaries and benefits	21	64	2	-	2	-	-	89
Accrued compensated absences	4	15	-	5,397	-	-	-	5,416
Accrued claims payable - current	-	-	-	146	3,010	2,130	-	5,286
Total current liabilities	119	402	40	6,012	3,053	2,182	-	11,808
Noncurrent liabilities:								
Accrued compensated absences	-	-	-	6,062	-	-	-	6,062
Accrued claims payable	-	-	-	-	14,490	2,694	-	17,184
Net pension liabilities	3,344	11,243	334	-	80	-	-	15,001
Total noncurrent liabilities	3,344	11,243	334	6,062	14,570	2,694	-	38,247
Total liabilities	3,463	11,645	374	12,074	17,623	4,876	-	50,055
DEFERRED INFLOWS OF RESOURCES:								
Pension Related	58	173	5	-	-	-	-	236
Total deferred inflows of resources	58	173	5	-	-	-	-	236
NET POSITION:								
Net Investment in capital assets	15,614	2,960	33	-	-	-	-	18,607
Unrestricted	7,850	14,210	(296)	6,377	3,159	1,823	24,798	57,921
Total net position	\$ 23,464	\$ 17,170	\$ (263)	\$ 6,377	\$ 3,159	\$ 1,823	\$ 24,798	\$ 76,528

**CITY OF PALO ALTO**  
**Internal Service Funds**  
**Combining Statement of Revenues, Expenses and Changes in Fund Net Position**  
**For the Year Ended June 30, 2017**  
**(Amounts in thousands)**

	Vehicle Replacement and Maintenance	Technology	Printing and Mailing Services	General Benefits	Workers' Compensation Insurance Program	General Liabilities Insurance Program	Retiree Health Benefits	Total Internal Services Funds
<b>OPERATING REVENUES:</b>								
Charges for services	\$ 8,287	\$ 13,806	\$ 1,339	\$ 52,322	\$ 2,432	\$ 32	\$ 13,808	\$ 92,026
Other	5	-	-	-	605	4	-	614
Total operating revenues	8,292	13,806	1,339	52,322	3,037	36	13,808	92,640
<b>OPERATING EXPENSES:</b>								
Administrative and general	1,502	6,344	944	151	938	1,604	592	12,075
Operations and maintenance	4,009	7,584	389	526	177	(113)	16,365	28,937
Depreciation and amortization	2,299	509	1	-	-	-	-	2,809
Claim payments and change in estimated self-insured liability	-	-	-	1,440	1,636	2	-	3,078
Refund of charges for services	69	12	-	-	-	-	-	81
Compensated absences and other benefits	-	-	-	45,961	-	-	-	45,961
Total operating expenses	7,879	14,449	1,334	48,078	2,751	1,493	16,957	92,941
Operating income (loss)	413	(643)	5	4,244	286	(1,457)	(3,149)	(301)
<b>NONOPERATING REVENUES (EXPENSES):</b>								
Investment earnings	(24)	(10)	-	(247)	(47)	(25)	(6)	(359)
Gain on disposal of capital assets	101	-	2	-	-	-	-	103
Other nonoperating revenues	139	-	-	-	-	-	-	139
Total nonoperating revenues (expenses)	216	(10)	2	(247)	(47)	(25)	(6)	(117)
Income (loss) before transfers	629	(653)	7	3,997	239	(1,482)	(3,155)	(418)
Transfers in	924	2,078	-	2,055	-	5	2,203	7,265
Transfers out	(263)	(16)	-	(2,203)	-	-	-	(2,482)
Change in net position	1,290	1,409	7	3,849	239	(1,477)	(952)	4,365
NET POSITION, BEGINNING OF YEAR	22,174	15,761	(270)	2,528	2,920	3,300	25,750	72,163
NET POSITION, END OF YEAR	\$ 23,464	\$ 17,170	\$ (263)	\$ 6,377	\$ 3,159	\$ 1,823	\$ 24,798	\$ 76,528

**CITY OF PALO ALTO**  
**Internal Service Funds**  
**Combining Statement of Cash Flows**  
**For the Year Ended June 30, 2017**  
**(Amounts in thousands)**

	Vehicle Replacement and Maintenance	Technology	Printing and Mailing Services	General Benefits	Workers' Compensation Insurance Program	General Liabilities Insurance Program	Retiree Health Benefits	Total Internal Services Funds
<b>Cash flows from operating activities:</b>								
Cash received from customers	\$ 8,309	\$ 13,806	\$ 1,339	\$ 52,342	\$ 2,049	\$ 36	\$ 13,808	\$ 91,689
Cash refunds to customers	(69)	(12)	-	-	-	-	-	(81)
Cash payments to suppliers for goods and services	(3,143)	(7,970)	(1,072)	(127)	(291)	(914)	(16,365)	(29,882)
Cash payments to employees	(2,136)	(6,282)	(224)	(44,981)	(922)	-	1,651	(52,894)
Cash payments for judgments and claims	-	-	-	(1,440)	(1,827)	(640)	-	(3,907)
Other cash receipts	144	-	-	-	-	-	-	144
Net cash flows provided by (used in) operating activities	3,105	(458)	43	5,794	(991)	(1,518)	(906)	5,069
<b>Cash flows from noncapital financing activities:</b>								
Transfers in	924	2,078	-	2,055	-	5	2,203	7,265
Transfers out	(263)	(16)	-	(2,203)	-	-	-	(2,482)
Net cash flows provided by (used in) noncapital financing activities	661	2,062	-	(148)	-	5	2,203	4,783
<b>Cash flows from capital and related financing activities:</b>								
Acquisition of capital assets	(4,673)	(256)	(32)	-	-	-	-	(4,961)
Proceeds from sale of capital assets	112	-	-	-	-	-	-	112
Net cash flows (used in) capital and related financing activities	(4,561)	(256)	(32)	-	-	-	-	(4,849)
<b>Cash flows from investing activities:</b>								
Interest received	(26)	(27)	-	(255)	(53)	(26)	(12)	(399)
Net cash flows provided by investing activities	(26)	(27)	-	(255)	(53)	(26)	(12)	(399)
Net change in cash and cash equivalents	(821)	1,321	11	5,391	(1,044)	(1,539)	1,285	4,604
Cash and cash equivalents, beginning of year	11,134	22,403	24	12,977	21,231	8,203	4,072	80,044
Cash and cash equivalents, end of year	\$ 10,313	\$ 23,724	\$ 35	\$ 18,368	\$ 20,187	\$ 6,664	\$ 5,357	\$ 84,648
<b>Reconciliation of operating income (loss) to net cash flows provided by (used in) operating activities:</b>								
Operating income (loss)	\$ 413	\$ (643)	\$ 5	\$ 4,244	\$ 286	\$ (1,457)	\$ (3,149)	\$ (301)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Depreciation	2,299	509	1	-	-	-	-	2,809
Other	139	-	-	-	-	-	-	139
Change in assets and liabilities:								
Accounts receivable	22	-	-	20	(383)	-	-	(341)
Inventory of materials and supplies	124	-	-	-	-	-	-	124
Net OPEB asset	-	-	-	-	-	-	2,243	2,243
Deferred outflows of resources - pension plan	(395)	(1,143)	(18)	-	(66)	-	-	(1,622)
Accounts payable and accruals	94	(321)	38	1,261	(114)	52	-	1,010
Accrued salaries and benefits	(43)	(132)	(1)	(2)	2	-	-	(176)
Accrued compensated absences	(4)	(11)	-	271	-	-	-	256
Accrued claims payable	-	-	-	-	(796)	(113)	-	(909)
Net pension liability	537	1,678	31	-	80	-	-	2,326
Deferred inflows of resources - pension plans	(81)	(395)	(13)	-	-	-	-	(489)
Net cash flows provided by (used in) operating activities	\$ 3,105	\$ (458)	\$ 43	\$ 5,794	\$ (991)	\$ (1,518)	\$ (906)	\$ 5,069

## **FIDUCIARY FUNDS**

### **INTRODUCTION**

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

Fiduciary Funds are presented separately from the Citywide and Fund financial statements.

Agency Funds are custodial in nature and do not involve measurement of results of operations. The City maintains three agency funds, as follows:

#### **Cable Joint Powers Authority**

The fund was established to account for the activities of the cable television system on behalf of the members.

#### **University Avenue Area Off-Street Parking Assessment District**

The fund accounts for the receipts and disbursements associated with the Series 2012 Limited Obligation Refunding Improvement Bonds.



**CITY OF PALO ALTO**  
**All Agency Funds**  
**Statement of Changes in Assets and Liabilities**  
**For the Year Ended June 30, 2017**  
**(Amounts in thousands)**

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
<u>Cable Joint Powers Authority</u>				
ASSETS:				
Cash and investments available for operations	\$ 651	\$ -	\$ 178	\$ 473
Accounts receivable	495	20	-	515
Interest receivable	3	-	-	3
Total assets	<u>\$ 1,149</u>	<u>\$ 20</u>	<u>\$ 178</u>	<u>\$ 991</u>
LIABILITIES:				
Due to other governments	<u>\$ 1,149</u>	<u>\$ -</u>	<u>\$ 158</u>	<u>\$ 991</u>
<u>University Avenue Area</u> <u>Off-Street Parking Assessment District</u>				
ASSETS:				
Cash and investments available for operations	\$ 1,996	\$ -	\$ 61	\$ 1,935
Cash and investments with fiscal agents	2,550	6	-	2,556
Accounts receivable	10	54	-	64
Interest receivable	9	-	-	9
Total assets	<u>\$ 4,565</u>	<u>\$ 60</u>	<u>\$ 61</u>	<u>\$ 4,564</u>
LIABILITIES:				
Due to bondholders	<u>\$ 4,565</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 4,564</u>
<u>Total Agency Funds</u>				
ASSETS:				
Cash and investments available for operations	\$ 2,647	\$ -	\$ 239	\$ 2,408
Cash and investments with fiscal agents	2,550	6	-	2,556
Accounts receivable	505	74	-	579
Interest receivable	12	-	-	12
Total assets	<u>\$ 5,714</u>	<u>\$ 80</u>	<u>\$ 239</u>	<u>\$ 5,555</u>
LIABILITIES:				
Due to bondholders	\$ 4,565	\$ -	\$ 1	\$ 4,564
Due to other governments	1,149	-	158	991
Total liabilities	<u>\$ 5,714</u>	<u>\$ -</u>	<u>\$ 159</u>	<u>\$ 5,555</u>

## **STATISTICAL SECTION**

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

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

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

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

### **Financial Trends**

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time:

- Net Position by Component
- Changes in Net Position
- Fund Balances of Governmental Funds
- Changes in Fund Balances of Governmental Funds

### **Revenue Capacity**

These schedules contain information to help the reader assess the City's most significant local revenue sources, property tax and electric charges:

- Electric Operating Revenue by Source
- Supplemental Disclosure for Water Utilities
- Assessed Value of Taxable Property
- Property Tax Rates, All Overlapping Governments
- Property Tax Levies and Collections
- Principal Property Taxpayers
- Assessed Valuation and Parcels by Land Use
- Per Parcel Assessed Valuation of Single Family Residential

### **Debt Capacity**

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future:

- Ratio of Outstanding Debt by Type
- Computation of Direct and Overlapping Debt
- Computation of Legal Bonded Debt Margin
- Revenue Bond Coverage

## **STATISTICAL SECTION**

### **Demographic and Economic Information**

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place:

- Taxable Transactions by Type of Business
- Demographic and Economic Statistics
- Principal Employers

### **Operating Information**

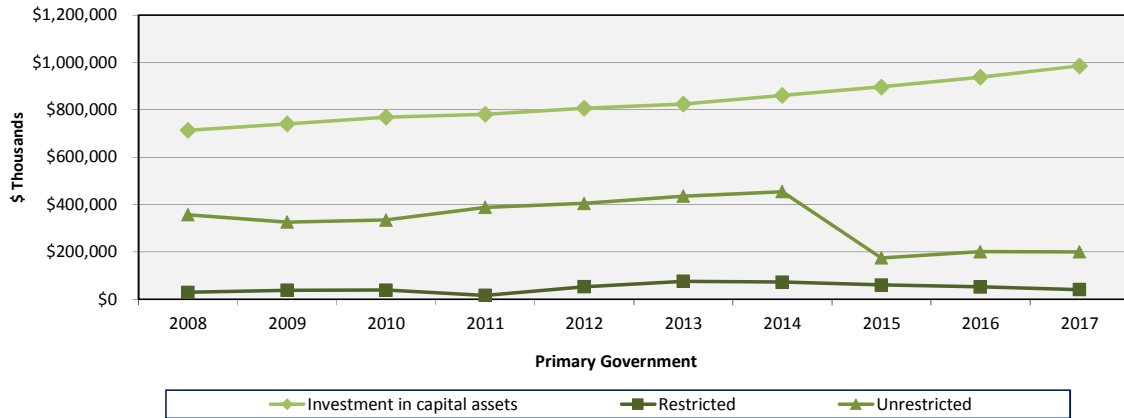
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

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

### **Sources**

Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

**CITY OF PALO ALTO**  
**Net Position by Component**  
**Last Ten Fiscal Years**  
**(Accrual basis of accounting)**  
**(Amounts in thousands)**



	Fiscal Year Ended June 30									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Governmental Activities</b>										
Investment in capital assets	\$ 343,537	\$ 356,657	\$ 369,499	\$ 364,747	\$ 370,111	\$ 378,047	\$ 386,696	\$ 405,921	\$ 425,179	\$ 453,878
Restricted	27,428	36,632	34,323	16,437	52,934	71,717	68,331	55,963	47,907	36,081
Unrestricted	130,460	118,133	102,199	134,722	142,102	165,810	187,386	1,972	37,905	37,330
<b>Total Governmental Activities Net Position</b>	<b>\$ 501,425</b>	<b>\$ 511,422</b>	<b>\$ 506,021</b>	<b>\$ 515,906</b>	<b>\$ 565,147</b>	<b>\$ 615,574</b>	<b>\$ 642,413</b>	<b>\$ 463,856</b>	<b>\$ 510,991</b>	<b>\$ 527,289</b>
<b>Business-type Activities</b>										
Investment in capital assets	\$ 370,303	\$ 384,313	\$ 399,317	\$ 416,418	\$ 437,151	\$ 446,597	\$ 473,795	\$ 490,874	\$ 512,918	\$ 532,063
Restricted	1,732	1,732	4,300	-	-	4,060	4,166	4,142	4,115	4,073
Unrestricted	226,539	208,025	232,420	253,740	262,602	269,926	266,794	172,802	162,806	163,158
<b>Total Business-type Activities Net Position</b>	<b>\$ 598,574</b>	<b>\$ 594,070</b>	<b>\$ 636,037</b>	<b>\$ 670,158</b>	<b>\$ 699,753</b>	<b>\$ 720,583</b>	<b>\$ 744,755</b>	<b>\$ 667,818</b>	<b>\$ 679,839</b>	<b>\$ 699,294</b>
<b>Primary Government</b>										
Investment in capital assets	\$ 713,840	\$ 740,970	\$ 768,816	\$ 781,165	\$ 807,262	\$ 824,644	\$ 860,491	\$ 896,795	\$ 938,097	\$ 985,941
Restricted	29,160	38,364	38,623	16,437	52,934	75,777	72,497	60,105	52,022	40,154
Unrestricted	356,999	326,158	334,619	388,462	404,704	435,736	454,180	174,774	200,711	200,488
<b>Total Primary Government Net Position</b>	<b>\$ 1,099,999</b>	<b>\$ 1,105,492</b>	<b>\$ 1,142,058</b>	<b>\$ 1,186,064</b>	<b>\$ 1,264,900</b>	<b>\$ 1,336,157</b>	<b>\$ 1,387,168</b>	<b>\$ 1,131,674</b>	<b>\$ 1,190,830</b>	<b>\$ 1,226,583</b>

Source: Annual Financial Statements, Statement of Net Position

**CITY OF PALO ALTO**  
**Changes in Net Position**  
**Last Ten Fiscal Years**  
**(Accrual basis of accounting)**  
**(Amounts in thousands)**

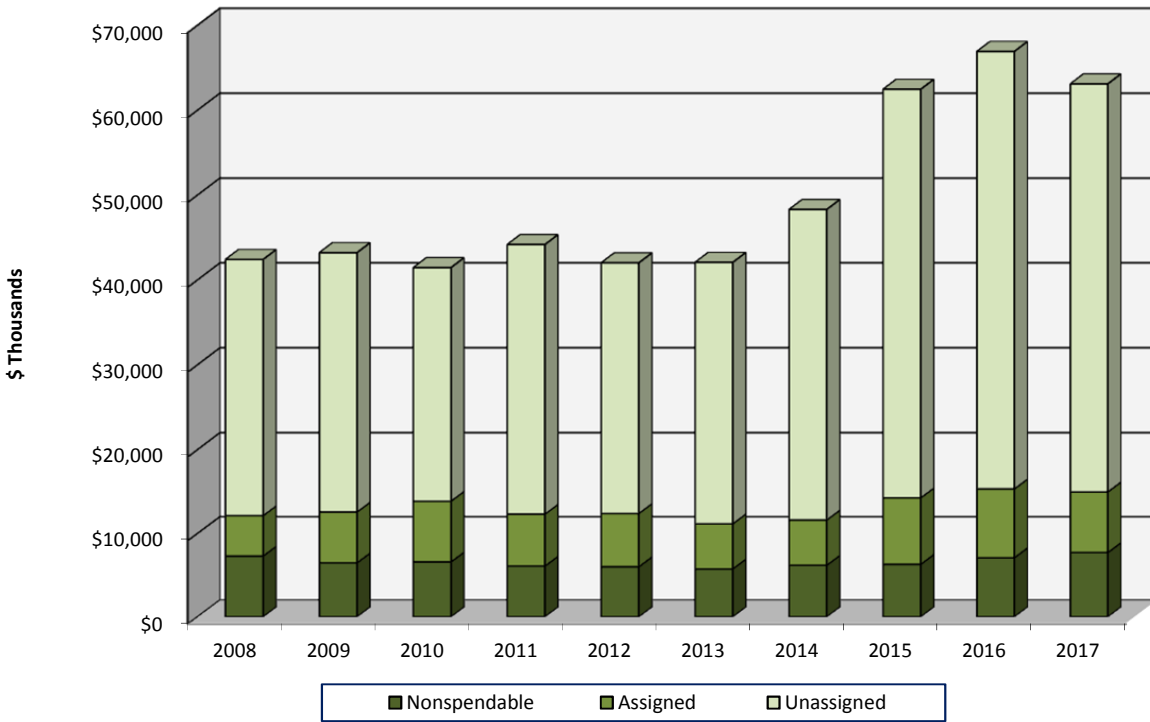
	Fiscal Year Ended June 30									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>PROGRAM REVENUES</b>										
<b>Governmental Activities</b>										
Charges for services										
City Council	-	-	-	-	-	-	-	-	-	-
City Manager	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City Attorney	\$ 16	\$ 12	\$ 53	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City Clerk	-	-	-	-	-	-	-	-	-	-
City Auditor	-	-	-	-	-	-	-	-	-	-
Administrative Services	870	726	984	2,889	1,647	15,629	4,055	5,460	9,444	5,242
Human Resources	-	-	-	-	-	-	-	-	-	-
Public Works	1,310	1,169	1,258	2,419	1,008	1,314	1,093	1,209	599	878
Planning & Community Environment	5,498	4,704	4,813	7,237	31,491	28,768	12,896	8,090	9,071	6,067
Development Services <sup>3</sup>	-	-	-	-	-	-	-	12,019	12,570	11,768
Public Safety	13,692	14,670	14,337	15,274	15,658	16,139	14,902	15,726	13,945	12,670
Community Services	10,314	8,522	8,729	7,724	11,365	13,808	20,882	20,912	21,551	20,472
Library	176	177	199	480	1,600	187	166	137	198	139
Operating grants and contributions	4,029	3,599	4,829	2,884	3,441	5,038	5,360	5,300	2,164	1,990
Capital grants and contributions	1,930	3,810	1,280	1,903	1,064	515	917	619	344	1,929
<b>Total Governmental Activities</b>										
<b>Program Revenues</b>	<b>37,835</b>	<b>37,389</b>	<b>36,482</b>	<b>40,810</b>	<b>67,274</b>	<b>81,398</b>	<b>60,271</b>	<b>69,472</b>	<b>69,886</b>	<b>61,155</b>
<b>Business-type Activities</b>										
Charges for services										
Water	26,510	27,120	26,259	26,624	31,467	37,746	40,291	35,847	37,588	42,678
Electric	103,833	119,320	121,900	122,109	118,886	121,805	121,916	120,842	120,743	137,543
Fiber Optics <sup>1</sup>	-	3,336	3,105	3,322	3,662	4,382	4,485	4,627	4,505	4,553
Gas	49,021	47,838	44,450	43,584	41,774	34,633	35,737	30,751	30,212	36,431
Wastewater Collection	15,102	14,486	15,136	15,094	14,942	16,077	15,599	16,182	16,496	17,748
Wastewater Treatment	22,889	28,425	16,915	18,830	22,200	21,528	18,460	24,120	23,825	23,649
Refuse	28,805	29,101	28,568	30,469	30,645	30,583	30,297	31,576	32,169	33,918
Storm Drainage	5,450	5,505	5,647	5,796	5,892	6,053	6,183	6,281	6,520	6,693
Airport	-	-	-	-	-	-	-	683	826	1,286
External Services	112	-	-	-	-	-	-	-	-	-
Operating grants and contributions	-	-	361	610	605	572	549	534	744	512
Capital grants and contributions	1,594	639	475	3,004	1,526	2,224	2,005	2,080	1,061	4,265
<b>Total Business-type Activities</b>										
<b>Program Revenues</b>	<b>253,316</b>	<b>275,770</b>	<b>262,816</b>	<b>269,442</b>	<b>271,599</b>	<b>275,603</b>	<b>275,522</b>	<b>273,523</b>	<b>274,689</b>	<b>309,276</b>
<b>Total Primary Government</b>										
<b>Program Revenues</b>	<b>\$ 291,151</b>	<b>\$ 313,159</b>	<b>\$ 299,298</b>	<b>\$ 310,252</b>	<b>\$ 338,873</b>	<b>\$ 357,001</b>	<b>\$ 335,793</b>	<b>\$ 342,995</b>	<b>\$ 344,575</b>	<b>\$ 370,431</b>
<b>EXPENSES</b>										
<b>Governmental Activities</b>										
City Council	\$ 323	\$ 394	\$ 455	\$ 15	\$ 345	\$ 94	\$ 387	\$ 271	\$ 352	\$ 329
City Manager	2,273	2,085	2,399	1,842	1,960	1,237	2,180	2,155	2,662	1,975
City Attorney	2,653	2,575	2,621	953	1,656	1,642	1,797	1,759	2,472	2,140
City Clerk	1,241	1,098	1,369	803	908	330	641	680	582	762
City Auditor	1,379	2,053	2,601	138	235	464	489	362	414	847
Administrative Services <sup>2</sup>	15,477	17,784	17,893	9,888	10,100	7,614	11,388	9,980	10,637	11,887
Human Resources	2,806	3,448	3,707	1,346	1,071	1,420	1,346	1,464	2,224	2,272
Public Works	18,565	21,270	18,658	19,357	14,568	20,816	24,577	21,075	24,613	25,539
Planning & Community Environment	16,388	12,940	12,114	15,031	12,074	13,549	14,926	8,423	10,208	10,918
Development Services <sup>3</sup>	-	-	-	-	-	-	-	10,449	11,158	11,102
Public Safety	50,126	52,487	55,799	58,996	62,817	59,452	62,883	58,660	56,653	73,320
Community Services	17,736	19,862	17,171	22,845	21,915	22,705	23,822	24,688	28,547	27,866
Library	6,321	6,244	6,143	6,920	7,323	7,319	7,758	7,721	10,825	11,437
Interest on long term debt	438	404	370	2,742	2,575	2,562	3,367	3,658	3,552	2,846
<b>Total Governmental</b>										
<b>Activities Expenses</b>	<b>135,726</b>	<b>142,644</b>	<b>141,300</b>	<b>140,876</b>	<b>137,547</b>	<b>139,204</b>	<b>155,561</b>	<b>151,345</b>	<b>164,899</b>	<b>183,240</b>
<b>Business-type Activities</b>										
Water	18,842	20,271	21,037	24,268	29,093	30,707	31,593	33,205	35,120	37,535
Electric	108,032	122,268	107,910	100,130	102,030	106,438	113,004	122,499	120,319	128,603
Fiber Optics <sup>1</sup>	-	1,284	1,407	1,561	1,489	1,437	1,661	1,891	2,107	2,159
Gas	37,211	34,603	32,498	32,051	28,878	26,749	26,869	23,525	20,879	26,783
Wastewater Collection	12,023	14,875	10,696	12,275	14,825	14,313	13,235	14,595	15,199	16,405
Wastewater Treatment	18,902	36,896	13,466	19,731	20,712	20,635	21,018	21,553	22,546	23,498
Refuse	28,827	37,217	28,119	30,684	31,900	28,542	28,413	27,974	30,370	30,665
Storm Drainage	3,202	2,943	2,491	3,229	3,103	3,703	3,644	3,721	3,735	4,106
Airport	-	-	-	31	153	246	466	1,004	970	1,274
External Services	984	-	-	-	-	-	-	-	-	-
<b>Total Business-type</b>										
<b>Activities Expenses</b>	<b>228,023</b>	<b>270,357</b>	<b>217,624</b>	<b>223,960</b>	<b>232,183</b>	<b>232,770</b>	<b>239,903</b>	<b>249,967</b>	<b>251,245</b>	<b>271,028</b>
<b>Total Primary</b>										
<b>Government Expenses</b>	<b>\$ 363,749</b>	<b>\$ 413,001</b>	<b>\$ 358,924</b>	<b>\$ 364,836</b>	<b>\$ 369,730</b>	<b>\$ 371,974</b>	<b>\$ 395,464</b>	<b>\$ 401,312</b>	<b>\$ 416,144</b>	<b>\$ 454,268</b>

	Fiscal Year Ended June 30									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>NET (EXPENSE)/REVENUE</b>										
Governmental Activities	\$ (97,891)	\$ (105,255)	\$ (104,818)	\$ (100,066)	\$ (70,273)	\$ (57,806)	\$ (95,290)	\$ (81,873)	\$ (95,013)	\$ (122,085)
Business-type Activities	25,293	5,413	45,192	45,482	39,416	42,833	35,619	23,556	23,444	38,248
<b>Total Primary Government</b>										
<b>Net (Expense)/Revenue</b>	<u>\$ (72,598)</u>	<u>\$ (99,842)</u>	<u>\$ (59,626)</u>	<u>\$ (54,584)</u>	<u>\$ (30,857)</u>	<u>\$ (14,973)</u>	<u>\$ (59,671)</u>	<u>\$ (58,317)</u>	<u>\$ (71,569)</u>	<u>\$ (83,837)</u>
<b>GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS</b>										
<b>Governmental Activities</b>										
Taxes										
Property tax	\$ 23,084	\$ 25,432	\$ 25,981	\$ 29,156	\$ 30,104	\$ 31,929	\$ 35,299	\$ 38,750	\$ 41,189	\$ 43,953
Sales tax	22,623	20,089	17,991	20,746	22,132	25,606	29,424	29,675	30,018	29,923
Utility user tax	10,285	11,030	11,295	10,851	10,834	10,861	11,008	10,861	12,469	14,240
Transient occupancy tax	7,976	7,111	6,858	8,082	9,664	10,794	12,255	16,699	22,366	23,477
Other taxes	6,261	3,364	4,055	8,156	8,173	10,504	9,660	11,867	7,868	8,989
Investment earnings	12,313	8,525	6,514	3,500	6,238	(1,228)	5,859	5,010	8,639	(711)
Rents and miscellaneous	11,896	15,682	12,729	12,377	14,943	518	2,575	3,428	894	168
Transfers	18,701	24,020	13,994	17,083	17,426	19,249	17,103	16,405	18,705	18,344
<b>Total Governmental Activities</b>	<u>113,139</u>	<u>115,253</u>	<u>99,417</u>	<u>109,951</u>	<u>119,514</u>	<u>108,233</u>	<u>123,183</u>	<u>132,695</u>	<u>142,148</u>	<u>138,383</u>
<b>Business-type Activities</b>										
Investment earnings	16,416	14,103	10,769	5,722	7,605	(2,754)	6,379	4,857	7,282	(449)
Transfers	(18,701)	(24,020)	(13,994)	(17,083)	(17,426)	(19,249)	(17,103)	(16,405)	(18,705)	(18,344)
<b>Total Business-type Activities</b>	<u>(2,285)</u>	<u>(9,917)</u>	<u>(3,225)</u>	<u>(11,361)</u>	<u>(9,821)</u>	<u>(22,003)</u>	<u>(10,724)</u>	<u>(11,548)</u>	<u>(11,423)</u>	<u>(18,793)</u>
<b>Total Primary Government</b>	<u>\$ 110,854</u>	<u>\$ 105,336</u>	<u>\$ 96,192</u>	<u>\$ 98,590</u>	<u>\$ 109,693</u>	<u>\$ 86,230</u>	<u>\$ 112,459</u>	<u>\$ 121,147</u>	<u>\$ 130,725</u>	<u>\$ 119,590</u>
<b>CHANGE IN NET POSITION</b>										
Governmental Activities	\$ 15,248	\$ 9,998	\$ (5,401)	\$ 9,885	\$ 49,241	\$ 50,427	\$ 27,893	\$ 50,822	\$ 47,135	\$ 16,298
Business-type Activities	23,008	(4,504)	41,967	34,121	29,595	20,830	24,895	12,008	12,021	19,455
<b>Total Primary Government</b>										
<b>Change in Net Position</b>	<u>\$ 38,256</u>	<u>\$ 5,494</u>	<u>\$ 36,566</u>	<u>\$ 44,006</u>	<u>\$ 78,836</u>	<u>\$ 71,257</u>	<u>\$ 52,788</u>	<u>\$ 62,830</u>	<u>\$ 59,156</u>	<u>\$ 35,753</u>

Notes: <sup>1</sup>Prior to 2009, Fiber Optics was included in Electric.  
<sup>2</sup>Beginning in 2008, includes Non-departmental expenses.  
<sup>3</sup>The Development Services Department was formed in FY15.

Source: Annual Financial Statements, Statement of Activities

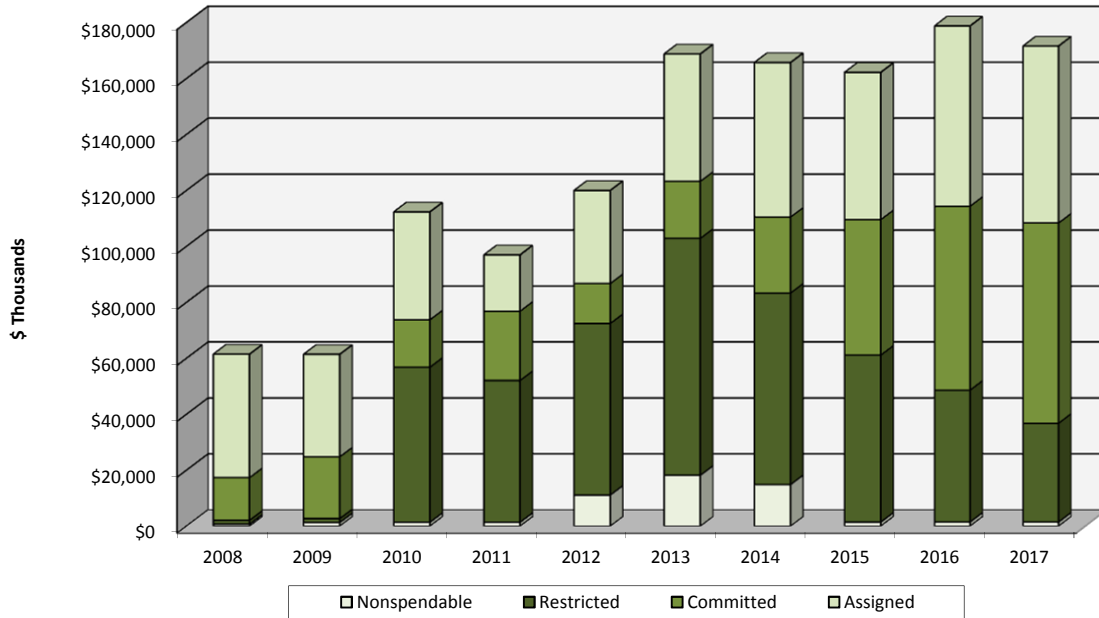
**CITY OF PALO ALTO**  
**Fund Balances of Governmental Funds (General Fund)**  
**Last Ten Fiscal Years**  
**(Modified accrual basis of accounting)**  
**(Amounts in thousands)**



	<b>Fiscal Year Ended June 30</b>									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>General Fund</b>										
Nonspendable	\$ 7,286	\$ 6,476	\$ 6,581	\$ 6,085	\$ 6,007	\$ 5,749	\$ 6,188	\$ 6,296	\$ 7,088	\$ 7,709
Assigned	4,851	6,100	7,295	6,235	6,400	5,415	5,432	7,976	8,261	7,280
Unassigned	30,278	30,648	27,581	31,859	29,616	30,913	36,690	48,198	51,582	48,118
<b>Total General Fund</b>	<u>\$ 42,415</u>	<u>\$ 43,224</u>	<u>\$ 41,457</u>	<u>\$ 44,179</u>	<u>\$ 42,023</u>	<u>\$ 42,077</u>	<u>\$ 48,310</u>	<u>\$ 62,470</u>	<u>\$ 66,931</u>	<u>\$ 63,107</u>

Source: Annual Financial Statements, Balance Sheet

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



	<b>Fiscal Year Ended June 30</b>									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>All Other Governmental Funds</b>										
Nonspendable	\$ 731	\$ 1,308	\$ 1,402	\$ 1,422	\$ 11,112	\$ 18,189	\$ 14,869	\$ 1,468	\$ 1,505	\$ 1,499
Restricted	1,406	1,412	55,400	50,646	61,324	84,688	68,468	59,650	47,113	35,298
Committed	15,207	22,043	16,962	24,775	14,284	20,400	27,145	48,434	65,745	71,566
Assigned	44,116	36,629	38,538	20,114	33,264	45,514	55,211	52,627	64,411	63,225
<b>Total All Other Governmental Funds</b>	<u>\$ 61,460</u>	<u>\$ 61,392</u>	<u>\$ 112,302</u>	<u>\$ 96,957</u>	<u>\$ 119,984</u>	<u>\$ 168,791</u>	<u>\$ 165,693</u>	<u>\$ 162,179</u>	<u>\$ 178,774</u>	<u>\$ 171,588</u>

Source: Annual Financial Statements, Balance Sheet



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

	<b>Fiscal Year Ended June 30</b>									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Revenues</b>										
Property tax	\$ 23,084	\$ 25,432	\$ 25,981	\$ 29,248	\$ 30,216	\$ 32,040	\$ 35,393	\$ 38,836	\$ 41,289	\$ 44,050
Sales tax	22,623	20,089	17,991	20,746	22,132	25,606	29,424	29,675	30,018	29,923
Other taxes and fines	27,385	24,843	25,063	27,890	29,231	32,141	35,305	41,576	44,909	48,875
Charges for services	19,610	19,837	19,775	22,311	46,273	38,976	23,962	25,973	23,910	22,267
From other agencies	4,300	5,984	3,035	1,614	1,116	4,109	5,700	7,727	4,417	5,443
Permits and licenses	4,761	4,033	4,408	5,433	7,136	8,218	8,990	9,179	11,228	10,523
Interest and rentals	20,507	19,183	19,045	16,553	18,583	12,136	18,445	18,658	22,269	15,348
Other revenue	4,713	6,223	4,724	8,624	12,739	17,570	7,471	12,837	13,827	4,985
<b>Total Revenues</b>	<u>126,983</u>	<u>125,624</u>	<u>120,022</u>	<u>132,419</u>	<u>167,426</u>	<u>170,796</u>	<u>164,690</u>	<u>184,461</u>	<u>191,867</u>	<u>181,414</u>
<b>Expenditures</b>										
Administration <sup>1</sup>	16,250	16,002	17,353	8,351	9,412	8,291	9,961	10,806	11,501	13,192
Public Works	10,072	10,064	9,787	11,317	11,304	11,489	12,439	12,276	13,112	14,485
Planning and Community Environment	9,861	10,462	9,480	10,309	11,966	13,474	14,761	8,628	9,722	10,568
Development Services <sup>3</sup>	-	-	-	-	-	-	-	11,152	10,643	10,908
Public Safety	48,650	48,957	51,022	58,874	62,418	59,537	62,028	61,447	63,784	71,164
Community Services <sup>2</sup>	17,138	17,451	16,451	20,029	20,860	21,661	22,644	23,553	25,511	25,408
Library <sup>2</sup>	6,219	5,985	5,900	6,509	7,072	6,902	7,340	7,980	7,960	8,953
Non-departmental	14,089	10,765	10,149	7,352	6,819	4,567	8,135	6,180	8,068	6,566
Special revenue and capital projects	21,626	21,485	22,006	35,486	29,154	29,542	37,035	41,754	24,457	39,643
Debt service - principal payments	885	800	840	870	1,743	1,489	1,524	1,948	7,130	2,066
Debt service - interest and fiscal fees	451	416	382	1,815	2,757	2,659	3,196	3,404	4,266	3,032
Payment to bond refunding escrow	-	-	-	-	586	540	-	-	-	-
<b>Total Expenditures</b>	<u>145,241</u>	<u>142,387</u>	<u>143,370</u>	<u>160,912</u>	<u>164,091</u>	<u>160,151</u>	<u>179,063</u>	<u>189,128</u>	<u>186,154</u>	<u>205,985</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(18,258)</u>	<u>(16,763)</u>	<u>(23,348)</u>	<u>(28,493)</u>	<u>3,335</u>	<u>10,645</u>	<u>(14,373)</u>	<u>(4,667)</u>	<u>5,713</u>	<u>(24,571)</u>
<b>Other Financing Sources (Uses)</b>										
Transfers in	33,437	39,903	34,835	30,323	47,200	50,343	41,683	45,137	61,835	58,331
Transfers out	(16,819)	(22,399)	(21,415)	(14,352)	(29,782)	(33,833)	(24,175)	(29,824)	(46,492)	(44,770)
Other	-	-	-	(101)	-	-	-	-	-	-
Proceeds from long term debt	-	-	59,071	-	3,222	21,706	-	-	-	-
Payments to refund bond escrow	-	-	-	-	(3,104)	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>16,618</u>	<u>17,504</u>	<u>72,491</u>	<u>15,870</u>	<u>17,536</u>	<u>38,216</u>	<u>17,508</u>	<u>15,313</u>	<u>15,343</u>	<u>13,561</u>
<b>Net Change in Fund Balances</b>	<u>\$ (1,640)</u>	<u>\$ 741</u>	<u>\$ 49,143</u>	<u>\$ (12,623)</u>	<u>\$ 20,871</u>	<u>\$ 48,861</u>	<u>\$ 3,135</u>	<u>\$ 10,646</u>	<u>\$ 21,056</u>	<u>\$ (11,010)</u>
<b>Debt Service as a Percentage of Non-Capital Expenditures</b>	1.1%	1.0%	1.0%	2.2%	3.5%	3.2%	3.3%	3.7%	7.1%	3.1%

Notes:

<sup>1</sup>Comprised of the following departments: City Council, City Manager, City Attorney, City Clerk, City Auditor, Administrative Services and Human Resources.

<sup>2</sup>Prior to 2005, Library was included in Community Services.

<sup>3</sup>The Development Services Department was formed in FY15.

Source: Annual Financial Statements, Governmental Funds, Statement of Revenues, Expenditures and Changes in Fund Balances

**CITY OF PALO ALTO**  
**Electric Operating Revenue by Source**  
**Last Ten Fiscal Years**  
**(Amounts in thousands)**

<b>Fiscal Year</b>	<b>Residential</b>	<b>Commercial &amp; Industrial</b>	<b>City of Palo Alto</b>	<b>Total</b>
2008	\$ 16,109	\$ 72,632	\$ 2,571	\$ 91,312
2009	17,939	83,710	2,823	104,472
2010	19,898	89,315	2,890	112,103
2011	19,848	88,076	2,991	110,915
2012	20,328	85,895	3,352	109,575
2013	19,951	86,998	3,265	110,214
2014	18,744	88,419	3,225	110,388
2015	17,404	88,257	3,234	108,895
2016	18,191	86,715	3,127	108,033
2017	20,269	90,635	3,780	114,684

**Top Ten Electric Customers by Revenue<sup>1</sup>**

<b>Customer (alphabetical order)</b>	<b>Type of Business</b>
529 Bryant Street LLC	Technology
City of Palo Alto	Municipal
Communications & Power Industries (CPI)	Research
Hewlett-Packard Company	Computer
Hewlett-Packard Enterprise	Computer
Space Systems/Loral, LLC	Satellite & Satellite Systems
Stanford Hospital & Clinics	Hospital
Varian Medical Systems, Inc.	Manufacturing
Veterans Administration Hospital	Hospital
VMware, Inc.	Computer

<sup>1</sup>The top ten customers accounted for approximately 36.8% of total kWh consumption (337,495,175 kWh) and 32.2% of revenue (\$38,191,663). The largest customer accounted for 8.9% of total kWh consumption and 6.9% of revenue. The smallest customer accounted for 1.8% of total kWh consumption and 1.5% of revenue. Revenue used to determine top ten electric customers includes metered and non-metered charges, adjustments, surcharges and discounts. Revenue does not include Utility Users Tax (UUT) and deposits.

	<b>Number of Customers</b>	<b>Kilowatt-hour Sales (kWh)</b>	<b>Revenue<sup>2</sup></b>
Residential	25,642	148,985,634	\$ 20,269
Commercial	3,753	580,831,575	73,471
Industrial	85	157,501,954	17,164
CPA	136	30,367,953	3,780
<b>Total</b>	29,616	917,687,116	\$ 114,684

**City of Palo Alto Power Purchase**

Western Area Power Administration Hydroelectric	51%
Forward Market Purchases	4%
Wind Energy	12%
Landfill Gas Energy	11%
Solar Energy	26%
Northern California Power Agency Hydroelectric	24%
Short-Term Market	-28%

<sup>2</sup>Revenue includes metered and non-metered charges and revenue adjustments. Revenue does not include California Energy Commission (CEC) surcharges, Utility Users Tax (UUT), Primary Voltage and Rate Assistance (RAP) discounts and deposits. Parts of this schedule are provided as required by the Continuing Disclosure Agreement for the City's Utility Revenue Bond and are not required by Governmental Accounting Standards Board (GASB).

Source: City of Palo Alto, Utilities and Accounting Departments

**CITY OF PALO ALTO**  
**Supplemental Disclosure for Water Utilities**  
**Fiscal Year 2017**

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

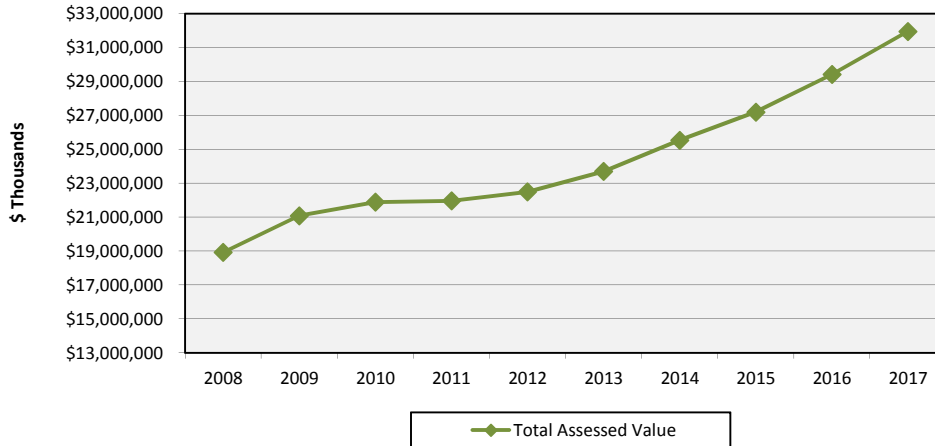
City of Palo Alto  
Oak Creek Apartments  
Palo Alto Hills Golf & Country Club  
Palo Alto Unified School District  
Space Systems/Loral, LLC  
Stanford Hospital & Clinics  
Stanford West Management  
Veterans Administration Hospital  
Vi at Palo Alto  
VMware Inc.

The top ten customers total consumption is 730,845 CCF with revenue of \$7,061,676. This amount accounts for approximately 17.8% of total consumption and 16.4% of total revenue. The largest customer (other than the City of Palo Alto) accounted for 2.9% of consumption and 2.5% of revenue. The smallest customer accounted for 0.8% of consumption and 0.8% of revenue. Revenue used to determine top ten water utility customers includes metered and non-metered charges, adjustments, surcharges and discounts. Revenue does not include Utility Users Tax (UUT) and deposits.

Note: This schedule is provided as required by the Continuing Disclosure Agreement for the City's Utility Revenue Bond and is not required by Governmental Accounting Standards Board (GASB).

Source: City of Palo Alto, Utilities Department

**CITY OF PALO ALTO**  
**Assessed Value of Taxable Property**  
**Last Ten Fiscal Years**  
**(Amounts in thousands)**

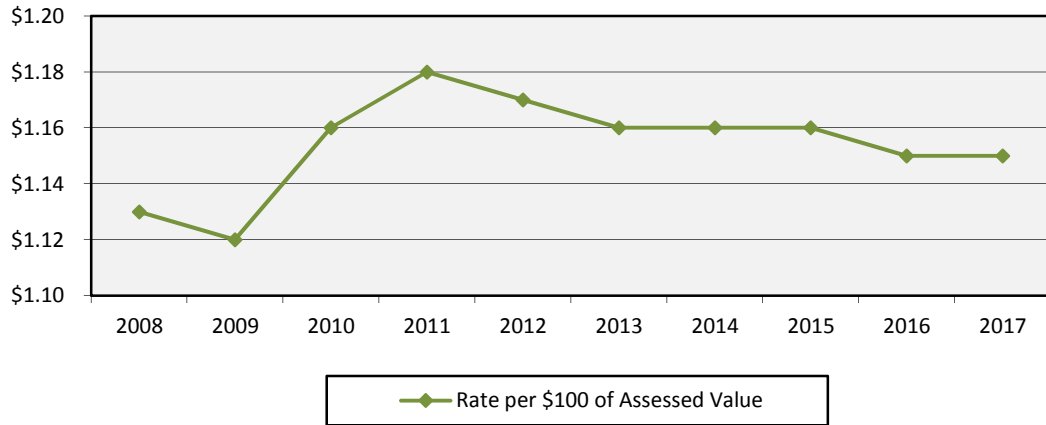


	Fiscal Year Ended June 30									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Net Local Secured Roll</b>										
Land	\$ 9,497,746	\$ 10,420,139	\$ 11,007,650	\$ 11,011,160	\$ 11,352,993	\$ 12,255,515	\$ 13,357,851	\$ 14,409,837	\$ 15,718,665	\$ 17,333,969
Improvements	9,453,436	10,527,617	10,752,671	10,962,928	11,703,597	12,381,306	12,984,735	13,633,986	14,998,502	16,752,295
Personal property	228,875	303,688	288,148	241,280	257,436	287,296	307,499	290,590	310,929	306,576
	19,180,057	21,251,444	22,048,469	22,215,368	23,314,026	24,924,117	26,650,085	28,334,413	31,028,096	34,392,840
<b>Less:</b>										
Exemptions net of state aid	(1,797,327)	(1,871,292)	(1,809,119)	(1,757,241)	(2,346,728)	(2,589,653)	(2,610,521)	(2,761,495)	(3,409,836)	(4,244,500)
<b>Total Net Local Secured Roll</b>	17,382,730	19,380,152	20,239,350	20,458,127	20,967,298	22,334,464	24,039,564	25,572,918	27,618,260	30,148,340
Public utilities	3,174	2,573	2,573	2,573	2,573	2,573	2,573	2,573	2,573	2,573
Unsecured property	1,536,584	1,702,884	1,638,436	1,495,574	1,516,837	1,355,970	1,493,922	1,622,636	1,794,921	1,803,468
<b>Total Assessed Value</b>	<u>\$ 18,922,488</u>	<u>\$ 21,085,609</u>	<u>\$ 21,880,359</u>	<u>\$ 21,956,274</u>	<u>\$ 22,486,708</u>	<u>\$ 23,693,007</u>	<u>\$ 25,536,059</u>	<u>\$ 27,198,127</u>	<u>\$ 29,415,754</u>	<u>\$ 31,954,381</u>
<b>Total Direct Tax Rate</b>	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%

Note: The State Constitution requires property to be assessed at 100% of the most recent purchase price, plus an increment of no more than 2% annually, plus any local over-rides. These values are considered to be full market values.

Source: County of Santa Clara Assessor's Office

**CITY OF PALO ALTO  
Property Tax Rates  
All Overlapping Governments  
Last Ten Fiscal Years**



Fiscal Year	Basic County Wide Levy	County Retirement Levy	County Hospital G.O. Bond (Measure A) <sup>1</sup>	City Library G.O. Bond (Measure N) <sup>2</sup>	Santa Clara Valley Water District	School District	Community College	Midpeninsula Open Space <sup>3</sup>	Total Direct and Overlapping Rates
2008	1.00	0.0388	-	-	0.0071	0.0702	0.0113		1.13
2009	1.00	0.0388	-	-	0.0061	0.0674	0.0123		1.12
2010	1.00	0.0388	0.0122	-	0.0074	0.0686	0.0322		1.16
2011	1.00	0.0388	0.0095	0.0171	0.0072	0.0751	0.0326		1.18
2012	1.00	0.0388	0.0047	0.0155	0.0064	0.0742	0.0297		1.17
2013	1.00	0.0388	0.0051	0.0129	0.0069	0.0718	0.0287		1.16
2014	1.00	0.0388	0.0035	0.0177	0.0070	0.0655	0.0290		1.16
2015	1.00	0.0388	0.0091	0.0159	0.0065	0.0657	0.0276		1.16
2016	1.00	0.0388	0.0088	0.0148	0.0057	0.0604	0.0240	0.0008	1.15
2017	1.00	0.0388	0.0086	0.0129	0.0086	0.0591	0.0234	0.0006	1.15

Notes: <sup>1</sup>The County General Obligation Bond (Measure A) was passed in 2008 to fund the seismic upgrade of the Santa Clara Valley Medical Center. Rates were first levied for the 2009-10 fiscal year.

<sup>2</sup>The City of Palo Alto General Obligation Bond (Measure N) was passed in 2008 to fund the construction and renovation of three of the City's libraries. Rates were first levied for the 2010-11 fiscal year.

<sup>3</sup>The Midpeninsula Regional Open Space District Bond Issue and Property Tax, Measure AA, passed in 2014.

Source: County of Santa Clara, Tax Rates and Information

**CITY OF PALO ALTO**  
**Property Tax Levies and Collections**  
**Last Ten Fiscal Years**  
**(Amounts in thousands)**

Fiscal Year Ended June 30	Total Tax Levy <sup>1</sup> for FY	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years <sup>2</sup>	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2008	23,084	23,084	100%	-	23,084	100%
2009	25,432	25,432	100%	-	25,432	100%
2010	25,981	25,981	100%	-	25,981	100%
2011	25,688	25,688	100%	-	25,688	100%
2012	26,494	26,494	100%	-	26,494	100%
2013	28,742	28,742	100%	-	28,742	100%
2014	30,587	30,587	100%	-	30,587	100%
2015	34,117	34,117	100%	-	34,117	100%
2016	36,607	36,607	100%	-	36,607	100%
2017	39,381	39,381	100%	-	39,381	100%

Notes: <sup>1</sup>During fiscal year 1995, the County of Santa Clara began providing the City 100% of its tax levy under an agreement which allows the county to keep all interest and delinquency charges collected.

<sup>2</sup>Effective fiscal year 1994, the City is on the Teeter Plan, under which the County of Santa Clara pays the full tax levy due. All prior delinquent taxes were also received in that fiscal year.

Source: Annual Financial Statements, Government Funds, Statement of Revenues, Expenditures and Changes in Fund Balances.

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

Taxpayer	Fiscal Year 2017			Fiscal Year 2008		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Leland Stanford Jr. University	\$ 4,517,330	1	14.1%	\$ 2,968,746	1	15.7%
Loral Space & Communications	254,505	2	0.8%	169,513	2	0.9%
Google Inc.	191,425	3	0.6%			
EOSII Palo Alto Technology Center LLC	123,548	4	0.4%			
Whisman Ventures, LLC	113,709	5	0.4%	100,470	3	0.5%
Hudson Embarcadero Place LLC	110,126	6	0.3%			
Hobach Realty Co. LP	76,703	7	0.2%			
SI 45 LLC	72,300	8	0.2%			
BVK Hamilton Ave LLC	70,347	9	0.2%			
Ronald & Ann Williams Charitable Foundation	63,641	10	0.2%			
Agilent Technologies						
Harbor Investment Partners				65,791	4	0.3%
Western Pacific Housing Inc.				60,033	5	0.3%
EOP-Embarcadero Place, LLC				45,000	6	0.2%
505 Hamilton Avenue Partners LP				38,583	7	0.2%
Pacific Hotel Dev Venture LP				38,143	8	0.2%
Palo Alto Town & Country Village Inc.				37,031	9	0.2%
California Pacific Commercial Corp.				35,953	10	0.2%
<b>Total</b>	<b>\$ 5,593,634</b>		<b>17.5%</b>	<b>\$ 3,559,263</b>		<b>18.8%</b>

**Total City Taxable Assessed Value:**

FY 2017	\$ 31,954,381
FY 2008	\$ 18,922,488

Source: California Municipal Statistics, Inc.

**CITY OF PALO ALTO**  
**Assessed Valuation and Parcels by Land Use**  
**As of June 30, 2017**

	<b>2016-2017</b>					
	<b>Assessed</b>	<b>% of</b>	<b>No. of</b>	<b>% of</b>	<b>No. of</b>	<b>% of</b>
	<b>Valuation<sup>1</sup></b>	<b>Total</b>	<b>Parcels</b>	<b>Total</b>	<b>Taxable</b>	<b>Total</b>
	<b>Valuation<sup>1</sup></b>		<b>Parcels</b>		<b>Parcels</b>	
<b>Non-Residential:</b>						
Agricultural/forest	\$ 33,225,926	0.11 %	49	0.24 %	31	0.15 %
Commercial	1,740,608,446	5.77	456	2.20	452	2.22
Professional/office	4,287,861,059	14.22	543	2.62	527	2.59
Industrial/research & development	1,827,375,527	6.06	236	1.14	235	1.16
Recreational	44,181,880	0.15	14	0.07	12	0.06
Government/social/institutional	224,759,011	0.75	119	0.57	52	0.26
Miscellaneous	<u>7,246,556</u>	<u>0.02</u>	<u>18</u>	<u>0.09</u>	<u>17</u>	<u>0.08</u>
Subtotal Non-Residential	\$ 8,165,258,405	27.08 %	1,435	6.93 %	1,326	6.52 %
<b>Residential:</b>						
Single family residence	\$ 17,718,787,884	58.77 %	14,989	72.39 %	14,943	73.50 %
Condominium/townhouse	2,239,121,931	7.43	3,033	14.65	3,029	14.90
Mobile Home	71,957	0.00	7	0.03	7	0.03
2-4 Residential units	444,070,837	1.47	504	2.43	504	2.48
5+ Residential units	<u>1,356,760,376</u>	<u>4.50</u>	<u>340</u>	<u>1.64</u>	<u>325</u>	<u>1.60</u>
Subtotal Residential	\$ 21,758,812,985	72.17 %	18,873	91.15 %	18,808	92.51 %
<b>Vacant Parcels</b>	\$ 224,269,330	0.74 %	397	1.92 %	196	0.96 %
<b>Total</b>	\$ 30,148,340,720	100 %	20,705	100 %	20,330	100 %

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

<sup>1</sup>Local secured assessed valuation, excluding tax-exempt property.

Source: California Municipal Statistics, Inc.



**CITY OF PALO ALTO**  
**Per Parcel Assessed Valuation of Single Family Residential**  
**As of June 30, 2017**

	<b>No. of Taxable Parcels<sup>1</sup></b>	<b>2016-2017 Assessed Valuation</b>	<b>Average Assessed Valuation</b>	<b>Median Assessed Valuation</b>
Single Family Residential	14,943	\$17,718,787,884	\$1,185,758	\$868,625

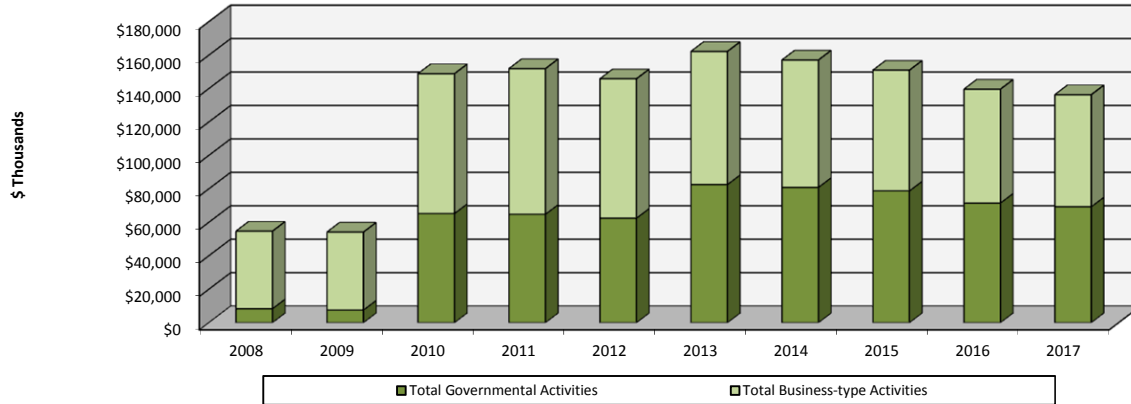
<b>2016-2017 Assessed Valuation</b>	<b>No. of Taxable Parcels<sup>1</sup></b>	<b>% of Total Parcels</b>	<b>Cumulative % of Total Parcels</b>	<b>Total Valuation</b>	<b>% of Total Valuation</b>	<b>Cumulative % of Total Valuation</b>
\$0-99,999	1,221	8.17	8.17	\$ 97,020,778	0.55	0.55
\$100,000-199,999	1,745	11.68	19.85	241,250,008	1.36	1.91
\$200,000-299,999	840	5.62	25.47	208,040,251	1.17	3.08
\$300,000-399,999	713	4.77	30.24	247,385,211	1.40	4.48
\$400,000-499,999	651	4.36	34.60	292,801,617	1.65	6.13
\$500,000-599,999	714	4.78	39.38	393,101,146	2.22	8.35
\$600,000-699,999	650	4.35	43.73	421,102,529	2.38	10.73
\$700,000-799,999	580	3.88	47.61	433,600,392	2.45	13.17
\$800,000-899,999	555	3.71	51.32	473,716,449	2.67	15.85
\$900,000-999,999	631	4.22	55.54	599,068,177	3.38	19.23
\$1,000,000-1,099,999	578	3.87	59.41	607,681,693	3.43	22.66
\$1,100,000-1,199,999	515	3.45	62.86	591,460,904	3.34	26.00
\$1,200,000-1,299,999	433	2.90	65.76	542,355,723	3.06	29.06
\$1,300,000-1,399,999	444	2.97	68.73	598,481,773	3.38	32.43
\$1,400,000-1,499,999	423	2.83	71.56	613,070,079	3.46	35.89
\$1,500,000-1,599,999	396	2.65	74.21	613,614,049	3.46	39.36
\$1,600,000-1,699,999	382	2.56	76.77	630,090,601	3.56	42.91
\$1,700,000-1,799,999	311	2.08	78.85	543,559,536	3.07	45.98
\$1,800,000-1,899,999	318	2.13	80.97	587,288,592	3.31	49.30
\$1,900,000-1,999,999	236	1.58	82.55	459,800,376	2.59	51.89
\$2,000,000 and greater	2,607	17.45	100.00	8,524,298,000	48.11	100.00
Total	14,943	100.00		\$ 17,718,787,884	100.00	

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

<sup>1</sup>Improved single family residential parcels. Excludes condominiums and parcels with multiple family units.

Source: California Municipal Statistics, Inc.

**CITY OF PALO ALTO**  
**Ratio of Outstanding Debt by Type**  
**Last Ten Fiscal Years**  
**(Amounts in thousands)**



	<b>Fiscal Year Ended June 30</b>									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Governmental Activities</b>										
Certificates of Participation	\$ 8,405	\$ 7,605	\$ 6,765	\$ 5,895	\$ 1,685	\$ 1,560	\$ 1,430	\$ 1,285	\$ 1,135	\$ 975
General Obligation Bonds	-	-	55,305	55,305	54,540	74,235	73,215	71,795	65,210	63,710
Special Assessment Debt	-	-	-	-	-	-	-	-	-	-
2011 Lease-Purchase Agreement	-	-	-	-	2,764	2,400	2,026	1,643	1,248	842
Add: unamortized premium	-	-	3,766	3,640	3,514	4,400	4,242	4,084	3,926	3,768
Less: unamortized discount/ issuance costs	-	-	(571)	-	-	-	-	-	-	-
<b>Total Governmental Activities</b>	<b>8,405</b>	<b>7,605</b>	<b>65,265</b>	<b>64,840</b>	<b>62,503</b>	<b>82,595</b>	<b>80,913</b>	<b>78,807</b>	<b>71,519</b>	<b>69,295</b>
<b>Business-type Activities</b>										
Utility Revenue Bonds	40,334	38,744	72,104	69,551	65,879	63,104	60,224	57,224	54,095	50,825
Energy Tax Credits	1,400	1,300	1,200	1,100	1,000	900	800	700	600	500
State Water Resources Loan	5,629	9,000	13,080	16,696	15,900	15,109	14,309	13,500	12,681	15,034
Less: unamortized discount/ issuance costs	(1,053)	(2,479)	(2,737)	(229)	580	543	867	803	737	673
<b>Total Business-type Activities</b>	<b>46,310</b>	<b>46,565</b>	<b>83,647</b>	<b>87,118</b>	<b>83,359</b>	<b>79,656</b>	<b>76,200</b>	<b>72,227</b>	<b>68,113</b>	<b>67,032</b>
<b>Total Primary Government Outstanding Debt</b>	<b>\$ 54,715</b>	<b>\$ 54,170</b>	<b>\$ 148,912</b>	<b>\$ 151,958</b>	<b>\$ 145,862</b>	<b>\$ 162,251</b>	<b>\$ 157,113</b>	<b>\$ 151,034</b>	<b>\$ 139,632</b>	<b>\$ 136,327</b>
Percentage of Personal Income <sup>1</sup>	1.55%	1.53%	4.51%	3.86%	3.36%	3.36%	3.24%	2.94%	2.52%	2.38%
Population	63,367	64,484	65,408	64,417	65,544	66,368	66,861	66,029	66,968	66,478
Debt Per Capita	\$ 0.86	\$ 0.84	\$ 2.28	\$ 2.36	\$ 2.23	\$ 2.44	\$ 2.35	\$ 2.29	\$ 2.09	\$ 2.05

Notes: <sup>1</sup>See the schedule of Demographic and Economic Statistics for personal income data. Per capita personal income is only available for Santa Clara County, therefore personal income is the product of the countywide per capita amount and the City's population.

Sources: County of Santa Clara (assessed valuation)  
2017 Official City Data Set (population)  
California Department of Transportation Long-Term Socio-Economic Forecasts (personal income)  
Annual Financial Statements, Note 7 General Long-Term Obligations and Note 8 Special Assessment Debt

**CITY OF PALO ALTO**  
**Computation of Direct and Overlapping Debt**  
**As of June 30, 2017**

**2016-2017 Assessed Valuation**

\$ 31,954,381,415

	<b>Total Debt Outstanding</b>	<b>Percentage Applicable to City of Palo Alto<sup>1</sup></b>	<b>Amount Applicable to City of Palo Alto</b>
<b><u>Direct and Overlapping Tax and Assessment Debt</u></b>			
Santa Clara County	\$ 784,845,000	7.63%	\$ 59,875,825
Foothill-DeAnza Community College District	649,079,095	22.20%	144,082,578
Palo Alto Unified School District	280,846,553	89.99%	252,747,855
Fremont Union High School District	364,345,088	0.01%	40,078
Los Gatos-Saratoga Joint Union High School District	114,990,000	0.01%	13,799
Mountain View-Los Altos Union High School District	55,766,725	1.03%	572,167
Cupertino Union School District	281,213,688	0.02%	50,618
Los Altos School District	70,340,000	1.29%	906,683
Mountain View-Whisman School District	189,475,000	0.79%	1,502,537
Saratoga Union School District	30,006,318	0.03%	8,102
Whisman School District	17,374,836	2.11%	366,262
<b>City of Palo Alto</b>	<b>63,710,000</b>	<b>100%</b>	<b>63,710,000</b>
El Camino Hospital District	227,050,000	0.08%	190,722
Midpeninsula Regional Open Space District	44,225,000	13.05%	5,773,132
City of Palo Alto Special Assessment Bonds	23,765,000	100%	23,765,000
Santa Clara Valley Water District Benefit Assessment District	90,945,000	7.63%	6,938,194
<b>Total Direct and Overlapping Tax and Assessment Debt</b>			<u>560,543,552</u>

**Direct and Overlapping General Fund Debt**

Santa Clara County General Fund Obligations	634,190,521	7.63%	48,382,395
Santa Clara County Pension Obligations	362,470,957	7.63%	27,652,909
Santa Clara County Board of Education Certificates of Participation	5,690,000	7.63%	434,090
Foothill-DeAnza Community College District Certificates of Participation	30,830,528	22.20%	6,843,761
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	5,495,000	0.01%	659
Mountain View-Los Altos Union High School District Certificates of Participation	1,940,000	1.03%	19,904
Mountain View-Whisman School District Certificates of Participation	34,020,000	0.79%	269,779
Saratoga Union High School District Certificates of Participation	4,260,000	0.03%	1,150
<b>City of Palo Alto General Fund Obligations</b>	<b>1,817,334</b>	<b>100%</b>	<b>1,817,334</b>
Santa Clara County Vector Control District Certificates of Participation	2,685,000	7.63%	204,839
Midpeninsula Regional Open Space Park District General Fund Obligations	112,143,611	13.05%	14,639,227
<b>Total Gross Direct and Overlapping General Fund Debt</b>			\$ 100,266,047
Less: Santa Clara County supported obligations			30,089,041
<b>Total Net Direct and Overlapping General Fund Debt</b>			\$ 70,177,006

**Total Combined Debt**

\$ 630,720,558

	<b>Ratio to Assessed Valuation</b>	
<b>Total Direct Debt</b>	0.21%	\$ 65,527,334
<b>Total Overlapping Debt</b>	1.77%	<u>565,193,224</u>
<b>Total Direct and Overlapping Debt</b>	1.97%	<u>\$ 630,720,558</u> <sup>2</sup>

Notes: Overlapping debt is the financial obligations of one political jurisdiction that also falls partly on a nearby jurisdiction. The amount of debt of each unit applicable to the reporting unit is arrived at by 1) determining what percentage of the total assessed value of the overlapping jurisdiction lies within the limits of the reporting unit, and 2) applying this percentage to the total debt of the overlapping jurisdiction.

<sup>1</sup>Percentage of overlapping agency's assessed valuation located within boundaries of the city.

<sup>2</sup>Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

**CITY OF PALO ALTO**  
**Computation of Legal Bonded Debt Margin**  
**As of June 30, 2017**  
**(Amounts in thousands)**

<b>Assessed Valuation:</b>	
Secured property assessed value, net of exempt real property	<u>\$ 31,954,381</u>
<b>Bonded Debt Limit (3.75% of Assessed Value) <sup>1</sup></b>	<u>1,198,289</u>
<b>Direct Debt:</b>	
Certificates of Participation	975
Lease Purchase Agreement	842
General Obligation bonds	<u>63,710</u>
<b>Total Direct Debt</b>	<u>65,527</u>
<b>Less: Amount of Debt Not Subject to Limit <sup>2</sup></b>	<u>1,817</u>
<b>Total Net Debt Applicable to Limit</b>	<u>63,710</u>
<b>Legal Bonded Debt Margin</b>	<u>\$ 1,134,579</u>

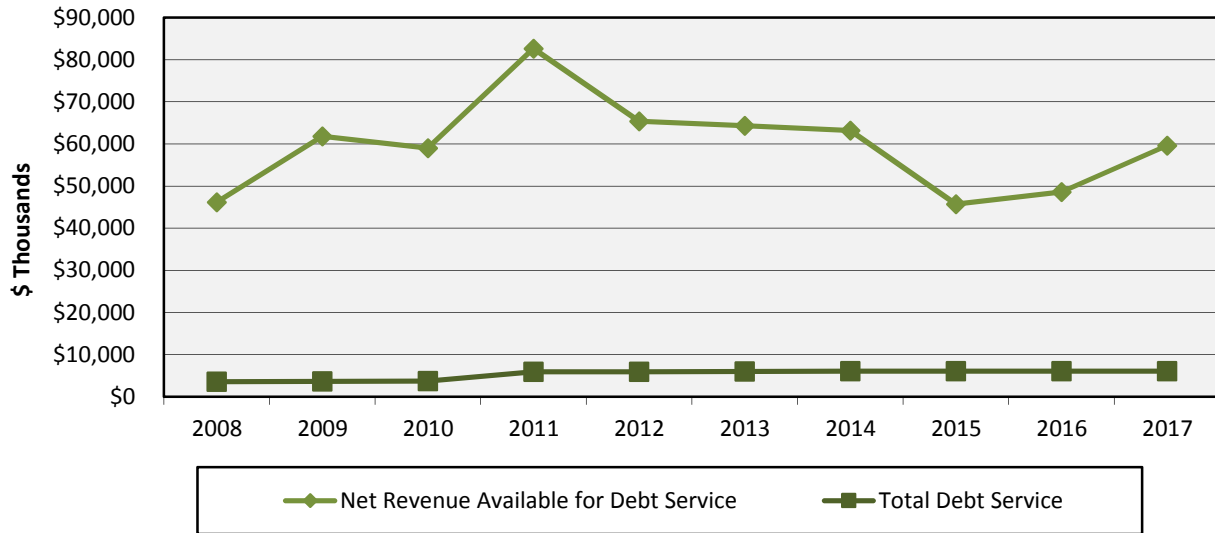
Fiscal Year	Total Assessed Value (AV)	Bonded Debt Limit (3.75% of AV)	Total Net Debt Applicable to Limit	Legal Bonded Debt Margin	Population	Total Net Debt Applicable to the Debt as a %	Ratio of Net Debt to Assessed Value	General Bonded Debt Per Capita
2008	18,922,488	709,593	-	709,593	63,367	0.00%	-	0.00
2009	21,085,609	790,710	-	790,710	64,484	0.00%	-	0.00
2010	21,880,359	820,513	55,305	765,208	65,408	6.74%	0.0025	0.85
2011	21,956,274	823,360	55,305	768,055	64,417	6.72%	0.0025	0.86
2012	22,486,708	843,252	54,540	788,712	65,544	6.47%	0.0024	0.83
2013	23,693,007	888,488	74,235	814,253	66,368	8.36%	0.0031	1.12
2014	25,536,058	957,602	73,215	884,387	66,861	7.65%	0.0029	1.10
2015	27,198,127	1,019,930	71,795	948,135	66,029	7.04%	0.0026	1.09
2016	29,415,754	1,103,091	65,210	1,037,881	66,968	5.91%	0.0022	0.97
2017	31,954,381	1,198,289	63,710	1,134,579	66,478	5.32%	0.0020	0.96

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

<sup>2</sup>In accordance with California Government Code Section 43605, only the City's General Obligation bonds are subject to the legal debt limit of 15%.

Source: Annual Financial Statements, Assessed Value of Taxable Property and Note 7 General Long-Term Obligations

**CITY OF PALO ALTO**  
**Revenue Bond Coverage**  
**Business-type Activities<sup>1</sup>**  
**Last Ten Fiscal Years**  
**(Amounts in thousands)**



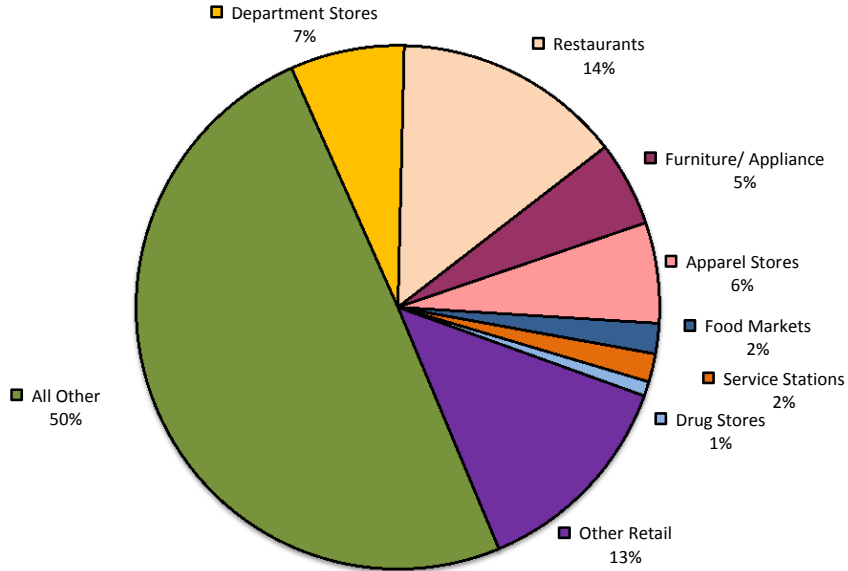
Fiscal Year	Gross Revenue	Less: Direct Operating Expenses <sup>2</sup>	Net Revenue Available for Debt Service	Debt Service			Coverage Ratio
				Principal	Interest <sup>3</sup>	Total	
2008	219,801	173,620	46,181	1,525	2,088	3,613	12.78
2009	242,693	180,880	61,813	1,590	2,024	3,614	17.10
2010	230,308	171,320	58,988	1,755	1,954	3,709	15.90
2011	234,278	151,641	82,637	2,655	3,261	5,916	13.97
2012	235,160	169,777	65,383	2,945	2,959	5,904	11.07
2013	237,842	173,510	64,332	2,875	3,167	6,042	10.65
2014	239,948	176,718	63,230	2,980	3,073	6,053	10.45
2015	234,025	188,276	45,749	3,100	2,954	6,054	7.56
2016	235,386	186,793	48,593	3,230	2,823	6,053	8.03
2017	264,734	205,102	59,632	3,370	2,678	6,048	9.86

Notes: <sup>1</sup>Airport, Refuse and Fiber Optics funds have no debt and are therefore excluded from this schedule.  
<sup>2</sup>Excludes depreciation and amortization expense.  
<sup>3</sup>Excludes joint venture debt service and federal interest subsidy.

Source: City of Palo Alto, Accounting Department

**CITY OF PALO ALTO  
Taxable Transactions by Type of Business  
Last Ten Fiscal Years  
(Amounts in thousands)**

**Fiscal Year 2017**



**ECONOMIC SEGMENT**

Fiscal Year	Department Stores	Restaurants	Furniture/ Appliance	Apparel Stores	Food Markets	Service Stations	Drug Stores	Other Retail	All Other	Total
2008	2,685	2,566	1,685	1,497	349	622	405	4,682	6,797	21,288
2009	2,251	2,443	1,431	1,258	315	493	214	4,284	6,635	19,324
2010	2,215	2,418	1,402	1,254	343	549	219	4,458	5,556	18,414
2011	2,374	2,621	1,564	1,292	381	630	242	4,873	6,322	20,299
2012	2,445	2,937	1,590	1,492	387	722	257	5,049	7,034	21,913
2013	2,478	3,160	1,465	1,656	424	765	259	4,056	13,729	27,992
2014	2,097	3,541	1,555	2,041	392	772	444	4,845	9,890	25,577
2015	2,398	3,894	1,672	1,708	435	699	265	3,674	11,253	25,998
2016	2,250	4,134	1,410	1,694	448	582	257	4,949	12,423	28,147
2017	2,036	4,079	1,513	1,794	542	502	259	3,810	14,325	28,860

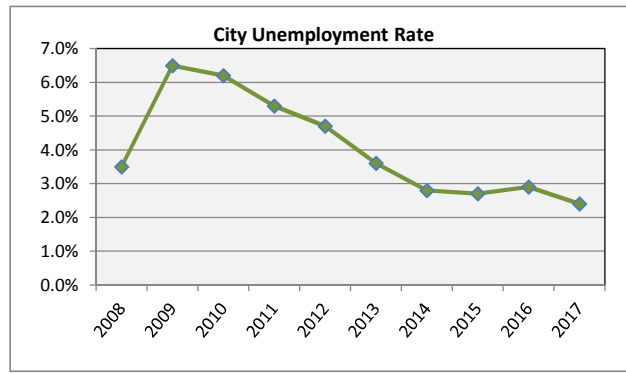
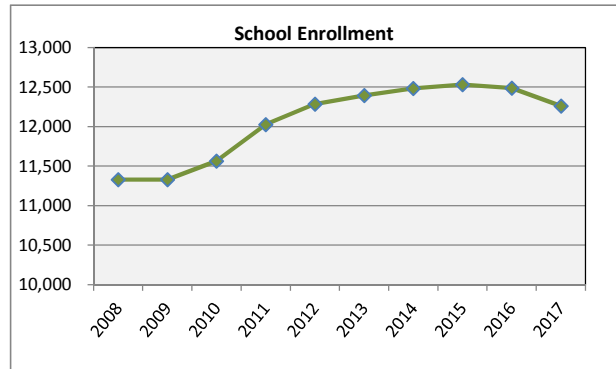
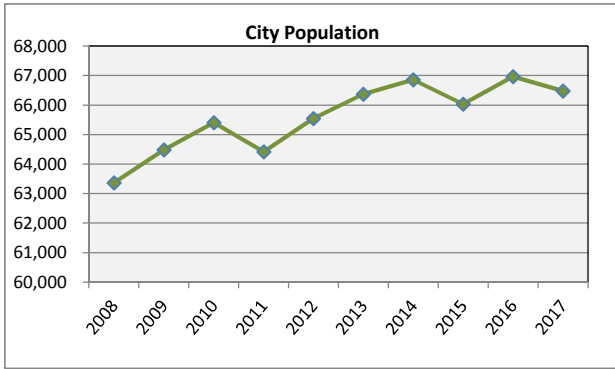
Source: California State Board of Equalization, compiled by MuniServices LLC

**Sales Tax Rates for the Fiscal Year ended June 30, 2017**

<b>State Rate:</b>	7.25%
<b>Special District Tax Rates:</b>	
Santa Clara County Transit District (SCCT)	0.50%
Santa Clara County Valley Transportation Authority (SCVT)	0.50%
Santa Clara VTA BART Operating and Maintenance Transactions and Use Tax (SVTB)	0.125%
Santa Clara Retail Transactions and Use Tax (SCCR)	0.125%
Santa Clara County Valley Transportation Authority (SCVT)	0.50%
<b>Total Sales and Use Tax Rate:</b>	<b>9.000%</b>

Source: California State Board of Equalization

**CITY OF PALO ALTO**  
**Demographic and Economic Statistics**  
**Last Ten Fiscal Years**



Fiscal Year	City of Palo Alto Population	City of Palo Alto Unemployment Rate	City of Palo Alto School Enrollment	Santa Clara County Population	City Population as a Percentage of County Population	Santa Clara County Total Personal Income (in thousands)	Santa Clara County Per Capita Personal Income (in thousands)
2008	63,367	3.5%	11,329	1,837,075	3.45%	\$ 102,300,000	\$ 55,686
2009	64,484	6.5%	11,329	1,857,621	3.47%	101,800,000	54,801
2010	65,408	6.2%	11,565	1,880,876	3.48%	95,000,000	50,508
2011	64,417	5.3%	12,024	1,786,443	3.61%	109,300,000 *	61,183 *
2012	65,544	4.7%	12,286	1,813,860	3.61%	120,100,000 *	66,212 *
2013	66,368	3.6%	12,396	1,840,218	3.61%	134,000,000 *	72,817 *
2014	66,861	2.8%	12,483	1,866,208	3.58%	135,200,000 *	72,446 *
2015	66,029	2.7%	12,532	1,890,929	3.49%	147,300,000 *	77,898 *
2016	66,968	2.9%	12,488	1,915,102	3.50%	158,700,000 *	82,868 *
2017	66,478	2.4%	12,261	1,930,215	3.44%	166,600,000	86,312

Note: Data on personal income and per capita personal income is only available for Santa Clara County.

Source: Beginning in 2015 population is sourced from the US Census Bureau Community Survey (via the City of Palo Alto's Official City Data Set).  
 State Employment Development Office (unemployment rate)  
 Palo Alto Unified School District (school enrollment)

\* California Department of Transportation Long-Term Socio-Economic Forecasts (personal income). Forecasts from prior years are updated annually.

**CITY OF PALO ALTO**  
**Principal Employers**  
**Current Year and Nine Years Ago**

Employer	FY 2017 <sup>1</sup>			FY 2008		
	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
Stanford Health Care	5,500	1	4.3%			
Lucile Packard Children's Hospital	4,850	2	3.8%	1,300	8	2.1%
Stanford University <sup>2</sup>	4,300	3	3.4%			
Veteran's Affairs Palo Alto Health Care System	3,900	4	3.1%	3,500	2	5.5%
VMware Inc.	3,500	5	2.8%			
SAP	3,500	6	2.8%			
Space Systems/Loral	2,800	7	2.2%	1,700	6	2.7%
Hewlett-Packard Company	2,500	8	2.0%	2,001	4	3.2%
Palo Alto Medical Foundation	2,200	9	1.7%			
Varian Medical Systems	1,400	10	1.1%			
HP Labs				7,500	1	11.8%
VA Palo Alto Health Care				2,900	3	4.6%
Palo Alto Medical Foundation				2,000	5	3.2%
Wilson Sonsini Goodrich & Rosati				1,500	7	2.4%
City of Palo Alto				1,100	9	1.7%
Roche Palo Alto				1,000	10	1.6%
<b>Total</b>	<u>34,450</u>		<u>27.2%</u>	<u>24,501</u>		<u>38.7%</u>

**Estimated Total City Day Population:**

FY 2017	126,601
FY 2008	63,367

Notes: <sup>1</sup>Available data sources are limited and may be unreliable. The City does not affirm the validity of this data. 2017 numbers are rounded. Figures may include employees not located within City limits.  
<sup>2</sup>Stanford University number of employees was provided by the Stanford Office of Planning and includes only employees located in Palo Alto.

Source: 2017 Official City Data Set (total City day population); AtoZ databases; Stanford website, Stanford Planning Office.



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

FUNCTIONS/PROGRAMS	Fiscal Year Ended June 30			
	2007	2008	2009	2010
<b><u>Governmental activities</u></b>				
<b>Community Services</b>				
Number of theater performances	171	166	159	174
Total hours of athletic field usage <sup>2</sup>	70,769	63,212	45,762	41,705
Number of rounds of golf	76,241	74,630	72,170	69,791
Enrollment in recreation classes (includes summer camps)	14,460	13,851	13,091	12,880
<b>Planning and Community Environment</b>				
Planning applications completed	299	257	273	226
Building permits issued	3,136	3,046	2,543	2,847
Caltrain average weekday boarding <sup>3</sup>	4,132	4,589	4,407	4,359
<b>Police</b>				
Calls for service	60,079	58,742	53,275	55,860
Total arrests	3,059	3,253	2,612	2,451
Parking citations issued	57,222	50,706	49,996	42,591
<b>Animal Services</b>				
Number of service calls	2,990	3,059	2,873	2,692
Number of animals handled	3,578	3,532	3,422	3,147
<b>Fire</b>				
Calls for service	7,236	7,723	7,549	7,468
Number of fire incidents	221	192	239	182
Number of fire inspections	1,021	1,277	1,028	1,526
<b>Library</b>				
Total number of cardholders	53,099	53,740	54,878	51,969
Total number of items in collection	270,755	279,403	293,735	298,667
Total checkouts	1,414,509	1,542,116	1,633,955	1,624,785
<b>Public Works</b>				
Street resurfacing (lane miles)	32	27	23	32
Number of potholes repaired	1,188	1,977	3,727	3,149
Sq. ft. of sidewalk replaced or permanently repaired	94,620	83,827	56,909	54,602
Number of trees planted	164	188	250	201
Tons of materials recycled or composted	56,837	52,196	49,911	48,811
<b><u>Business-type activities</u></b>				
<b>Electric</b>				
Number of customer accounts	28,684	29,024	28,527	29,430
Residential MWH consumed	162,405	162,680	159,899	163,098
<b>Gas</b>				
Number of customer accounts	23,357	23,502	23,090	23,724
Residential therms consumed	11,759,842	11,969,151	11,003,088	11,394,712
<b>Water</b>				
Number of customer accounts	19,726	19,942	19,422	20,134
Residential water consumption (CCF)	2,807,477	2,746,980	2,566,962	2,415,467
<b>Wastewater collection</b>				
Number of customer accounts	21,789	21,970	22,210	22,231
Millions of gallons processed	8,853	8,510	7,958	8,184

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

<sup>2</sup>According to the department, this measure was not accurately tracked during FY13 or FY14.

<sup>3</sup>Prior-year data has been updated based on annual counts revised by Caltrain. Beginning 2015, data source is Official City Data Set.

Source: City of Palo Alto Performance Report (formerly the Service Efforts and Accomplishments Report); 2016 Official City Data Set (Caltrain)

**Fiscal Year Ended June 30**

<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
175	175	184	108	172	161
42,687	44,226	-	-	47,504	65,723
67,381	65,653	60,153	46,527	42,048	42,573
12,310	11,703	11,598	11,997	12,586	12,974
238	204	307	310	335	383
3,559	3,320	3,682	3,624	3,844	3,492
4,923	5,730	6,763	7,564	8,294	9,622
52,159	51,086	54,628	58,559	59,795	53,870
2,288	2,212	2,274	2,589	3,273	2,988
40,426	41,875	43,877	36,551	41,412	37,624
2,804	3,051	2,909	2,398	2,013	2,421
3,323	3,379	2,675	2,480	2,143	2,184
7,555	7,796	7,904	7,829	8,548	8,882
165	186	150	150	135	150
1,807	1,654	2,069	1,741	1,964	2,806
53,246	60,283	51,007	46,950	51,792	57,307
314,101	306,160	277,749	361,103	429,460	461,292
1,476,648	1,559,932	1,512,975	1,364,872	1,499,406	1,400,926
29	40	36	36	31	39
2,986	3,047	2,726	3,418	2,487	3,435
71,174	72,787	82,118	74,051	120,776	115,293
150	143	245	148	305	387
56,586	51,725	47,941	49,594	50,546	56,438
29,708	29,545	29,299	29,338	29,065	29,304
160,318	160,604	156,411	153,190	145,284	150,112
23,816	23,915	23,659	23,592	23,461	23,467
11,476,609	11,522,999	10,834,793	10,253,776	8,537,754	9,535,377
20,248	20,317	20,043	20,037	20,061	19,994
2,442,415	2,513,595	2,521,930	2,496,549	2,052,176	1,696,383
22,320	22,421	22,152	22,105	21,990	22,016
8,652	8,130	7,546	7,186	6,512	6,387

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

FUNCTION/PROGRAM	Fiscal Year Ended June 30				
	2008	2009	2010	2011	2012
<b>Public Safety</b>					
Fire:					
Fire Stations Operated	8	8	8	8	7
Police:					
Police Stations	1	1	1	1	1
Police Patrol Vehicles	30	30	30	30	30
<b>Community Services</b>					
Acres - Downtown/Urban Parks <sup>2</sup>	157	157	157	157	157
Acres - Open Space <sup>2</sup>	3,744	3,744	3,744	3,744	3,744
Acres - Parks and Preserves <sup>2</sup>	-	-	-	-	-
Acres - Open Space <sup>2</sup>	-	-	-	-	-
Acres - Municipal Golf Course <sup>2</sup>	-	-	-	-	-
Parks and Preserves	36	36	36	36	36
Golf Course (see above for acreage)	1	1	1	1	1
Tennis Courts	51	51	51	51	51
Athletic Center	4	4	4	4	4
Community Centers	4	4	4	4	4
Theaters	3	3	3	3	3
Cultural Center/Art Center	1	1	1	1	1
Junior Museum and Zoo	1	1	1	1	1
Swimming Pools	1	1	1	1	1
Nature Center	3	3	3	3	3
<b>Libraries</b>					
Libraries	5	5	5	5	5
<b>Public Works:</b>					
Number of Trees Maintained	35,058	34,991	35,025	34,977	34,874
<b>Electric Utility<sup>1</sup></b>					
Miles of Overhead Lines	193	193	193	193	223
Miles of Underground Lines	253	253	253	253	245
<b>Water Utility</b>					
Miles of Water Mains	217	214	214	214	234
<b>Gas Utility</b>					
Miles of Gas Mains	207	207	205	205	210
<b>Waste Water</b>					
Miles of Sanitary Sewer Lines	202	207	207	207	217

Note: <sup>1</sup>The City of Palo Alto Utilities Department recently completed the conversion of its electric system maps to a GIS mapping system database. Therefore, the distances reported for FY 11/12 and forward are more accurate than the distances reported in previous years.

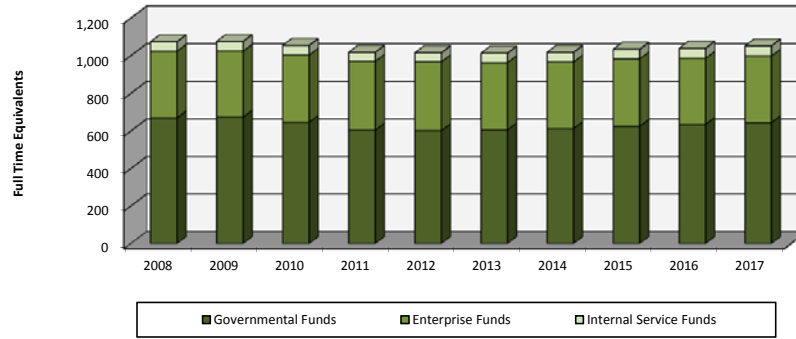
<sup>2</sup>Beginning in 2016 park acreage is sourced from the Official City Data Set. The discrepancy between FY16 and FY17 is because FY16 numbers were derived off GIS parcels identified as parks or zoned in the Open Space Zoning District. For FY17, Council approved Parks Master Plan numbers were used.

Source: City of Palo Alto

Fiscal Year Ended June 30

2013	2014	2015	2016	2017
7	7	7	7	7
1	1	1	1	1
30	30	30	30	30
157	157	157	-	-
3,744	3,744	3,752	-	-
-	-	-	3,921	174
-	-	-	4,489	4,030
-	-	-	-	181
36	36	36	36	36
1	1	1	1	1
51	51	51	51	51
4	4	4	4	4
4	4	4	4	4
3	3	3	3	3
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
3	3	3	3	3
5	5	5	5	5
34,907	34,741	34,636	34,683	34,696
222	223	223	222	223
246	249	262	268	264
233	236	236	235	236
210	214	211	209	210
217	217	217	216	216

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



**Full Time Equivalent Employees as of June 30**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
<b><u>Governmental Funds</u></b>											
General Fund:											
Administrative		98	98	89	83	83	85	83	84	86	87
Community Services		96	97	94	74	74	74	74	76	77	78
Development Services <sup>6</sup>		-	-	-	-	-	-	-	38	38	36
Fire		127	127	123	121	122	119	116	107	107	109
Library		44	44	42	41	41	41	42	44	48	48
Office of Emergency Services <sup>5</sup>		-	-	-	-	-	-	3	3	3	3
Planning and Community Environment <sup>6</sup>		53	53	49	44	43	48	49	28	31	32
Police		163	164	161	157	157	154	155	155	155	155
Public Works <sup>1</sup>		68	69	64	59	56	57	56	53	54	56
<b>Subtotal General Fund</b>		<b>649</b>	<b>652</b>	<b>622</b>	<b>579</b>	<b>576</b>	<b>578</b>	<b>578</b>	<b>588</b>	<b>599</b>	<b>604</b>
All Other Funds:											
Capital Projects Fund		20	21	24	24	24	26	27	27	28	31
Special Revenue Fund		<u>1</u>	<u>1</u>	<u>1</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>9</u>	<u>10</u>	<u>9</u>	<u>10</u>
<b>Total Governmental Funds</b>		<b>670</b>	<b>674</b>	<b>647</b>	<b>605</b>	<b>602</b>	<b>606</b>	<b>614</b>	<b>625</b>	<b>636</b>	<b>645</b>
<b><u>Enterprise Funds</u></b>											
Public Works <sup>2</sup>		113	113	115	115	115	104	99	100	95	99
Utilities <sup>3</sup>		235	238	242	251	251	254	255	258	256	255
External Services <sup>4</sup>		<u>6</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Enterprise Funds</b>		<b>354</b>	<b>351</b>	<b>357</b>	<b>366</b>	<b>366</b>	<b>358</b>	<b>354</b>	<b>358</b>	<b>351</b>	<b>354</b>
<b><u>Internal Service Funds</u></b>											
Printing and Mailing		4	4	4	2	2	2	2	2	2	2
Technology		30	31	31	30	30	31	32	32	34	35
Vehicle Replacement		<u>16</u>	<u>16</u>	<u>16</u>	<u>16</u>	<u>16</u>	<u>17</u>	<u>17</u>	<u>17</u>	<u>17</u>	<u>16</u>
<b>Total Internal Service Funds</b>		<b>50</b>	<b>51</b>	<b>51</b>	<b>48</b>	<b>48</b>	<b>50</b>	<b>51</b>	<b>51</b>	<b>53</b>	<b>53</b>
<b>Total</b>		<u><b>1,074</b></u>	<u><b>1,076</b></u>	<u><b>1,055</b></u>	<u><b>1,019</b></u>	<u><b>1,016</b></u>	<u><b>1,014</b></u>	<u><b>1,019</b></u>	<u><b>1,034</b></u>	<u><b>1,040</b></u>	<u><b>1,052</b></u>

Notes: <sup>1</sup>Fleet and Facilities Management

<sup>2</sup>Refuse, Storm Drainage, Wastewater Treatment

<sup>3</sup>Electric, Gas, Wastewater Collection, Water

<sup>4</sup>In 2009, External Services was dissolved. 5 FTEs were eliminated and 1 FTE was transferred to the Technology Fund.

<sup>5</sup>In 2014, emergency services and disaster preparation activities have been removed from the Fire Department and are now shown in newly created Office of Emergency Services.

<sup>6</sup>In FY15, staff was moved from Planning and Community Environment (PC&E), Public Works and Fire to create Development Services.

Numbers adjusted for rounding purposes.

Source: City of Palo Alto - Fiscal Year 2016 Adopted Operating Budget

**CITY OF PALO ALTO**  
**Index to the Single Audit Report**  
For the Year Ended June 30, 2017

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Palo Alto, California (City), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated November 14, 2017.

**Internal Control Over Financial Reporting**

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

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

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



## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

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

Macias Gini & O'Connell LLP

Walnut Creek, California  
November 14, 2017

## **Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by Uniform Guidance**

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

### **Report on Compliance for Each Major Federal Program**

We have audited the City of Palo Alto's, California (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2017. 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.

#### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of the City's compliance.

#### ***Basis for qualified opinion on Highway Planning and Construction Program***

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding CFDA No. 20.205 Highway Planning and Construction Program as described in item 2017-002 for Wage Rate Requirement. Compliance with such requirement is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

### ***Qualified Opinion on Highway Planning and Construction Program***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Highway Planning and Construction Program for the year ended June 30, 2017.

### ***Unmodified Opinion on the Other Major Federal Program***

In our opinion, the City complied in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its other major program identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2017.

### ***Other Matters***

The City's response to the noncompliance findings identified in our audit are described in the accompanying corrective action plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2017-002 to be a material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2017-001 and 2017-003 to be significant deficiencies.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying corrective action plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Macias Gini & O'Connell LLP

Walnut Creek, California  
November 14, 2017

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**CITY OF PALO ALTO**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2017**

Grantor/Pass-Through Grantor/Program Title	Grantor Identifying Number	Federal CFDA Number	Expenditures	Subrecipients Expenditures
<b>U.S. Department of Housing and Urban Development</b>	B-13-MC-06-0020			
<i>Direct</i>	B-14-MC-06-0020			
CDBG - Entitlement Grants Cluster	B-15-MC-06-0020			
Community Development Block Grants/Entitlement Grants	B-16-MC-06-0020	14.218	\$ 1,085,655	\$ 1,010,673
<b>U.S. Department of Justice</b>				
<i>Direct</i>				
Bulletproof Vest Partnership		16.607	12,391	-
<b>U.S. Environmental Protection Agency</b>				
<i>Pass-through from State of California Water Resources Control Board</i>				
Capitalization Grants for Clean Water State				
Revolving Funds	D16-01034	66.458	4,310,937	-
<b>U.S. Department of Transportation</b>				
<i>Direct</i>				
Public Transportation Research, Technical Assistance and Training	CA-2017-020-00	20.514	23,528	-
	3-06-0182-009-2014			
	3-06-0182-010-2015,			
	3-06-0182-011-2016,			
Airport Improvement Program	3-06-0182-012-2016	20.106	2,265,152	-
<i>Subtotal - Direct Awards</i>			2,288,680	-
<i>Pass-through from State of California Office of the Traffic Safety</i>				
National Priority Safety Program	PT1618	20.616	31,364	-
<i>Pass-through from State of California Department of Transportation</i>				
Highway Planning and Construction	BRLS-5100(017)	20.205	58,828	-
Highway Planning and Construction	STPL5100022	20.205	956,000	-
<i>Subtotal - Highway Planning and Construction</i>			1,014,828	-
<i>Subtotal - Pass-through awards</i>			1,046,192	-
Total U.S. Department of Transportation			3,334,871	-
<b>National Endowment for the Humanities</b>				
<i>Direct</i>				
Promotion of the Arts Grants to Organization and Individuals		45.024	30,000	-
<i>Pass-through from California State Library</i>				
Museums for America	MA-10-14-0431-14	45.301		
	MA-11-15-02014-15	45.301	61,545	-
Total National Endowment for the Humanities			91,545	-
<b>TOTAL FEDERAL FINANCIAL AWARDS</b>			\$ 8,835,400	\$ 1,010,673

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**CITY OF PALO ALTO**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2017**

**NOTE 1 – REPORTING ENTITY**

The schedule of expenditures of federal awards (the Schedule) includes expenditures of federal awards for the City of Palo Alto, California (City), and its component unit as disclosed in the notes to the basic financial statements.

**NOTE 2 – BASIS OF ACCOUNTING**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of measurement focus applied. All governmental funds are accounted for using the modified accrual basis of accounting. All proprietary funds are accounted for using the accrual basis of accounting. Expenditures of federal awards reported in the Schedule are recognized when incurred and all eligibility requirements have been met. Such expenditures are recognized following the cost principles contained in 2 CFR 200, Subpart E (Cost Principles), wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City did not elect to use the 10% de minimis cost rate as covered in 2 CFR 200.414(F&A) costs.

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

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

**NOTE 4 – RELATIONSHIP TO FEDERAL FINANCIAL REPORTS**

Amounts reported in the Schedule agree to or can be reconciled with the amounts reported in the related federal financial reports.

**NOTE 5 – RELATIONSHIP TO BASIC FINANCIAL STATEMENTS**

Federal awards and expenditures agree to or can be reconciled with the amounts reported in the City's basic financial statements.



**CITY OF PALO ALTO**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2017**

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued on the basic financial statements of the City: Unmodified

Internal control over financial reporting:

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

Noncompliance material to the financial statements noted? No

**Federal Awards**

Internal control over major programs:

- ◆ Material weakness(es) identified? Yes
- ◆ Significant deficiency(ies) identified? Yes

Type of auditor's report issued on compliance for major programs: Qualified for Highway Planning and Construction (CFDA 20.205) and Unmodified for Capitalization Grants for Clean Water State Revolving Funds (CFDA 66.458)

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance? Yes

Identification of Major Programs: CFDA No. 20.205 Highway Planning and Construction  
 CFDA No. 66.458 Capitalization Grants for Clean Water State Revolving Funds

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

Auditee qualified as a low-risk auditee? Yes

**Section II – Financial Statements Findings**

No findings reported.

**CITY OF PALO ALTO**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2017**

**Section III - Federal Award Findings and Questioned Costs**

<b>Reference Number:</b>	<b>2017-001</b>
<b>Federal Agency:</b>	<b>U.S. Department of Transportation</b>
<b>Federal Program Title:</b>	<b>Highway Planning and Construction</b>
<b>Federal Catalog Number:</b>	<b>20.205</b>
<b>Pass-through Agency:</b>	<b>State of California Department of Transportation</b>
<b>Federal Grant Number and Year:</b>	<b>BRLS-5100-017 and 2015</b>
<b>Category of Finding:</b>	<b>Procurement, Suspension and Debarment</b>
<b>Classification of Findings:</b>	<b>Significant Deficiency in Internal Control over Compliance</b>

**Criteria**

In accordance with 2 CFR part 180, non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to or exceed \$25,000 or meet certain other specified criteria. All non-procurement transaction (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions.

When a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity, as defined in 2 CFR section 180.995 and agency adopting regulations, is not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by (1) checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA) and available at <https://www.sam.gov/portal/public/SAM/>, (2) collecting a certification from the entity, or (3) adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300)

**Condition**

MGO selected and tested all contracts for which the City has incurred expenditures during the fiscal year ended June 30, 2017. We noted that the Public Works department did not verify the suspension and debarment status for 1 out of the 2 contracts tested prior to entering into the contract. Based on our review from the GSA website, the contractor in question is not suspended or debarred.

**Cause**

The department was not aware that the contractor in question, who was contracted in FY2012 to perform design services rather than construction, was also subject to the suspension and debarment verification requirement.

**Effect**

The City is at risk that federal funds could be remitted to a vendor that is suspended or debarred.

**Questioned Costs**

Not applicable. The contract in question is not suspended or debarred based on the record from EPLS maintained by GSA.

**CITY OF PALO ALTO**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2017**

**Section III - Federal Award Findings and Questioned Costs (Continued)**

**Recommendation**

MGO recommends the City department evaluate its existing procedures and policies in place to ensure it includes all compliance requirements from federal statutes, regulations and terms and conditions of the grants, including verification that contractors paid with federal funds are not suspended or debarred.

**CITY OF PALO ALTO**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2017**

**Section III - Federal Award Findings and Questioned Costs (Continued)**

<b>Reference Number:</b>	<b>2017-002</b>
<b>Federal Agency:</b>	<b>U.S. Department of Transportation</b>
<b>Federal Program Title:</b>	<b>Highway Planning and Construction</b>
<b>Federal Catalog Number:</b>	<b>20.205</b>
<b>Pass-through Agency:</b>	<b>State of California Department of Transportation</b>
<b>Federal Grant Number and Year:</b>	<b>STPL-5100-022 and 2017</b>
<b>Category of Finding:</b>	<b>Wage Rate Requirements</b>
<b>Classification of Findings:</b>	<b>Material Weakness in Internal Control over Compliance</b> <b>Material Noncompliance</b>

**Criteria**

The Wage Rate Requirements requires all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by federal assistance funds be paid prevailing wage rates. Contractors or subcontractors must submit timely, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR §5.5 and 5.6). The City is required to notify the contractors and subcontractors of the requirements and obtain copies of certified payrolls.

**Condition**

During our testing of the City's compliance with the wage rates requirements, we noted that during FY2017 the City only obtained the certified payroll for the month of July 2016 from the contractors and subcontractors, while the full duration of construction activities occurred from May 23, 2016 through November 30, 2016. MGO selected and tested a statistically valid sample of 4 out of 12 certified payrolls submitted for the month July 2016, and noted no exceptions.

**Cause**

The Public Works Department hired O'Grady Construction to construct the project. Per the terms of the contract with the City, O'Grady collects and reviews certified payrolls and statements of noncompliance from subcontractors, submits them to the California State Department of Industrial Relations and forwards the documents to the City. Although the City relied on O'Grady to ensure all required documents are collected before requesting payment from the City, the City did not verify receipt of the weekly certified payrolls from O'Grady prior making payment to them.

**Effect**

The City is at risk that payments may be made to contractor and subcontractors that did not comply with the Wage rate requirements.

**Questioned Costs**

The questioned costs would be \$653,231, which is the total payments made to the contractors and subcontractors for services during the months of August through November 30, 2016.

**CITY OF PALO ALTO**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2017**

**Section III - Federal Award Findings and Questioned Costs (Continued)**

**Recommendation**

We recommend the Public Works Department establish internal control procedures ensuring the City develop a mechanism to ensure that all certified payrolls/statements of non-performance is received and reviewed by the City of Palo Alto before release of payment to contractors occurs. This will ensure that federally-funded disbursements were made for allowable activities throughout the service period.

**CITY OF PALO ALTO**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2017**

**Section III - Federal Award Findings and Questioned Costs (Continued)**

<b>Reference Number:</b>	<b>2017-003</b>
<b>Federal Agency:</b>	<b>Environmental Protection Agency</b>
<b>Federal Program Title:</b>	<b>Capitalization Grants for Clean Water State Revolving Funds</b>
<b>Federal Catalog Number:</b>	<b>66.458</b>
<b>Pass-through Agency:</b>	<b>California State Water Resources Control Board</b>
<b>Federal Grant Number and Year:</b>	<b>D16-01034 and 2017</b>
<b>Category of Finding:</b>	<b>Wage Rate Requirements</b>
<b>Classification of Findings:</b>	<b>Significant Deficiency in Internal Control over Compliance</b>

**Criteria**

The Wage Rate Requirements requires all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by federal assistance funds be paid prevailing wage rates. Contractors or subcontractors must submit timely, for each week in which any contract work is performed, a copy of the payroll and statement of compliance (certified payrolls) (29 CFR § 5.5). The City is required to notify the contractors and subcontractors of the requirements and obtain copies of certified payrolls.

**Condition**

The City hired a construction management company to oversee the project, whose responsibilities include collection of certified payroll from the construction contractors. During the audit, we selected and tested a statistically valid sample of 4 out of a population of 7 certified payrolls, and noted that the City did not have procedures in place to obtain documentation from the construction management company that all certified payrolls are collected and reviewed. The City occasionally checks the California State Department of Industrial Relations website to ensure that the certified payrolls were submitted. However, no record was maintained. MGO was able to review the certified payroll and verified that the compliance requirement was satisfied.

**Cause**

Due to staffing constraints, the department outsourced its contract management responsibility and relied on verbal communication from the management company that all required documents were collected.

**Effect**

The City is at risk that payments may be made to contractors and subcontractors who do not comply with the wage rate requirements.

**Questioned Costs**

Not applicable – all certified payrolls were obtained and reviewed.

**CITY OF PALO ALTO**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2017**

**Section III - Federal Award Findings and Questioned Costs (Continued)**

**Recommendation**

We recommend the City modify the existing procedures to obtain documentation from the construction management company and retain record of the verification of certified payroll to the California State Department of Industrial Relations, to substantiate the compliance of the contractors and subcontractors before release of payment to contractors occurs.



CITY OF  
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**ADMINISTRATIVE SERVICES**

250 Hamilton Avenue, 4th Floor  
Palo Alto, CA 94301  
650.329.2692

**Federal Awards Findings and Questioned Costs – Corrective Action Plan**  
**Reference Number: 2017-001**  
**Procurement, Suspension and Debarment**  
**Significant Deficiency in Internal Control over Compliance**

We concur with this finding. The City of Palo Alto Department of Public Works will ensure the city verifies design consultants have not been suspended or debarred during bid evaluation procedures. Accordingly, we will update our Public Works Department Construction Contract Administration Manual by December 2017.

Contact Person: Gina Magliocco, Senior Management Analyst  
Telephone: 650.329.2618; E-mail: [gina.magliocco@cityofpaloalto.org](mailto:gina.magliocco@cityofpaloalto.org)

**Federal Awards Findings and Questioned Costs – Corrective Action Plan**  
**Reference Number: 2017-002**  
**Wage Rate Requirements**  
**Material Weakness in Internal Control over Compliance**  
**Material Noncompliance**

We concur with this finding. The City of Palo Alto Department of Public Works will ensure the city receives certified payroll from construction contractors on a weekly basis per our construction contracts and files hardcopies with the project files. Accordingly, we will update our Public Works Department Construction Contract Administration Manual by December 2017.

Contact Person: Gina Magliocco, Senior Management Analyst  
Telephone: 650.329.2618; E-mail: [gina.magliocco@cityofpaloalto.org](mailto:gina.magliocco@cityofpaloalto.org)



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**Federal Awards Findings and Questioned Costs – Corrective Action Plan**  
**Reference Number: 2017-003**  
**Wage Rate Requirements**  
**Significant Deficiency in internal Control over Compliance**

We concur with this finding. The City of Palo Alto Department of Public Works will ensure the city receives certified payroll from construction contractors on a weekly basis per our construction contracts and files hardcopies with the project files. Accordingly, we will update our Public Works Department Construction Contract Administration Manual by December 2017.

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**CITY OF PALO ALTO  
Schedule of Prior Years Findings and Questioned Costs  
For the Year Ended June 30, 2017**

**Financial Statement and Federal Award Findings**

No financial statement nor federal award findings were reported for the year ended June 30, 2016.



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# *Americans with Disabilities Act Statement*



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ADA Coordinator  
City of Palo Alto  
250 Hamilton Ave  
(650) 329-2550  
[ADA@cityofpaloalto.org](mailto:ADA@cityofpaloalto.org)

Spanish explorers named the area for the tall, twin-trunked redwood tree they camped beneath in 1769. Palo Alto incorporated in 1894 and the State of California granted its first charter in 1909. The City has long been known for its innovative people and its exploration of ideas that have changed the world. In Palo Alto, our history has always been about the future.

PUBLIC TRUST  
FUTURE PARTNERSHIP  
ENGAGE HISTORY PEOPLE  
ENTERPRISE  
COMMUNITY LIVABLE DIVERSITY  
PUBLIC SQUARE DEMOCRACY  
INCLUSIVE SUSTAINABLE