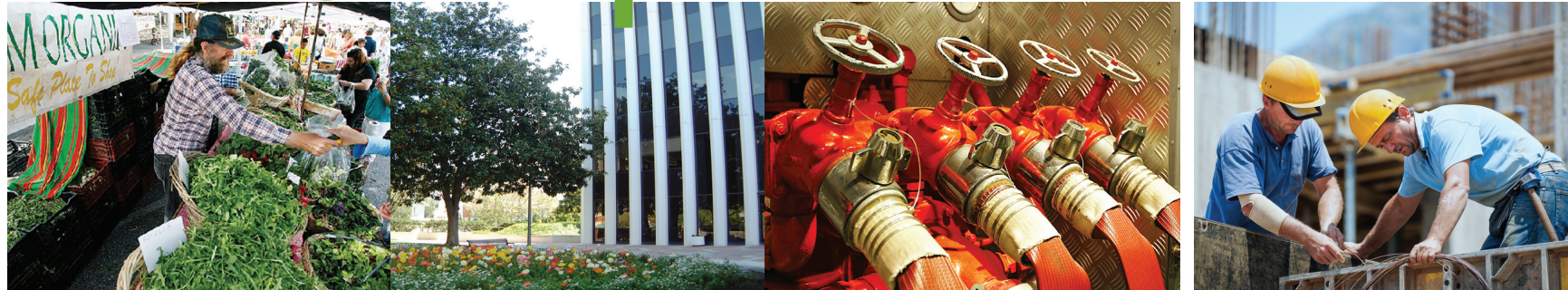


CITY OF PALO ALTO, CALIFORNIA  
FOR THE FISCAL YEAR ENDED: JUNE 30, 2019

# Comprehensive



# Annual



# Financial Report







CITY OF  
**PALO  
ALTO**

# Fiscal Year 2019 Comprehensive Annual Financial Report

City of Palo Alto, CA  
Fiscal Year Ended June 30, 2019

## City Council

Eric Filseth, Mayor

Adrian Fine, Vice Mayor

Alison Cormack

Tom DuBois

Liz Kniss

Lydia Kou

Greg Tanaka

Edward K. Shikada, City Manager

Kiely Nose, Director of Administrative Services/Chief Financial Officer

Rima Lobo, Finance Manager

Prepared by: Administrative Services Department





**CITY OF PALO ALTO**  
**For the Year Ended June 30, 2019**

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**For the Year Ended June 30, 2019**

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City of Palo Alto  
Office of the City Manager

**Transmittal Letter.....**

**November 4, 2019**

**THE HONORABLE CITY COUNCIL**

**Palo Alto, California**

Attention: Finance Committee

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**YEAR ENDED JUNE 30, 2019**

**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, 2019 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 (City) financial affairs. Management takes sole responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. The objective of internal controls is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The City’s financial statements have been audited by Macias Gini & O’Connell LLP, Certified Public Accountants (MGO). The goal of the audit is to obtain reasonable assurance that the financial statements are free of material misstatements and are fairly presented in conformity with generally accepted accounting principles (GAAP). MGO issued an unmodified opinion for the fiscal year ended June 30, 2019. Their report is presented as the first component of the financial section of this report.

In addition, MGO conducted the federally mandated “Single Audit” designed to meet the special needs of federal grantor agencies. The standards governing the Single Audit require the independent auditor to report 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**

The City was incorporated in 1894 and named after a majestic coastal redwood tree which lives along the San Francisquito Creek where early Spanish explorers settled. Located between the cities of San Francisco and San Jose, the City is a largely built-out community of approximately 67,000 residents. The City delivers a full range of municipal services and public utilities under the Council-Manager form of government, and offers an outstanding quality of life for its residents. It covers an area of twenty-six square miles, and has dedicated almost one-half of the area to open spaces of parks and wildlife preserves. Public facilities include five libraries, four community centers, a cultural arts center, an adult and children’s theater, a junior museum and zoo, 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:** Effective January 1, 2019, Council was reduced from nine to seven members. The seven members are elected at-large for four year staggered terms. At the first meeting of each calendar year, Council elects a Mayor and Vice-Mayor from its membership, with the Mayor having the duty of presiding over Council meetings. Council is the appointing authority for the positions of City Manager and three other officials, the City Attorney, City Clerk, and City Auditor, all of whom report to Council.

**Finance Committee and Policy and Services Committee:** While retaining the authority to approve all actions, Council has established two subcommittees to consider and make recommendations on matters relating to finance, budget, audits, capital planning and debt. Each of the subcommittee is comprised of three 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 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 2.2 percent. This compares to Santa Clara County’s unemployment rate of 2.7 percent. The state’s unemployment rate was 4.5 percent.

**Real Estate Market:** The 2018-19 Santa Clara County Assessor’s Annual Report noted that the county’s annual assessment roll increased by \$33 billion to \$483.2 billion, a 7.34 percent increase over the prior year. Palo Alto’s assessment roll represents 7.63 percent of the county roll and grew 6.88 percent over the prior year to \$36.86 billion. Home prices in Palo Alto are well above the county average at \$3,767,393 as of second quarter 2019, per Santa Clara County Association of Realtors statistics. According to Cushman & Wakefield, Silicon Valley’s office/research and development markets represent one of the strongest growth markets in the country driven by technology activity. As of second quarter 2019, the overall average asking rent for Class A office space was reported at \$8.62 per square foot per month, while research and development space was noted at \$6.78 per square foot per month. Its outlook remains upbeat.



**Local Trends:** National, state, regional and local economic indicators are mixed. Unemployment remains low, job growth is slowing down and the trade war is negatively showing up in the economic data. Economically sensitive revenue sources such as transient occupancy tax and documentary transfer tax are showing a decline while base sales tax is levelled off.

Looking forward, funding sources are sufficient to cover projected FY 2020 expenses, as written in the City’s Adopted Budget. The Council adopted a General Fund budget with expenses of \$230.8 million for FY 2020 an increase of 9.5 percent from the prior year Adopted Budget. However, that increase is not exclusively representative of increased costs. The General Fund had one-time savings included in FY 2019 of almost \$2.0 million for payments to the City’s self-insured workers’ compensation and general liability insurance funds; it also had a \$4.0 million reduction included in the Adopted Budget as a placeholder for future Council action. Once we adjust the FY 2019 Adopted Budget for these one-time actions, the year-over-year growth would be 6.5%, from \$216.7 million to \$230.8 million. After the adoption of the FY 2019 Operating Budget, City Council ratified new contracts with the safety labor bargaining groups, with resultant increases. If these figures were restored to the FY 2019 budget starting point, the year-over-year increase would be much less in the General Fund.

To accommodate the contribution toward the City’s long-term pension obligations, adjustments to service delivery levels will be necessary. Reductions have been made across the organization over the past several years with the goal of containing costs while minimizing impacts on services. This budget makes progress towards ongoing cost containment, with specific resulting service impacts. The FY 2020 budget also includes a number of one-time actions that are designed to contain costs while departments continue to evaluate service delivery options and redeployment of resources. In addition to past practice - the agreed upon labor terms outlined in memorandums of agreement, CalPERS-determined retirement contribution levels, and a vacancy factor in the General Fund - this year’s budget includes a proactive pension funding contribution to the City’s irrevocable Section 115 Pension Trust Fund. In the General Fund, this resulted in \$3.8 million in additional contributions from various departments and reflects what retirement costs would be if the “normal cost” of contributions was budgeted at a 6.2 percent discount rate (CalPERS is currently at a 7.25 percent discount rate). The City’s irrevocable pension trust fund, will have a total of \$22.0 million by the end of FY 2020, of which \$14.3 million will be from the General Fund.

As economic growth continues to flourish in this area of Silicon Valley, it also underscores the challenges of increased traffic and congestion in conjunction with choosing a “preferred alternative” for grade separations at rail crossings. In addition, making sure the City remains focused on implementing a Sustainability and Climate Action Plan while structurally balancing revenues and expenses to maintain high quality services. These issues were reflected in the setting of Council priorities for 2019:

- Climate/Sustainability and Climate Action Plan
- Grade Separations
- Transportation and Traffic
- Fiscal Sustainability



While each of these priorities require long-term strategies, progress will be made on all through FY 2020 Budget. Staff presented a “Fiscal Sustainability” workplan to the Finance Committee, articulating the ecosystem of available resources, desired outcomes, and long-term solvency of the City. Proactively contributing to the City’s supplemental pension trust fund will help ensure pension funding and minimize the need for future service reductions. It also means

including cost containment actions, such as the elimination of positions throughout the organization, changes in Fire’s deployment model, and reductions in non-salary funding in several departments to balance the FY 2020 budget and better position the City for FY 2021.

In addition the FY 2020 budget established an Office of Transportation in the City Manager’s Office to address the growing complexity and demands associated with parking, traffic, and pending decisions regarding grade separation. This new office will be better able to proactively engage the community and address critical transportation needs.

In FY 2014, the City 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. Through the development of the 2020-2024 Capital Improvement Plan (CIP), a tenth project was added to the IP, Downtown Automated Parking Guidance Systems, and the IP projects were updated for scope increases and cost escalations, resulting in a revised Infrastructure Plan of \$280.6 million. These projects will be funded partially by debt to be repaid with voter approved increases of 3.5 percent in the transient occupancy tax (TOT) rate and from other sources such as impact fees and Stanford University Medical Center development agreement monies. The 2020-2024 CIP assumes the opening of new Marriott hotels in FY 2021, and the additional annual TOT funding is estimated to cover the cost of the IP projects.

Rates increased in 2020 for electric, gas, storm drain, wastewater, and water services. In general, the size and timing of rate adjustments take into account current and future revenue requirements and reserve levels for needs such as increasing costs of commodity purchases, capital construction costs, and contractually obligated increases to compensate for inflation, usually based on the annual change to the Bay Area consumer price index (CPI).

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

The FY 2020 – FY 2029 LRFF was presented to the Finance Committee in December 2018 and approved by the City Council in March 2019. The forecast anticipated a near-term gap in the General Fund. Staff identified and recommended a course of action that would structurally balance the General Fund in FY 2020 and largely balance the General Fund on an ongoing basis. As discussed above, this year’s budget includes a proactive pension funding contribution to the City’s irrevocable Section 115 Pension Trust Fund, and reflects what retirement costs would be if the “normal cost” of contributions was budgeted at a 6.2 percent discount rate (CalPERS completed its ‘step-down’ to a 7.0 percent discount rate). This resulted in the need to include cost containment actions with specific resulting service impacts such as the elimination of positions and non-salary funding throughout the organization.

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 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:

- Santa Clara County Healthy City Awards named the City as the Best Overall, 2018;
- The International City/County Managers Association recognized Palo Alto with the Voice of the People award for Excellence in the Natural Environment. The Voice of the People Awards is the only award given in local government based on community opinion;
- Tree Line USA Award for the fifth year in a row by the National Arbor Day Foundation for delivering safe and reliable electricity while maintaining healthy community trees; and
- Diamond Level Award as a Public Power Provider - the highest honor - for proficiency, sound business practices, and a utility-wide commitment to safe and reliable delivery of electricity, system improvement, energy efficiency and workforce development, from the American Public Power Association.

**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 2019 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 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,

KIELY NOSE  
Chief Financial Officer

EDWARD SHIKADA  
City Manager

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

**City Council**  
Eric Filseth, **Mayor**  
Adrian Fine, **Vice-Mayor**  
Alison Cormack  
Tom DuBois  
Liz Kniss  
Lydia Kou  
Greg Tanaka

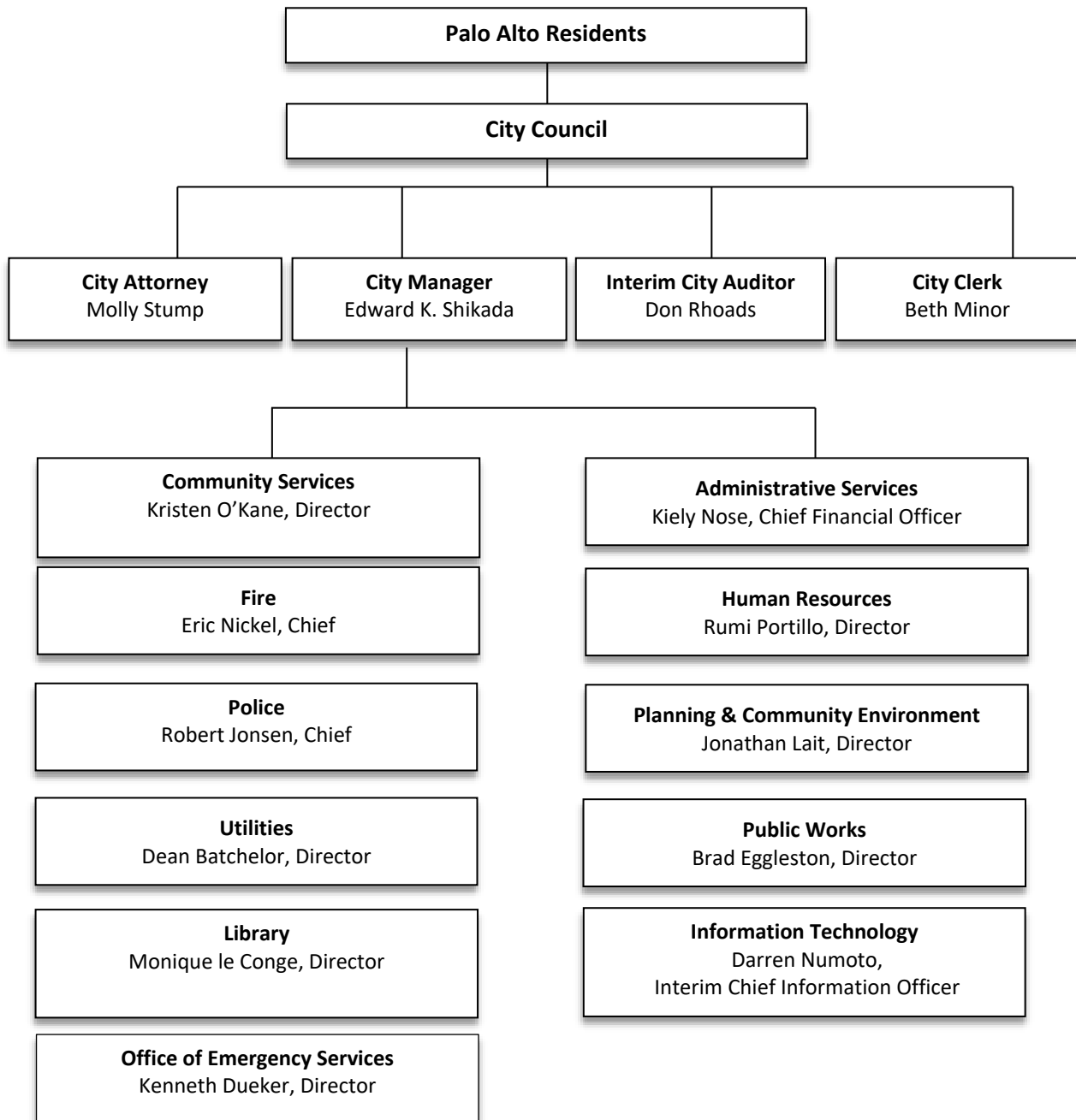
**Finance Committee**  
Tom Dubois, **Chair**  
Alison Cormack  
Adrian Fine

**Policy and Services Committee**  
Liz Kniss, **Chair**  
Lydia Kou  
Greg Tanaka

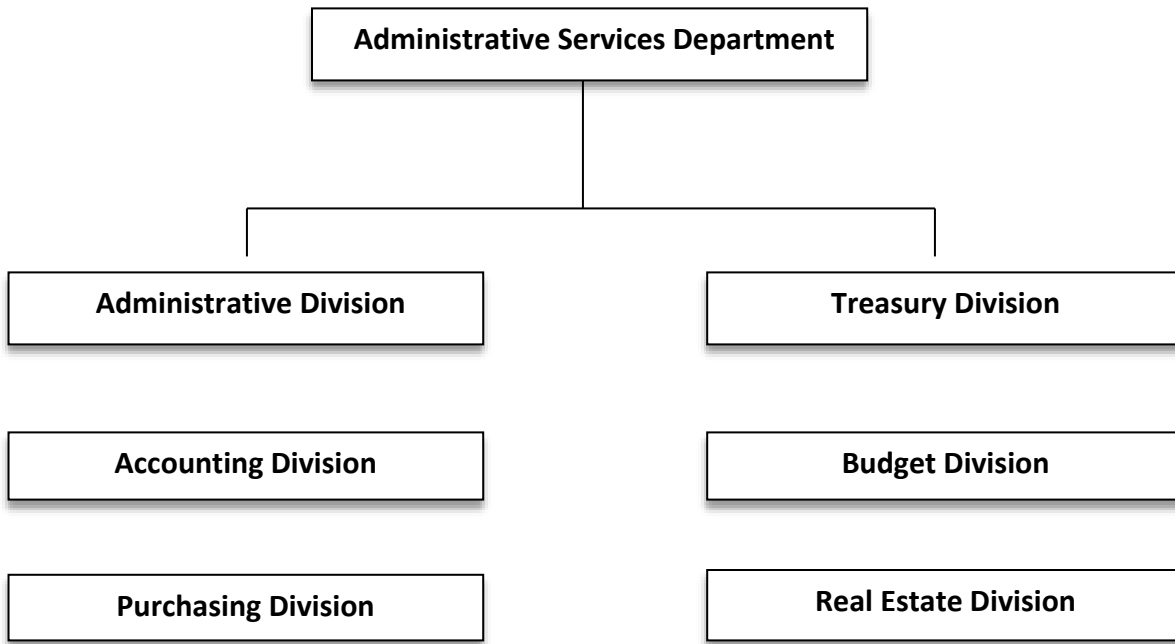
**Council-Appointed Officers**  
**City Manager**  
Ed Shikada  
**City Attorney**  
Molly Stump  
**City Clerk**  
Beth Minor  
**Interim City Auditor**  
Don Rhoads



# 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 .....*



Government Finance Officers Association

## Certificate of Achievement for Excellence in Financial Reporting

Presented to

**City of Palo Alto  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2018**

*Christopher P. Morill*

Executive Director/CEO

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## 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, 2019, 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, 2019, 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, the schedules of pension contributions, the schedule of changes in net OPEB liability and related ratios, and the schedule of employer OPEB contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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 4, 2019 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Walnut Creek, California  
November 4, 2019

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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, 2019. 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) 2019 by \$1.2 billion. Of this amount, \$46.0 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 2019, the City's governmental funds reported combined fund balances of \$305.0 million, an increase of \$53.8 million from prior year. Approximately 17.9 percent of this amount, or \$54.8 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 \$66.7 million, or 31.4 percent of total general fund expenditures, including transfers.
- The City's total outstanding long-term debt increased by \$48.1 million during the current fiscal year. This is due to the issuance of 2019 Certificates of Participation (COP's) tax exempt Series A and taxable Series B of \$26.8 million plus \$4.9 million premium and \$10.6 million, respectively, receipt of \$12.7 million in loan proceeds from the State Water Resource Control Board, and net of \$6.9 million scheduled debt retirements.
- The City implemented GASB Statement No.83, *Certain Asset Retirement Obligations (AROs)*, effective fiscal year ending June 30, 2019. An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability. Implementation of this statement did not have a significant impact on the City's financial statements for the fiscal year ended June 30, 2019.
- The City implemented GASB statement No 88, *Certain Disclosures Related to Debt*, including Direct Borrowings and Direct Placements, effective fiscal year ending June 30, 2019. The objective of this statement is to improve the information that is disclosed in the notes to governmental financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. Implementation of this statement is reflected in Note 7 of the City's Notes to the Basic Financial Statements.

## 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
- Required and Other Supplemental 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, Police, Fire, 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.

The Government-wide Financial Statements can be found on pages 29 and 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.

Budget and actual financial comparison information is presented only for the General Fund. Fund Financial Statements include Governmental, Proprietary, and Fiduciary Funds.

**Governmental Funds**

Governmental Fund Financial Statements are prepared on the modified accrual basis of accounting, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are presented only in the Government-wide Financial Statements. In FY 2019, 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.

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***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 governmental-wide financial statements because the City cannot utilize these assets to finance its own operations.

The Fiduciary Fund Financial Statement 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 47-106 of this report.

***Other Information***

The Required Supplementary Information related to the City's pension and OPEB plans is included after the Notes to the Financial Statements on pages 107-112. 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 113-138 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, 2019. As noted earlier, the City's total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$1.2 billion at the end of the fiscal year, a change in net position of \$76.0 million.

#### STATEMENT OF NET POSITION

As of June 30, 2019

(in millions)

|   | Governmental<br>Activities |                 | Business-type<br>Activities |                 | Government-wide<br>Totals |                   |
|---|----------------------------|-----------------|-----------------------------|-----------------|---------------------------|-------------------|
|   | 2019                       | 2018            | 2019                        | 2018            | 2019                      | 2018              |
| Cash and investments                        | \$ 354.0                   | \$ 286.9        | \$ 253.4                    | \$ 241.8        | \$ 607.4                  | \$ 528.7          |
| Other assets                                | 69.8                       | 62.5            | 51.3                        | 42.1            | 121.1                     | 104.6             |
| Capital assets                              | 566.1                      | 547.7           | 673.5                       | 636.7           | 1,239.6                   | 1,184.4           |
| <b>Total Assets</b>                         | <b>989.9</b>               | <b>897.1</b>    | <b>978.2</b>                | <b>920.6</b>    | <b>1,968.1</b>            | <b>1,817.7</b>    |
| Unamortized loss from refunding             | -                          | -               | 0.2                         | 0.2             | 0.2                       | 0.2               |
| Pension and OPEB related                    | 63.4                       | 78.8            | 21.5                        | 28.9            | 84.9                      | 107.7             |
| <b>Total Deferred Outflows of Resources</b> | <b>63.4</b>                | <b>78.8</b>     | <b>21.7</b>                 | <b>29.1</b>     | <b>85.1</b>               | <b>107.9</b>      |
| Net pension and OPEB liabilities            | 417.3                      | 411.4           | 154.4                       | 157.1           | 571.7                     | 568.5             |
| Long-term debt                              | 115.1                      | 75.1            | 74.2                        | 66.1            | 189.3                     | 141.2             |
| Other liabilities                           | 63.8                       | 54.5            | 26.6                        | 36.0            | 90.4                      | 90.5              |
| <b>Total Liabilities</b>                    | <b>596.3</b>               | <b>541.0</b>    | <b>255.2</b>                | <b>259.2</b>    | <b>851.5</b>              | <b>800.2</b>      |
| Pension and OPEB related                    | 7.1                        | 7.4             | 3.2                         | 2.4             | 10.3                      | 9.8               |
| <b>Total Deferred Inflows of Resources</b>  | <b>7.1</b>                 | <b>7.4</b>      | <b>3.2</b>                  | <b>2.4</b>      | <b>10.3</b>               | <b>9.8</b>        |
| <b>Net Position</b>                         |                            |                 |                             |                 |                           |                   |
| Net investment in capital assets            | 493.7                      | 473.2           | 602.1                       | 573.7           | 1,095.8                   | 1,046.9           |
| Restricted                                  | 45.6                       | 41.2            | 4.0                         | 4.0             | 49.7                      | 45.2              |
| Unrestricted                                | (89.4)                     | (87.0)          | 135.4                       | 110.4           | 46.0                      | 23.4              |
| <b>Total Net Position</b>                   | <b>\$ 449.9</b>            | <b>\$ 427.4</b> | <b>\$ 741.5</b>             | <b>\$ 688.1</b> | <b>\$ 1,191.5</b>         | <b>\$ 1,115.5</b> |

The largest portion of the City's net position (92.0 percent) is its net investment in capital assets such as land, buildings, infrastructure and vehicles, less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted portion of the City's net position (4.2 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$46.0 million, representing 3.9 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 for the government as a whole. The unrestricted net position for governmental activities is negative due to the implementation of GASB Statement No. 68 and 75. The business-type activities has positive unrestricted net position at the end of the current fiscal year.

Components of the \$76.0 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.

#### **GOVERNMENTAL ACTIVITIES**

##### **Net Position at June 30**

(in millions)

|   | <u>2019</u>     | <u>2018</u>     | <u>Increase/<br/>(Decrease)</u> |
|---|-----------------|-----------------|---------------------------------|
| Cash and investments                        | \$ 354.0        | \$ 286.9        | \$ 67.1                         |
| Other assets                                | 69.8            | 62.5            | 7.3                             |
| Capital assets                              | 566.1           | 547.7           | 18.4                            |
| <b>Total Assets</b>                         | <b>989.9</b>    | <b>897.1</b>    | <b>92.8</b>                     |
| Pension and OPEB related                    | 63.4            | 78.8            | (15.4)                          |
| <b>Total Deferred Outflows of Resources</b> | <b>63.4</b>     | <b>78.8</b>     | <b>(15.4)</b>                   |
| Net pension and OPEB liabilities            | 417.3           | 411.4           | 5.9                             |
| Long-term debt                              | 115.2           | 75.1            | 40.1                            |
| Other liabilities                           | 63.8            | 54.5            | 9.3                             |
| <b>Total Liabilities</b>                    | <b>596.3</b>    | <b>541.0</b>    | <b>55.3</b>                     |
| Pension and OPEB related                    | 7.1             | 7.4             | (0.3)                           |
| <b>Total Deferred Inflows of Resources</b>  | <b>7.1</b>      | <b>7.4</b>      | <b>(0.3)</b>                    |
| Net investment in capital assets            | 493.7           | 473.2           | 20.5                            |
| Restricted                                  | 45.6            | 41.2            | 4.4                             |
| Unrestricted                                | (89.4)          | (87.0)          | (2.4)                           |
| <b>Total Net Position</b>                   | <b>\$ 449.9</b> | <b>\$ 427.4</b> | <b>\$ 22.5</b>                  |



The City's Governmental Activities total net position increased \$22.5 million to \$449.9 million as of June 30, 2019. This increase resulted from the following:

- Cash and Investments increased \$67.1 million primarily due to \$42.0 million proceeds from issuance of COPs restricted for construction of the California Avenue Parking Garage. The \$25.1 million remaining increase is from the results of operations.
- Capital assets net of depreciation increased \$18.4 million due to continued construction of the Fire Station #3, Charleston/Arastradero Corridor and the new Cal Avenue Area Parking Garage.
- Pension and OPEB related deferred outflows of resources decreased \$15.4 million mainly due to change of assumption because the inflation rate reduced from 2.75 percent to 2.50 percent and lower OPEB contributions subsequent to measurement date.
- Long-term debt increased \$40.1 million due to the issuance of 2019 COPs tax exempt Series A \$26.8 million plus \$4.9 million premium and taxable Series B of \$10.6 million for the construction of the new California Avenue Area Parking Garage, net of the \$2.3 million scheduled debt retirements.
- Other liabilities increased \$9.3 million primarily due to an increase in claims payable of \$4.6 million for workers' compensation and general liabilities and higher accruals.
- Net investment in capital assets increased \$20.5 million to \$493.7 million due to the current year capital additions noted above. Restricted net position increased \$4.4 million to \$45.6 million primarily due to the increased fund balance in the Transportation infrastructure fund. Unrestricted net position decreased \$2.4 million from prior year. The unrestricted net position for governmental activities is negative primarily due to the implementation of GASB Statement No 68 and 75. Unrestricted net position for June 30, 2019 includes the City's \$265.1 million net pension liability and deferred outflow/inflow and \$95.9 million Net OPEB liability and deferred outflow/inflow.

**Governmental Activities – Revenues**

The table below shows that Governmental Activities revenues totaled \$238.4 million in FY 2019, an increase of \$27.1 million from prior year revenues of \$211.3 million.

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

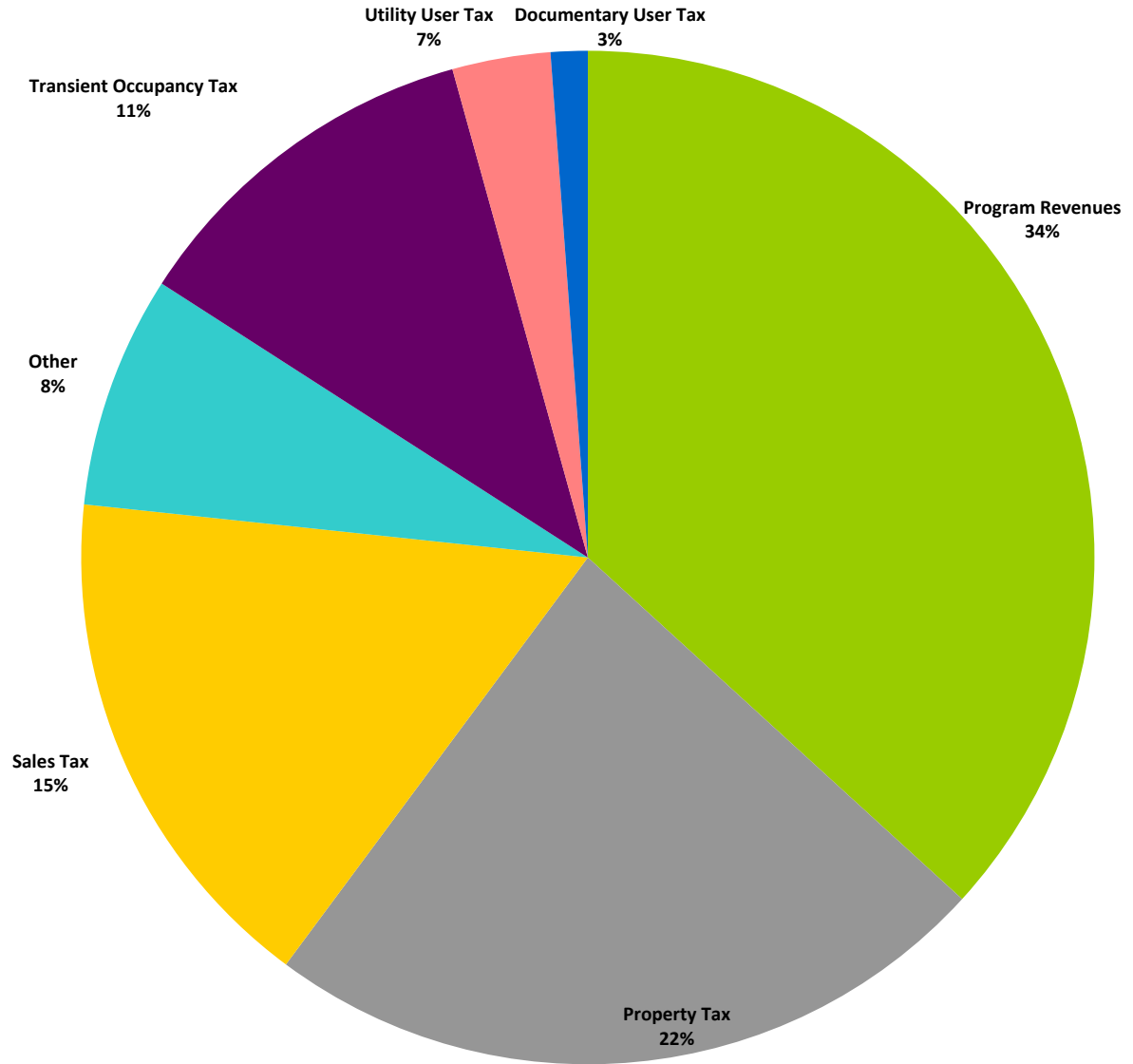
| <u>Revenues by Source</u>          | <u>2019</u>     | <u>2018</u>     | <u>Increase/<br/>(Decrease)</u> |
|------------------------------------|-----------------|-----------------|---------------------------------|
| <b>Program Revenues:</b>           |                 |                 |                                 |
| Charges for services               | \$ 70.9         | \$ 63.4         | \$ 7.5                          |
| Operating grants and contributions | 2.1             | 14.1            | (12.0)                          |
| Capital grants and contributions   | 8.3             | 1.5             | 6.8                             |
| <b>Total Program Revenues</b>      | <b>81.3</b>     | <b>79.0</b>     | <b>2.3</b>                      |
| <b>General Revenues:</b>           |                 |                 |                                 |
| Property tax                       | 51.7            | 47.2            | 4.5                             |
| Sales tax                          | 36.5            | 31.1            | 5.4                             |
| Utility user tax                   | 16.4            | 15.4            | 1.0                             |
| Transient occupancy tax            | 25.6            | 24.9            | 0.7                             |
| Documentary transfer tax           | 6.9             | 9.2             | (2.3)                           |
| Other tax                          | 2.6             | 2.1             | 0.5                             |
| Investment earnings                | 15.4            | 0.4             | 15.0                            |
| Rents and miscellaneous            | 1.9             | 2.0             | (0.1)                           |
| <b>Total General Revenues</b>      | <b>157.1</b>    | <b>132.3</b>    | <b>24.8</b>                     |
| <b>Total Revenues</b>              | <b>\$ 238.4</b> | <b>\$ 211.3</b> | <b>\$ 27.1</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.

General Revenues increased \$24.8 million, or 18.75 percent, from the prior year primarily due to increases in General fund tax revenues and investment earnings resulted from the recognition of unrealized gains. 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 2019 and FY 2018 expenses by function, along with interest and other expenses. Total Governmental Activities functional expense was \$234.4 million in FY 2019, an increase of \$23.3 million.

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

| <b>Activities</b>                            | <b>2019</b>     | <b>2018</b>     | <b>Increase/<br/>(Decrease)</b> |
|--|-----------------|-----------------|---------------------------------|
| City Council                                 | \$ 0.3          | \$ 0.3          | \$ (0.0)                        |
| City Manager                                 | 3.3             | 2.8             | 0.5                             |
| City Attorney                                | 3.1             | 2.5             | 0.6                             |
| City Clerk                                   | 0.8             | 0.9             | (0.1)                           |
| City Auditor                                 | 1.1             | 1.0             | 0.1                             |
| Administrative Services                      | 19.2            | 13.9            | 5.3                             |
| Human Resources                              | 3.0             | 2.7             | 0.3                             |
| Public Safety                                | 89.2            | 83.9            | 5.3                             |
| Planning and Community Environment           | 12.2            | 11.4            | 0.8                             |
| Development Services                         | 12.6            | 12.7            | (0.1)                           |
| Public Works                                 | 36.6            | 30.3            | 6.3                             |
| Community Services                           | 36.8            | 33.7            | 3.1                             |
| Library                                      | 12.6            | 12.2            | 0.4                             |
| Interest and Other Expense                   | 3.7             | 2.8             | 0.9                             |
| <b>Total Functional Expense</b>              | <b>234.4</b>    | <b>211.1</b>    | <b>23.3</b>                     |
| Increase in Net Position<br>before Transfers | 3.8             | 0.2             | 3.6                             |
| Transfers in                                 | 18.7            | 19.1            | (0.4)                           |
| Change in Net Position                       | 22.5            | 19.3            | 3.2                             |
| Net Position, Beginning                      | 427.4           | 527.3           | (99.9)                          |
| Restatement for implementation of GASB 75    | -               | (119.2)         | 119.2                           |
| <b>Net Position, Ending</b>                  | <b>\$ 449.9</b> | <b>\$ 427.4</b> | <b>\$ 22.5</b>                  |



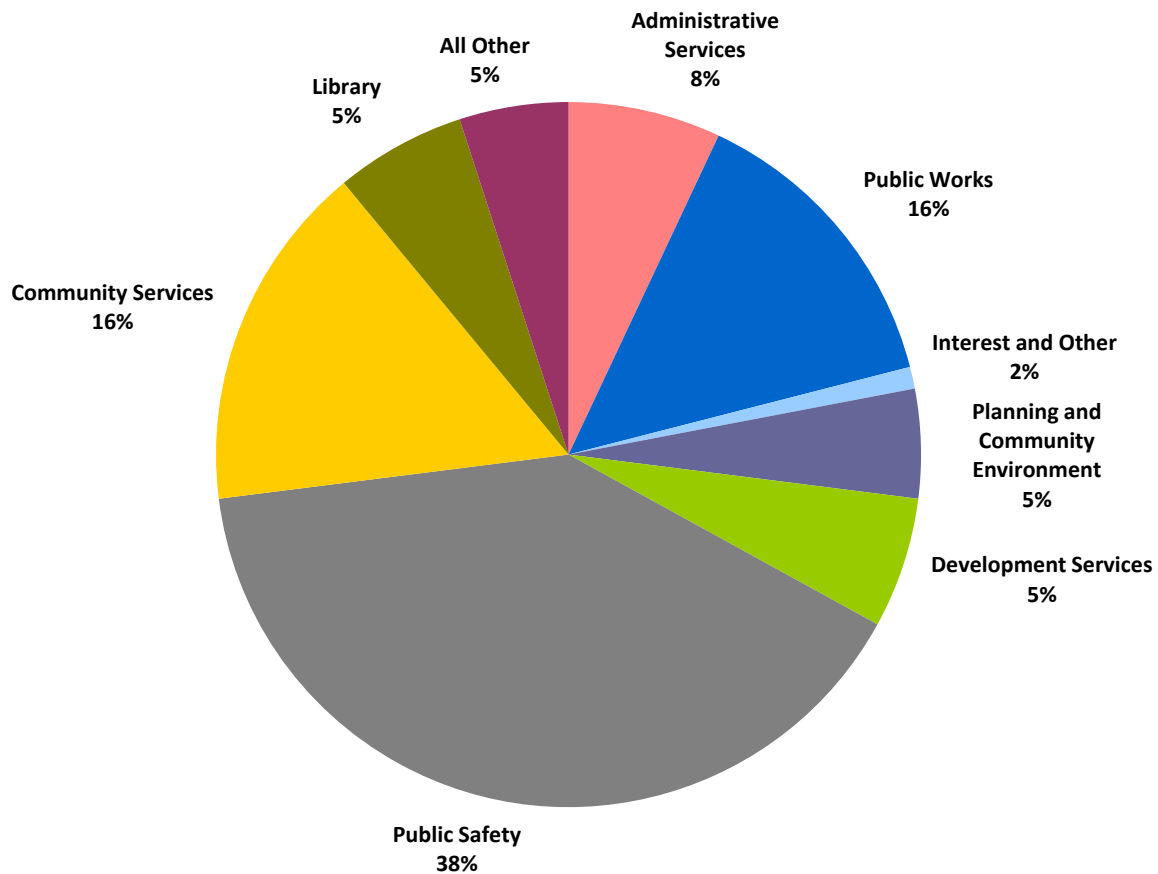


In addition to the variances at the fund level which are explained in the Financial Analysis of Governmental Funds section of the MD&A, year over year variances in Functional expenses at the government-wide level are due to the following:

- Change in pension related adjustments for GASB 68 of \$3.5 million;
- Change in OPEB related adjustments for GASB 75 of (\$3.5 million);
- Capital asset activities such as depreciation and asset retirements of (\$1.3 million);
- Long –Term debt activities such as payments and premium amortization of (\$1.3 million); and
- Internal service funds allocation and crossover (1.8 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.

**BUSINESS-TYPE ACTIVITIES**

**Net Position at June 30**

(in millions)

|  | <u>2019</u>            | <u>2018</u>            | <u>Increase/<br/>(Decrease)</u> |
|--|------------------------|------------------------|---------------------------------|
| Cash and investments   | \$ 253.4               | \$ 241.8               | \$ 11.6                         |
| Other assets   | 51.3                   | 42.1                   | 9.2                             |
| Capital assets   | 673.5                  | 636.7                  | 36.8                            |
| <b>Total Assets</b>  | <b><u>978.2</u></b>    | <b><u>920.6</u></b>    | <b><u>57.6</u></b>              |
| Unamortized loss from refunding                                | 0.2                    | 0.2                    | -                               |
| Deferred pension contribution                                  | 21.5                   | 28.9                   | (7.4)                           |
| <b>Total Deferred Outflows of Resources</b>                    | <b><u>21.7</u></b>     | <b><u>29.1</u></b>     | <b><u>(7.4)</u></b>             |
| Net pension and OPEB liabilities                               | 154.4                  | 157.1                  | (2.7)                           |
| Long-term debt   | 74.2                   | 66.1                   | 8.1                             |
| Other liabilities  | 26.6                   | 36.0                   | (9.4)                           |
| <b>Total Liabilities</b>                                       | <b><u>255.2</u></b>    | <b><u>259.2</u></b>    | <b><u>(4.0)</u></b>             |
| Difference between expected and actual earnings on investments | 3.2                    | 2.4                    | 0.8                             |
| <b>Total Deferred Outflows of Resources</b>                    | <b><u>3.2</u></b>      | <b><u>2.4</u></b>      | <b><u>0.8</u></b>               |
| <b>Net Position</b>  |                        |                        |                                 |
| Net investment in capital assets                               | 602.1                  | 573.7                  | 28.4                            |
| Restricted   | 4.0                    | 4.0                    | 0.0                             |
| Unrestricted   | 135.4                  | 110.4                  | 25.0                            |
| <b>Total Net Position</b>                                      | <b><u>\$ 741.5</u></b> | <b><u>\$ 688.1</u></b> | <b><u>\$ 53.4</u></b>           |

The City's Business-type Activities total net position increased \$53.4 million to \$741.5 million as of June 30, 2019.

Cash and investments increased \$11.6 million primarily due to revenues exceeding expenses in the Electric, Fiber Optics and Refuse Funds.

Other assets increased \$9.2 million due to higher accounts receivable balances in the Electric and Wastewater Treatment Funds.



Other liabilities decreased \$9.4 million as a result of return of deposits in the Electronic Fund and a decrease in liabilities in the Wastewater Treatment Fund and Water Fund.

Capital assets increased \$36.8 million to \$673.5 million in FY 2019 primarily due to capital improvements in Electric, Gas, Water, Wastewater Treatment, and Airport Funds. These capital improvements contributed to the \$28.4 million increase in net investment in capital assets to \$602.1 million in FY 2019.

Unrestricted net position of \$135.4 million, an increase of \$25.0 million from the prior year, represents assets available to finance day-to-day operations and other expenditures approved by Council. This amount includes rate stabilization reserves (RSR) of \$51.0 million and operations reserves of \$81.3 million, along with the electric special projects (Calaveras) reserve of \$41.7 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 \$97.3 million and GASB 75 OPEB reserve of \$38.7 million. Additional details are 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.



**BUSINESS-TYPE ACTIVITIES**  
**Revenues for the Year Ended June 30**  
**(in millions)**

| Revenues by Source                 | 2019            | 2018            | Increase/<br>(Decrease) |
|------------------------------------|-----------------|-----------------|-------------------------|
| <b>Program Revenues:</b>           |                 |                 |                         |
| Charges for services               | \$ 347.4        | \$ 330.2        | \$ 17.2                 |
| Operating grants and contributions | 0.4             | 0.5             | (0.1)                   |
| Capital grants and contributions   | 6.7             | 14.2            | (7.5)                   |
| <b>Total Program Revenues</b>      | <b>354.5</b>    | <b>344.9</b>    | <b>9.6</b>              |
| <b>General Revenues:</b>           |                 |                 |                         |
| Investment earnings                | 12.7            | 0.6             | 12.1                    |
| <b>Total General Revenues</b>      | <b>12.7</b>     | <b>0.6</b>      | <b>12.1</b>             |
| <b>Total Revenues</b>              | <b>\$ 367.2</b> | <b>\$ 345.5</b> | <b>\$ 21.7</b>          |



Business-type Activities revenues totaled \$367.2 million, an increase of \$21.7 million from the prior year. Program revenues increased \$9.6 million year over year. Charges for services increased \$17.2 million from the prior year due to the rate increase in the Electric, Water, Gas, Storm Water Management, and Wastewater funds.

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Capital grants and contributions decreased by \$7.5 million from the prior year due to a decrease in grant revenues for the Airport Fund and a decrease in capital contributions for the Wastewater Treatment Fund.

### Business-type Activities – Expenses

The table below presents a comparison of the FY 2019 and FY 2018 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>2019</u>            | <u>2018</u>            | <u>Increase/<br/>(Decrease)</u> |
|--|------------------------|------------------------|---------------------------------|
| Water  | \$ 40.6                | \$ 40.8                | \$ (0.2)                        |
| Electric                                     | 139.6                  | 146.0                  | (6.4)                           |
| Fiber Optics                                 | 2.5                    | 2.7                    | (0.2)                           |
| Gas  | 30.9                   | 27.9                   | 3.0                             |
| Wastewater Collection                        | 17.3                   | 16.8                   | 0.5                             |
| Wastewater Treatment                         | 27.1                   | 27.5                   | (0.4)                           |
| Refuse                                       | 30.4                   | 28.8                   | 1.6                             |
| Storm Drainage                               | 4.9                    | 5.1                    | (0.2)                           |
| Airport                                      | 1.8                    | 1.7                    | 0.1                             |
| <b>Total Functional Expense</b>              | <b><u>295.1</u></b>    | <b><u>297.3</u></b>    | <b><u>(2.2)</u></b>             |
| Increase in Net Position<br>before Transfers | 72.1                   | 48.2                   | 23.9                            |
| Transfers out                                | <u>(18.7)</u>          | <u>(19.1)</u>          | 0.4                             |
| Change in Net Position                       | 53.4                   | 29.1                   | 24.3                            |
| Net Position, Beginning                      | <u>688.1</u>           | <u>699.3</u>           | <u>(11.2)</u>                   |
| Reinstatement for implementation for GASB 75 | 0.0                    | (40.3)                 | 40.3                            |
| <b>Net Position, Ending</b>                  | <b><u>\$ 741.5</u></b> | <b><u>\$ 688.1</u></b> | <b><u>\$ 53.4</u></b>           |

Business-type Activities expenses decreased \$2.2 million for a total of \$295.1 million. Year over year expenses were affected by the following events:

- Electric Fund expenses decreased 6.4 million due to decreased energy purchase costs.
- Gas fund expenses increased \$3.0 million due to increased commodity rate purchases as a result of higher market gas prices and higher transportation costs.
- Refuse fund expenses increased \$1.6 million due to increased processing costs for recycling and compost material and higher operating costs.



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, 2019, the City's Governmental Funds reported combined fund balances of \$305.0 million, an increase of \$53.8 million from the prior year. Approximately 18.0 percent, or \$54.8 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 (\$10.1 million); 2) restricted for particular purposes (\$85.9 million); 3) committed for particular purposes (\$89.7 million); or 4) assigned for particular purposes (64.5 million).

Governmental Fund revenues increased \$21.2 million, or 10.0 percent, from the prior year to \$232.5 million. Revenues in the General Fund increased \$17.0 million and Capital Projects Fund revenue increased \$0.2 million. Other Governmental Funds revenue increased \$3.9 million due to sale of Transfer Development Rights (TDR) for the construction of the historic Avenida's building.

Governmental Fund expenditures were \$234.9 million, an increase of \$15.4 million from the prior year. General Fund expenditures increased \$10.1 million, Capital Projects Fund expenditures increased by \$5.9 million, and Non-major Fund expenditures decreased by \$0.7 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 \$75.2 million, compared to \$68.3 million in the prior year. The fund balance has been classified as \$7.6 million non-spendable, \$5.0 million committed, \$7.7 million assigned and \$54.8 million unassigned. The unassigned amount is designated by the Council for Budget Stabilization Reserve (BSR) and other purposes.

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Statement of Revenues, Expenditures and Changes in Fund Balance  
 Revenues

The City's General Fund revenues totaled \$197.1 million in FY 2019. This represents an increase of \$17.1 million, or 9.5 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)

| Revenues by Source       | 2019            | 2018            | Increase/<br>(Decrease) |
|--------------------------|-----------------|-----------------|-------------------------|
| Property tax             | \$ 47.3         | \$ 42.8         | \$ 4.5                  |
| Sales tax                | 36.5            | 31.1            | 5.4                     |
| Utility user tax         | 16.4            | 15.4            | 1.0                     |
| Transient occupancy tax  | 25.6            | 24.9            | 0.7                     |
| Documentary transfer tax | 6.9             | 9.2             | (2.3)                   |
| Charges for services     | 27.3            | 26.8            | 0.5                     |
| Permits and licence      | 8.4             | 8.6             | (0.2)                   |
| Rental income            | 16.3            | 15.9            | 0.4                     |
| All other                | 12.4            | 5.3             | 7.1                     |
| <b>Total Revenues</b>    | <b>\$ 197.1</b> | <b>\$ 180.0</b> | <b>\$ 17.1</b>          |

Property tax revenue increased \$4.5 million or 10.5 percent, due to increased property assessed value growth and an increase of \$1.3 million for a temporary Educational Revenue Augmentation Fund (ERAF) distribution from the County of Santa Clara.

Sales tax receipts were \$5.4 million or 17.4 percent higher compared to the prior fiscal year, due to a combination of economic performance in sectors such as auto sales, leasing factors and restaurants. In addition, in fiscal year 2018 the California Department of Tax and Fee Administration (CDTFA) was established and introduced new technology and collection process which had issues resulting in delays of distribution of sales tax. This resulted in lower sales tax by \$0.7 million in fiscal year 2018 and higher sales tax in fiscal year 2019.

Utility user tax revenues were \$1.0 million or 6.5 percent, higher compared to the prior year due to an increased utility rate and local telecommunications activity.

Transient occupancy tax (TOT) ended the year \$0.7 million, or 2.8 percent, higher than prior year. The increase is due to the voter approval of a 1.5 percent tax rate increase effective April 1, 2019. After adjusting the 1.5 percent tax rate, the base TOT decreased by 5.4% with an average occupancy decline of 1.8 percent but with an average room rate increase of 2.6 percent.

Documentary transfer tax decreased \$2.3 million, or 25 percent to \$6.9 million, due to larger commercial sales in prior fiscal year.

All other revenues increased from prior year by \$7.1 million primarily due to \$6.5 million increase in investment earnings which included \$5.9 million in unrealized gains.

**Expenditures**

General Fund expenditures totaled \$175.7 million for FY 2019 compared to \$165.6 in the prior year. This amount excludes encumbrances and reappropriations. 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>2019</u>            | <u>2018</u>            | <u>Increase/<br/>(Decrease)</u> |
|------------------------------------|------------------------|------------------------|---------------------------------|
| Administrative Services            | \$ 5.5                 | \$ 5.3                 | \$ 0.2                          |
| Public Works                       | 13.8                   | 14.6                   | (0.8)                           |
| Planning and Community Environment | 8.1                    | 8.3                    | (0.2)                           |
| Development Services               | 11.5                   | 11.7                   | (0.2)                           |
| Police                             | 42.9                   | 40.3                   | 2.6                             |
| Fire                               | 33.5                   | 33.5                   | (0.0)                           |
| Community Services                 | 28.9                   | 27.1                   | 1.8                             |
| Library                            | 9.3                    | 9.1                    | 0.2                             |
| Non-Departmental                   | 11.8                   | 6.0                    | 5.8                             |
| All other                          | <u>10.5</u>            | <u>9.6</u>             | <u>0.9</u>                      |
| <b>Total Expenditures</b>          | <b><u>\$ 175.7</u></b> | <b><u>\$ 165.5</u></b> | <b><u>\$ 10.2</u></b>           |

Police department expenditures increased \$2.6 million mainly due to salaries and benefits and overtime.

Community Services department expenditures increased \$1.8 million, mainly due to golf course maintenance, which operations resumed in May 2018.

Non-Departmental expenditures increased \$5.8 million primarily due to a \$5.5 million settlement agreement for an overpayment claim by Stanford University regarding fire protection services.

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

Original budget compared to final budget

Revenues were originally budgeted at \$194.7 million and were revised upward by \$11.5 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<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Increase/<br/>(Decrease)</u> |
|--|---------------------------|-------------------------|---------------------------------|
| Property tax                                 | \$ 45.3                   | \$ 46.2                 | \$ 0.9                          |
| Sales tax                                    | 31.2                      | 31.7                    | 0.5                             |
| Utility user tax                             | 16.1                      | 16.1                    | 0.0                             |
| Transient occupancy tax                      | 25.0                      | 25.4                    | 0.3                             |
| Documentary transfer tax                     | 7.4                       | 8.0                     | 0.6                             |
| All other                                    | 59.6                      | 60.8                    | 1.2                             |
|  | <u>184.6</u>              | <u>188.2</u>            | <u>3.6</u>                      |
| Charges to other funds                       | 10.1                      | 10.1                    | -                               |
| Prior year encumbrances and reappropriations | -                         | 7.8                     | 7.8                             |
| <b>Total Budgeted Revenues</b>               | <b><u>\$ 194.7</u></b>    | <b><u>\$ 206.2</u></b>  | <b><u>\$ 11.4</u></b>           |

In FY 2019, the final budget increased \$11.4 million from the Adopted Budget general fund revenues. There were changes to the Property tax, Sales tax, Transient occupancy tax, Documentary transfer tax, all other revenues, and prior year encumbrances and reappropriations.

Actual revenues of \$212.2 million were \$5.9 million higher than final budgeted revenues of \$206.2 million due to an unforeseen \$5.9 million higher than anticipated sales and property tax revenues.



Expenditures were originally budgeted at \$183.6 million and were revised upward by \$12.7 million, for a final budgeted amount of \$196.3 million.

| <b>GENERAL FUND</b>                                     |                           |                         |                                 |                                       |
|---|---------------------------|-------------------------|---------------------------------|---------------------------------------|
| <b>Budgeted Expenditures for the Year Ended June 30</b> |                           |                         |                                 |                                       |
| <b>(in millions)</b>                                    |                           |                         |                                 |                                       |
| <u>Budgeted Expenditures</u>                            | <u>Adopted<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Increase/<br/>(Decrease)</u> | <u>Actuals, plus<br/>Encumbrances</u> |
| Community Services                                      | \$ 28.9                   | \$ 30.2                 | \$ 1.3                          | \$ 30.2                               |
| Fire  | 43.5                      | 43.9                    | 0.4                             | 43.7                                  |
| Police  | 31.8                      | 33.9                    | 2.1                             | 33.9                                  |
| Library   | 9.7                       | 9.8                     | 0.1                             | 9.5                                   |
| Planning and Community Environment                      | 8.8                       | 10.3                    | 1.6                             | 9.9                                   |
| Public Works  | 18.5                      | 18.4                    | (0.1)                           | 17.9                                  |
| Development Services                                    | 12.6                      | 13.1                    | 0.5                             | 12.7                                  |
| Non-departmental  | 7.6                       | 13.3                    | 5.7                             | 12.6                                  |
| All other   | 22.2                      | 23.4                    | 1.2                             | 22.5                                  |
| <b>Total Budgeted Expenditures</b>                      | <b><u>\$ 183.6</u></b>    | <b><u>\$ 196.3</u></b>  | <b><u>\$ 12.7</u></b>           | <b>192.9</b>                          |
| Less: Charges to Other Funds                            |                           |                         |                                 | (10.7)                                |
| Less: Encumbrances/reappropriations                     |                           |                         |                                 | (6.5)                                 |
| <b>Net General Fund Expenditures</b>                    |                           |                         |                                 | <b><u>\$ 175.7</u></b>                |

Adjustments of \$12.7 million to the original budget were primarily due to the following:

- \$7.8 million carry-forward of encumbrances from prior year and reappropriations
- \$5.5 million settlement agreement for an overpayment claim by Stanford University regarding fire protection services

The final budgeted expenditure amount of \$196.3 million compares to the actual expenditures plus encumbrances/reappropriations of \$193.0 million, a difference of \$3.3 million, of which \$6.5 million is encumbrances and reappropriations carried forward to FY 2020.

Transfers out were originally budgeted at \$30.9 million, with the final budget number at \$37.1 million, an increase of \$6.2 million. The increase was due to an additional \$4.0 million transfer to General Benefits Internal Services Fund for Irrevocable Section 115 Pension Trust and \$2.0 million transfer to the Infrastructure Reserve.

**Capital Projects Fund**

Capital Projects Fund expenditures and other uses were \$46.9 million in FY 2019, an increase of \$5.9 million from the prior year driven by construction of Fire Station #3, Charleston/Arastradero Corridor and the new California Avenue parking garage. This level of expenditure is consistent with the City's effort to rehabilitate and maintain its existing infrastructure.

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*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, 2019, the City's Enterprise Funds reported total net position of \$741.5 million, an increase of \$53.4 million or 7.8 percent from the prior year. The increase was primarily from the Electric Fund. Further analysis is noted in the following section. Unrestricted net position for the Enterprise Funds totaled \$135.3 million, a 23.7 percent increase from FY 2018.

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

**ENTERPRISE FUNDS**  
**Change in Net Position for the Year Ended June 30**  
**(in millions)**

| <b>Fund Name</b>                    | <b>2019</b>    | <b>2018</b>    | <b>Increase/<br/>(Decrease)</b> |
|-------------------------------------|----------------|----------------|---------------------------------|
| Water                               | \$ 8.0         | \$ 5.1         | \$ 2.9                          |
| Electric                            | 19.0           | (1.2)          | 20.2                            |
| Fiber Optics                        | 3.5            | 1.7            | 1.8                             |
| Gas                                 | 5.3            | 1.5            | 3.8                             |
| Wastewater Collection               | 3.3            | 1.0            | 2.3                             |
| Wastewater Treatment                | 1.5            | 4.8            | (3.3)                           |
| Refuse                              | 4.9            | 6.1            | (1.2)                           |
| Storm Drainage                      | 2.3            | 1.8            | 0.5                             |
| Airport                             | 6.6            | 10.1           | (3.5)                           |
| <b>Total Change in Net Position</b> | <b>\$ 54.4</b> | <b>\$ 30.9</b> | <b>\$ 23.5</b>                  |

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

- The net position for Electric Fund increased by \$20.2 million due to higher operating revenues as a result of a 6.0 percent rate increase effective July 2018, an increase in investment earnings and a decrease in operating expenses.
- The net position for Gas Fund increased \$3.8 million as a result of higher revenue due to higher consumption and a rate increase.
- The net position for Water increased \$2.9 million as a result of an increase in operating revenues of \$0.5 million due to a three percent rate increase effective July 2018 and a \$2.0 million increase in investment earnings. The increase is also due to a decrease of \$0.3 million in operating expenses.
- The net position for Wastewater Collection Fund increased \$2.3 million due to 11.0 percent rate increase effective July 1, 2018.
- Wastewater Treatment Fund decreased its net position by \$3.3 million due to a decrease in federal grant revenues of \$4.0 million from prior year offset by the increase in investment earnings.

- The Airport Fund decreased in net position \$3.5 million due to the decrease in federal grant revenues for the Apron Reconstruction project.

**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>2019</u>            | <u>2018</u>            | <u>Increase/<br/>(Decrease)</u> |
| <b>Governmental activities</b>                   |                        |                        |                                 |
| <b>Capital Assets</b>                            |                        |                        |                                 |
| Land and improvements                            | \$ 77.6                | \$ 78.5                | (0.9)                           |
| Street trees                                     | 14.7                   | 14.8                   | (0.1)                           |
| Construction in progress                         | 104.5                  | 69.3                   | 35.2                            |
| Building and improvements                        | 247.3                  | 246.5                  | 0.8                             |
| Intangible assets                                | 3.8                    | 3.8                    | 0.0                             |
| Equipment  | 12.6                   | 12.6                   | -                               |
| Roadway network                                  | 334.3                  | 334.3                  | -                               |
| Recreation and open space network                | 35.2                   | 35.2                   | -                               |
| Less accumulated depreciation                    | (285.7)                | (269.0)                | (16.7)                          |
| <b>Internal Service funds</b>                    |                        |                        | -                               |
| Construction in progress                         | 2.5                    | 1.9                    | 0.6                             |
| Equipment  | 62.3                   | 61.6                   | 0.7                             |
| Less accumulated depreciation                    | (43.0)                 | (41.7)                 | (1.3)                           |
| <b>Total Governmental Activities</b>             | <u><u>566.1</u></u>    | <u><u>547.8</u></u>    | <u><u>18.3</u></u>              |
| <br><b>Business-Type Activities</b>              |                        |                        |                                 |
| Land   | 5.0                    | 5.0                    | (0.0)                           |
| Construction in progress                         | 158.0                  | 153.4                  | 4.6                             |
| Buildings and improvements                       | 68.3                   | 59.9                   | 8.4                             |
| Capital Leases                                   | 0.5                    | 0.5                    | -                               |
| Infrastructure                                   | 0.6                    | 0.6                    | -                               |
| Transmission, distribution and treatment systems | 822.4                  | 779.3                  | 43.1                            |
| Less accumulated depreciation                    | (381.3)                | (362.0)                | (19.3)                          |
| <b>Total Business-type Activities</b>            | <u><u>\$ 673.5</u></u> | <u><u>\$ 636.7</u></u> | <u><u>\$ 36.8</u></u>           |

Governmental Activities' capital assets net of depreciation increased by \$18.3 million from the prior year. The increase was primarily due to various city projects such as the Fire Station #3, Charleston/Arastradero Corridor and the new California Avenue Area Parking Garage.



Council approved a \$125.8 million Infrastructure Plan (IP) in June 2014, which includes projects such as a new Public Safety Building, replacement of two Fire Stations, a Bike and Pedestrian plan and two parking garages. Through the development of the 2020-2024 Capital Improvement Plan (CIP), a tenth project was added to the IP, Downtown Automated Parking Guidance Systems, and the IP projects were updated for scope increases and cost escalations, resulting in a revised Infrastructure Plan of \$280.6 million. These projects will be funded partially by debt to be repaid with voter approved increases of 3.5 percent in the transient occupancy tax (TOT) rate and from other sources such as impact fees and Stanford University Medical Center development agreement monies. The 2020-2024 CIP assumes the opening of new Marriott hotels in FY 2021, and the additional annual TOT funding is estimated to cover the cost of the IP projects.

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

- New Cal Ave Area Parking Garage - \$40.2 million
- New Downtown Parking Garage – \$27.0 million
- Highway 101 Pedestrian/Bicycle Overcrossing - \$13.3 million
- Bicycle Boulevards Implementation Project - \$9.2 million
- Embarcadero Road Corridor Improvements - \$6.3 million

Business-type Activities' capital assets net of depreciation increased by \$36.8 million over FY 2018. The increase is primarily due to Water, Electric, Wastewater Treatment, Storm Drainage and Airport 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 - \$7.1 million
- Wastewater Collection Fund Rehabilitation/Augmentation – \$4.6 million
- Airport Apron Reconstruction Project - \$7.7 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, 2019 is shown in the following table.

| <b>LONG-TERM DEBT AT JUNE 30</b>        |                        |                       |                                 |
|---|------------------------|-----------------------|---------------------------------|
| (in millions)                           |                        |                       |                                 |
|   | <u>2019</u>            | <u>2018</u>           | <u>Increase/<br/>(Decrease)</u> |
| <b>Governmental Activities</b>          |                        |                       |                                 |
| <b>General Long-Term Obligations</b>    |                        |                       |                                 |
| General Obligation Bonds                |                        |                       |                                 |
| 2010                                    | \$ 44.6                | \$ 45.8               | \$ (1.2)                        |
| 2013A                                   | 15.9                   | 16.3                  | (0.4)                           |
| 2011 Lease Purchase Agreement           | 0.0                    | 0.4                   | (0.4)                           |
| Add: unamortized premium                | 0.0                    | 3.6                   | (3.6)                           |
| Certificates of Participation           |                        |                       |                                 |
| 2018 Capital Improvement Projects       | 8.9                    | 9.0                   | (0.1)                           |
| 2019 California Ave Parking Garage      |                        |                       |                                 |
| Series A & B                            | 37.4                   | 0.0                   | 37.4                            |
| Add: unamortized premium                | 8.3                    | 0.0                   | 8.3                             |
| <b>Total Governmental Activities</b>    | <b><u>\$ 115.1</u></b> | <b><u>\$ 75.1</u></b> | <b><u>\$ 40.0</u></b>           |
| <b>Business-type Activities</b>         |                        |                       |                                 |
| <b>Enterprise Long-Term Obligations</b> |                        |                       |                                 |
| Utility Revenue Bonds                   |                        |                       |                                 |
| 1995 Series A                           | \$ 0.6                 | \$ 1.3                | \$ (0.7)                        |
| 1999 Refunding                          | 7.5                    | 8.2                   | (0.7)                           |
| 2009 Series A                           | 26.6                   | 27.7                  | (1.1)                           |
| 2011 Refunding                          | 9.1                    | 10.2                  | (1.1)                           |
| Add: unamortized premium                | 0.6                    | 0.6                   | (0.0)                           |
| Energy Tax Credit Bonds                 |                        |                       |                                 |
| 2007 Series A                           | 0.3                    | 0.4                   | (0.1)                           |
| Less: unamortized discount              | (0.1)                  | (0.1)                 | -                               |
| State Water Resources Loan              |                        |                       |                                 |
| 2007                                    | 4.5                    | 5.0                   | (0.5)                           |
| 2009                                    | 5.7                    | 6.1                   | (0.4)                           |
| 2017                                    | 19.4                   | 6.7                   | 12.7                            |
| <b>Total Business-type Activities</b>   | <b><u>\$ 74.2</u></b>  | <b><u>\$ 66.1</u></b> | <b><u>\$ 8.1</u></b>            |

City-wide long-term debt increased a total of \$48.1 million due to the issuance of 2019 COPs tax exempt Series A of \$26.8 million plus \$4.9 million premium and taxable Series B of \$10.6 million, and receipt of \$12.7 million additional loan from the State Water Reserve Control Board (SWRCB), net of \$6.9 million scheduled retirements.



***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, 2019, the City had no special assessment district debt with City commitment outstanding.

***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, located 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, 2019**  
**(Amounts in thousands)**

|  | Governmental<br>Activities | Business-Type<br>Activities | Total               |
|--|----------------------------|-----------------------------|---------------------|
| <b>ASSETS:</b>   |                            |                             |                     |
| Cash and investments available for operations (Note 3)                   | \$ 297,243                 | \$ 249,368                  | \$ 546,611          |
| Receivables, net:  |                            |                             |                     |
| Accounts and intergovernmental   | 25,574                     | 49,424                      | 74,998              |
| Interest receivable  | 2,248                      | 1,626                       | 3,874               |
| Notes and loans receivable (Note 5)                                      | 34,099                     | -                           | 34,099              |
| Internal balances (Note 4)   | 3,069                      | (3,069)                     | -                   |
| Deposits   | 65                         | -                           | 65                  |
| Due from other government agencies                                       | -                          | 3,000                       | 3,000               |
| Inventory of materials and supplies, prepaids and deposits               | 4,765                      | 291                         | 5,056               |
| Restricted cash and investments with fiscal agents and trustees (Note 3) | 56,803                     | 4,016                       | 60,819              |
| Capital assets (Note 6):   |                            |                             |                     |
| Nondepreciable   | 202,857                    | 162,959                     | 365,816             |
| Depreciable, net of accumulated depreciation                             | 363,246                    | 510,562                     | 873,808             |
| Total assets   | <u>989,969</u>             | <u>978,177</u>              | <u>1,968,146</u>    |
| <b>DEFERRED OUTFLOWS OF RESOURCES:</b>                                   |                            |                             |                     |
| Unamortized loss from refunding  | -                          | 209                         | 209                 |
| Pension related (Note 11)  | 52,032                     | 16,963                      | 68,995              |
| OPEB related (Note 12)   | 11,397                     | 4,600                       | 15,997              |
| Total deferred outflows of resources                                     | <u>63,429</u>              | <u>21,772</u>               | <u>85,201</u>       |
| <b>LIABILITIES:</b>  |                            |                             |                     |
| Accounts payable and accruals  | 18,388                     | 18,835                      | 37,223              |
| Accrued salaries and benefits  | 1,780                      | 771                         | 2,551               |
| Unearned revenue   | 2,976                      | -                           | 2,976               |
| Accrued compensated absences (Note 1):                                   |                            |                             |                     |
| Due in one year  | 6,273                      | -                           | 6,273               |
| Due in more than one year  | 6,062                      | -                           | 6,062               |
| Claims payable (Note 14):  |                            |                             |                     |
| Due in one year  | 6,171                      | -                           | 6,171               |
| Due in more than one year  | 22,194                     | -                           | 22,194              |
| Landfill post-closure liability (Note 9):                                |                            |                             |                     |
| Due in more than one year  | -                          | 6,975                       | 6,975               |
| Net pension liabilities (Note 11):                                       |                            |                             |                     |
| Due in more than one year  | 312,021                    | 111,875                     | 423,896             |
| Net OPEB liabilities (Note 12):  |                            |                             |                     |
| Due in more than one year  | 105,322                    | 42,498                      | 147,820             |
| Long-term debt (Note 7):   |                            |                             |                     |
| Due in one year  | 2,631                      | 5,291                       | 7,922               |
| Due in more than one year  | 112,505                    | 68,957                      | 181,462             |
| Total liabilities  | <u>596,323</u>             | <u>255,202</u>              | <u>851,525</u>      |
| <b>DEFERRED INFLOWS OF RESOURCES:</b>                                    |                            |                             |                     |
| Pension related (Note 11)  | 5,142                      | 2,417                       | 7,559               |
| OPEB related (Note 12)   | 1,950                      | 787                         | 2,737               |
| Total deferred inflows of resources                                      | <u>7,092</u>               | <u>3,204</u>                | <u>10,296</u>       |
| <b>NET POSITION (Note 10):</b>   |                            |                             |                     |
| Net Investment in capital assets   | 493,706                    | 602,136                     | 1,095,842           |
| Restricted for:  |                            |                             |                     |
| Transportation, infrastructure and other                                 | 39,507                     | -                           | 39,507              |
| Debt service   | 3,694                      | 4,016                       | 7,710               |
| Nonexpendable - Eyerly Family  | 2,438                      | -                           | 2,438               |
| Total restricted net position  | <u>45,639</u>              | <u>4,016</u>                | <u>49,655</u>       |
| Unrestricted   | <u>(89,362)</u>            | <u>135,391</u>              | <u>46,029</u>       |
| Total net position   | <u>\$ 449,983</u>          | <u>\$ 741,543</u>           | <u>\$ 1,191,526</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, 2019**  
**(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  | \$ 270            | \$ -                 | \$ -                               | \$ -                             | \$ (270)  | \$ -                     | \$ (270)            |
| City Manager  | 3,336             | -                    | 341                                | -                                | (2,995)   | -                        | (2,995)             |
| City Attorney   | 3,086             | -                    | -                                  | -                                | (3,086)   | -                        | (3,086)             |
| City Clerk  | 822               | -                    | -                                  | -                                | (822)   | -                        | (822)               |
| City Auditor  | 1,081             | -                    | -                                  | -                                | (1,081)   | -                        | (1,081)             |
| Administrative Services                                 | 19,169            | 6,413                | -                                  | -                                | (12,756)  | -                        | (12,756)            |
| Human Resources   | 3,021             | -                    | -                                  | -                                | (3,021)   | -                        | (3,021)             |
| Public Works  | 36,617            | 1,478                | -                                  | 2,046                            | (33,093)  | -                        | (33,093)            |
| Planning and Community Environment Development Services | 12,169            | 11,997               | 1,041                              | -                                | 869   | -                        | 869                 |
| Police  | 49,816            | 4,180                | 418                                | -                                | (45,218)  | -                        | (45,218)            |
| Fire  | 39,373            | 9,999                | 266                                | -                                | (29,108)  | -                        | (29,108)            |
| Community Services                                      | 36,815            | 22,805               | -                                  | 6,201                            | (7,809)   | -                        | (7,809)             |
| Library   | 12,557            | 134                  | 34                                 | -                                | (12,389)  | -                        | (12,389)            |
| Interest on long-term debt                              | 3,653             | -                    | -                                  | -                                | (3,653)   | -                        | (3,653)             |
| <b>Total Governmental Activities</b>                    | <b>234,407</b>    | <b>70,910</b>        | <b>2,100</b>                       | <b>8,247</b>                     | <b>(153,150)</b>                                  | <b>-</b>                 | <b>(153,150)</b>    |
| <b>Business-Type Activities:</b>                        |                   |                      |                                    |                                  |   |                          |                     |
| Water   | 40,606            | 45,571               | 488                                | 524                              | -   | 5,977                    | 5,977               |
| Electric  | 139,605           | 163,514              | -                                  | -                                | -   | 23,909                   | 23,909              |
| Fiber Optics  | 2,476             | 4,657                | -                                  | -                                | -   | 2,181                    | 2,181               |
| Gas   | 30,915            | 42,113               | -                                  | -                                | -   | 11,198                   | 11,198              |
| Wastewater Collection                                   | 17,324            | 20,219               | -                                  | 283                              | -   | 3,178                    | 3,178               |
| Wastewater Treatment                                    | 27,070            | 27,573               | -                                  | -                                | -   | 503                      | 503                 |
| Refuse  | 30,391            | 33,996               | -                                  | -                                | -   | 3,605                    | 3,605               |
| Storm Drainage  | 4,951             | 7,249                | -                                  | -                                | -   | 2,298                    | 2,298               |
| Airport   | 1,790             | 2,483                | -                                  | 5,870                            | -   | 6,563                    | 6,563               |
| <b>Total Business-Type Activities</b>                   | <b>295,128</b>    | <b>347,375</b>       | <b>488</b>                         | <b>6,677</b>                     | <b>-</b>  | <b>59,412</b>            | <b>59,412</b>       |
| <b>Total</b>  | <b>\$ 529,535</b> | <b>\$ 418,285</b>    | <b>\$ 2,588</b>                    | <b>\$ 14,924</b>                 | <b>(153,150)</b>                                  | <b>59,412</b>            | <b>(93,738)</b>     |
| <b>General Revenues:</b>                                |                   |                      |                                    |                                  |   |                          |                     |
| <b>Taxes:</b>   |                   |                      |                                    |                                  |   |                          |                     |
| Property tax  |                   |                      |                                    |                                  | 51,718  | -                        | 51,718              |
| Sales tax   |                   |                      |                                    |                                  | 36,508  | -                        | 36,508              |
| Utility user tax  |                   |                      |                                    |                                  | 16,402  | -                        | 16,402              |
| Transient occupancy tax                                 |                   |                      |                                    |                                  | 25,649  | -                        | 25,649              |
| Documentary transfer tax                                |                   |                      |                                    |                                  | 6,923   | -                        | 6,923               |
| Other taxes   |                   |                      |                                    |                                  | 2,602   | -                        | 2,602               |
| Investment earnings                                     |                   |                      |                                    |                                  | 15,375  | 12,680                   | 28,055              |
| Miscellaneous   |                   |                      |                                    |                                  | 1,906   | -                        | 1,906               |
| Transfers (Note 4)                                      |                   |                      |                                    |                                  | 18,680  | (18,680)                 | -                   |
| <b>Total general revenues and transfers</b>             |                   |                      |                                    |                                  | <b>175,763</b>                                    | <b>(6,000)</b>           | <b>169,763</b>      |
| Change in net position                                  |                   |                      |                                    |                                  | 22,613  | 53,412                   | 76,025              |
| Net position, beginning of year                         |                   |                      |                                    |                                  | 427,370   | 688,131                  | 1,115,501           |
| Net position, end of year                               |                   |                      |                                    |                                  | <b>\$ 449,983</b>                                 | <b>\$ 741,543</b>        | <b>\$ 1,191,526</b> |

See accompanying notes to the basic financial statements.

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**CITY OF PALO ALTO**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2019**  
**(Amounts in thousands)**

|  | General<br>Fund  | Capital<br>Projects<br>Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|------------------|-----------------------------|--------------------------------|--------------------------------|
| <b>ASSETS:</b>   |                  |                             |                                |                                |
| Cash and investments available for operations (Note 3)               | \$ 55,139        | \$ 74,689                   | \$ 85,722                      | \$ 215,550                     |
| Receivables, net:  |                  |                             |                                |                                |
| Accounts and intergovernmental                                       | 21,669           | 1,313                       | 328                            | 23,310                         |
| Interest receivable  | 1,167            | 32                          | 523                            | 1,722                          |
| Notes and loans receivable (Note 5)                                  | -                | -                           | 34,099                         | 34,099                         |
| Deposits   | 15               | -                           | 50                             | 65                             |
| Due from other fund (Note 4)   | 843              | -                           | -                              | 843                            |
| Advances to other funds (Note 4)                                     | 3,115            | -                           | -                              | 3,115                          |
| Inventory of materials and supplies                                  | 4,517            | -                           | -                              | 4,517                          |
| Restricted cash and investments with fiscal agents (Note 3)          | -                | 42,739                      | 34                             | 42,773                         |
| Total assets   | <u>\$ 86,465</u> | <u>\$ 118,773</u>           | <u>\$ 120,756</u>              | <u>\$ 325,994</u>              |
| <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b> |                  |                             |                                |                                |
| <b>Liabilities:</b>  |                  |                             |                                |                                |
| Accounts payable and accruals  | \$ 6,501         | \$ 7,978                    | \$ 349                         | \$ 14,828                      |
| Accrued salaries and benefits  | 1,562            | 80                          | 17                             | 1,659                          |
| Unearned revenue   | 2,976            | -                           | -                              | 2,976                          |
| Due to other funds (Note 4)  | -                | -                           | 106                            | 106                            |
| Total liabilities  | <u>11,039</u>    | <u>8,058</u>                | <u>472</u>                     | <u>19,569</u>                  |
| <b>Deferred inflows of resources</b>                                 |                  |                             |                                |                                |
| Deferred inflows of resources - Unavailable revenue                  | 211              | 1,195                       | -                              | 1,406                          |
| Total liabilities and deferred inflows of resources                  | <u>11,250</u>    | <u>9,253</u>                | <u>472</u>                     | <u>20,975</u>                  |
| <b>Fund balances (Note 10):</b>                                      |                  |                             |                                |                                |
| <b>Nonspendable:</b>   |                  |                             |                                |                                |
| Deposits   | 15               | -                           | -                              | 15                             |
| Inventories  | 4,517            | -                           | -                              | 4,517                          |
| Advance to other fund  | 3,115            | -                           | -                              | 3,115                          |
| Eyerly family  | -                | -                           | 2,438                          | 2,438                          |
| <b>Restricted for:</b>   |                  |                             |                                |                                |
| Transportation mitigation  | -                | -                           | 13,091                         | 13,091                         |
| Federal revenue  | -                | -                           | 5,300                          | 5,300                          |
| Street improvement   | -                | -                           | 250                            | 250                            |
| Local law enforcement  | -                | -                           | 494                            | 494                            |
| California Avenue parking garage                                     | -                | 42,151                      | -                              | 42,151                         |
| Library bond project   | -                | 588                         | -                              | 588                            |
| Public benefit   | -                | -                           | 20,372                         | 20,372                         |
| Debt service   | -                | -                           | 3,694                          | 3,694                          |
| <b>Committed for:</b>  |                  |                             |                                |                                |
| Development services   | 4,399            | -                           | -                              | 4,399                          |
| Roth building rehabilitation   | -                | 4,920                       | -                              | 4,920                          |
| Cubberley improvements   | -                | 5,422                       | -                              | 5,422                          |
| Developer impact fees  | -                | -                           | 17,049                         | 17,049                         |
| Housing in-lieu  | -                | -                           | 51,558                         | 51,558                         |
| Special districts  | -                | -                           | 5,667                          | 5,667                          |
| Edgewood Plaza   | 701              | -                           | -                              | 701                            |
| <b>Assigned for:</b>   |                  |                             |                                |                                |
| Unrealized gains on investments                                      | 709              | -                           | 403                            | 1,112                          |
| Capital projects   | -                | 56,439                      | -                              | 56,439                         |
| Other general government purposes                                    | 5,622            | -                           | -                              | 5,622                          |
| Electric charger   | 17               | -                           | -                              | 17                             |
| College Terrace fines  | 160              | -                           | -                              | 160                            |
| Reappropriations   | 1,149            | -                           | -                              | 1,149                          |
| <b>Unassigned for:</b>   |                  |                             |                                |                                |
| Budget Stabilization   | 54,811           | -                           | -                              | 54,811                         |
| Downtown business  | -                | -                           | (32)                           | (32)                           |
| Total fund balances  | <u>75,215</u>    | <u>109,520</u>              | <u>120,284</u>                 | <u>305,019</u>                 |
| Total liabilities, deferred inflows of resources, and fund balances  | <u>\$ 86,465</u> | <u>\$ 118,773</u>           | <u>\$ 120,756</u>              | <u>\$ 325,994</u>              |

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Reconciliation of the Balance Sheet of Governmental Funds to**  
**the Statement of Net Position - Governmental Activities**  
**June 30, 2019**  
**(Amounts in thousands)**

|  |            |
|--|------------|
| Total fund balances reported on the governmental funds balance sheet   | \$ 305,019 |
| <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   | 63,429     |
| Deferred inflows of resources  | (7,092)    |
| <p>Certain receivables are not available to pay for current period expenditures and therefore are deferred in the governmental funds.</p>  |            |
|  | 1,406      |
| <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>  |            |
|  | 566,103    |
| <p>Internal service funds are used by management to charge the costs of activities such as insurance, equipment acquisition and maintenance, and certain employee benefits to individual funds. The assets and liabilities of the internal service funds are therefore included in governmental activities in the statement of net position (excludes capital assets, deferred outflows of resources, deferred inflows of resources, net pension liabilities and net OPEB liabilities reported herein)</p> |            |
|  | 55,263     |
| <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   | (1,666)    |
| Net pension liabilities (Note 11)  | (312,021)  |
| Net OPEB liabilities (Note 12)   | (105,322)  |
| Long-term debt (Note 7)  | (115,136)  |
|  | (534,145)  |
| Net position of governmental activities  | \$ 449,983 |

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, 2019**  
**(Amounts in thousands)**

|  | General<br>Fund  | Capital<br>Projects<br>Fund | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|------------------|-----------------------------|--------------------------------|--------------------------------|
| <b>REVENUES:</b>   |                  |                             |                                |                                |
| Property tax   | \$ 47,327        | \$ -                        | \$ 4,391                       | \$ 51,718                      |
| Special assessments  | -                | -                           | 58                             | 58                             |
| Sales tax  | 36,508           | -                           | -                              | 36,508                         |
| Utility user tax   | 16,402           | -                           | -                              | 16,402                         |
| Transient occupancy tax  | 25,649           | -                           | -                              | 25,649                         |
| Documentary transfer tax   | 6,923            | -                           | -                              | 6,923                          |
| Other taxes and fines  | 1,888            | -                           | 2,663                          | 4,551                          |
| Charges for services   | 27,346           | -                           | -                              | 27,346                         |
| Intergovernmental  | 2,863            | 903                         | 923                            | 4,689                          |
| Permits and licenses   | 8,410            | -                           | 9,349                          | 17,759                         |
| Investment earnings  | 5,672            | 1,449                       | 3,827                          | 10,948                         |
| Rental income  | 16,338           | -                           | 6                              | 16,344                         |
| Housing In-Lieu - residential  | -                | -                           | 5,613                          | 5,613                          |
| Other revenue  | 1,753            | 590                         | 5,612                          | 7,955                          |
| Total revenues   | <u>197,079</u>   | <u>2,942</u>                | <u>32,442</u>                  | <u>232,463</u>                 |
| <b>EXPENDITURES:</b>   |                  |                             |                                |                                |
| Current:   |                  |                             |                                |                                |
| City Council   | 265              | -                           | -                              | 265                            |
| City Manager   | 2,883            | -                           | -                              | 2,883                          |
| City Attorney  | 2,649            | -                           | -                              | 2,649                          |
| City Clerk   | 805              | -                           | -                              | 805                            |
| City Auditor   | 865              | -                           | -                              | 865                            |
| Administrative Services  | 5,512            | -                           | 253                            | 5,765                          |
| Human Resources  | 2,567            | -                           | -                              | 2,567                          |
| Public Works   | 13,757           | -                           | 1,007                          | 14,764                         |
| Planning and Community Environment                                   | 8,132            | -                           | 2,779                          | 10,911                         |
| Development Services   | 11,549           | -                           | -                              | 11,549                         |
| Police   | 42,854           | -                           | 1                              | 42,855                         |
| Fire   | 33,489           | -                           | -                              | 33,489                         |
| Community Services   | 28,903           | -                           | 2,716                          | 31,619                         |
| Library  | 9,288            | -                           | -                              | 9,288                          |
| Non-Departmental   | 11,769           | -                           | 462                            | 12,231                         |
| Capital outlay   | -                | 46,914                      | -                              | 46,914                         |
| Debt service:  |                  |                             |                                |                                |
| Principal  | 426              | -                           | 1,675                          | 2,101                          |
| Interest and fiscal charges  | 5                | -                           | 3,393                          | 3,398                          |
| Total expenditures   | <u>175,718</u>   | <u>46,914</u>               | <u>12,286</u>                  | <u>234,918</u>                 |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER (UNDER) EXPENDITURES</b> | <u>21,361</u>    | <u>(43,972)</u>             | <u>20,156</u>                  | <u>(2,455)</u>                 |
| <b>OTHER FINANCING SOURCES (USES):</b>                               |                  |                             |                                |                                |
| Issuance of debt   | -                | 41,995                      | 302                            | 42,297                         |
| Proceeds from sale of capital assets                                 | 2,442            | -                           | -                              | 2,442                          |
| Transfers in (Note 4)  | 20,154           | 33,661                      | 896                            | 54,711                         |
| Transfers out (Note 4)   | (37,088)         | (74)                        | (5,985)                        | (43,147)                       |
| Total other financing sources (uses)                                 | <u>(14,492)</u>  | <u>75,582</u>               | <u>(4,787)</u>                 | <u>56,303</u>                  |
| Change in fund balances  | 6,869            | 31,610                      | 15,369                         | 53,848                         |
| <b>FUND BALANCES, BEGINNING OF YEAR</b>                              | <u>68,346</u>    | <u>77,910</u>               | <u>104,915</u>                 | <u>251,171</u>                 |
| <b>FUND BALANCES, END OF YEAR</b>                                    | <u>\$ 75,215</u> | <u>\$ 109,520</u>           | <u>\$ 120,284</u>              | <u>\$ 305,019</u>              |

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities - Governmental Activities**  
**For the Year Ended June 30, 2019**  
**(Amounts in thousands)**

Net change in fund balances - total governmental funds \$ 53,848

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  | 39,100   |
| Depreciation expense is deducted from fund balance (depreciation expense is net of internal service fund depreciation of \$3,500) (Note 6), which has already been allocated through the internal service fund activities below | (16,836) |
| Disposal of capital assets  | (3,935)  |

Pension and OPEB contribution made subsequent to the measurement date is an expenditure in the governmental funds, but reported as a deferred outflows of resources in the government-wide financial statements 36,550

Pension and OPEB expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds (56,544)

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 | 2,101    |
| Proceeds from debt issuance    | (42,297) |
| Change in interest payable     | (461)    |
| Amortization of bond premium   | 206      |

Revenues earned but not available are deferred in the governmental funds but are recognized in the government-wide financial statements. Also, revenues recognized in the governmental funds during the current year that were earned and recognized in previous years in the government-wide financial statements are reported as beginning net position in the statement of activities 1,406

Internal service funds are used by management to charge the costs of activities, such as insurance, equipment acquisition and maintenance, and employees benefits to individual funds. The portion of the net expense of these internal service funds arising out of their transactions with governmental funds is reported with governmental activities. 9,475

|   |                  |
|---|------------------|
| Change in net position of governmental activities | <u>\$ 22,613</u> |
|---|------------------|

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2019**  
**(Amounts in thousands)**

|   | Budgeted Amounts |                   | Actual, Budgetary<br>Basis | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|------------------|-------------------|----------------------------|---|
|   | Adopted          | Final             |                            |   |
| <b>REVENUES:</b>  |                  |                   |                            |   |
| Sales tax   | \$ 31,246        | \$ 31,746         | \$ 36,508                  | \$ 4,762  |
| Property tax  | 45,332           | 46,232            | 47,327                     | 1,095   |
| Transient occupancy tax   | 25,049           | 25,391            | 25,649                     | 258   |
| Documentary transfer tax  | 7,434            | 8,034             | 6,923                      | (1,111)   |
| Utility user tax  | 16,092           | 16,092            | 16,402                     | 310   |
| Other taxes, fines and penalties  | 2,032            | 2,032             | 1,888                      | (144)   |
| Charges for services  | 28,419           | 28,419            | 27,346                     | (1,073)   |
| Permits and licenses  | 8,545            | 8,545             | 8,410                      | (135)   |
| Investment earnings   | 1,194            | 1,194             | 2,167                      | 973   |
| Rental income   | 15,734           | 15,734            | 16,338                     | 604   |
| Intergovernmental   | 2,943            | 3,229             | 2,942                      | (287)   |
| Other revenues  | 568              | 1,599             | 1,753                      | 154   |
|   | <u>184,588</u>   | <u>188,247</u>    | <u>193,653</u>             | <u>5,406</u>  |
| Charges to other funds and departments  | 10,093           | 10,147            | 10,685                     | 538   |
| Prior year encumbrances   | -                | 7,821             | 7,821                      | -   |
| Total revenues  | <u>194,681</u>   | <u>206,215</u>    | <u>212,159</u>             | <u>5,944</u>  |
| <b>EXPENDITURES:</b>  |                  |                   |                            |   |
| Current:  |                  |                   |                            |   |
| City Attorney   | 3,263            | 3,783             | 3,783                      | -   |
| City Auditor  | 1,258            | 1,238             | 1,238                      | -   |
| City Clerk  | 1,282            | 1,267             | 1,193                      | 74  |
| City Council  | 488              | 501               | 411                        | 90  |
| City Manager  | 4,386            | 4,905             | 4,450                      | 455   |
| Administrative Services   | 7,963            | 7,834             | 7,794                      | 40  |
| Community Services  | 28,929           | 30,282            | 30,201                     | 81  |
| Police  | 31,825           | 33,894            | 33,894                     | -   |
| Fire  | 43,460           | 43,912            | 43,698                     | 214   |
| Human Resources   | 3,591            | 3,796             | 3,697                      | 99  |
| Library   | 9,664            | 9,767             | 9,491                      | 276   |
| Planning and Community Environment  | 8,791            | 10,346            | 9,906                      | 440   |
| Development Services  | 12,561           | 13,103            | 12,700                     | 403   |
| Public Works  | 18,462           | 18,362            | 17,928                     | 434   |
| Non-Departmental  | 7,632            | 13,302            | 12,567                     | 735   |
| Total expenditures  | <u>183,555</u>   | <u>196,292</u>    | <u>192,951</u>             | <u>3,341</u>  |
| <b>EXCESS OF REVENUES OVER EXPENDITURES</b>   | <u>11,126</u>    | <u>9,923</u>      | <u>19,208</u>              | <u>9,285</u>  |
| <b>OTHER FINANCING SOURCES (USES):</b>  |                  |                   |                            |   |
| Proceeds from sale of capital assets  | -                | -                 | 2,442                      | 2,442   |
| Transfers in  | 19,772           | 20,154            | 20,154                     | -   |
| Transfers out   | (30,898)         | (37,088)          | (37,088)                   | -   |
| Total other financing sources (uses)  | <u>(11,126)</u>  | <u>(16,934)</u>   | <u>(14,492)</u>            | <u>2,442</u>  |
| <b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER)<br/>EXPENDITURES, BUDGETARY BASIS</b> | <u>\$ -</u>      | <u>\$ (7,011)</u> | <u>4,716</u>               | <u>\$ 11,727</u>  |
| Adjustment to Budgetary Basis:  |                  |                   |                            |   |
| Unrealized gain/loss on investments   |                  |                   | 3,505                      |   |
| Current year encumbrances and reappropriations  |                  |                   | 6,469                      |   |
| Prior year encumbrances and reappropriations  |                  |                   | (7,821)                    |   |
| <b>CHANGE IN FUND BALANCE, GAAP BASIS</b>   |                  |                   | <u>6,869</u>               |   |
| <b>FUND BALANCE AT BEGINNING OF YEAR, GAAP BASIS</b>                                  |                  |                   | <u>68,346</u>              |   |
| <b>FUND BALANCE AT END OF YEAR, GAAP BASIS</b>  |                  |                   | <u>\$ 75,215</u>           |   |

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Proprietary Funds**  
**Statement of Net Position**  
**June 30, 2019**  
**(Amounts in thousands)**

|  | Business-Type Activities-Enterprise Funds |                   |                  |                   |
|--|---|-------------------|------------------|-------------------|
|  | Water                                     | Electric          | Fiber<br>Optics  | Gas               |
| <b>ASSETS:</b>   |   |                   |                  |                   |
| Current assets:  |   |                   |                  |                   |
| Cash and investments available for operations (Note 3)                   | \$ 40,443                                 | \$ 93,173         | \$ 31,196        | \$ 25,522         |
| Accounts receivable, net of allowance of \$462                           | 6,333                                     | 24,105            | 1,134            | 3,066             |
| Interest receivable  | 265                                       | 615               | 200              | 182               |
| Due from other government agencies                                       | -   | -                 | -                | -                 |
| Inventory of materials and supplies                                      | -   | -                 | -                | -                 |
| Restricted cash and investments with fiscal agents and trustees (Note 3) | 3,221                                     | -                 | -                | 795               |
| Total current assets   | <u>50,262</u>                             | <u>117,893</u>    | <u>32,530</u>    | <u>29,565</u>     |
| Noncurrent assets:   |   |                   |                  |                   |
| Due from other government agencies                                       | -   | -                 | -                | -                 |
| Deposit  | -   | 41                | -                | -                 |
| Prepaid expense  | 83  | -                 | -                | -                 |
| Capital assets (Note 6):   |   |                   |                  |                   |
| Nondepreciable   | 30,464                                    | 23,618            | 1,611            | 14,262            |
| Depreciable, net   | 99,153                                    | 177,761           | 7,554            | 95,635            |
| Total noncurrent assets  | <u>129,700</u>                            | <u>201,420</u>    | <u>9,165</u>     | <u>109,897</u>    |
| Total assets   | <u>179,962</u>                            | <u>319,313</u>    | <u>41,695</u>    | <u>139,462</u>    |
| <b>DEFERRED OUTFLOWS OF RESOURCES:</b>                                   |   |                   |                  |                   |
| Unamortized loss from refunding  | 91  | -                 | -                | 118               |
| Pension related (Note 11)  | 2,213                                     | 5,463             | 410              | 2,412             |
| OPEB related (Note 12)   | 517                                       | 1,683             | -                | 741               |
| Total deferred outflows of resources                                     | <u>2,821</u>                              | <u>7,146</u>      | <u>410</u>       | <u>3,271</u>      |
| <b>LIABILITIES:</b>  |   |                   |                  |                   |
| Current liabilities:   |   |                   |                  |                   |
| Accounts payable and accruals  | 4,084                                     | 2,725             | 302              | 1,090             |
| Accrued salaries and benefits  | 106                                       | 260               | 20               | 110               |
| Due to other funds   | -   | -                 | -                | -                 |
| Accrued compensated absences (Note 1)                                    | -   | -                 | -                | -                 |
| Current portion of long term debt (Note 7)                               | 1,707                                     | 100               | -                | 644               |
| Accrued claims payable (Note 14)   | -   | -                 | -                | -                 |
| Total current liabilities  | <u>5,897</u>                              | <u>3,085</u>      | <u>322</u>       | <u>1,844</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)  | 14,999                                    | 36,044            | 2,351            | 15,939            |
| Net OPEB liabilities (Note 12)   | 4,775                                     | 15,551            | -                | 6,844             |
| Long term debt, net of<br>unamortized discounts/premiums (Note 7)        | 29,752                                    | 184               | -                | 4,678             |
| Total noncurrent liabilities   | <u>49,526</u>                             | <u>51,779</u>     | <u>2,351</u>     | <u>27,461</u>     |
| Total liabilities  | <u>55,423</u>                             | <u>54,864</u>     | <u>2,673</u>     | <u>29,305</u>     |
| <b>DEFERRED INFLOWS OF RESOURCES:</b>                                    |   |                   |                  |                   |
| Pension related (Note 11)  | 290                                       | 743               | 61               | 297               |
| OPEB related (Note 12)   | 88  | 288               | -                | 127               |
| Total deferred inflows of resources                                      | <u>378</u>                                | <u>1,031</u>      | <u>61</u>        | <u>424</u>        |
| <b>NET POSITION (Note 10):</b>   |   |                   |                  |                   |
| Net Investment in capital assets   | 98,249                                    | 200,749           | 9,165            | 104,693           |
| Restricted for debt service  | 3,221                                     | -                 | -                | 795               |
| Unrestricted (deficit)   | 25,512                                    | 69,815            | 30,206           | 7,516             |
| Total net position   | <u>\$ 126,982</u>                         | <u>\$ 270,564</u> | <u>\$ 39,371</u> | <u>\$ 113,004</u> |

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

Net position reported in Business-type Activities

See accompanying notes to the basic financial statements.



| Business-Type Activities-Enterprise Funds |                         |                  |                   |                  |                | Governmental     |                           |
|---|-------------------------|------------------|-------------------|------------------|----------------|------------------|---------------------------|
| Wastewater<br>Collection                  | Wastewater<br>Treatment | Refuse           | Storm<br>Drainage | Non-Major        |                | Totals           | Internal Service<br>Funds |
|   |                         |                  |                   | Airport          |                |                  |                           |
| \$ 10,242                                 | \$ 12,792               | \$ 28,883        | \$ 6,201          | \$ 916           | \$ 249,368     | \$ 81,693        |                           |
| 2,735                                     | 2,927                   | 4,070            | 830               | 4,224            | 49,424         | 2,264            |                           |
| 60  | 83                      | 176              | 38                | 7                | 1,626          | 526              |                           |
| -   | 300                     | -                | -                 | -                | 300            | -                |                           |
| -   | -                       | -                | -                 | -                | -              | 248              |                           |
| -   | -                       | -                | -                 | -                | 4,016          | 14,030           |                           |
| <u>13,037</u>                             | <u>16,102</u>           | <u>33,129</u>    | <u>7,069</u>      | <u>5,147</u>     | <u>304,734</u> | <u>98,761</u>    |                           |
| -   | 2,700                   | -                | -                 | -                | 2,700          | -                |                           |
| -   | -                       | -                | -                 | -                | 41             | -                |                           |
| -   | 167                     | -                | -                 | -                | 250            | -                |                           |
| 28,102                                    | 31,182                  | 1,952            | 11,683            | 20,085           | 162,959        | 2,530            |                           |
| 60,785                                    | 36,164                  | 3,243            | 29,678            | 589              | 510,562        | 19,281           |                           |
| <u>88,887</u>                             | <u>70,213</u>           | <u>5,195</u>     | <u>41,361</u>     | <u>20,674</u>    | <u>676,512</u> | <u>21,811</u>    |                           |
| <u>101,924</u>                            | <u>86,315</u>           | <u>38,324</u>    | <u>48,430</u>     | <u>25,821</u>    | <u>981,246</u> | <u>120,572</u>   |                           |
| -   | -                       | -                | -                 | -                | 209            | -                |                           |
| 1,312                                     | 3,450                   | 756              | 687               | 260              | 16,963         | 2,914            |                           |
| 283                                       | 872                     | 315              | 138               | 51               | 4,600          | 617              |                           |
| <u>1,595</u>                              | <u>4,322</u>            | <u>1,071</u>     | <u>825</u>        | <u>311</u>       | <u>21,772</u>  | <u>3,531</u>     |                           |
| 537                                       | 2,530                   | 2,954            | 445               | 4,168            | 18,835         | 1,894            |                           |
| 58  | 149                     | 27               | 30                | 11               | 771            | 121              |                           |
| -   | -                       | -                | -                 | -                | -              | 737              |                           |
| -   | -                       | -                | -                 | -                | -              | 6,273            |                           |
| 99  | 2,011                   | -                | 730               | -                | 5,291          | -                |                           |
| -   | -                       | -                | -                 | -                | -              | 6,171            |                           |
| <u>694</u>                                | <u>4,690</u>            | <u>2,981</u>     | <u>1,205</u>      | <u>4,179</u>     | <u>24,897</u>  | <u>15,196</u>    |                           |
| -   | -                       | -                | -                 | -                | -              | 6,062            |                           |
| -   | -                       | -                | -                 | -                | -              | 22,194           |                           |
| -   | -                       | -                | -                 | 3,115            | 3,115          | -                |                           |
| -   | -                       | 6,975            | -                 | -                | 6,975          | -                |                           |
| 8,965                                     | 22,703                  | 6,022            | 4,006             | 846              | 111,875        | 16,527           |                           |
| 2,616                                     | 8,056                   | 2,912            | 1,271             | 473              | 42,498         | 5,691            |                           |
| <u>452</u>                                | <u>30,555</u>           | <u>-</u>         | <u>3,336</u>      | <u>-</u>         | <u>68,957</u>  | <u>-</u>         |                           |
| <u>12,033</u>                             | <u>61,314</u>           | <u>15,909</u>    | <u>8,613</u>      | <u>4,434</u>     | <u>233,420</u> | <u>50,474</u>    |                           |
| <u>12,727</u>                             | <u>66,004</u>           | <u>18,890</u>    | <u>9,818</u>      | <u>8,613</u>     | <u>258,317</u> | <u>65,670</u>    |                           |
| 174                                       | 463                     | 109              | 182               | 98               | 2,417          | 492              |                           |
| 48  | 149                     | 54               | 24                | 9                | 787            | 106              |                           |
| <u>222</u>                                | <u>612</u>              | <u>163</u>       | <u>206</u>        | <u>107</u>       | <u>3,204</u>   | <u>598</u>       |                           |
| 88,336                                    | 37,780                  | 5,195            | 37,295            | 20,674           | 602,136        | 21,811           |                           |
| -   | -                       | -                | -                 | -                | 4,016          | -                |                           |
| 2,234                                     | (13,759)                | 15,147           | 1,936             | (3,262)          | 135,345        | 36,024           |                           |
| <u>\$ 90,570</u>                          | <u>\$ 24,021</u>        | <u>\$ 20,342</u> | <u>\$ 39,231</u>  | <u>\$ 17,412</u> | <u>741,497</u> | <u>\$ 57,835</u> |                           |

46  
\$ 741,543

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, 2019**  
**(Amounts in thousands)**

|  | Business-Type Activities-Enterprise Funds |                   |                  |                   |
|--|---|-------------------|------------------|-------------------|
|  | Water                                     | Electric          | Fiber<br>Optics  | Gas               |
| <b>OPERATING REVENUES:</b>   |   |                   |                  |                   |
| Sales to:  |   |                   |                  |                   |
| Customers  | \$ 41,275                                 | \$ 126,370        | \$ 3,470         | \$ 38,456         |
| City departments   | 2,136                                     | 4,403             | 1,118            | 1,448             |
| Surplus energy   | -   | 13,752            | -                | -                 |
| Service connection charges and miscellaneous                         | 1,193                                     | 3,255             | 42               | 1,000             |
| Charges for services   | -   | -                 | -                | -                 |
| Other  | 967                                       | 15,734            | 27               | 1,209             |
| Total operating revenues   | <u>45,571</u>                             | <u>163,514</u>    | <u>4,657</u>     | <u>42,113</u>     |
| <b>OPERATING EXPENSES:</b>   |   |                   |                  |                   |
| Purchase of utilities:   |   |                   |                  |                   |
| Retail purchase of utilities   | 21,210                                    | 76,659            | -                | 15,958            |
| Surplus energy   | -   | 13,022            | -                | -                 |
| Administrative and general   | 5,658                                     | 8,513             | 774              | 4,535             |
| Engineering (operating)  | 382                                       | 1,835             | -                | 397               |
| Resource management and energy efficiency                            | 959                                       | 5,613             | -                | 931               |
| Operations and maintenance   | 5,961                                     | 11,508            | 1,250            | 4,923             |
| Rent   | 1,833                                     | 5,454             | 78               | 621               |
| Depreciation and amortization  | 2,808                                     | 8,277             | 377              | 3,209             |
| Claims payments and changes in<br>estimated self-insurance liability | -   | -                 | -                | -                 |
| Refund of charges for services                                       | -   | -                 | -                | -                 |
| Employment benefits  | -   | -                 | -                | -                 |
| Total operating expenses   | <u>38,811</u>                             | <u>130,881</u>    | <u>2,479</u>     | <u>30,574</u>     |
| Operating income (loss)  | 6,760                                     | 32,633            | 2,178            | 11,539            |
| <b>NONOPERATING REVENUES (EXPENSES):</b>                             |   |                   |                  |                   |
| Investment earnings  | 2,113                                     | 4,958             | 1,499            | 1,403             |
| Interest expense   | (1,641)                                   | (8,388)           | -                | (180)             |
| Gain on disposal of capital assets                                   | -   | -                 | -                | -                 |
| Loss on disposal of capital assets                                   | (109)                                     | (103)             | -                | (76)              |
| Other nonoperating revenues  | 488                                       | -                 | -                | -                 |
| Total nonoperating revenues (expenses)                               | <u>851</u>                                | <u>(3,533)</u>    | <u>1,499</u>     | <u>1,147</u>      |
| Income (loss) before transfers and capital contributions             | 7,611                                     | 29,100            | 3,677            | 12,686            |
| Capital contributions  | 524                                       | -                 | -                | -                 |
| Transfers in (Note 4)  | 539                                       | 3,335             | -                | -                 |
| Transfers out (Note 4)   | (645)                                     | (13,470)          | (139)            | (7,400)           |
| Change in net position   | 8,029                                     | 18,965            | 3,538            | 5,286             |
| NET POSITION, BEGINNING OF YEAR                                      | <u>118,953</u>                            | <u>251,599</u>    | <u>35,833</u>    | <u>107,718</u>    |
| NET POSITION, END OF YEAR  | <u>\$ 126,982</u>                         | <u>\$ 270,564</u> | <u>\$ 39,371</u> | <u>\$ 113,004</u> |

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

Change in net position reported in Business-type Activities

See accompanying notes to the basic financial statements.

| Business-Type Activities-Enterprise Funds |                         |                  |                   |                  |                | Governmental              |
|---|-------------------------|------------------|-------------------|------------------|----------------|---------------------------|
| Wastewater<br>Collection                  | Wastewater<br>Treatment | Refuse           | Storm<br>Drainage | Non-Major        |                | Internal Service<br>Funds |
|   |                         |                  |                   | Airport          | Totals         |                           |
| \$ 19,209                                 | \$ 16,907               | \$ 30,242        | \$ 6,787          | \$ 1,753         | \$ 284,469     | \$ -                      |
| 133                                       | 9,887                   | 823              | 405               | -                | 20,353         | -                         |
| -   | -                       | -                | -                 | -                | 13,752         | -                         |
| 311                                       | -                       | -                | -                 | -                | 5,801          | -                         |
| -   | -                       | -                | -                 | -                | -              | 103,010                   |
| 566                                       | 779                     | 2,931            | 57                | 730              | 23,000         | 796                       |
| <u>20,219</u>                             | <u>27,573</u>           | <u>33,996</u>    | <u>7,249</u>      | <u>2,483</u>     | <u>347,375</u> | <u>103,806</u>            |
| 9,843                                     | -                       | 16,056           | -                 | -                | 139,726        | -                         |
| -   | -                       | -                | -                 | -                | 13,022         | -                         |
| 1,719                                     | -                       | 1,542            | 1,066             | 1,078            | 24,885         | 12,659                    |
| 326                                       | 2,173                   | 237              | 210               | -                | 5,560          | -                         |
| -   | -                       | -                | 971               | -                | 8,474          | -                         |
| 2,836                                     | 20,930                  | 9,987            | 1,418             | 598              | 59,411         | 13,578                    |
| 320                                       | -                       | 2,182            | 43                | -                | 10,531         | -                         |
| 2,210                                     | 2,870                   | 116              | 941               | 21               | 20,829         | 3,500                     |
| -   | -                       | -                | -                 | -                | -              | 8,998                     |
| -   | -                       | -                | -                 | -                | -              | 147                       |
| -   | -                       | -                | -                 | -                | -              | 68,258                    |
| <u>17,254</u>                             | <u>25,973</u>           | <u>30,120</u>    | <u>4,649</u>      | <u>1,697</u>     | <u>282,438</u> | <u>107,140</u>            |
| 2,965                                     | 1,600                   | 3,876            | 2,600             | 786              | 64,937         | (3,334)                   |
| 452                                       | 649                     | 1,239            | 317               | 49               | 12,679         | 4,429                     |
| (34)                                      | (674)                   | (196)            | (259)             | (72)             | (11,444)       | -                         |
| -   | -                       | -                | -                 | -                | -              | 275                       |
| (10)                                      | -                       | -                | -                 | -                | (298)          | -                         |
| -   | -                       | -                | -                 | -                | 488            | 42                        |
| <u>408</u>                                | <u>(25)</u>             | <u>1,043</u>     | <u>58</u>         | <u>(23)</u>      | <u>1,425</u>   | <u>4,746</u>              |
| 3,373                                     | 1,575                   | 4,919            | 2,658             | 763              | 66,362         | 1,412                     |
| 283                                       | -                       | -                | -                 | 5,870            | 6,677          | -                         |
| -   | -                       | -                | -                 | -                | 3,874          | 9,560                     |
| (388)                                     | (107)                   | (43)             | (355)             | (7)              | (22,554)       | (2,444)                   |
| 3,268                                     | 1,468                   | 4,876            | 2,303             | 6,626            | 54,359         | 8,528                     |
| 87,302                                    | 22,553                  | 15,466           | 36,928            | 10,786           |                | 49,307                    |
| <u>\$ 90,570</u>                          | <u>\$ 24,021</u>        | <u>\$ 20,342</u> | <u>\$ 39,231</u>  | <u>\$ 17,412</u> |                | <u>\$ 57,835</u>          |

(947)  
\$ 53,412

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2019**  
**(Amounts in thousands)**

|  | Business-Type Activities-Enterprise Funds |                  |                  |                  |
|--|---|------------------|------------------|------------------|
|  | Water                                     | Electric         | Fiber<br>Optics  | Gas              |
| Cash flows from operating activities:  |   |                  |                  |                  |
| Cash received from customers   | \$ 41,850                                 | \$ 137,999       | \$ 3,472         | \$ 38,866        |
| Cash payments to suppliers for goods and services  | (31,869)                                  | (119,373)        | (1,981)          | (24,762)         |
| Cash payments to employees   | (5,027)                                   | (6,694)          | (625)            | (3,983)          |
| Internal activity- receipts (payments) from (to) other funds                                   | 2,136                                     | 4,403            | 1,118            | 1,448            |
| Other receipts   | 967                                       | 15,734           | 27               | 1,209            |
| Net cash provided by operating activities  | <u>8,057</u>                              | <u>32,069</u>    | <u>2,011</u>     | <u>12,778</u>    |
| Cash flows from noncapital financing activities:   |   |                  |                  |                  |
| Receipt of loans from other funds  | -   | -                | -                | -                |
| Interest subsidy received from Build America Bonds   | 488                                       | -                | -                | -                |
| Transfers in   | 539                                       | 3,335            | -                | -                |
| Transfers out  | (645)                                     | (13,470)         | (139)            | (7,400)          |
| Net cash provided by (used in) noncapital financing activities                                 | <u>382</u>                                | <u>(10,135)</u>  | <u>(139)</u>     | <u>(7,400)</u>   |
| Cash flows from capital and related financing activities:                                      |   |                  |                  |                  |
| Acquisition and construction of capital assets   | (6,038)                                   | (15,617)         | (792)            | (9,146)          |
| Proceeds from sale of capital assets   | -   | -                | -                | -                |
| Capital grants and contributions   | 524                                       | -                | -                | -                |
| Proceeds from debt issuance  | -   | -                | -                | -                |
| Principal paid on long-term debt   | (1,636)                                   | (99)             | -                | (619)            |
| Interest paid on long-term debt  | (1,642)                                   | (8,388)          | -                | (180)            |
| Net cash used in capital and related financing activities                                      | <u>(8,792)</u>                            | <u>(24,104)</u>  | <u>(792)</u>     | <u>(9,945)</u>   |
| Cash flows from investing activities:  |   |                  |                  |                  |
| Interest received  | 2,072                                     | 4,873            | 1,460            | 1,384            |
| Net cash provided by (used in) investing activities  | <u>2,072</u>                              | <u>4,873</u>     | <u>1,460</u>     | <u>1,384</u>     |
| Net change in cash and cash equivalents  | 1,719                                     | 2,703            | 2,540            | (3,183)          |
| Cash and cash equivalents, beginning of year   | 41,945                                    | 90,470           | 28,656           | 29,500           |
| Cash and cash equivalents, end of year   | <u>\$ 43,664</u>                          | <u>\$ 93,173</u> | <u>\$ 31,196</u> | <u>\$ 26,317</u> |
| Financial statement presentation:  |   |                  |                  |                  |
| Cash and investments available for operations  | \$ 40,443                                 | \$ 93,173        | \$ 31,196        | \$ 25,522        |
| Restricted cash and investments with fiscal agent  | 3,221                                     | -                | -                | 795              |
| Cash and cash equivalents, end of year   | <u>\$ 43,664</u>                          | <u>\$ 93,173</u> | <u>\$ 31,196</u> | <u>\$ 26,317</u> |
| Reconciliation of operating income (loss) to net cash provided by operating activities:        |   |                  |                  |                  |
| Operating income (loss)  | \$ 6,760                                  | \$ 32,633        | \$ 2,178         | \$ 11,539        |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: |   |                  |                  |                  |
| Depreciation and amortization  | 2,808                                     | 8,277            | 377              | 3,209            |
| Other  | -   | -                | -                | -                |
| Change in assets and liabilities:  |   |                  |                  |                  |
| Accounts receivable  | (618)                                     | (5,378)          | (40)             | (590)            |
| Inventory of materials and supplies  | -   | -                | -                | -                |
| Deposit  | 9   | (6)              | -                | -                |
| Deferred outflow of resources - pension plans  | 726                                       | 1,940            | 157              | 741              |
| Deferred outflow of resources - OPEB   | 173                                       | 563              | -                | 247              |
| Accounts payable and accruals  | (1,533)                                   | (5,276)          | (653)            | (1,932)          |
| Accrued salaries and benefits  | 12  | 19               | 2                | 10               |
| Accrued compensated absences   | -   | -                | -                | -                |
| Landfill closure and post-closure care   | -   | -                | -                | -                |
| Accrued claims payable   | -   | -                | -                | -                |
| Net Pension liability  | (181)                                     | (340)            | (30)             | (263)            |
| Net OPEB liability   | (183)                                     | (598)            | -                | (263)            |
| Deferred inflow of resources - pension plans   | 77  | 212              | 20               | 69               |
| Deferred inflow of resources - OPEB  | 7   | 23               | -                | 11               |
| Net cash provided by operating activities  | <u>\$ 8,057</u>                           | <u>\$ 32,069</u> | <u>\$ 2,011</u>  | <u>\$ 12,778</u> |

See accompanying notes to the basic financial statements.

| Business-Type Activities-Enterprise Funds |                         |           |                   |           |            | Governmental   |
|---|-------------------------|-----------|-------------------|-----------|------------|--|
| Wastewater<br>Collection                  | Wastewater<br>Treatment | Refuse    | Storm<br>Drainage | Non-Major |            | Governmental<br>Activities-<br>Internal Service<br>Funds |
|   |                         |           |                   | Airport   | Totals     |  |
| \$ 18,950                                 | \$ 16,484               | \$ 29,720 | \$ 6,711          | \$ (217)  | \$ 293,835 | \$ 101,300   |
| (13,360)                                  | (24,034)                | (28,102)  | (2,754)           | 1,064     | (245,171)  | (15,396)   |
| (1,344)                                   | 8                       | (1,285)   | (752)             | (887)     | (20,589)   | (78,371)   |
| 133                                       | 9,887                   | 823       | 405               | -         | 20,353     | (4,611)  |
| 566                                       | 779                     | 3,081     | 57                | 730       | 23,150     | 42   |
| 4,945                                     | 3,124                   | 4,237     | 3,667             | 690       | 71,578     | 2,964  |
| -   | -                       | -         | -                 | -         | -          | 737  |
| -   | -                       | -         | -                 | -         | 488        | -  |
| -   | -                       | -         | -                 | -         | 3,874      | 9,560  |
| (388)                                     | (107)                   | (43)      | (355)             | (7)       | (22,554)   | (2,444)  |
| (388)                                     | (107)                   | (43)      | (355)             | (7)       | (18,192)   | 7,853  |
| (3,329)                                   | (14,724)                | -         | (1,675)           | (6,647)   | (57,968)   | (3,637)  |
| -   | -                       | -         | -                 | -         | -          | 379  |
| 283                                       | 300                     | -         | -                 | 5,870     | 6,977      | -  |
| -   | 12,725                  | -         | -                 | -         | 12,725     | -  |
| (94)                                      | (1,398)                 | -         | (685)             | -         | (4,531)    | -  |
| (34)                                      | (674)                   | (196)     | (259)             | (72)      | (11,445)   | -  |
| (3,174)                                   | (3,771)                 | (196)     | (2,619)           | (849)     | (54,242)   | (3,258)  |
| 440                                       | 649                     | 1,182     | 319               | 47        | 12,426     | 4,366  |
| 440                                       | 649                     | 1,182     | 319               | 47        | 12,426     | 4,366  |
| 1,823                                     | (105)                   | 5,180     | 1,012             | (119)     | 11,570     | 11,925   |
| 8,419                                     | 12,897                  | 23,703    | 5,189             | 1,035     | 241,814    | 83,798   |
| \$ 10,242                                 | \$ 12,792               | \$ 28,883 | \$ 6,201          | \$ 916    | \$ 253,384 | \$ 95,723  |
| \$ 10,242                                 | \$ 12,792               | \$ 28,883 | \$ 6,201          | \$ 916    | \$ 249,368 | \$ 81,693  |
| -   | -                       | -         | -                 | -         | 4,016      | 14,030   |
| \$ 10,242                                 | \$ 12,792               | \$ 28,883 | \$ 6,201          | \$ 916    | \$ 253,384 | \$ 95,723  |
| \$ 2,965                                  | \$ 1,600                | \$ 3,876  | \$ 2,600          | \$ 786    | \$ 64,937  | \$ (3,334)   |
| 2,210                                     | 2,870                   | 116       | 941               | 21        | 20,829     | 3,500  |
| -   | -                       | -         | -                 | -         | -          | 42   |
| (570)                                     | (423)                   | (522)     | (76)              | (1,970)   | (10,187)   | (2,211)  |
| -   | -                       | -         | -                 | -         | -          | (34)   |
| -   | 16                      | -         | -                 | -         | 19         | -  |
| 442                                       | 1,289                   | 210       | 185               | 45        | 5,735      | 881  |
| 95  | 292                     | 106       | 46                | 17        | 1,539      | 205  |
| (35)                                      | (2,072)                 | 360       | (112)             | 1,662     | (9,591)    | (810)  |
| -   | 8                       | (3)       | 3                 | -         | 51         | 18   |
| -   | -                       | -         | -                 | -         | -          | 277  |
| -   | -                       | 150       | -                 | -         | 150        | -  |
| -   | -                       | -         | -                 | -         | -          | 4,617  |
| (110)                                     | (281)                   | 13        | 15                | 71        | (1,106)    | (183)  |
| (101)                                     | (310)                   | (112)     | (49)              | (18)      | (1,634)    | (219)  |
| 46  | 123                     | 39        | 112               | 75        | 773        | 206  |
| 3   | 12                      | 4         | 2                 | 1         | 63         | 9  |
| \$ 4,945                                  | \$ 3,124                | \$ 4,237  | \$ 3,667          | \$ 690    | \$ 71,578  | \$ 2,964   |

See accompanying notes to the basic financial statements.

**CITY OF PALO ALTO**  
**Agency Funds**  
**Statement of Assets and Liabilities**  
**June 30, 2019**  
**(Amounts in thousands)**

|   | Agency<br>Funds |
|---|-----------------|
| <b>ASSETS:</b>  |                 |
| Cash and investments available for operations (Note 3)      | \$ 2,767        |
| Restricted cash and investments with fiscal agents (Note 3) | 2,657           |
| Account receivable  | 508             |
| Interest receivable   | 17              |
| Total assets  | \$ 5,949        |
| <b>LIABILITIES:</b>   |                 |
| Due to bondholders  | \$ 4,709        |
| Due to other governments                                    | 1,240           |
| Total liabilities   | \$ 5,949        |

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, 2019**

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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, 2019**

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

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

**(a) Reporting Entity**

The City is governed by a seven-member council, elected by City residents. The City is legally separate and fiscally independent, which means it can issue debt, set and modify budgets and fees, and sue or be sued. The accompanying basic financial statements present the financial activities of the City, which is the primary government presented, along with the financial activities of its component unit, which is an entity for which the City is financially accountable. Although a separate legal entity, a blended component unit is, in substance, part of the City's operations and is reported as an integral part of the City's financial statements. The City's component unit 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, 2019**

**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, 2019**

**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, 2019**

**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, 2019**

**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. Agency funds do not have a measurement focus but are reported using the 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, 2019**

**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, 2019, changes to the compensated absences liabilities were as follows (in thousands):

|                   |                  |
|-------------------|------------------|
| Beginning balance | \$ 12,058        |
| Additions         | 6,473            |
| Payments          | <u>(6,196)</u>   |
| Ending balance    | <u>\$ 12,335</u> |
| Current portion   | <u>\$ 6,273</u>  |

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

**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<br>50% on February 01              | Upon receipt of billing |
| Delinquent after | December 10 (for November)<br>April 10 (for February) | August 31               |

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

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

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

**(l) Pensions and OPEB**

For purposes of measuring the net pension liability and net OPEB liability, deferred outflows/inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the City’s pension and OPEB plans and additions to/deductions from the plans’ fiduciary net positions have been determined on the same basis as they are reported by the California Public Employees’ Retirement System (CalPERS) and the California Employer’s Retiree Benefit Trust Fund Program (CERBT). 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, 2019**

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

**(n) Effects of New Pronouncements**

As of July 1, 2018, the City implemented the following GASB Statements:

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. The statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. Implementation of this statement did not have a significant impact on the City's financial statements for the fiscal year ended June 30, 2019.

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. Implementation of this statement is reflected in Note 7 of the City's Notes to the Basic Financial Statements.

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

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this statement are effective for the City's fiscal year ending June 30, 2020.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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

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

a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for the City's fiscal year ending June 30, 2021.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this statement are 1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and 2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this statement are effective for the City's fiscal year ending June 30, 2021.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No.14 and No.61*. The objectives of this statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this statement are effective for the City's fiscal year ending June 30, 2020.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with 1) commitments extended by issuers, 2) arrangements associated with conduit debt obligations, and 3) related note disclosure. The requirements of this statement are effective for the City's fiscal year ending June 30, 2022.

**(o) Use of Estimates**

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

**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 on investments, changes in advances to other funds and notes receivable are not recognized on a budgetary basis and encumbrances are treated as budgetary expenditures when incurred.
7. Expenditures for the Capital Projects Fund are budgeted and maintained at a project level for the life of the project. Budget to actual comparisons for these expenditures have been excluded from the accompanying financial statements.

**NOTE 3 – CASH AND INVESTMENTS**

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

**Policies**

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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

**Classification**

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

|                                      | Governmental<br>Activities | Business-Type<br>Activities | Fiduciary<br>Funds | Total             |
|--------------------------------------|----------------------------|-----------------------------|--------------------|-------------------|
| Cash and investments:                |                            |                             |                    |                   |
| Available for operations             | \$ 297,243                 | \$ 249,368                  | \$ 2,767           | \$ 549,378        |
| Held with fiscal agents and trustees | 56,803                     | 4,016                       | 2,657              | 63,476            |
| Total cash and investments           | <u>\$ 354,046</u>          | <u>\$ 253,384</u>           | <u>\$ 5,424</u>    | <u>\$ 612,854</u> |

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

The table below summarizes the investment types that are authorized by the California Government Code (Code) and the City’s Investment Policy, and includes the interest rate risk, credit risk and concentration of credit risk as outlined in the Investment Policy. In addition, the table discloses investment of debt proceeds held by bond trustees. These investments are governed by the provisions of each debt agreement of the City, rather than the general provisions of the City’s Investment Policy.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

**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 & Other U.S. States | 10 years (*)     | AA/AA2                 | 30%                             | No Limit                          |
| Supranational   | 5 years          | AA/AA2                 | 20%                             | 10% of the par value of portfolio |

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

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, 2019**

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

The City has implemented investment guidelines for its Public Agencies Retirement Services (PARS) Trust which authorizes the investments in U.S. Treasury securities, federal agencies and U.S. guaranteed obligations, corporate notes, certificates of deposit, bankers' acceptances, equities investments, and mutual funds.

**Fair Value Measurements**

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

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

The following is a summary of the fair value measurements of the City as of June 30, 2019 (in thousands):

| <u>Type of Investment</u>                             | <u>June 30, 2019</u> | <u>Level 2</u>    |
|---|----------------------|-------------------|
| Investments by fair value hierarchy                   |                      |                   |
| U.S. Federal Agency Securities                        | \$ 286,885           | \$ 286,885        |
| U.S. Treasury Notes                                   | 13,504               | 13,504            |
| Local Government Bonds                                | 128,734              | 128,734           |
| Negotiable Certificates of Deposit                    | 46,731               | 46,731            |
| Corporate Bonds                                       | 20,308               | 20,308            |
| Total investments by fair value hierarchy             | 496,162              | <u>\$ 496,162</u> |
| Investment not subject to fair value hierarchy        |                      |                   |
| Bonds Fund:   |                      |                   |
| Money Market Mutual Funds                             | 3,069                |                   |
| U.S. Bank Trust Services                              | 46,201               |                   |
| Equity Mutual Funds (Irrevocable for pension)         | 14,030               |                   |
| California Asset Management Program                   | 3,245                |                   |
| Local Agency Investment Fund                          | 45,901               |                   |
| Total investments not subject to fair value hierarchy | <u>112,446</u>       |                   |
| Total investments measured at fair value              | <u>\$ 608,608</u>    |                   |

**Local Agency Investment Fund**

The City participates in the Local Agency Investment Fund (LAIF) which, under the oversight of the Treasury of the State of California, is regulated by California Government Code Section 16429. LAIF management calculates the fair value and cost of the entire LAIF pool. The City adjusts its cost basis invested in LAIF to fair value based on this ratio. The fair value of the City's position in the pool is the same as the value of the pool share. The balance available for withdrawal on demand is based on accounting records maintained by LAIF, which are recorded on an amortized cost basis. At June 30, 2019, LAIF had a weighted average maturity of 173 days.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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

**Fidelity Institutional Asset Management**

Money market mutual funds are available for withdrawal on demand and at June 30, 2019, had a weighted average maturity of 20 days.

**California Asset Management Program**

The City is a voluntary participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust). The Trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Sections 6500 et seq., or the “Act”) for the purpose of exercising the common power of its participants to invest certain proceeds of debt issues and surplus funds. The City’s investments are limited to investments permitted by subdivisions (a) to (n), inclusive, of Section 53601 of the California Government Code. The City reports its investments in CAMP at the fair value amounts provided by CAMP, which is the same as the value of the pool share. At June 30, 2019, the fair value approximated the City’s cost. CAMP had a weighted average maturity of 54 days at June 30, 2019.

**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, 2019, the City’s investments consisted of the following (in thousands):

| Type of Investment                  | Maturities            |                       |                        |                    | Total             |
|-------------------------------------|-----------------------|-----------------------|------------------------|--------------------|-------------------|
|                                     | Less Than<br>One Year | One to<br>Three Years | Three to<br>Five Years | Over<br>Five Years |                   |
| U.S. Federal Agency Securities      | \$ 36,512             | \$ 68,126             | \$ 72,781              | \$ 109,466         | \$ 286,885        |
| U.S. Treasury Notes                 | 2,995                 | 1,501                 | 9,008                  | -                  | 13,504            |
| Local Government Bonds              | 6,015                 | 39,001                | 42,079                 | 41,639             | 128,734           |
| Corporate Bonds                     | 7,739                 | 10,137                | 2,432                  | -                  | 20,308            |
| Bond Funds:                         |                       |                       |                        |                    |                   |
| Money Market Mutual Funds           | 3,069                 | -                     | -                      | -                  | 3,069             |
| U.S Bank Trust Services             | 46,201                | -                     | -                      | -                  | 46,201            |
| Equity Mutual Funds (pension trust) | 14,030                | -                     | -                      | -                  | 14,030            |
| Negotiable Certificates of Deposit  | 9,044                 | 22,316                | 14,879                 | 492                | 46,731            |
| California Asset Management Program | 3,214                 | -                     | -                      | -                  | 3,245             |
| Local Agency Investment Fund        | 45,901                | -                     | -                      | -                  | 45,901            |
| Total Investments                   | <u>\$ 174,720</u>     | <u>\$ 141,081</u>     | <u>\$ 141,179</u>      | <u>\$ 151,597</u>  | 608,608           |
| Cash in bank and on hand            |                       |                       |                        |                    | 4,246             |
| Total Cash and Investments          |                       |                       |                        |                    | <u>\$ 612,854</u> |

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

At June 30, 2019, the City’s investments (including investments held by bond trustees) include U.S. Federal Agency Callable Securities totaling \$128 million. These investments are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above) and are subject to early redemption.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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

**Credit Risk**

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

Presented below is the actual rating as provided by Standard & Poor’s, Moody’s and/or Fitch’s investment rating system as of June 30, 2019, for each investment type (in thousands):

| Type of Investment                   | Rating | Total             |
|--------------------------------------|--------|-------------------|
| U.S. Federal Agency Securities       | AAA    | \$ 6,749          |
|                                      | AA+    | \$ 156,979        |
|                                      | N/A    | 123,157           |
| Total U.S. Federal Agency Securities |        | <u>286,885</u>    |
| Corporate Bonds                      | AAA    | 9,986             |
|                                      | AA+    | 6,916             |
|                                      | AA     | 974               |
|                                      | N/A    | 2,432             |
| Total Corporate Bonds                |        | <u>20,308</u>     |
| Local Government Bonds               | AAA    | 56,934            |
|                                      | AA+    | 34,727            |
|                                      | AA     | 23,941            |
|                                      | N/A    | 13,132            |
| Total Government Bonds               |        | <u>128,734</u>    |
| Money Market Mutual Funds            | AAAm   | <u>3,069</u>      |
| Total Money Market Mutual Funds      |        | 3,069             |
| Total Investments                    |        | 438,996           |
| Not Applicable:                      |        |                   |
| U.S. Treasury Notes                  |        | 13,504            |
| Not Rated:                           |        |                   |
| Bond Fund: Union Bank Trust Services |        | 46,201            |
| California Asset Management Program  |        | 3,245             |
| Local Agency Investment Fund         |        | 45,901            |
| Negotiable Certificates of Deposit   |        | 46,731            |
| Equity Mutual Funds                  |        | 14,030            |
| Cash in bank and on hand             |        | <u>4,246</u>      |
| Total Cash and Investments           |        | <u>\$ 612,854</u> |

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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

**Concentration of Credit Risk**

Investments in any one issuer, other than U.S. Treasury securities, mutual funds, and external investment pools, that represent 5 percent or more of total City portfolio investments are as follows at June 30, 2019 (in thousands):

| Investments                               | Reporting Type                 | Fair Value at Year-End |
|---|--------------------------------|------------------------|
| Federal Home Loan Bank                    | U.S. Federal Agency Securities | \$ 83,281              |
| Federal Agricultural Mortgage Corporation | U.S. Federal Agency Securities | 96,488                 |
| Federal Farm Credit Bank                  | U.S. Federal Agency Securities | 56,869                 |

**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.

**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 2019 were as follows on the following page (in thousands):



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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

| Fund Receiving Transfer     | Fund Making Transfer         | Amount<br>Transferred |
|-----------------------------|------------------------------|-----------------------|
| General Fund                | Nonmajor Governmental Funds  | \$ 580 A              |
|                             | Electric Services Fund       | 12,973 B              |
|                             | Gas Services Fund            | 6,601 B               |
| Capital Projects Fund       | General Fund                 | 27,514 C              |
|                             | Nonmajor Governmental Funds  | 5,377 C               |
|                             | Water Services Fund          | 93 C                  |
|                             | Electric Services Fund       | 199 C                 |
|                             | Fiber Optics Fund            | 15 C                  |
|                             | Gas Services Fund            | 85 C                  |
|                             | Storm Drainage               | 330 C                 |
|                             | Wastewater Collection        | 47 C                  |
| Nonmajor Governmental Funds | General Fund                 | 792 A                 |
|                             | Capital Projects Fund        | 18 F                  |
|                             | Nonmajor Governmental Funds  | 17 A                  |
|                             | Water Services Fund          | 10 A                  |
|                             | Electric Services Fund       | 21 A                  |
|                             | Fiber Optics Fund            | 2 A                   |
|                             | Gas Services Fund            | 9 A                   |
|                             | Wastewater Collection Fund   | 5 A                   |
|                             | Internal Service Funds       | 24 A                  |
| Water Services Fund         | Gas Services Fund            | 270 C                 |
|                             | Wastewater Collection Fund   | 270 C                 |
| Electric Services Fund      | General Fund                 | 2,365 D               |
|                             | Water Services Fund          | 426 C                 |
|                             | Gas Services Fund            | 316 C                 |
|                             | Fiber Optics Fund            | 102 C                 |
|                             | Internal Service Funds       | 125 C                 |
| Internal Service Funds      | General Fund                 | 6,417 E/F             |
|                             | Capital Projects Fund        | 56 E/F                |
|                             | Nonmajor Governmental Funds  | 13 E/F                |
|                             | Water Services Fund          | 115 E/F               |
|                             | Electric Services Fund       | 277 E/F               |
|                             | Fiber Optics Fund            | 20 E/F                |
|                             | Gas Services Fund            | 119 E/F               |
|                             | Wastewater Collection Fund   | 66 E/F                |
|                             | Wastewater Treatment Fund    | 107 E/F               |
|                             | Refuse Services Fund         | 43 E/F                |
|                             | Storm Drainage Services Fund | 25 E/F                |
|                             | Airport                      | 7 E/F                 |
| Internal Service Funds      | 2,294 E/G                    |                       |
| Total                       |                              | <u>\$ 68,145</u>      |

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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

The reasons for these transfers are set forth below:

- (A) Transfer to fund street maintenance activities, to pay debt service, fund City employee parking, and to return unspent project funds.
- (B) Transfer to fund the return of initial investment made by general fund when utility department was created.
- (C) Transfers of funds to construct, purchase or maintain capital assets.
- (D) Transfer to fund electricity costs associated with City streetlight and traffic signal costs.
- (E) Transfer to fund supplemental pension trust fund.
- (F) Transfer to fund replacement and maintenance of critical desktop, software, infrastructure, vehicles and equipment.
- (G) Transfer to fund an implied subsidy for retiree healthcare.

**Current Interfund Balances**

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. At June 30, 2019, the non-major Downtown Business Development District Special Revenue Fund, the non-major Federal Revenue Special Revenue Fund, and the Retiree Health Benefits Internal Service Fund owed the General Fund \$13 thousand, \$93 thousand, and \$737 thousand, respectively.

**Long-Term Interfund Advance**

On December 6, 2010, the City Council accepted an Airport Business Plan of the Palo Alto Airport (PAO) and approved creation of the Airport Enterprise Fund to facilitate the transition of PAO control from the County of Santa Clara to the City. The City Council approved six separate general fund advances to the non-major Airport Fund totaling \$3.1 million. All advances bear interest equal to the average return yield on the City's investment portfolio. The six separate advances have been consolidated and are scheduled to be repaid by June 2034. At June 30, 2019, the outstanding advances was \$3.1 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, 2019**

**NOTE 5 – NOTES AND LOANS RECEIVABLE**

At June 30, 2019, the City's notes and loans receivable totaled (in thousands):

|   |                         |
|---|-------------------------|
| Palo Alto Housing Corporation:                          |                         |
| Tree House Apartments                                   | \$ 5,344                |
| Emerson Street Project                                  | 375                     |
| Alma Single Room Occupancy Development                  | 2,222                   |
| Barker Hotel  | 2,111                   |
| Sheridan Apartments                                     | 2,222                   |
| Oak Court Apartments, L.P.                              | 7,834                   |
| El Dorado Palace LLC                                    | 150                     |
| Mid-Peninsula Housing Coalition:                        |                         |
| Palo Alto Gardens Apartments                            | 100                     |
| Community Working Group, Inc.                           | 1,280                   |
| Opportunity Center Associates, L.P.                     | 945                     |
| Home Rehabilitation Loans                               | 46                      |
| 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 | 901                     |
| MP Palo Alto Garden, LLC                                | 672                     |
| Colorado Park Housing Corporation                       | 204                     |
| Buena Vista - County of Santa Clara                     | <u>14,500</u>           |
| Total Notes and Loans                                   | 48,711                  |
| Less: Valuation Allowance                               | <u>(14,612)</u>         |
| Total Notes and Loans, Net                              | <u><u>\$ 34,099</u></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, 2019**

**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, 2019, 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, \$1.0 million from HOME Investment Partnership Program Funds, and \$670,000 from CDBG funds. All three notes bear no interest and are collateralized by a deed of trust, which is subordinated to private financing. Loan repayments are deferred until 2035.

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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

**Sheridan Apartments**

On December 8, 1998, the City loaned \$2.2 million to PAHC for the purchase and rehabilitation of a 57-unit apartment complex to be used for senior and low-income housing. 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.

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

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

**El Dorado Palace, LLC**

On June 22, 2015, the City approved a loan to PAHC in the amount of \$375,000 to increase the supply of affordable low income housing in the City. The City loaned \$52,000 and \$13,000 in June 2017 and March 2018, respectively. In February 2019, the City loaned an additional \$85,000. The loan bears three percent (3%) interest, however in the event of default will accrue at the lesser of 8% or the highest rate permitted by law. The term of the loan shall expire 55 years unless the City agree to extend an additional 44 years. As of June 30, 2019, the outstanding balance was \$150,000.

**Palo Alto Gardens Apartments**

On April 22, 1999, the City loaned \$1.0 million to Mid-Peninsula Housing Coalition (the Coalition) for the purchase and rehabilitation of a 155-unit complex for the continuation of low-income housing. The loan was funded with \$659,000 of CDBG funds and \$341,000 of Housing In-Lieu funds. The two notes bear interest at 3 percent and are secured by second deeds of trust and a City Affordability Reserve Account held by the Coalition. 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.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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

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

On July 19, 2004, the City loaned \$750,000 for a 55-year term to Opportunity Center Associates, L.P. for construction of 89 units of rental housing for extremely low-income and very low-income households. The loan was funded with \$750,000 of residential housing funds. The note bears 3 percent interest and is secured by a deed of trust. The loan remains outstanding and becomes due at the end of the 55-year term. During fiscal year 2019, the City received \$25,000 in principal payments. On April 17, 2019, the City approved up to an additional \$220,000 loan drawn from CDBG for the improvement of rental housing. In February 2019 and April 2019, the City loaned \$191,000 and \$29,000, respectively. The note bears 3 percent interest, and all payments of interest and principal shall be deferred until July 19, 2103. The loan balance owed as of June 30, 2019 was \$945,000.

**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.

The original purchase cost for the City Manager's home was \$1.9 million and the City held a 75 percent equity share. 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. In fiscal year 2019, the former City Manager sold the home and paid off the loan balance.

**Below Market Rate Assessment Loans**

In December 2002, the City loaned \$53,000 to below market rate homeowners with low incomes and/or very limited assets for capital repairs, special assessments and improvements of their properties. The loans bear interest at 3 percent and are secured by a deed of trust on each property. Loan payments are deferred until 2032.

**Oak Manor Townhouse Water System**

On May 12, 2003, the City Council approved an allocation of \$114,000 to Palo Alto Housing Corporation Apartments, Inc (PAHCA, 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.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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

**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.

**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, 2019, 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, 2019, the outstanding amount is \$6.4 million.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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

**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. As of June 30, 2019, the loan outstanding balance is \$901,000 and is due at the end of the 55-year term.

**MP Palo Alto Garden, LLC**

The City loaned \$619,000 and \$53,000 in March 2017 and October 2017, respectively, in CDBG funds for the rehabilitation of the property. The note bears 3% simple interest and shall be deferred until April 24, 2054. If there are no Events of Default prior to the end of the terms, the unpaid principal and interest will be treated as a grant and no repayment will be due to the City.

**Colorado Park Housing Corporation**

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

**Buena Vista Mobile Home Park – Santa Clara County**

In September 2017, the City entered into an agreement with the Santa Clara County Housing Authority (SCCHA) for the acquisition of Buena Vista Mobile Home Park. The City loaned SCCHA \$14.5 million for the acquisition. The City is entitled to twenty six percent of all residual receipts. Interest for the promissory note is 3% simple interest. Principal and interest payments will commence on September 30, 2019 and the note and all interest is payable in full on September 29, 2092. As of June 30, 2019, the loan balance is \$14.5 million.

**NOTE 6 – CAPITAL ASSETS**

**Valuation**

Capital assets are valued at historical cost if purchased or constructed. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are recorded at acquisition value at the time received. The City's policy is to capitalize all assets when costs are equal to or exceed \$5,000 and the useful life exceeds one year. Infrastructure assets are capitalized when costs are equal to or exceed \$100,000.

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



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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

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.

| Governmental Activities   | Years    |
|---|----------|
| 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  |
| Business-type Activities  |          |
| 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, 2019**

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

**General Capital Assets**

Changes in the City’s general capital assets during the year ended June 30, 2019 were (in thousands):

|   | Balance<br>July 1, 2018 | Additions        | Retirements       | Transfers      | Balance<br>June 30, 2019 |
|---|-------------------------|------------------|-------------------|----------------|--------------------------|
| <i>Governmental activities</i>              |                         |                  |                   |                |                          |
| Nondepreciable capital assets:              |                         |                  |                   |                |                          |
| Land and improvements                       | \$ 78,481               | \$ -             | \$ (906)          | \$ -           | \$ 77,575                |
| Street trees                                | 14,762                  | 82               | (124)             | -              | 14,720                   |
| Intangible assets - Easement                | 3,567                   | -                | -                 | -              | 3,567                    |
| Construction in progress                    | 69,343                  | 39,018           | (2,549)           | (1,347)        | 104,465                  |
| Total nondepreciable capital assets         | <u>166,153</u>          | <u>39,100</u>    | <u>(3,579)</u>    | <u>(1,347)</u> | <u>200,327</u>           |
| Depreciable capital assets:                 |                         |                  |                   |                |                          |
| Buildings and structures                    | 246,466                 | -                | (510)             | 1,318          | 247,274                  |
| Intangible assets - Software                | 279                     | -                | -                 | -              | 279                      |
| Equipment                                   | 12,571                  | -                | -                 | 29             | 12,600                   |
| Roadway network                             | 334,330                 | -                | -                 | -              | 334,330                  |
| Recreation and open space network           | 35,186                  | -                | -                 | -              | 35,186                   |
| Total depreciable capital assets            | <u>628,832</u>          | <u>-</u>         | <u>(510)</u>      | <u>1,347</u>   | <u>629,669</u>           |
| Less accumulated depreciation:              |                         |                  |                   |                |                          |
| Buildings and structures                    | (91,534)                | (7,277)          | 154               | -              | (98,657)                 |
| Intangible assets - Software                | (279)                   | -                | -                 | -              | (279)                    |
| Equipment                                   | (7,860)                 | (516)            | -                 | -              | (8,376)                  |
| Roadway network                             | (155,990)               | (7,789)          | -                 | -              | (163,779)                |
| Recreation and open space network           | (13,359)                | (1,254)          | -                 | -              | (14,613)                 |
| Total accumulated depreciation              | <u>(269,022)</u>        | <u>(16,836)</u>  | <u>154</u>        | <u>-</u>       | <u>(285,704)</u>         |
| Depreciable capital assets, net             | <u>359,810</u>          | <u>(16,836)</u>  | <u>(356)</u>      | <u>1,347</u>   | <u>343,965</u>           |
| Internal service fund capital assets        |                         |                  |                   |                |                          |
| Construction in progress                    | 1,873                   | 3,620            | -                 | (2,963)        | 2,530                    |
| Equipment                                   | 61,569                  | 17               | (2,242)           | 2,963          | 62,307                   |
| Less accumulated depreciation               | (41,664)                | (3,500)          | 2,138             | -              | (43,026)                 |
| Net internal service fund capital assets    | <u>21,778</u>           | <u>137</u>       | <u>(104)</u>      | <u>-</u>       | <u>21,811</u>            |
| Governmental activities capital assets, net | <u>\$ 547,741</u>       | <u>\$ 22,401</u> | <u>\$ (4,039)</u> | <u>\$ -</u>    | <u>\$ 566,103</u>        |

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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

**Business-type Capital Assets**

Changes in the City's enterprise fund capital assets during the year ended June 30, 2019 were (in thousands):

|  | Balance<br>July 1, 2018 | Additions        | Retirements     | Transfers       | Balance<br>June 30, 2019 |
|--|-------------------------|------------------|-----------------|-----------------|--------------------------|
| <i>Business-type activities</i>                  |                         |                  |                 |                 |                          |
| Nondepreciable capital assets:                   |                         |                  |                 |                 |                          |
| Land and improvements                            | \$ 4,973                | \$ -             | \$ -            | \$ -            | \$ 4,973                 |
| Construction in progress                         | 153,404                 | 57,332           | -               | (52,750)        | 157,986                  |
| Total nondepreciable capital assets              | <u>158,377</u>          | <u>57,332</u>    | <u>-</u>        | <u>(52,750)</u> | <u>162,959</u>           |
| Depreciable capital assets:                      |                         |                  |                 |                 |                          |
| Buildings and structures                         | 59,895                  | -                | (9)             | 8,436           | 68,322                   |
| Capital Leases                                   | 531                     | -                | -               | -               | 531                      |
| Infrastructure                                   | 633                     | -                | -               | -               | 633                      |
| Transmission, distribution and treatment systems | 779,286                 | 636              | (1,787)         | 44,314          | 822,449                  |
| Total depreciable capital assets                 | <u>840,345</u>          | <u>636</u>       | <u>(1,796)</u>  | <u>52,750</u>   | <u>891,935</u>           |
| Less accumulated depreciation:                   |                         |                  |                 |                 |                          |
| Buildings and structures                         | (13,597)                | (1,215)          | -               | -               | (14,812)                 |
| Infrastructure                                   | (23)                    | (21)             | -               | -               | (44)                     |
| Transmission, distribution and treatment systems | (348,388)               | (19,627)         | 1,498           | -               | (366,517)                |
| Total accumulated depreciation                   | <u>(362,008)</u>        | <u>(20,863)</u>  | <u>1,498</u>    | <u>-</u>        | <u>(381,373)</u>         |
| Depreciable capital assets, net                  | <u>478,337</u>          | <u>(20,227)</u>  | <u>(298)</u>    | <u>52,750</u>   | <u>510,562</u>           |
| Business-type activities capital assets, net     | <u>\$ 636,714</u>       | <u>\$ 37,105</u> | <u>\$ (298)</u> | <u>\$ -</u>     | <u>\$ 673,521</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.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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

**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                           | \$ 2,832         |
| City Attorney                      | 1                | Electric                        | 8,271            |
| City Clerk                         | 4                | Fiber Optics                    | 377              |
| City Auditor                       | 1                | Gas                             | 3,241            |
| Administrative Services            | 4                | Wastewater Collection           | 2,209            |
| Community Services                 | 3,202            | Wastewater Treatment            | 2,868            |
| Public Safety                      | 346              | Refuse                          | 116              |
| Public Works                       | 10,557           | Storm Drainage                  | 928              |
| Planning and Community Environment | 331              | Airport                         | 21               |
| Library                            | 2,371            |                                 | <u>\$ 20,863</u> |
| Internal Service Funds             | 3,500            |                                 |                  |
|                                    | <u>\$ 20,336</u> |                                 |                  |

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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

**Construction In Progress**

Construction in progress as of June 30, 2019 is comprised of the following (in thousands):

| <u>Governmental Activities</u>                                       | <u>Expended to<br/>June 30, 2019</u> |
|--|--------------------------------------|
| Charleston/Arastradero Corridor                                      | \$ 9,180                             |
| Bicycle Boulevards Implementation Project                            | 9,055                                |
| New California Ave Area Parking Garage                               | 8,843                                |
| Fire Station No. 3 Replacement Design                                | 8,365                                |
| Lucie Stern Buildings Mech/Electrical Improvements                   | 6,354                                |
| Highway 101 Pedestrian/Bicycle Overpass                              | 5,243                                |
| New Public Safety Building   | 5,241                                |
| Traffic Signal Upgrades  | 4,456                                |
| Transportation and Parking Improvements                              | 2,662                                |
| Baylands Interpretive Center & Boardwalk Improvement                 | 2,283                                |
| Rinconada Park Improvement   | 2,270                                |
| Railroad Grade Separation  | 2,132                                |
| Downtown Mobility & Safety Improvements                              | 1,985                                |
| Safe Routes To School  | 1,736                                |
| Telephone Infrastructure and Network                                 | 1,617                                |
| Curb & Gutter Repairs  | 1,562                                |
| CalTrain Corridor Video Management System Installation               | 1,516                                |
| Cubberley Roof Replacement   | 1,481                                |
| New Downtown Parking Garage  | 1,434                                |
| Benches/Signage/Fencing/Walkways                                     | 1,340                                |
| Newell Road Bridge/SFC Bridge Replacement                            | 1,286                                |
| Quarry Road  | 1,282                                |
| Parks Master Plan  | 1,254                                |
| Roofing Replacement  | 1,082                                |
| Baylands Interpretive Center Improvements                            | 1,078                                |
| City Facility Parking Lot Maintenance                                | 1,067                                |
| JMZ Renovation   | 1,060                                |
| VRF  | 913                                  |
| Embarcadero Corridor Improvements                                    | 872                                  |
| Residential Preferential Parking                                     | 838                                  |
| Parks & Open Space Emergency Repairs                                 | 813                                  |
| Street Lights Improvements   | 721                                  |
| Other Construction In Progress                                       | 15,974                               |
| Total Governmental Activities Construction In Progress               | <u>\$ 106,995</u>                    |
|  |                                      |
| <u>Business-type Activities</u>                                      | <u>Expended to<br/>June 30, 2019</u> |
| Water system extension replacements and improvements                 | \$ 20,551                            |
| Sewer system rehabilitation and extensions                           | 15,982                               |
| Gas system extension replacements and improvements                   | 13,520                               |
| Storm drainage structural and water quality improvements             | 11,341                               |
| Electric distribution system improvements                            | 11,153                               |
| Water quality control plant equipment replacement and lab facilities | 1,682                                |
| Fiber optic system improvements                                      | 1,592                                |
| Other construction in progress                                       | 82,165                               |
| Total Business-type Activities Construction In Progress              | <u>\$ 157,986</u>                    |

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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

**Construction In Progress**

Allocations of business-type activity administration and general expenses of \$12.0 million have been capitalized and included in amounts expended to June 30, 2019.

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

- New Cal Ave Area Parking Garage - \$40.2 million
- New Downtown Parking Garage – \$27.0 million
- Highway 101 Pedestrian/Bicycle Overcrossing - \$13.3 million
- Bicycle Boulevards Implementation Project - \$9.2 million
- Embarcadero Road Corridor Improvements - \$6.3 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 - \$7.1 million
- Wastewater Collection Fund Rehabilitation/Augmentation - \$4.6 million
- Airport Apron Reconstruction Project - \$7.7 million

**Vehicle Registration Fees (VRF)**

In FY 2019, the City received VRF funds from the Santa Clara Valley Transportation Authority and expended the full amount on capital expenditures for the Overlay Resurfacing Project (PE-86070):

|                                   |           |           |
|-----------------------------------|-----------|-----------|
| Starting VRF balance July 1, 2018 | \$        | -         |
| VRF revenue                       |           | 429,419   |
| VRF interest                      |           | 3,488     |
| VRF expense                       |           | (432,907) |
| Ending VRF balance June 30, 2019  | <u>\$</u> | <u>-</u>  |

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

**NOTE 7 – LONG-TERM DEBT**

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<br>Issue Amount | Balance<br>July 1, 2018 | Additions        | Retirements     | Balance<br>June 30, 2019 | Current<br>Portion |
|--|--------------------------|-------------------------|------------------|-----------------|--------------------------|--------------------|
| <b>Governmental Activities Debt:</b>   |                          |                         |                  |                 |                          |                    |
| 2010 General Obligation Bonds,<br>3.25% - 5%, due 08/01/2040   | \$ 55,305                | \$ 45,810               | \$ -             | \$ 1,225        | \$ 44,585                | \$ 1,290           |
| 2013A General Obligation Bonds,<br>2 - 5%, due 08/01/2041  | 20,695                   | 16,330                  | -                | 415             | 15,915                   | 435                |
| 2018 Capital Improvement Project<br>and Refinancing Certificates of Participation, 2.2%-<br>4.22%, due 11/1/2047 | 8,970                    | 8,970                   | -                | 35              | 8,935                    | 180                |
| 2019 California Ave Parking Garage<br>Certificates of Participation, Series A & B 2.5%-5%,<br>due 11/1/2048      | 37,370                   | -                       | 37,370           | -               | 37,370                   | 375                |
| Add: Unamortized Premium   | -                        | 3,610                   | 4,927            | 206             | 8,331                    | 351                |
| <b>Total Bonds and Certificates</b>  | <b>122,340</b>           | <b>74,720</b>           | <b>42,297</b>    | <b>1,881</b>    | <b>115,136</b>           | <b>2,631</b>       |
| <br>Direct Borrowing: 2011 Lease-Purchase Agreement  | <br>3,222                | <br>426                 | <br>-            | <br>426         | <br>-                    | <br>-              |
| <b>Total Governmental Activities Debt</b>  | <b>\$ 125,562</b>        | <b>\$ 75,146</b>        | <b>\$ 42,297</b> | <b>\$ 2,307</b> | <b>\$ 115,136</b>        | <b>\$ 2,631</b>    |

|  | Original Issue<br>Amount | Balance<br>July 1, 2018 | Additions        | Retirements     | Balance<br>June 30, 2019 | Current Portion |
|--|--------------------------|-------------------------|------------------|-----------------|--------------------------|-----------------|
| <b>Business-type Activities Debt:</b>          |                          |                         |                  |                 |                          |                 |
| <b>Utility Revenue Bonds</b>                   |                          |                         |                  |                 |                          |                 |
| 1995 Series A,<br>5.00-6.25%, due 06/01/2020   | \$ 8,640                 | \$ 1,250                | \$ -             | \$ 605          | \$ 645                   | \$ 645          |
| 1999 Refunding,<br>5.125-5.25%, due 06/01/2024 | 17,735                   | 8,245                   | -                | 775             | 7,470                    | 810             |
| 2009 Series A,<br>1.80-5.95%, due 06/01/2035   | 35,015                   | 27,720                  | -                | 1,080           | 26,640                   | 1,130           |
| 2011 Refunding,<br>3-4%, due 06/01/2035        | 17,225                   | 10,185                  | -                | 1,125           | 9,060                    | 1,170           |
| Add: Unamortized Premium                       | -                        | 630                     | -                | 70              | 561                      | -               |
| <b>Energy Tax Credit Bonds</b>                 |                          |                         |                  |                 |                          |                 |
| 2007 Series A, 0%, Due 12/15/2021              | 1,500                    | 400                     | -                | 100             | 300                      | 100             |
| Less: Unamortized Discount                     | -                        | (22)                    | -                | (6)             | (16)                     | -               |
| <b>Total Bonds</b>                             | <b>80,115</b>            | <b>48,408</b>           | <b>-</b>         | <b>3,749</b>    | <b>44,660</b>            | <b>3,855</b>    |
| <b>State Water Resources Loans</b>             |                          |                         |                  |                 |                          |                 |
| Direct Borrowings:                             |                          |                         |                  |                 |                          |                 |
| 2007, 1.02%, due 06/30/2029                    | 9,000                    | 4,950                   | -                | 450             | 4,500                    | 450             |
| 2009, 2.6%, due 11/30/2030                     | 8,500                    | 6,064                   | -                | 398             | 5,666                    | 408             |
| 2017, 1.8%, due 3/30/2049                      | 29,684                   | 6,697                   | 12,725           | -               | 19,422                   | 578             |
| <b>Total Direct Borrowings</b>                 | <b>47,184</b>            | <b>17,711</b>           | <b>12,725</b>    | <b>848</b>      | <b>29,588</b>            | <b>1,436</b>    |
| <b>Total Business-type Activities Debt</b>     | <b>\$ 127,299</b>        | <b>\$ 66,119</b>        | <b>\$ 12,725</b> | <b>\$ 4,597</b> | <b>\$ 74,248</b>         | <b>\$ 5,291</b> |

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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

**Description of Long-Term Debt Issues**

**2010 General Obligation Bonds (2010 GO Bonds)** – On June 30, 2010, the City issued \$55.3 million of 2010 GO Bonds to finance costs for constructing a new Mitchell Park Library and Community Center, and to fund substantial improvements to the Rinconada Library and the Downtown Library. Principal payments are due annually on August 1 and interest payments semi-annually on February 1 and August 1 and are payable from property tax revenues. The true interest cost (TIC) is 4.21 percent.

On June 28, 2016, the City defeased \$2.3 million of 2010 GO Bonds using funds from bond premiums received at time of issue by depositing the amount in an irrevocable trust account. The trust account assets and the liability for the defeased bonds are not included in the City’s financial statements. The City 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 (2013A GO Bonds)** – On June 30, 2013, the City issued \$20.7 million of 2013A GO Bonds to finance costs for constructing a new Mitchell Park Library and Community Center, as well as making substantial improvements to the Rinconada Library and the Downtown Library. Principal payments are due annually on August 1 and interest payments semi-annually on February 1 and August 1 from 2 percent to 5 percent, and are payable from property tax revenues. The TIC is 3.85 percent.

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

The City’s 2010 and 2013A GO Bonds are general obligations of the City, secured and payable solely from ad valorem property taxes levied by the City and collected by the County of Santa Clara. The City is empowered and obligated to annually levy ad valorem taxes for the payment of the Bonds and the interest thereon upon all property within the City subject to taxation by the City, without limitation of rate or amount (except certain personal property which is taxable at limited rates) until the final maturity dates of the bonds on August 1, 2040 and August 1, 2041 respectively. For the fiscal year ended June 30, 2019, the City received \$4.4 million in ad valorem property taxes for principal of \$1.6 million and interest of \$2.8 million for the 2010 and 2013A GO Bonds.

**2018 Capital Improvement (“Golf Course”) Project and Refinancing Certificates of Participation (2018 COPs)** – On June 1, 2018, the City issued taxable COPs of \$9.0 million for the renovation of the Palo Alto Municipal Golf Course (\$8.4 million) and to fully refinance the 2002B COPs (\$0.6 million). There are two semi-annual debt service payments, consisting of principal payments due annually on November 1 and interest payments due on May 1 and November 1, which are payable solely from and secured by the lease payments to be made by the City’s General Fund to the Public Improvement Corporation pursuant to the Lease Agreement. The leased property is the Palo Alto University Fire Station 1. The 2018 COPs has a final maturity date of November 1, 2047.



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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

**2019 California Avenue Parking Garage Series A and B Certificates of Participation (2019A and 2019B COPs)** – On March 21, 2019, the City issued tax exempt 2019A COPs of \$26.8 million and taxable 2019B COPs of \$10.6 million for the construction of the California Avenue Parking Garage. There are two semi-annual debt service payments, consisting of principal payments due annually on November 1 and interest payments due on May 1 and November 1. The debt service is payable solely from and secured by the lease payments to be made by the City’s General Fund to the Public Improvement Corporation pursuant to the Lease Agreement. The leased property is the Rinconada Library and after construction and the substantial readiness of the California Avenue Parking Garage project, the garage will become the leased property. The maturity dates and TIC for 2019A COPs are November 2044 and 3.51 percent, respectively, and 2019B COPs are November 2048 and 4.32 percent, respectively, with a combined rate of 3.75 percent. The reserve account requirement was waived due to the City being a highly rated bond issuer.

**Direct Borrowing - 2011 Lease-Purchase Agreement** – On August 2, 2011, the City entered into a master lease-purchase direct private placement 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. As of June 30, 2019, all principal and interest payments for the lease-purchase agreement have been made by the City and the outstanding balance is \$0.

**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.

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).

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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

The pledge of future Net Revenues for the above bonds ends upon repayment of the \$0.6 million principal and \$0.1 million interest as the remaining debt service on the bonds, which is scheduled to occur in FY 2020. For FY 2019, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$316.1 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$227.8 million. Net Revenues available for debt service amounted to \$88.3 million, which represented coverage of 129.3 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 Reserve Account with a Reserve Requirement. At the time it issued the Bonds, the City satisfied the Reserve Requirement with a deposit into the Reserve Account of a Surety Bond in the amount of \$1,647,300 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 \$7.5 million principal and \$1.3 million interest as the remaining debt service on the bonds, which is scheduled to occur in FY 2024. For FY 2019, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$56.5 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$41.9 million. Net Revenues available for debt service amounted to \$14.6 million, which represents coverage of 12.1 times over the \$1.2 million in debt service.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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

**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 \$488 thousand, which represents 32.8 percent of the interest payments due on December 1 and June 1.

The pledge of future Net Revenues for the above bonds ends upon repayment of the \$26.6 million principal and \$14.4 million interest as the remaining debt service on the bonds, which is scheduled to occur in FY 2035. For FY 2019, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$47.7 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$36.0 million. Net Revenues available for debt service amounted to \$11.7 million, which represented coverage of 4.6 times over the \$2.6 million in debt service.

**2011 Utility Revenue Refunding Bonds** – On September 8, 2011, the City issued \$17.2 million in Lease Revenue Bonds (2011 Bonds) to refund the outstanding 2002 Series A Utility Revenue Bonds (2002 Bonds) on a current basis. The 2002 Bonds were issued to finance improvement to the City’s municipal water utility system and the natural gas utility system. Principal of the 2011 Bonds is payable annually on June 1, and interest on the 2011 Bonds is payable semi-annually on June 1 and December 1. The 2011 Bonds are secured by net revenues generated by the Water Services and Gas Services Funds. The TIC is 2.28 percent.

The pledge of future Net Revenues of the above bonds ends upon repayment of the \$9.0 million principal and \$1.1 million interest as remaining debt service on the bonds, which is scheduled to occur in FY 2026. For FY 2019, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$91.2 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$63.4 million. Net Revenues available for debt service amounted to \$27.8 million, which represented coverage of 19.2 times over the \$1.5 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.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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

The pledge of future Electric Fund Net Revenues ends upon repayment of the \$0.3 million remaining debt service on the bonds, which is scheduled to occur in FY 2022. For FY 2019, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$168.5 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$122.6 million. Net Revenues available for debt service amounted to \$45.9 million, which represented coverage of 458.7 times over the \$0.1 million in debt service.

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

Concurrently with the loan, the City entered into various other agreements including a cost sharing arrangement with the City of Mountain View. Pursuant to that agreement, City of Mountain View agreed to finance a portion of the project with a \$6.0 million loan repayable to the City. This loan has been recorded as “Due from other government agencies” in the accompanying financial statements. The balance due to the City at June 30, 2019 was \$3.0 million.

**Direct Borrowing - 2009 State Water Resources Loan** – In October 2009, the City approved an \$8.5 million direct loan agreement with SWRCB to finance the City’s Ultraviolet Disinfection project. Principal and interest payments are payable annually on November 30. The loan interest rate is 2.60 percent which represents a combination of loan service charge and interest.

**Direct Borrowing - 2017 State Water Resources Loan** - In June 2017, the SWRCB and the City executed a direct loan agreement for an award up to \$30 million, payable over 30 years to finance the replacement of sewage sludge “bio-solids” incinerators at the City’s Regional Water Quality Control Plant (RWQCP). In September 2017, due to the projected lower project costs, the agreement was amended to a lower loan amount of \$29.7 million. Under the terms of the contract, a portion of the loan amount, \$4.0 million, is federally funded and has been adjusted to reflect the correct long term obligation balance. The loan interest rate is 1.80 percent.

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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

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

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

| For the Year Ending<br>June 30 | Governmental Activities |           |            | Business-Type Activities |           |           |                   |          |           |
|--------------------------------|-------------------------|-----------|------------|--------------------------|-----------|-----------|-------------------|----------|-----------|
|                                | Principal               | Interest  | Total      | Bonds                    |           |           | Direct Borrowings |          |           |
|                                |                         |           |            | Principal                | Interest  | Total     | Principal         | Interest | Total     |
| 2020                           | \$ 2,280                | \$ 5,026  | \$ 7,306   | \$ 3,855                 | \$ 2,153  | \$ 6,008  | \$ 1,436          | \$ 498   | \$ 1,934  |
| 2021                           | 2,595                   | 4,740     | 7,335      | 4,030                    | 1,982     | 6,012     | 1,532             | 541      | 2,073     |
| 2022                           | 2,695                   | 4,640     | 7,335      | 4,215                    | 1,797     | 6,012     | 1,563             | 562      | 2,125     |
| 2023                           | 2,795                   | 4,535     | 7,330      | 4,300                    | 1,616     | 5,916     | 1,582             | 542      | 2,124     |
| 2024                           | 2,910                   | 4,413     | 7,323      | 4,485                    | 1,427     | 5,912     | 1,606             | 518      | 2,124     |
| 2025-2029                      | 16,720                  | 19,874    | 36,594     | 10,595                   | 5,137     | 15,732    | 8,408             | 2,215    | 10,623    |
| 2030-2034                      | 21,050                  | 15,426    | 36,476     | 10,215                   | 2,607     | 12,822    | 5,129             | 1,577    | 6,706     |
| 2035-2039                      | 26,285                  | 10,053    | 36,338     | 2,420                    | 144       | 2,564     | 4,438             | 1,157    | 5,595     |
| 2040-2044                      | 17,060                  | 4,337     | 21,397     | -                        | -         | -         | 3,894             | 743      | 4,637     |
| 2045-2049                      | 12,415                  | 1,354     | 13,769     | -                        | -         | -         | -                 | -        | -         |
| Total                          | \$ 106,805              | \$ 74,398 | \$ 181,203 | \$ 44,115                | \$ 16,863 | \$ 60,978 | \$ 29,588         | \$ 8,353 | \$ 37,941 |

**Debt Call Provisions**

Long-term debt as of June 30, 2019 is callable on the following terms and conditions:

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

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

**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, 2019**

**NOTE 7 – LONG-TERM DEBT (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.

**Events of Default and Acceleration Clauses**

Generally, the City is considered to be in default if the City fails to pay the principal of and interest on the outstanding long-term debt when become due and payable. If an event of default has occurred and is continuing, the principal of the long-term debt, together with the accrued interest, may be declared due and payable immediately.

**NOTE 8 – SPECIAL ASSESSMENT DEBT**

**Special Assessment Debt with no City Commitment**

On February 29, 2012, the 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, 2019, the District's outstanding debt amounted to \$20.9 million. The proceeds from the 2012 Bonds, combined with available Assessment Funds, were used to redeem the outstanding University Avenue Area Off-Street Parking Assessment District Series 2001-A and Series 2002-A Bonds. On June 28, 2016, the District defeased \$1.6 million of the 2012 Bonds using funds remaining from completion of the project. The defeased debt will be paid on September 2, 2022. The TIC is 3.97 percent.

**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, 2019 are \$7.0 million, an increase of \$0.2 million from the previous year. The City is required by state and federal laws and regulations to fund post-closure maintenance activities by pledging future revenue received from Refuse customers through rate fees.

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

**Net Position**

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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

*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.

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.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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

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, 2019 total outstanding encumbrances and reappropriations related to governmental activities were \$6.5 million for the General Fund, \$79.4 million for the Capital Projects Fund, and \$13.6 million for the Special Revenue Funds. General Fund encumbrances and reappropriations are reserved for the following governmental activities: Planning & Community Environment \$1.7 million, City Manager \$0.6 million, Development Services \$0.4 million, Public Works \$0.8 million, Community Services \$1.2 million, Police \$0.3 million, Non-Departmental \$0.4 million and the remaining City departments \$1.1 million.

**Enterprise Funds**

At June 30, 2019, Enterprise Fund unrestricted net position (in thousands) were as follows:

|                             | Water            | Electric         | Fiber Optics     | Gas             | Wastewater<br>Collection | Wastewater<br>Treatment | Refuse           | Storm<br>Drainage | Airport           | Total             |
|-----------------------------|------------------|------------------|------------------|-----------------|--------------------------|-------------------------|------------------|-------------------|-------------------|-------------------|
| Unrestricted                |                  |                  |                  |                 |                          |                         |                  |                   |                   |                   |
| Rate stabilization          |                  |                  |                  |                 |                          |                         |                  |                   |                   |                   |
| Supply                      | \$ -             | \$ -             | \$ -             | \$ (3,829)      | \$ -                     | \$ -                    | \$ -             | \$ -              | \$ -              | \$ (3,829)        |
| Distribution                | 4,069            | -                | 30,358           | 6,363           | 342                      | 856                     | 20,737           | 2,061             | (9,914)           | 54,872            |
|                             | <u>4,069</u>     | <u>-</u>         | <u>30,358</u>    | <u>2,534</u>    | <u>342</u>               | <u>856</u>              | <u>20,737</u>    | <u>2,061</u>      | <u>(9,914)</u>    | <u>51,043</u>     |
| Operations                  |                  |                  |                  |                 |                          |                         |                  |                   |                   |                   |
| Supply                      | -                | 28,709           | -                | -               | -                        | -                       | -                | -                 | -                 | 28,709            |
| Distribution                | 20,652           | 16,536           | -                | 9,966           | 5,391                    | -                       | -                | -                 | -                 | 52,545            |
|                             | <u>20,652</u>    | <u>45,245</u>    | <u>-</u>         | <u>9,966</u>    | <u>5,391</u>             | <u>-</u>                | <u>-</u>         | <u>-</u>          | <u>-</u>          | <u>81,254</u>     |
| Emergency plant replacement | -                | -                | 1,000            | -               | -                        | 1,980                   | -                | -                 | -                 | 2,980             |
| Electric special projects   | -                | 41,665           | -                | -               | -                        | -                       | -                | -                 | -                 | 41,665            |
| Reappropriations            | 13,977           | 7,375            | 475              | 1,217           | 2,636                    | 1,973                   | -                | 4,054             | -                 | 31,707            |
| Commitments                 | 1,510            | 7,192            | 375              | 10,033          | 3,096                    | 7,922                   | 1,409            | 479               | 7,767             | 39,783            |
| Underground loan            | -                | 727              | -                | -               | -                        | -                       | -                | -                 | -                 | 727               |
| Notes and loans             | -                | -                | -                | -               | -                        | 559                     | -                | -                 | -                 | 559               |
| Landfill corrective action  | -                | -                | -                | -               | -                        | -                       | 758              | -                 | -                 | 758               |
| Hydro stabilization reserve | -                | 11,400           | -                | -               | -                        | -                       | -                | -                 | -                 | 11,400            |
| Public benefit program      | -                | 810              | -                | -               | -                        | -                       | -                | -                 | -                 | 810               |
| CIP reserve                 | 2,726            | 880              | -                | 3,820           | 978                      | -                       | -                | -                 | -                 | 8,404             |
| Geng Road reserve           | -                | -                | -                | -               | -                        | -                       | 268              | -                 | -                 | 268               |
| GASB 68 Pension reserve     | (13,076)         | (31,323)         | (2,002)          | (13,824)        | (7,827)                  | (19,716)                | (5,374)          | (3,501)           | (684)             | (97,327)          |
| GASB 75 OPEB reserve        | (4,346)          | (14,156)         | -                | (6,230)         | (2,382)                  | (7,333)                 | (2,651)          | (1,157)           | (431)             | (38,686)          |
| <b>Total</b>                | <u>\$ 25,512</u> | <u>\$ 69,815</u> | <u>\$ 30,206</u> | <u>\$ 7,516</u> | <u>\$ 2,234</u>          | <u>\$ (13,759)</u>      | <u>\$ 15,147</u> | <u>\$ 1,936</u>   | <u>\$ (3,262)</u> | <u>\$ 135,345</u> |



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

**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, 2019, Internal Service Funds unrestricted net position (in thousands) were as follows:

|                                   | Vehicle<br>Replacement<br>and<br>Maintenance | Technology       | Printing and<br>Mailing Services | General<br>Benefits | Workers'<br>Compensation<br>Insurance<br>Program | General<br>Liabilities<br>Insurance<br>Program | Retiree Health<br>Benefits | Total            |
|-----------------------------------|--|------------------|----------------------------------|---------------------|--|--|----------------------------|------------------|
| Unrestricted net position:        |  |                  |                                  |                     |  |  |                            |                  |
| Commitments                       | \$ 1,706                                     | \$ 2,871         | \$ 108                           | \$ 546              | \$ 10  | \$ 34  | \$ -                       | \$ 5,275         |
| Future catastrophic losses        | -  | -                | -                                | -                   | 489  | 285  | -                          | 774              |
| Retiree health care               | -  | -                | -                                | -                   | -  | -  | 1,150                      | 1,150            |
| Capital projects                  | 2,594  | 3,101            | -                                | -                   | -  | -  | -                          | 5,695            |
| GASB68 pension reserve            | (3,213)                                      | (10,578)         | (286)                            | -                   | (28)   | -  | -                          | (14,105)         |
| PARS supplemental pension reserve | -  | -                | -                                | 14,030              | -  | -  | -                          | 14,030           |
| GASB75 OPEB reserve               | (1,655)                                      | (3,377)          | (148)                            | -                   | -  | -  | -                          | (5,180)          |
| Available                         | 6,233  | 19,725           | (116)                            | 2,543               | -  | -  | -                          | 28,385           |
| <b>Total</b>                      | <b>\$ 5,665</b>                              | <b>\$ 11,742</b> | <b>\$ (442)</b>                  | <b>\$ 17,119</b>    | <b>\$ 471</b>                                    | <b>\$ 319</b>                                  | <b>\$ 1,150</b>            | <b>\$ 36,024</b> |

- **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.
- **PARS supplemental pension reserve** represents Section 115 irrevocable trust with the PARS to prefund pension obligations.
- **GASB75 OPEB reserve** is the portion of net position required to be set aside to meet OPEB obligations.

**Funds with deficits:**

At June 30, 2019, the City's Downtown Business Development District non-major special revenue fund had a deficit fund balance of \$32,000. The fund balance will be cured through collection of future special assessments.

At June 30, 2019, the City's Printing and Mailing Services internal service revenue fund had a deficit net position of \$402,000. The deficit is due to the impact of Pension and OPEB items. The deficit is expected to be funded by future internal service charges to other City funds.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

**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.

**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, 2019, are summarized in the following table. Contribution rates are based on the Actuarial Valuation Report as of June 30, 2016.

|   | Safety Plan  |  |                                       |  |
|---|--|--|---------------------------------------|--|
|   | Fire Fighters,<br>Fire Chief<br>Association,<br>Police Officers, | Fire Fighters,<br>Fire Chief Association | Police Officers,<br>Police Management | Fire Fighters,<br>Fire Chief<br>Association,<br>Police Officers, |
|   | Prior to June 8, 2012  | On or after June 8,<br>2012              | On or after Dec. 8,<br>2012           | On or after Jan 1,<br>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 compensatio  | 3%   | 3%                                       | 3%                                    | 2.7%   |
| Actuarially determined contribution rate - EE | 9%   | 9%                                       | 9%                                    | 11.25%   |
| Actuarially determined contribution rate - ER | 55.633%  | 55.633%                                  | 55.633%                               | 55.633%  |

|   | Miscellaneous Plan      |                              |                            |
|---|-------------------------|------------------------------|----------------------------|
|   | Prior to July 17, 2010  | On or after July 17,<br>2010 | On or after Jan 1,<br>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 compensatio  | 2.70%                   | 2.0% - 2.418%                | 2%                         |
| Actuarially determined contribution rate - EE | 8%                      | 7%                           | 6.25%                      |
| Actuarially determined contribution rate - ER | 32.556%                 | 32.556%                      | 32.556%                    |

<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, 2019**

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

**Employees Covered** – Based on the Actuarial Valuation Report as of June 30, 2018, the most recent information available, the following employees were covered by the benefits terms for each Plan:

|  | Miscellaneous<br>Plan | Safety Plan |
|--|-----------------------|-------------|
| Inactive employees or beneficiaries currently receiving benefits | 1,129                 | 430         |
| Inactive employees entitled to but not yet receiving benefits    | 796                   | 109         |
| Active employees   | 808                   | 167         |
| Total  | 2,733                 | 706         |

**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. The City proactively contributes to the Section 115 irrevocable trust amounts reflective of what retirement costs would be if the normal cost of contributions was budgeted at a 6.2% discount rate. As of June 30, 2019, the City reported the account balance of \$14.0 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, 2018 (measurement date), using the Actuarial Valuation Report as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. At June 30, 2019, the City reported a net pension liability of \$423.9 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, 2019**

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

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

|                                   | Miscellaneous<br>Plan  | Safety Plan      |
|-----------------------------------|--|------------------|
| Valuation Date                    | June 30, 2017  | June 30, 2017    |
| Measurement Date                  | June 30, 2018  | June 30, 2018    |
| Actuarial Cost Method             | Entry Age Normal   | Entry Age Normal |
| Actuarial Assumptions:            |  |                  |
| Discount Rate                     | 7.15%  | 7.15%            |
| Inflation                         | 2.50%  | 2.50%            |
| Salary Increases                  | Varies by Entry Age and Service  |                  |
| Mortality <sup>1</sup>            | Derived using CalPERS membership data  |                  |
| Poste Retirement Benefit Increase | Contract COLA up to 2.0% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.50% thereafter |                  |

<sup>1</sup> The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the CalPERS 2017 experience study report available on the CalPERS website.

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

**Change in Assumptions** – Demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. The inflation rate reduced from 2.75 percent to 2.50 percent for the June 30, 2017 actuarial valuations.

**Discount Rate** – The discount rate used to measure the total pension liability was 7.15 percent for each Plan. The projection of cash flows used to determine the discount rate assumed that the contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

**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. 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 equal to the single equivalent rate calculated and adjusted to account for assumed administrative expenses.

The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The long-term expected real rate of return by asset class and the target allocation adopted by the CalPERS Board effective on July 1, 2017, are as follows:

| Asset Class         | Current<br>Target<br>Allocation | Real Return<br>Years 1 - 10 <sup>1</sup> | Real Return<br>Years 11+ <sup>2</sup> |
|---------------------|---------------------------------|--|---------------------------------------|
| Global Equity       | 50.0%                           | 4.80%                                    | 5.98%                                 |
| Global Fixed Income | 28.0                            | 1.00                                     | 2.62                                  |
| Inflation Assets    | -                               | 0.77                                     | 1.81                                  |
| Private Equity      | 8.0                             | 6.30                                     | 7.23                                  |
| Real Asset          | 13.0                            | 3.75                                     | 4.93                                  |
| Liquidity           | 1.0                             | -  | -0.92                                 |

<sup>1</sup> An expected inflation of 2.00% used for this period.

<sup>2</sup> An expected inflation of 2.92% used for this period.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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

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

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

|   | Total Pension<br>Liability | Plan Net<br>Position | Net Pension<br>Liability |
|---|----------------------------|----------------------|--------------------------|
| <b>Miscellaneous Plan:</b>                                    |                            |                      |                          |
| Balances calculated at July 1, 2018                           | \$ 780,729                 | \$ 512,924           | \$ 267,805               |
| Changes for the year:   |                            |                      |                          |
| Service cost  | 14,724                     | -                    | 14,724                   |
| Interest on total pension liability                           | 54,903                     | -                    | 54,903                   |
| Changes in benefit terms                                      | -                          | -                    | -                        |
| Differences between expected and actual experiences           | 4,271                      | -                    | 4,271                    |
| Changes in assumptions  | (5,673)                    | -                    | (5,673)                  |
| Contributions from employer                                   | -                          | 23,342               | (23,342)                 |
| Contributions from employees                                  | -                          | 6,654                | (6,654)                  |
| Net investment income   | -                          | 43,690               | (43,690)                 |
| Benefit payments, including refunds of employee contributions | (37,624)                   | (37,624)             | -                        |
| Administrative expense  | -                          | (799)                | 799                      |
| Other non-investment expenses                                 | -                          | (1,518)              | 1,518                    |
| Net changes   | <u>30,601</u>              | <u>33,745</u>        | <u>(3,144)</u>           |
| Balances reported at June 30, 2019                            | <u>811,330</u>             | <u>546,669</u>       | <u>264,661</u>           |
| <b>Safety Plan:</b>   |                            |                      |                          |
| Balances calculated at July 1, 2018                           | \$415,775                  | \$268,468            | \$147,307                |
| Changes for the year:   |                            |                      |                          |
| Service cost  | 7,168                      | -                    | 7,168                    |
| Interest on total pension liability                           | 29,871                     | -                    | 29,871                   |
| Change of assumption  | (1,374)                    | -                    | (1,374)                  |
| Differences between expected and actual experiences           | 11,604                     | -                    | 11,604                   |
| Contributions from employer                                   | -                          | 11,030               | (11,030)                 |
| Contributions from employees                                  | -                          | 2,799                | (2,799)                  |
| Net investment income   | -                          | 22,724               | (22,724)                 |
| Benefit payments, including refunds of employee contributions | (23,636)                   | (23,636)             | -                        |
| Administrative expense  | -                          | (418)                | 418                      |
| Other non-investment expenses                                 | -                          | (794)                | 794                      |
| Net changes   | <u>23,633</u>              | <u>11,705</u>        | <u>11,928</u>            |
| Balances reported at June 30, 2019                            | <u>439,408</u>             | <u>280,173</u>       | <u>159,235</u>           |
| Total for Miscellaneous & Safety Plans                        | <u>\$ 1,250,738</u>        | <u>\$ 826,842</u>    | <u>\$ 423,896</u>        |

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** - The following table presents the net pension liability of the Plans as of the measurement date, calculated using the discount rate of 7.15 percent, compared to a discount rate that is 1 percentage point lower (6.15 percent) or 1 percentage point higher (8.15 percent). Amounts shown below are in thousands:

|                                      | Discount Rate - 1%<br>(6.15%) | Current Discount Rate<br>(7.15%) | Discount Rate + 1%<br>(8.15%) |
|--------------------------------------|-------------------------------|----------------------------------|-------------------------------|
| <b>Miscellaneous Plan:</b>           |                               |                                  |                               |
| Plan's Net Pension Liability/(Asset) | \$ 368,520                    | \$ 264,661                       | \$ 178,315                    |
| <b>Safety Plan:</b>                  |                               |                                  |                               |
| Plan's Net Pension Liability/(Asset) | \$ 215,925                    | \$ 159,235                       | \$ 112,413                    |

**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, 2019, the City recognized a pension expense of \$39.2 million and \$24.9 million for the Miscellaneous and Safety Plan respectively, for a total of \$57.6 million. At June 30, 2019, the City reported pension related deferred outflows of resources and deferred inflows of resources for the Miscellaneous and Safety Plans from the following sources (in thousands):

|  | Deferred<br>Outflows<br>of Resources | Deferred<br>Inflows<br>of Resources |
|--|--------------------------------------|-------------------------------------|
| <b>Miscellaneous Plan:</b>   |                                      |                                     |
| Pension contributions subsequent to measurement date                     | \$ 25,359                            | \$ -                                |
| Change of assumptions  | 13,109                               | 3,782                               |
| Difference between expected and actual experience                        | 2,847                                | 1,979                               |
| Net difference between projected and actual earnings on plan investments | 332                                  | -                                   |
| Balance reported at June 30, 2019  | 41,647                               | 5,761                               |
| <b>Safety Plan:</b>  |                                      |                                     |
| Pension contributions subsequent to measurement date                     | 12,367                               | -                                   |
| Change of assumptions  | 7,003                                | 883                                 |
| Difference between expected and actual experience                        | 7,460                                | 915                                 |
| Net difference between projected and actual earnings on plan investments | 518                                  | -                                   |
| Balance reported at June 30, 2019  | 27,348                               | \$ 1,798                            |
| Total, Miscellaneous & Safety Plans                                      | \$ 68,995                            | \$ 7,559                            |

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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

The \$37.7 million reported as deferred outflows of resources relates to contributions paid by the City from July 1, 2018 through June 30, 2019 which is subsequent to the City’s measurement date of June 30, 2018 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, 2020.

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<br>Plan | Safety<br>Plan | Total     |
|---------------------|-----------------------|----------------|-----------|
| 2020                | \$ 16,875             | \$ 13,253      | \$ 30,128 |
| 2021                | 692                   | 3,637          | 4,329     |
| 2022                | (5,539)               | (2,915)        | (8,454)   |
| 2023                | (1,501)               | (792)          | (2,293)   |
|                     | \$ 10,527             | \$ 13,183      | \$ 23,710 |



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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

**(a) General Information about the OPEB Plan**

In addition to providing pension benefits, the City participates in the California Public Employees’ Medical and Health Care Act program to provide certain health care benefits for retired employees. The City’s Other Post-Employment Benefit plan is an agent multiple-employer defined benefit plan. Employees who retire directly from the City are eligible for retiree health benefits if they retire on or after age 50 with 5 years of service and are receiving a monthly pension from CalPERS. Details of benefits to retirees are noted in the following tables:

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

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

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

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

<sup>4</sup> Effective 1/1/2017 City pays \$773 for employee, \$1,544 for employee +1, \$2,008 for family. Effective 1/1/2018 City pays \$804 for employee, \$1,606 for employee +1, \$2,088 for family.

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

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

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

<sup>2</sup> The City will contribute an additional 90 percent of the weighted average of the additional premiums required for enrollment of those family members, during the benefit year to which the formula is applied.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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

**Employees Covered** – Employees covered by the benefit terms as of June 30, 2017, the most recent information available, are as follows:

|  |                     |
|--|---------------------|
| Inactive employees or beneficiaries currently receiving benefits | 921                 |
| Inactive employees entitled to but not yet receiving benefits    | 113                 |
| Active employees   | <u>967</u>          |
| Total  | <u><u>2,001</u></u> |

**Contributions** – The City’s OPEB funding policy is to prefund these benefits by accumulating assets in the Trust Fund discussed above pursuant to City Council Resolution. For the year ended June 30, 2019, the City’s contributions totaled \$16.0 million.

**(b) Net OPEB Liability**

The City’s net OPEB liability is measured as the total OPEB liability, less the OPEB plan’s fiduciary net position. The net OPEB liability is measured as of June 30, 2018, using an annual actuarial valuation as of June 30, 2017. A summary of principal assumptions and methods used to determine the net OPEB liability is shown below.

|  |   |
|--|---|
| Valuation Date                                     | June 30, 2017   |
| Measurement Date                                   | June 30, 2018   |
| Actuarial Cost Method                              | Entry-Age, level percentage of payroll  |
| Actuarial Assumptions:                             |   |
| Discount Rate                                      | 6.75%   |
| Inflation  | 2.75%   |
| Payroll Growth                                     | 3.00%   |
| Projected Salary Increase                          | CalPERS 1997-2015 Experience Study  |
| Investment Rate of Return                          | 6.75% Net of OPEB Plan Investment Expenses, includes Inflation.<br>For medical plan premiums: 6.50% for 2019, decreasing to 4.00% for 2076 and later; For pre-Medicare premiums: 7.50% for 2019, decreasing to 4.00% for 2076 and later |
| Post Retirement Benefit Increase                   | CalPERS 1997-2015 Experience Study  |
| Disability, Termination, Retirement                | CalPERS 1997-2015 Experience Study  |
| Mortality  | CalPERS 1997-2011 Experience Study, and Society of Actuaries mortality improvement scale MP-17  |
| Increase to Group 3 Flat Dollar Caps               | 1/2 of Medical Trend, not less than assumed inflation (2.75%)   |
| Healthcare Participation for Future ACA Excise Tax | Future retirees: 90%, Based on Plan experience Estimate by 2% load on cash subsidy  |

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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

**Discount Rate** – The discount rate used to measure the total OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that the City’s contribution will be made equal to the actuarially determined contribution. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments applied to all periods of projected benefit payments to determine the total OPEB liability.

The long-term expected rate of return for OPEB plan investments was 6.75%. The asset class target allocation and geometric real rates of return for each major asset class are summarized in the following table.

| Asset Class   | Current<br>Target<br>Allocation | Expected Real<br>Rate of Return |
|---------------|---------------------------------|---------------------------------|
| Global Equity | 57.0%                           | 4.82%                           |
| Fixed Income  | 27.0                            | 1.47                            |
| TIPS          | 5.0                             | 1.29                            |
| Commodities   | 3.0                             | 0.84                            |
| REITS         | 8.0                             | 3.76                            |

(a) Assumed long-term rate of inflation of 2.75%

(b) Expected long-term net rate of return, rounded of 6.75%

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

The following table shows the changes in the net OPEB liability for the fiscal year ended June 30, 2019.

|  | Increase (Decrease)     |                                |                       |
|--|-------------------------|--------------------------------|-----------------------|
|  | Total OPEB<br>Liability | Plan Fiduciary<br>Net Position | Net OPEB<br>Liability |
| Balance at June 30, 2018               | \$ 244,759              | \$ 91,250                      | \$ 153,509            |
| Changes during the measurement period: |                         |                                |                       |
| Service cost                           | 6,429                   | -                              | 6,429                 |
| Interest on the total OPEB liability   | 16,546                  | -                              | 16,546                |
| Contributions - employer               | -                       | 21,349                         | (21,349)              |
| Investment income                      | -                       | 7,519                          | (7,519)               |
| Administrative expenses                | -                       | (204)                          | 204                   |
| Benefit payments                       | (12,104)                | (12,104)                       | -                     |
| Net changes                            | 10,871                  | 16,560                         | (5,689)               |
| Balance at June 30, 2019               | \$ 255,630              | \$ 107,810                     | \$ 147,820            |

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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

**Sensitivity of the Net OPEB Liability to Changes in the Discount Rate** – The following presents the net OPEB liability of the City as of the measurement date, calculated using the discount rate of 6.75 percent, as well as what the City’s net OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.75 percent) or 1 percentage-point higher (7.75 percent) than the current discount rate:

| Discount Rate<br>-1% (5.75%) | Current<br>Discount Rate<br>(6.75%) | Discount Rate<br>+1% (7.75%) |
|------------------------------|-------------------------------------|------------------------------|
| \$ 181,724                   | \$ 147,820                          | \$ 119,906                   |

**Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate** – The following presents the net OPEB liability of the City, as well as what the City’s net OPEB liability would be if it were calculated using healthcare cost trends rates that are 1% lower or 1% higher than the current healthcare cost trend rates.

| Healthcare Trend<br>Rate - 1% | Healthcare Trend<br>Current Rate | Healthcare Trend<br>Rate + 1% |
|-------------------------------|----------------------------------|-------------------------------|
| \$ 115,526                    | \$ 147,820                       | \$ 187,522                    |

**OPEB Plan Fiduciary Net Position** – Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued CalPERS financial report.

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

For the fiscal year ended June 30, 2019, the City recognized an OPEB expense of \$15.8 million for the OPEB plan. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (dollars in thousands):

|   | Deferred<br>Outflows<br>of Resources | Deferred<br>Inflows<br>of Resources |
|---|--------------------------------------|-------------------------------------|
| OPEB contributions subsequent to measurement date                         | \$ 15,997                            | \$ -                                |
| Net differences between projected and actual earnings on plan investments | -                                    | 2,737                               |
| Total   | \$ 15,997                            | \$ 2,737                            |

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

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

The \$16.0 million reported as deferred outflows of resources relates to contributions made by the City from July 1, 2018 through June 30, 2019, which is subsequent to the City's measurement date of June 30, 2018. This amount will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2020. The net difference between projected and actual earnings on plan investments will be recognized in future OPEB expense as follows (dollars in thousands):

| <u>Fiscal Year Ending June 30,</u> |                   |
|------------------------------------|-------------------|
| 2020                               | \$ (841)          |
| 2021                               | (841)             |
| 2022                               | (841)             |
| 2023                               | <u>(214)</u>      |
| Total                              | <u>\$ (2,737)</u> |

**NOTE 13 – DEFERRED COMPENSATION PLAN**

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

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

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

**NOTE 14 – RISK MANAGEMENT**

**Coverage**

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

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

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

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

The City is a member of the Authority for California Cities Excess Liability (ACCEL), which provides excess general liability insurance coverage, including auto liability, up to \$200 million per occurrence. The City retains the risk for the first \$1.0 million in losses for each occurrence under this policy.

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

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

During the year ended June 30, 2019, the City paid \$1.2 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, 2019**

**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 |           |
|---|--------------------|-----------|
|   | 2019               | 2018      |
| Beginning balance   | \$ 23,748          | \$ 22,470 |
| Claims expense, including claims incurred but not reported (IBNR) | 8,998              | 4,705     |
| Claims paid   | (4,381)            | (3,427)   |
| Ending balance  | \$ 28,365          | \$ 23,748 |
| Current portion   | \$ 6,171           | \$ 5,835  |

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, 2019**

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

During the year ended June 30, 2019, the City incurred expenses totaling \$76.7 million for purchased power and assessments earned by NCPA.

The City's interest in NCPA projects and reserves, as computed by NCPA, was \$10.4 million at June 30, 2019. 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, 2019 is \$133.5 million. The City's participation in this project was 6.2 percent, or \$8.3 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, 2019, the book value of this Project's plant, equipment and other assets was \$349 million, while its long-term debt totaled \$282 million and other liabilities totaled \$52.9 million. The City's share of the Project's long-term debt amounted to \$67.9 million at that date.



**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

**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, 2019, 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, 2019**

**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 December 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, 2019 amounted to \$7.6 million. Future minimum annual lease and infrastructure payments are as follows (in thousands):

|             |                |
|-------------|----------------|
| Year Ending |                |
| June 30     | <u>Payment</u> |
| 2020        | 3,845          |

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

**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 2019 payments to GreenWaste were \$9.9 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.

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 \$0.4 million as of June 30, 2019. During the year ended June 30, 2019, 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, 2019**

**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, 2019, the approximate minimum obligations for the contracts, assuming the energy is delivered over the next five years, are as follows:

| Fiscal Year | Projected Obligation |
|-------------|----------------------|
| 2020        | \$60.34 million      |
| 2021        | \$61.77 million      |
| 2022        | \$65.10 million      |
| 2023        | \$63.81 million      |
| 2024        | \$62.41 million      |

**Contractual Commitments beyond 2022 (Electricity)** – Several of the City’s purchase power and transmission contracts extend beyond the five-year summary presented above. These contracts expire between 2026 and 2051 and provide for power under various terms and conditions. The City also has a new solar power purchase agreement that is schedule to start in January 2023. The City estimates that its annual minimum commitments under all of its contracts, assuming the energy is delivered, ranges between \$62.41 million in 2024 and \$51.63 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 at a slightly lower share of the total energy output and revenue requirement (12.06 percent instead of 12.31 percent).

**Gas Transmission and Local Transportation Rates** – The City relies on Pacific Gas and Electric Company’s (PG&E) natural gas pipeline infrastructure, including both high-pressured transmission and medium-pressure local transportation, to move gas from the California border to the City’s distribution system. New rates are determined through proceedings at the California Public Utilities Commission. The rate Palo Alto pays for gas transmission increased by 4.9% from FY18 to FY19; the rate Palo Alto pays for local transportation increased by 6.8% from FY18 to FY19. A final decision on PG&E’s 2019 rate case has not been issued, but the rate Palo Alto pays for gas transmission is expected to increase by about 90% in 2020, and the rate Palo Alto pays for local transportation is expected to increase by 5% in 2020.

**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 or developing other local water supplies such as recycled water. The City’s cost of water under this contract is projected to remain flat through 2022.

**CITY OF PALO ALTO**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2019**

**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. The City Attorney is of the opinion that a loss is reasonably possible but cannot be reasonably estimated at this time.

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 the loss is not probable and any potential loss cannot be reasonably estimated at this time.

**Grant Programs**

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

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

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

| Fiscal year   | 2018-19           | 2017-18           | 2016-17           | 2015-16           | 2014-15           |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Measurement Period  | 2017-18           | 2016-17           | 2015-16           | 2014-15           | 2013-14           |
| <b>Total pension liability</b>  |                   |                   |                   |                   |                   |
| Service cost  | \$ 14,724         | \$ 14,423         | \$ 12,582         | \$ 12,183         | \$ 12,442         |
| Interest  | 54,903            | 52,831            | 51,531            | 49,345            | 46,963            |
| Changes of assumptions  | (5,673)           | 42,239            | -                 | (11,552)          | -                 |
| Difference between expected and actual experience                                     | 4,271             | (6,378)           | 757               | 3,507             | -                 |
| Benefit payments, including refunds of employee contributions                         | (37,624)          | (36,405)          | (34,825)          | (32,980)          | (31,781)          |
| <b>Net change in total pension liability</b>  | <b>30,601</b>     | <b>66,710</b>     | <b>30,045</b>     | <b>20,503</b>     | <b>27,624</b>     |
| <b>Total pension liability - beginning</b>  | <b>780,729</b>    | <b>714,019</b>    | <b>683,974</b>    | <b>663,471</b>    | <b>635,847</b>    |
| <b>Total pension liability - ending (a)</b>   | <b>\$ 811,330</b> | <b>\$ 780,729</b> | <b>\$ 714,019</b> | <b>\$ 683,974</b> | <b>\$ 663,471</b> |
| <b>Plan fiduciary net position</b>  |                   |                   |                   |                   |                   |
| Contributions - employer  | \$ 23,342         | \$ 20,638         | \$ 18,840         | \$ 18,610         | \$ 17,400         |
| Contributions - employee  | 6,654             | 6,314             | 5,812             | 5,730             | 6,345             |
| Net investment income   | 43,690            | 53,259            | 2,464             | 10,597            | 70,989            |
| Benefit payments, including refunds of employee contributions                         | (37,624)          | (36,405)          | (34,825)          | (32,980)          | (31,781)          |
| Administrative expense  | (799)             | (694)             | (291)             | (538)             | -                 |
| Other non-investment expenses   | (1,518)           | 30                | -                 | -                 | -                 |
| <b>Net change in fiduciary net position</b>   | <b>33,745</b>     | <b>43,142</b>     | <b>(8,000)</b>    | <b>1,419</b>      | <b>62,953</b>     |
| <b>Plan fiduciary net position - beginning</b>  | <b>512,924</b>    | <b>469,782</b>    | <b>477,782</b>    | <b>476,363</b>    | <b>413,410</b>    |
| <b>Plan fiduciary net position - ending (b)</b>                                       | <b>\$ 546,669</b> | <b>\$ 512,924</b> | <b>\$ 469,782</b> | <b>\$ 477,782</b> | <b>\$ 476,363</b> |
| <b>Plan net pension liability/(asset) - Ending (a) - (b)</b>                          | <b>\$ 264,661</b> | <b>\$ 267,805</b> | <b>\$ 244,237</b> | <b>\$ 206,192</b> | <b>\$ 187,108</b> |
| <b>Plan fiduciary net position as a percentage of total pension liability</b>         | <b>67.38%</b>     | <b>65.70%</b>     | <b>65.79%</b>     | <b>69.85%</b>     | <b>71.80%</b>     |
| <b>Covered payroll</b>  | <b>\$ 80,634</b>  | <b>\$ 77,606</b>  | <b>\$ 73,722</b>  | <b>\$ 69,837</b>  | <b>\$ 66,373</b>  |
| <b>Plan net pension liability/(asset) as a percentage of covered employee payroll</b> | <b>328.23%</b>    | <b>345.08%</b>    | <b>331.29%</b>    | <b>295.25%</b>    | <b>281.90%</b>    |

**Notes to Schedule:**

**Benefit changes** - The figures above do not include any liability that may have resulted from plan changes which occurred after the June 30, 2017 valuation date. This applies for voluntary benefit changes as well as any offers of two years additional service credit (Golden Handshake).

**Changes in assumptions** - In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. In 2017, the discount rate was reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2014, amounts reported were based on the 7.5 percent discount rate.

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

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

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

| Fiscal Year  | 2018-19     | 2017-18     | 2016-17     | 2015-16     | 2014-15     | 2013-14     |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Contractually required contribution (actuarially determined) | \$ 25,359   | \$ 23,342   | \$ 20,638   | \$ 18,840   | \$ 18,611   | \$ 17,400   |
| Actual contribution  | (25,359)    | (23,342)    | (20,638)    | (18,840)    | (18,611)    | (17,400)    |
| Contribution deficiency/(excess)                             | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| <br>   |             |             |             |             |             |             |
| Covered payroll  | \$ 82,333   | \$ 80,634   | \$ 77,606   | \$ 73,722   | \$ 69,837   | \$ 66,373   |
| Contributions as percentage of covered-employee payroll      | 30.80%      | 28.95%      | 26.59%      | 25.56%      | 26.65%      | 26.22%      |

**Notes to Schedule:**

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2019 contribution rates are as follows:

|                           |  |
|---------------------------|--|
| ADC for fiscal year       | June 30, 2019  |
| Actuarial valuation date  | June 30, 2016  |
| 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 | 7.375%, net of pension plan investment and administrative expenses, includes inflation.  |
| <br>                      |  |
| Retirement age            | The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period 1997 to 2011.  |
| <br>                      |  |
| 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 six years of information is shown.



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

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

| Fiscal year   | 2018-19           | 2017-18           | 2016-17           | 2015-16           | 2014-15           |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Measurement Period  | 2017-18           | 2016-17           | 2015-16           | 2014-15           | 2013-14           |
| <b>Total pension liability</b>  |                   |                   |                   |                   |                   |
| Service cost  | \$ 7,168          | \$ 6,584          | \$ 5,916          | \$ 5,959          | \$ 6,221          |
| Interest  | 29,871            | 28,272            | 27,816            | 27,047            | 26,113            |
| Changes of assumptions  | (1,374)           | 22,566            | -                 | (6,327)           | -                 |
| Difference between expected and actual experience                                     | 11,604            | (2,790)           | (1,516)           | 75                | -                 |
| Benefit payments, including refunds of employee contributions                         | (23,636)          | (22,413)          | (21,669)          | (21,148)          | (19,985)          |
| <b>Net change in total pension liability</b>  | <b>23,633</b>     | <b>32,219</b>     | <b>10,547</b>     | <b>5,606</b>      | <b>12,349</b>     |
| <b>Total pension liability - beginning</b>  | <b>415,775</b>    | <b>383,556</b>    | <b>373,009</b>    | <b>367,403</b>    | <b>355,054</b>    |
| <b>Total pension liability - ending (a)</b>   | <b>\$ 439,408</b> | <b>\$ 415,775</b> | <b>\$ 383,556</b> | <b>\$ 373,009</b> | <b>\$ 367,403</b> |
| <b>Plan fiduciary net position</b>  |                   |                   |                   |                   |                   |
| Contributions - employer  | \$ 11,030         | \$ 10,220         | \$ 9,403          | \$ 8,617          | \$ 7,616          |
| Contributions - employee  | 2,799             | 2,475             | 2,059             | 2,047             | 2,762             |
| Net investment income   | 22,724            | 28,112            | 1,259             | 5,774             | 40,033            |
| Benefit payments, including refunds of employee contributions                         | (23,636)          | (22,413)          | (21,669)          | (21,148)          | (19,985)          |
| Administrative expense  | (418)             | (370)             | (157)             | (290)             | -                 |
| Other non-investment expenses   | (794)             | (30)              | -                 | -                 | -                 |
| <b>Net change in fiduciary net position</b>   | <b>11,705</b>     | <b>17,994</b>     | <b>(9,105)</b>    | <b>(5,000)</b>    | <b>30,426</b>     |
| <b>Plan fiduciary net position - beginning</b>  | <b>268,468</b>    | <b>250,474</b>    | <b>259,579</b>    | <b>264,579</b>    | <b>234,153</b>    |
| <b>Plan fiduciary net position - ending (b)</b>                                       | <b>\$ 280,173</b> | <b>\$ 268,468</b> | <b>\$ 250,474</b> | <b>\$ 259,579</b> | <b>\$ 264,579</b> |
| <b>Plan net pension liability/(asset) - Ending (a) - (b)</b>                          | <b>\$ 159,235</b> | <b>\$ 147,307</b> | <b>\$ 133,082</b> | <b>\$ 113,430</b> | <b>\$ 102,824</b> |
| <b>Plan fiduciary net position as a percentage of total pension liability</b>         | <b>63.76%</b>     | <b>64.57%</b>     | <b>65.30%</b>     | <b>69.59%</b>     | <b>72.01%</b>     |
| <b>Covered payroll</b>  | <b>\$ 24,131</b>  | <b>\$ 21,906</b>  | <b>\$ 21,822</b>  | <b>\$ 21,912</b>  | <b>\$ 21,896</b>  |
| <b>Plan net pension liability/(asset) as a percentage of covered employee payroll</b> | <b>659.88%</b>    | <b>672.45%</b>    | <b>609.85%</b>    | <b>517.66%</b>    | <b>469.60%</b>    |

**Notes to Schedule:**

**Benefit changes** - The figures above do not include any liability that may have resulted from plan changes which occurred after the June 30, 2017 valuation date. This applies for voluntary benefit changes as well as any offers of two years additional service credit (Golden Handshake).

**Changes in assumptions** - In 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There were no changes in the discount rate. In 2017, the discount rate was reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense.) In 2014, amounts reported were based on the 7.5 percent discount rate.

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

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

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

| Fiscal Year  | 2018-19     | 2017-18     | 2016-17     | 2015-16     | 2014-15     | 2013-14     |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Contractually required contribution (actuarially determined) | \$ 12,368   | \$ 11,031   | \$ 10,220   | \$ 9,403    | \$ 8,617    | \$ 7,616    |
| Actual contribution  | (12,368)    | (11,031)    | (10,220)    | (9,403)     | (8,617)     | (7,616)     |
| Contribution deficiency/(excess)                             | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| <br>   |             |             |             |             |             |             |
| Covered payroll  | \$ 23,240   | \$ 24,131   | \$ 21,906   | \$ 21,822   | \$ 21,912   | \$ 21,896   |
| Contributions as percentage of covered-employee payroll      | 53.22%      | 45.71%      | 46.65%      | 43.09%      | 39.33%      | 34.78%      |

**Notes to Schedule:**

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2019 contribution rates are as follows:

|                           |  |
|---------------------------|--|
| ADC for fiscal year       | June 30, 2019  |
| Actuarial valuation date  | June 30, 2016  |
| 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 | 7.375%, net of pension plan investment and administrative expenses, includes inflation.  |
| <br>                      |  |
| Retirement age            | The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period 1997 to 2011.  |
| <br>                      |  |
| 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 six years of information is shown.

**CITY OF PALO ALTO**  
**Required Supplementary Information (Unaudited)**  
**Last 2 Fiscal Years\***

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

| Fiscal year  | <u>2018-19</u>           | <u>2017-18</u>           |
|--|--------------------------|--------------------------|
| Measurement Period   | 2017-18                  | 2016-17                  |
| <b>Total OPEB liability</b>  |                          |                          |
| Service cost   | \$ 6,429                 | \$ 6,242                 |
| Interest   | 16,546                   | 15,853                   |
| Benefit payments, including refunds of employee contributions                      | <u>(12,104)</u>          | <u>(11,916)</u>          |
| <b>Net change in total OPEB liability</b>  | <b>10,871</b>            | <b>10,179</b>            |
| <b>Total OPEB liability - beginning</b>  | <b>244,759</b>           | <b>234,580</b>           |
| <b>Total OPEB liability - ending (a)</b>   | <b><u>\$ 255,630</u></b> | <b><u>\$ 244,759</u></b> |
| <br>   |                          |                          |
| <b>Plan fiduciary net position</b>   |                          |                          |
| Contributions - employer   | \$ 21,349                | \$ 14,739                |
| Net investment income  | 7,519                    | 8,628                    |
| Benefit payments, including refunds of employee contributions                      | (12,104)                 | (11,916)                 |
| Administrative expense   | <u>(204)</u>             | <u>(44)</u>              |
| <b>Net change in fiduciary net position</b>  | <b>16,560</b>            | <b>11,407</b>            |
| <b>Plan fiduciary net position - beginning</b>                                     | <b>91,250</b>            | <b>79,843</b>            |
| <b>Plan fiduciary net position - ending (b)</b>                                    | <b><u>\$ 107,810</u></b> | <b><u>\$ 91,250</u></b>  |
| <br>   |                          |                          |
| <b>Plan net OPEB liability/(asset) - Ending (a) - (b)</b>                          | <b><u>\$ 147,820</u></b> | <b><u>\$ 153,509</u></b> |
| <b>Plan fiduciary net position as a percentage of total OPEB liability</b>         | <b>42.17%</b>            | <b>37.28%</b>            |
| <b>Covered payroll</b>   | <b>\$ 119,090</b>        | <b>\$ 118,774</b>        |
| <b>Plan net OPEB liability/(asset) as a percentage of covered employee payroll</b> | <b>124.12%</b>           | <b>129.24%</b>           |

**Notes to Schedule:**

**Benefit changes** - The figures above do not include any liability that may have resulted from plan changes which occurred after the measurement dates.

**Changes in assumptions** - There were no changes in assumptions

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

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

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

| Fiscal Year  | 2018-19     | 2017-18           | 2016-17         |
|--|-------------|-------------------|-----------------|
| Contractually required contribution (actuarially determined) | \$ 15,997   | \$ 16,938         | \$ 16,365       |
| Actual contribution  | (15,997)    | (21,349)          | (14,739)        |
| Contribution deficiency/(excess)                             | <u>\$ -</u> | <u>\$ (4,411)</u> | <u>\$ 1,626</u> |
| <br>   |             |                   |                 |
| Covered payroll  | \$ 118,014  | \$ 119,090        | \$ 118,774      |
| <br>   |             |                   |                 |
| Contributions as percentage of covered-employee payroll      | 13.56%      | 17.93%            | 12.41%          |

**Notes to Schedule:**

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2019 contribution rates are as follows:

|                           |  |
|---------------------------|--|
| ADC for fiscal year       | June 30, 2019  |
| Actuarial valuation date  | June 30, 2017  |
| Actuarial cost method     | Entry-Age, level percentage of payroll   |
| Amortization method       | Level percent of pay   |
| Amortization period       | 26-year fixed period for 2018/19   |
| Asset valuation method    | Market value, no smoothing   |
| Inflation                 | 2.75%  |
| Payroll growth            | 3.00%  |
| Investment rate of return | 6.75%, net of pension plan investment and administrative expenses, includes inflation.   |
| Medical trend             | Non-Medicare - 7.5% for 2020, decreasing to an ultimate rate of 4.0% in 2076<br>Medicare - 6.5% for 2020, decreasing to an ultimate rate of 4.0% in 2076 |
| Mortality                 | CalPERS 1997-2011 experience study   |
| Mortality Improvement     | Post-retirement mortality projected fully generational with Society of Actuaries Scale MP-2017   |

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

**CITY OF PALO ALTO**  
**Non-major Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2019**  
**(Amounts in thousands)**

|   | Special<br>Revenue<br>Funds | Debt<br>Service<br>Funds | Permanent<br>Fund | Total<br>Other<br>Governmental<br>Funds |
|---|-----------------------------|--------------------------|-------------------|---|
| <b>ASSETS:</b>                          |                             |                          |                   |   |
| Cash and investments:                   |                             |                          |                   |   |
| Available for operations                | \$ 79,677                   | \$ 3,620                 | \$ 2,425          | \$ 85,722                               |
| Cash and investments with fiscal agents | -                           | 34                       | -                 | 34                                      |
| Receivables, net:                       |                             |                          |                   |   |
| Accounts                                | 312                         | 16                       | -                 | 328                                     |
| Interest                                | 486                         | 24                       | 13                | 523                                     |
| Notes                                   | 34,099                      | -                        | -                 | 34,099                                  |
| Deposits                                | 50                          | -                        | -                 | 50                                      |
| Total assets                            | <u>\$ 114,624</u>           | <u>\$ 3,694</u>          | <u>\$ 2,438</u>   | <u>\$ 120,756</u>                       |
| <b>LIABILITIES AND FUND BALANCES:</b>   |                             |                          |                   |   |
| Liabilities:                            |                             |                          |                   |   |
| Accounts payable and accruals           | \$ 349                      | \$ -                     | \$ -              | \$ 349                                  |
| Accrued salaries and benefits           | 17                          | -                        | -                 | 17                                      |
| Due to other funds                      | 106                         | -                        | -                 | 106                                     |
| Total liabilities                       | <u>472</u>                  | <u>-</u>                 | <u>-</u>          | <u>472</u>                              |
| Fund balances:                          |                             |                          |                   |   |
| Nonspendable                            |                             |                          |                   |   |
| Eyerly family                           | -                           | -                        | 2,438             | 2,438                                   |
| Restricted                              |                             |                          |                   |   |
| Transportation mitigation               | 13,091                      | -                        | -                 | 13,091                                  |
| Federal revenue                         | 5,300                       | -                        | -                 | 5,300                                   |
| Street improvement                      | 250                         | -                        | -                 | 250                                     |
| Local law enforcement                   | 494                         | -                        | -                 | 494                                     |
| Debt service                            | -                           | 3,694                    | -                 | 3,694                                   |
| Public benefit                          | 20,372                      | -                        | -                 | 20,372                                  |
| Committed                               |                             |                          |                   |   |
| Developer impact fee                    | 17,049                      | -                        | -                 | 17,049                                  |
| Housing In-Lieu                         | 51,558                      | -                        | -                 | 51,558                                  |
| Special districts                       | 5,667                       | -                        | -                 | 5,667                                   |
| Assigned                                |                             |                          |                   |   |
| Unrealized gain on investment           | 403                         | -                        | -                 | 403                                     |
| Unassigned                              |                             |                          |                   |   |
| Downtown business                       | (32)                        | -                        | -                 | (32)                                    |
| Total fund balances                     | <u>114,152</u>              | <u>3,694</u>             | <u>2,438</u>      | <u>120,284</u>                          |
| Total liabilities and fund balances     | <u>\$ 114,624</u>           | <u>\$ 3,694</u>          | <u>\$ 2,438</u>   | <u>\$ 120,756</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, 2019**  
**(Amounts in thousands)**

|  | Special<br>Revenue<br>Funds | Debt<br>Service<br>Funds | Permanent<br>Fund | Total<br>Other<br>Governmental<br>Funds |
|--|-----------------------------|--------------------------|-------------------|---|
| <b>REVENUES:</b>   |                             |                          |                   |   |
| Property tax   | \$ -                        | \$ 4,391                 | \$ -              | \$ 4,391                                |
| Special assessments  | 58                          | -                        | -                 | 58                                      |
| Other taxes and fines  | 2,663                       | -                        | -                 | 2,663                                   |
| Contributions  | -                           | -                        | -                 | -                                       |
| Charges for services   | -                           | -                        | -                 | -                                       |
| Intergovernmental:   |                             |                          |                   |   |
| Community Development Block Grants                                   | 687                         | -                        | -                 | 687                                     |
| State of California  | 236                         | -                        | -                 | 236                                     |
| Licenses, permits and fees   |                             |                          |                   |   |
| University Avenue Parking  | 3,037                       | -                        | -                 | 3,037                                   |
| California Avenue Parking  | 546                         | -                        | -                 | 546                                     |
| Other licenses, permits and fees                                     | 5,766                       | -                        | -                 | 5,766                                   |
| Investment earnings  | 3,593                       | 141                      | 93                | 3,827                                   |
| Rental income  | 6                           | -                        | -                 | 6                                       |
| Housing In-Lieu - residential  | 5,613                       | -                        | -                 | 5,613                                   |
| Other revenue  | 4,765                       | -                        | 847               | 5,612                                   |
| <b>Total revenues</b>  | <b>26,970</b>               | <b>4,532</b>             | <b>940</b>        | <b>32,442</b>                           |
| <b>EXPENDITURES:</b>   |                             |                          |                   |   |
| Current:   |                             |                          |                   |   |
| Administrative Services  | 253                         | -                        | -                 | 253                                     |
| Public Works   | 1,007                       | -                        | -                 | 1,007                                   |
| Planning and Community Environment                                   | 2,779                       | -                        | -                 | 2,779                                   |
| Police   | 1                           | -                        | -                 | 1                                       |
| Community Services   | 2,716                       | -                        | -                 | 2,716                                   |
| Non-Departmental   | 462                         | -                        | -                 | 462                                     |
| Debt service:  |                             |                          |                   |   |
| Principal retirement   | -                           | 1,675                    | -                 | 1,675                                   |
| Interest and fiscal charges  | -                           | 3,393                    | -                 | 3,393                                   |
| <b>Total expenditures</b>  | <b>7,218</b>                | <b>5,068</b>             | <b>-</b>          | <b>12,286</b>                           |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER (UNDER) EXPENDITURES</b> | <b>19,752</b>               | <b>(536)</b>             | <b>940</b>        | <b>20,156</b>                           |
| <b>OTHER FINANCING SOURCES (USES):</b>                               |                             |                          |                   |   |
| Issuance of debt   | -                           | 302                      | -                 | 302                                     |
| Transfers in   | 524                         | 372                      | -                 | 896                                     |
| Transfers out  | (5,970)                     | (15)                     | -                 | (5,985)                                 |
| <b>Total other financing sources (uses)</b>                          | <b>(5,446)</b>              | <b>659</b>               | <b>-</b>          | <b>(4,787)</b>                          |
| <b>Change in fund balances</b>                                       | <b>14,306</b>               | <b>123</b>               | <b>940</b>        | <b>15,369</b>                           |
| <b>FUND BALANCES, BEGINNING OF YEAR</b>                              | <b>99,846</b>               | <b>3,571</b>             | <b>1,498</b>      | <b>104,915</b>                          |
| <b>FUND BALANCES, END OF YEAR</b>                                    | <b>\$ 114,152</b>           | <b>\$ 3,694</b>          | <b>\$ 2,438</b>   | <b>\$ 120,284</b>                       |

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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, 2019**  
**(Amounts in thousands)**

|                                       | Street<br>Improvement | Federal<br>Revenue | Housing<br>In-Lieu | Special<br>Districts |
|---------------------------------------|-----------------------|--------------------|--------------------|----------------------|
| <b>ASSETS:</b>                        |                       |                    |                    |                      |
| Cash and investments:                 |                       |                    |                    |                      |
| Available for operations              | \$ 130                | \$ -               | \$ 22,801          | \$ 5,841             |
| Receivables:                          |                       |                    |                    |                      |
| Accounts                              | 120                   | 192                | -                  | -                    |
| Interest                              | 2                     | -                  | 129                | 37                   |
| Notes                                 | -                     | 5,351              | 28,748             | -                    |
| Deposit                               | -                     | -                  | -                  | -                    |
| Total assets                          | <u>\$ 252</u>         | <u>\$ 5,543</u>    | <u>\$ 51,678</u>   | <u>\$ 5,878</u>      |
| <b>LIABILITIES AND FUND BALANCES:</b> |                       |                    |                    |                      |
| Liabilities:                          |                       |                    |                    |                      |
| Accounts payable and accruals         | \$ -                  | \$ 149             | \$ 12              | \$ 167               |
| Accrued salaries and benefits         | -                     | 1                  | 1                  | 13                   |
| Due to other funds                    | -                     | 93                 | -                  | -                    |
| Total liabilities                     | <u>-</u>              | <u>243</u>         | <u>13</u>          | <u>180</u>           |
| Fund balances:                        |                       |                    |                    |                      |
| Restricted                            |                       |                    |                    |                      |
| Transportation mitigation             | -                     | -                  | -                  | -                    |
| Federal revenue                       | -                     | 5,300              | -                  | -                    |
| Street improvement                    | 250                   | -                  | -                  | -                    |
| Local law enforcement                 | -                     | -                  | -                  | -                    |
| Public benefit                        | -                     | -                  | -                  | -                    |
| Committed                             |                       |                    |                    |                      |
| Developer impact fee                  | -                     | -                  | -                  | -                    |
| Housing In-Lieu                       | -                     | -                  | 51,558             | -                    |
| Special districts                     | -                     | -                  | -                  | 5,667                |
| Assigned                              |                       |                    |                    |                      |
| Unrealized gain on investment         | 2                     | -                  | 107                | 31                   |
| Unassigned                            |                       |                    |                    |                      |
| Downtown business                     | -                     | -                  | -                  | -                    |
| Total fund balances                   | <u>252</u>            | <u>5,300</u>       | <u>51,665</u>      | <u>5,698</u>         |
| Total liabilities and fund balances   | <u>\$ 252</u>         | <u>\$ 5,543</u>    | <u>\$ 51,678</u>   | <u>\$ 5,878</u>      |

| Transportation Mitigation | Local Law Enforcement | Asset Seizure | Developer Impact Fee | Downtown Business Development District | Public Benefit   | Total Special Revenue Funds |
|---------------------------|-----------------------|---------------|----------------------|--|------------------|-----------------------------|
| \$ 13,077                 | \$ 490                | \$ 3          | \$ 16,984            | \$ 2                                   | \$ 20,349        | \$ 79,677                   |
| -                         | -                     | -             | -                    | -                                      | -                | 312                         |
| 79                        | 3                     | -             | 102                  | -                                      | 134              | 486                         |
| -                         | -                     | -             | -                    | -                                      | -                | 34,099                      |
| -                         | -                     | -             | 50                   | -                                      | -                | 50                          |
| <u>\$ 13,156</u>          | <u>\$ 493</u>         | <u>\$ 3</u>   | <u>\$ 17,136</u>     | <u>\$ 2</u>                            | <u>\$ 20,483</u> | <u>\$ 114,624</u>           |
| \$ -                      | \$ -                  | \$ -          | \$ -                 | \$ 21                                  | \$ -             | \$ 349                      |
| -                         | -                     | -             | 2                    | -                                      | -                | 17                          |
| -                         | -                     | -             | -                    | 13                                     | -                | 106                         |
| -                         | -                     | -             | 2                    | 34                                     | -                | 472                         |
| 13,091                    | -                     | -             | -                    | -                                      | -                | 13,091                      |
| -                         | -                     | -             | -                    | -                                      | -                | 5,300                       |
| -                         | -                     | -             | -                    | -                                      | -                | 250                         |
| -                         | 491                   | 3             | -                    | -                                      | -                | 494                         |
| -                         | -                     | -             | -                    | -                                      | 20,372           | 20,372                      |
| -                         | -                     | -             | 17,049               | -                                      | -                | 17,049                      |
| -                         | -                     | -             | -                    | -                                      | -                | 51,558                      |
| -                         | -                     | -             | -                    | -                                      | -                | 5,667                       |
| 65                        | 2                     | -             | 85                   | -                                      | 111              | 403                         |
| -                         | -                     | -             | -                    | (32)                                   | -                | (32)                        |
| <u>13,156</u>             | <u>493</u>            | <u>3</u>      | <u>17,134</u>        | <u>(32)</u>                            | <u>20,483</u>    | <u>114,152</u>              |
| <u>\$ 13,156</u>          | <u>\$ 493</u>         | <u>\$ 3</u>   | <u>\$ 17,136</u>     | <u>\$ 2</u>                            | <u>\$ 20,483</u> | <u>\$ 114,624</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, 2019**  
**(Amounts in thousands)**

|  | Street<br>Improvement | Federal<br>Revenue | Housing<br>In-Lieu | Special<br>Districts |
|--|-----------------------|--------------------|--------------------|----------------------|
| <b>REVENUES:</b>   |                       |                    |                    |                      |
| Property tax   | -                     | -                  | -                  | -                    |
| Special assessments  | \$ -                  | \$ -               | \$ -               | \$ -                 |
| Other taxes and fines  | 2,524                 | -                  | -                  | 139                  |
| Contributions  | -                     | -                  | -                  | -                    |
| Charges for services   | -                     | -                  | -                  | -                    |
| Intergovernmental:   |                       |                    |                    |                      |
| Community Development Block Grants                                   | -                     | 687                | -                  | -                    |
| State of California  | 79                    | -                  | -                  | -                    |
| Licenses, permits and fees   |                       |                    |                    |                      |
| University Avenue Parking  | -                     | -                  | -                  | 3,037                |
| California Avenue Parking  | -                     | -                  | -                  | 546                  |
| Other licenses, permits and fees                                     | -                     | -                  | -                  | 766                  |
| Investment earnings  | 21                    | -                  | 1,146              | 257                  |
| Rental income  | -                     | -                  | 6                  | -                    |
| Housing In-Lieu  | -                     | -                  | 5,613              | -                    |
| Other revenue  | -                     | 143                | 196                | 62                   |
| Total revenues   | <u>2,624</u>          | <u>830</u>         | <u>6,961</u>       | <u>4,807</u>         |
| <b>EXPENDITURES:</b>   |                       |                    |                    |                      |
| Current:   |                       |                    |                    |                      |
| Administrative Services  | -                     | -                  | -                  | 253                  |
| Public Works   | -                     | -                  | -                  | 1,007                |
| Planning and Community Environment                                   | -                     | 610                | 141                | 2,028                |
| Police   | -                     | -                  | -                  | -                    |
| Community Services   | -                     | -                  | -                  | 26                   |
| Non-Departmental   | -                     | -                  | 17                 | 386                  |
| Total expenditures   | <u>-</u>              | <u>610</u>         | <u>158</u>         | <u>3,700</u>         |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER (UNDER) EXPENDITURES</b> | <u>2,624</u>          | <u>220</u>         | <u>6,803</u>       | <u>1,107</u>         |
| <b>OTHER FINANCING SOURCES (USES):</b>                               |                       |                    |                    |                      |
| Transfers in   | -                     | -                  | -                  | 354                  |
| Transfers out  | <u>(2,934)</u>        | <u>-</u>           | <u>(1)</u>         | <u>(906)</u>         |
| Total other financing sources (uses)                                 | <u>(2,934)</u>        | <u>-</u>           | <u>(1)</u>         | <u>(552)</u>         |
| Change in fund balances  | (310)                 | 220                | 6,802              | 555                  |
| <b>FUND BALANCES, BEGINNING OF YEAR</b>                              | <u>562</u>            | <u>5,080</u>       | <u>44,863</u>      | <u>5,143</u>         |
| <b>FUND BALANCES, END OF YEAR</b>                                    | <u>\$ 252</u>         | <u>\$ 5,300</u>    | <u>\$ 51,665</u>   | <u>\$ 5,698</u>      |

| Transportation Mitigation | Local Law Enforcement | Asset Seizure | Developer Impact Fee | Downtown Business Development District | Public Benefit   | Total Special Revenue Funds |
|---------------------------|-----------------------|---------------|----------------------|--|------------------|-----------------------------|
| -                         | -                     | -             | -                    | -                                      | -                | -                           |
| \$ -                      | \$ -                  | \$ -          | \$ -                 | \$ 58                                  | \$ -             | \$ 58                       |
| -                         | -                     | -             | -                    | -                                      | -                | 2,663                       |
| -                         | -                     | -             | -                    | -                                      | -                | -                           |
| -                         | -                     | -             | -                    | -                                      | -                | -                           |
| -                         | -                     | -             | -                    | -                                      | -                | 687                         |
| -                         | 157                   | -             | -                    | -                                      | -                | 236                         |
| -                         | -                     | -             | -                    | -                                      | -                | 3,037                       |
| -                         | -                     | -             | -                    | -                                      | -                | 546                         |
| 2,217                     | -                     | -             | 2,783                | -                                      | -                | 5,766                       |
| 513                       | 18                    | -             | 776                  | 1                                      | 861              | 3,593                       |
| -                         | -                     | -             | -                    | -                                      | -                | 6                           |
| -                         | -                     | -             | -                    | -                                      | -                | 5,613                       |
| 421                       | -                     | -             | 3,943                | -                                      | -                | 4,765                       |
| <u>3,151</u>              | <u>175</u>            | <u>-</u>      | <u>7,502</u>         | <u>59</u>                              | <u>861</u>       | <u>26,970</u>               |
| -                         | -                     | -             | -                    | -                                      | -                | 253                         |
| -                         | -                     | -             | -                    | -                                      | -                | 1,007                       |
| -                         | -                     | -             | -                    | -                                      | -                | 2,779                       |
| -                         | 1                     | -             | -                    | -                                      | -                | 1                           |
| -                         | -                     | -             | 2,690                | -                                      | -                | 2,716                       |
| -                         | -                     | -             | -                    | 59                                     | -                | 462                         |
| -                         | <u>1</u>              | <u>-</u>      | <u>2,690</u>         | <u>59</u>                              | <u>-</u>         | <u>7,218</u>                |
| <u>3,151</u>              | <u>174</u>            | <u>-</u>      | <u>4,812</u>         | <u>-</u>                               | <u>861</u>       | <u>19,752</u>               |
| -                         | -                     | -             | 170                  | -                                      | -                | 524                         |
| (506)                     | -                     | -             | (1,612)              | -                                      | (11)             | (5,970)                     |
| (506)                     | -                     | -             | (1,442)              | -                                      | (11)             | (5,446)                     |
| 2,645                     | 174                   | -             | 3,370                | -                                      | 850              | 14,306                      |
| 10,511                    | 319                   | 3             | 13,764               | (32)                                   | 19,633           | 99,846                      |
| <u>\$ 13,156</u>          | <u>\$ 493</u>         | <u>\$ 3</u>   | <u>\$ 17,134</u>     | <u>\$ (32)</u>                         | <u>\$ 20,483</u> | <u>\$ 114,152</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, 2019**  
**(Amounts in thousands)**

|  | Street Improvement |                            |                                    | Federal Revenue |                            |                                    |
|--|--------------------|----------------------------|------------------------------------|-----------------|----------------------------|------------------------------------|
|  | Budget             | Actual,<br>Budgetary Basis | Variance<br>Positive<br>(Negative) | Budget          | Actual,<br>Budgetary Basis | Variance<br>Positive<br>(Negative) |
| <b>REVENUES:</b>   |                    |                            |                                    |                 |                            |                                    |
| Special assessments  | \$ -               | \$ -                       | \$ -                               | \$ -            | \$ -                       | \$ -                               |
| Other taxes and fines  | 2,813              | 2,523                      | (290)                              | -               | -                          | -                                  |
| Contributions  | -                  | -                          | -                                  | -               | -                          | -                                  |
| Charges for services   | -                  | -                          | -                                  | -               | -                          | -                                  |
| Intergovernmental:   |                    |                            |                                    |                 |                            |                                    |
| Community Development Block Grants                           | -                  | -                          | -                                  | 485             | 687                        | 202                                |
| State of California  | 78                 | 79                         | 1                                  | -               | -                          | -                                  |
| Licenses, permits and fees                                   |                    |                            |                                    |                 |                            |                                    |
| University Avenue Parking                                    | -                  | -                          | -                                  | -               | -                          | -                                  |
| California Avenue Parking                                    | -                  | -                          | -                                  | -               | -                          | -                                  |
| Other licenses, permits and fees                             | -                  | -                          | -                                  | -               | -                          | -                                  |
| Investment earnings  | 13                 | 6                          | (7)                                | -               | -                          | -                                  |
| Rental income  | -                  | -                          | -                                  | -               | -                          | -                                  |
| Other:   |                    |                            |                                    |                 |                            |                                    |
| Housing In-Lieu - residential                                | -                  | -                          | -                                  | -               | -                          | -                                  |
| Loan payoffs   | -                  | -                          | -                                  | -               | -                          | -                                  |
| Other revenue  | -                  | -                          | -                                  | 136             | 143                        | 7                                  |
| Total revenues   | 2,904              | 2,608                      | (296)                              | 621             | 830                        | 209                                |
| <b>EXPENDITURES:</b>   |                    |                            |                                    |                 |                            |                                    |
| Current:   |                    |                            |                                    |                 |                            |                                    |
| Administrative Services                                      | -                  | -                          | -                                  | -               | -                          | -                                  |
| Public Works   | -                  | -                          | -                                  | -               | -                          | -                                  |
| Planning and Community Environment                           | -                  | -                          | -                                  | 1,049           | 1,041                      | 8                                  |
| Police   | -                  | -                          | -                                  | -               | -                          | -                                  |
| Community Services   | -                  | -                          | -                                  | -               | -                          | -                                  |
| Non-Departmental   | -                  | -                          | -                                  | -               | -                          | -                                  |
| Total expenditures   | -                  | -                          | -                                  | 1,049           | 1,041                      | 8                                  |
| Excess (deficiency) of revenues<br>over (under) expenditures | 2,904              | 2,608                      | (296)                              | (428)           | (211)                      | 217                                |
| <b>OTHER FINANCING SOURCES (USES):</b>                       |                    |                            |                                    |                 |                            |                                    |
| Transfers in   | -                  | -                          | -                                  | -               | -                          | -                                  |
| Transfers out  | (2,934)            | (2,934)                    | -                                  | -               | -                          | -                                  |
| Total other financing sources (uses)                         | (2,934)            | (2,934)                    | -                                  | -               | -                          | -                                  |
| Change in fund balances, budgetary basis                     | \$ (30)            | (326)                      | \$ (296)                           | \$ (428)        | (211)                      | \$ 217                             |
| <b>Adjustment to Budgetary Basis:</b>                        |                    |                            |                                    |                 |                            |                                    |
| Unrealized gain/loss on investments                          |                    | 16                         |                                    |                 | -                          |                                    |
| Changes in notes receivable                                  |                    | -                          |                                    |                 | 220                        |                                    |
| Current year encumbrances/reappropriations                   |                    | -                          |                                    |                 | 211                        |                                    |
| CHANGE IN FUND BALANCE, GAAP BASIS                           |                    | (310)                      |                                    |                 | 220                        |                                    |
| FUND BALANCES, BEGINNING OF YEAR, GAAP BASIS                 |                    | 562                        |                                    |                 | 5,080                      |                                    |
| FUND BALANCES, END OF YEAR, GAAP BASIS                       |                    | \$ 252                     |                                    |                 | \$ 5,300                   |                                    |

| Housing In-Lieu   |                            |                                    | Special Districts |                            |                                    | Transportation Mitigation |                            |                                    |
|-------------------|----------------------------|------------------------------------|-------------------|----------------------------|------------------------------------|---------------------------|----------------------------|------------------------------------|
| Budget            | Actual,<br>Budgetary Basis | Variance<br>Positive<br>(Negative) | Budget            | Actual,<br>Budgetary Basis | Variance<br>Positive<br>(Negative) | Budget                    | Actual,<br>Budgetary Basis | Variance<br>Positive<br>(Negative) |
| \$ -              | \$ -                       | \$ -                               | \$ -              | \$ -                       | \$ -                               | \$ -                      | \$ -                       | \$ -                               |
| -                 | -                          | -                                  | 333               | 139                        | (194)                              | -                         | -                          | -                                  |
| -                 | -                          | -                                  | -                 | -                          | -                                  | -                         | -                          | -                                  |
| -                 | -                          | -                                  | -                 | -                          | -                                  | -                         | -                          | -                                  |
| -                 | -                          | -                                  | -                 | -                          | -                                  | -                         | -                          | -                                  |
| -                 | -                          | -                                  | 3,107             | 3,037                      | (70)                               | -                         | -                          | -                                  |
| -                 | -                          | -                                  | 501               | 546                        | 45                                 | -                         | -                          | -                                  |
| -                 | -                          | -                                  | 787               | 766                        | (21)                               | 276                       | 2,217                      | 1,941                              |
| 428               | 527                        | 99                                 | 27                | 114                        | 87                                 | 203                       | 208                        | 5                                  |
| 9                 | 6                          | (3)                                | -                 | -                          | -                                  | -                         | -                          | -                                  |
| 2,150             | 5,613                      | 3,463                              | -                 | -                          | -                                  | -                         | -                          | -                                  |
| 25                | 47                         | 22                                 | -                 | -                          | -                                  | -                         | -                          | -                                  |
| 170               | 196                        | 26                                 | -                 | 62                         | 62                                 | -                         | 421                        | 421                                |
| 2,782             | 6,389                      | 3,607                              | 4,755             | 4,664                      | (91)                               | 479                       | 2,846                      | 2,367                              |
| -                 | -                          | -                                  | 283               | 253                        | 30                                 | -                         | -                          | -                                  |
| -                 | -                          | -                                  | 1,374             | 1,167                      | 207                                | -                         | -                          | -                                  |
| 10,539            | 10,437                     | 102                                | 3,589             | 2,659                      | 930                                | 2,200                     | 2,200                      | -                                  |
| -                 | -                          | -                                  | -                 | -                          | -                                  | -                         | -                          | -                                  |
| -                 | -                          | -                                  | 26                | 26                         | -                                  | -                         | -                          | -                                  |
| 190               | 127                        | 63                                 | 449               | 386                        | 63                                 | -                         | -                          | -                                  |
| 10,729            | 10,564                     | 165                                | 5,721             | 4,491                      | 1,230                              | 2,200                     | 2,200                      | -                                  |
| (7,947)           | (4,175)                    | 3,772                              | (966)             | 173                        | 1,139                              | (1,721)                   | 646                        | 2,367                              |
| -                 | -                          | -                                  | 354               | 354                        | -                                  | -                         | -                          | -                                  |
| -                 | -                          | -                                  | (906)             | (906)                      | -                                  | (506)                     | (506)                      | -                                  |
| -                 | -                          | -                                  | (552)             | (552)                      | -                                  | (506)                     | (506)                      | -                                  |
| <u>\$ (7,947)</u> | <u>(4,175)</u>             | <u>\$ 3,772</u>                    | <u>\$ (1,518)</u> | <u>(379)</u>               | <u>\$ 1,139</u>                    | <u>\$ (2,227)</u>         | <u>140</u>                 | <u>\$ 2,367</u>                    |
|                   | 617                        |                                    |                   | 143                        |                                    |                           | 305                        |                                    |
|                   | 63                         |                                    |                   | -                          |                                    |                           | -                          |                                    |
|                   | 10,297                     |                                    |                   | 791                        |                                    |                           | 2,200                      |                                    |
|                   | 6,802                      |                                    |                   | 555                        |                                    |                           | 2,645                      |                                    |
|                   | 44,863                     |                                    |                   | 5,143                      |                                    |                           | 10,511                     |                                    |
|                   | <u>\$ 51,665</u>           |                                    |                   | <u>\$ 5,698</u>            |                                    |                           | <u>\$ 13,156</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, 2019**  
**(Amounts in Thousands)**

|  | Local Law Enforcement |                            |                                    | Asset Seizure |                            |                                    |
|--|-----------------------|----------------------------|------------------------------------|---------------|----------------------------|------------------------------------|
|  | Budget                | Actual,<br>Budgetary Basis | Variance<br>Positive<br>(Negative) | Budget        | Actual,<br>Budgetary Basis | Variance<br>Positive<br>(Negative) |
| <b>REVENUES:</b>   |                       |                            |                                    |               |                            |                                    |
| Special assessments  | \$ -                  | \$ -                       | \$ -                               | \$ -          | \$ -                       | \$ -                               |
| Other taxes and fines  | -                     | -                          | -                                  | -             | -                          | -                                  |
| Contributions  | -                     | -                          | -                                  | -             | -                          | -                                  |
| Charges for services   | -                     | -                          | -                                  | -             | -                          | -                                  |
| Intergovernmental:   |                       |                            |                                    |               |                            |                                    |
| Community Development Block Grants                           | -                     | -                          | -                                  | -             | -                          | -                                  |
| State of California  | 106                   | 157                        | 51                                 | -             | -                          | -                                  |
| Licenses, permits and fees                                   |                       |                            |                                    |               |                            |                                    |
| University Avenue Parking                                    | -                     | -                          | -                                  | -             | -                          | -                                  |
| California Avenue Parking                                    | -                     | -                          | -                                  | -             | -                          | -                                  |
| Other licenses, permits and fees                             | -                     | -                          | -                                  | -             | -                          | -                                  |
| Investment earnings  | 2                     | 9                          | 7                                  | -             | -                          | -                                  |
| Rental income  | -                     | -                          | -                                  | -             | -                          | -                                  |
| Other:   |                       |                            |                                    |               |                            |                                    |
| Housing In-Lieu - residential                                | -                     | -                          | -                                  | -             | -                          | -                                  |
| Loan payoffs   | -                     | -                          | -                                  | -             | -                          | -                                  |
| Other revenue  | -                     | -                          | -                                  | -             | -                          | -                                  |
| Total revenues   | 108                   | 166                        | 58                                 | -             | -                          | -                                  |
| <b>EXPENDITURES:</b>   |                       |                            |                                    |               |                            |                                    |
| Current:   |                       |                            |                                    |               |                            |                                    |
| Administrative Services                                      | -                     | -                          | -                                  | -             | -                          | -                                  |
| Public Works   | -                     | -                          | -                                  | -             | -                          | -                                  |
| Planning and Community Environment                           | -                     | -                          | -                                  | -             | -                          | -                                  |
| Police   | 133                   | 51                         | 82                                 | -             | -                          | -                                  |
| Community Services   | -                     | -                          | -                                  | -             | -                          | -                                  |
| Non-Departmental   | -                     | -                          | -                                  | -             | -                          | -                                  |
| Total expenditures   | 133                   | 51                         | 82                                 | -             | -                          | -                                  |
| Excess (deficiency) of revenues<br>over (under) expenditures | (25)                  | 115                        | 140                                | -             | -                          | -                                  |
| <b>OTHER FINANCING SOURCES (USES):</b>                       |                       |                            |                                    |               |                            |                                    |
| Transfers in   | -                     | -                          | -                                  | -             | -                          | -                                  |
| Transfers out  | -                     | -                          | -                                  | -             | -                          | -                                  |
| Total other financing sources (uses)                         | -                     | -                          | -                                  | -             | -                          | -                                  |
| Change in fund balances, Budgetary basis                     | \$ (25)               | 115                        | \$ 140                             | \$ -          | -                          | \$ -                               |
| <b>Adjustment to Budgetary Basis:</b>                        |                       |                            |                                    |               |                            |                                    |
| Unrealized gain/loss on investments                          |                       | 9                          |                                    |               | -                          |                                    |
| Changes in notes receivable                                  |                       | -                          |                                    |               | -                          |                                    |
| Current year encumbrances/reappropriations                   |                       | 50                         |                                    |               | -                          |                                    |
| CHANGE IN FUND BALANCE, GAAP BASIS                           |                       | 174                        |                                    |               | -                          |                                    |
| FUND BALANCES, BEGINNING OF YEAR, GAAP BASIS                 |                       | 319                        |                                    |               | 3                          |                                    |
| FUND BALANCES, END OF YEAR, GAAP BASIS                       |                       | \$ 493                     |                                    |               | \$ 3                       |                                    |



| Developer Impact Fee |                            |                                    | Downtown Business Improvement District |                            |                                    | Public Benefit |                            |                                    |
|----------------------|----------------------------|------------------------------------|--|----------------------------|------------------------------------|----------------|----------------------------|------------------------------------|
| Budget               | Actual,<br>Budgetary Basis | Variance<br>Positive<br>(Negative) | Budget                                 | Actual,<br>Budgetary Basis | Variance<br>Positive<br>(Negative) | Budget         | Actual,<br>Budgetary Basis | Variance<br>Positive<br>(Negative) |
| \$ -                 | \$ -                       | \$ -                               | \$ 140                                 | \$ 58                      | \$ (82)                            | \$ -           | \$ -                       | \$ -                               |
| -                    | -                          | -                                  | -                                      | -                          | -                                  | -              | -                          | -                                  |
| -                    | -                          | -                                  | -                                      | -                          | -                                  | -              | -                          | -                                  |
| -                    | -                          | -                                  | -                                      | -                          | -                                  | -              | -                          | -                                  |
| -                    | -                          | -                                  | -                                      | -                          | -                                  | -              | -                          | -                                  |
| 708                  | 2,783                      | 2,075                              | -                                      | -                          | -                                  | -              | -                          | -                                  |
| -                    | 571                        | 571                                | -                                      | -                          | -                                  | -              | -                          | -                                  |
| 215                  | 362                        | 147                                | 2                                      | (1)                        | (3)                                | 296            | 374                        | 78                                 |
| -                    | -                          | -                                  | -                                      | -                          | -                                  | -              | -                          | -                                  |
| 3,983                | 3,943                      | (40)                               | -                                      | -                          | -                                  | -              | -                          | -                                  |
| -                    | -                          | -                                  | -                                      | -                          | -                                  | -              | -                          | -                                  |
| -                    | (571)                      | (571)                              | -                                      | -                          | -                                  | -              | -                          | -                                  |
| 4,906                | 7,088                      | 2,182                              | 142                                    | 57                         | (85)                               | 296            | 374                        | 78                                 |
| -                    | -                          | -                                  | -                                      | -                          | -                                  | -              | -                          | -                                  |
| -                    | -                          | -                                  | -                                      | -                          | -                                  | -              | -                          | -                                  |
| -                    | -                          | -                                  | -                                      | -                          | -                                  | -              | -                          | -                                  |
| -                    | -                          | -                                  | -                                      | -                          | -                                  | -              | -                          | -                                  |
| 2,738                | 2,690                      | 48                                 | -                                      | -                          | -                                  | 45             | -                          | 45                                 |
| -                    | -                          | -                                  | 170                                    | 79                         | 91                                 | -              | -                          | -                                  |
| 2,738                | 2,690                      | 48                                 | 170                                    | 79                         | 91                                 | 45             | -                          | 45                                 |
| 2,168                | 4,398                      | 2,230                              | (28)                                   | (22)                       | 6                                  | 251            | 374                        | 123                                |
| 170                  | 170                        | -                                  | -                                      | -                          | -                                  | -              | -                          | -                                  |
| (1,612)              | (1,612)                    | -                                  | -                                      | -                          | -                                  | (11)           | (11)                       | -                                  |
| (1,442)              | (1,442)                    | -                                  | -                                      | -                          | -                                  | (11)           | (11)                       | -                                  |
| \$ 726               | 2,956                      | \$ 2,230                           | \$ (28)                                | (22)                       | \$ 6                               | \$ 240         | 363                        | \$ 123                             |
|                      | 414                        |                                    |  | 1                          |                                    |                | 487                        |                                    |
|                      | -                          |                                    |  | -                          |                                    |                | -                          |                                    |
|                      | -                          |                                    |  | 21                         |                                    |                | -                          |                                    |
|                      | 3,370                      |                                    |  | -                          |                                    |                | 850                        |                                    |
|                      | 13,764                     |                                    |  | (32)                       |                                    |                | 19,633                     |                                    |
| \$                   | 17,134                     |                                    | \$                                     | (32)                       |                                    | \$             | 20,483                     |                                    |

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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.

#### **2018 Golf Course Capital Improvement**

This fund accounts for revenues received from the General Fund to provide payment of principal and interest associated with the 2018 Golf Course Capital Improvement Certificates of Participation as they become due.

#### **2019 California Avenue Parking Garage COPs**

This fund accounts for revenues received from the General Fund to provide payment of principal and interest associated with the 2019 California Avenue Parking Garage Certificates of Participation as they become due.

#### **Library Projects**

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

**CITY OF PALO ALTO**  
**Non-major Debt Service Funds**  
**Combining Balance Sheet**  
**June 30, 2019**  
**(Amounts in thousands)**

|   | Downtown<br>Parking<br>Improvement | 2018 Golf Course<br>Capital<br>Improvement | 2019 California<br>Avenue Parking<br>Garage COPS | Library<br>Projects | Total<br>Debt Service<br>Funds |
|---|------------------------------------|--|--|---------------------|--------------------------------|
| <b>ASSETS:</b>                          |                                    |  |  |                     |                                |
| Cash and investments:                   |                                    |  |  |                     |                                |
| Available for operations                | \$ -                               | \$ -                                       | \$ -   | \$ 3,620            | \$3,620                        |
| Cash and investments with fiscal agents | -                                  | 18   | 16   | -                   | 34                             |
| Receivables:                            |                                    |  |  |                     |                                |
| Accounts                                | -                                  | -  | -  | 16                  | 16                             |
| Interest                                | -                                  | -  | -  | 24                  | 24                             |
| Total assets                            | <u>\$ -</u>                        | <u>\$ 18</u>                               | <u>\$ 16</u>                                     | <u>\$ 3,660</u>     | <u>\$ 3,694</u>                |
| <b>FUND BALANCES:</b>                   |                                    |  |  |                     |                                |
| Debt service                            | <u>\$ -</u>                        | <u>\$ 18</u>                               | <u>\$ 16</u>                                     | <u>\$ 3,660</u>     | <u>\$ 3,694</u>                |

**CITY OF PALO ALTO**  
**Non-major Debt Service Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2019**  
**(Amounts in thousands)**

|  | Downtown<br>Parking<br>Improvement | 2018 Golf Course<br>Capital<br>Improvement | 2019 California<br>Avenue Parking<br>Garage COPs | Library<br>Projects | Total<br>Debt Service<br>Funds |
|--|------------------------------------|--|--|---------------------|--------------------------------|
| <b>REVENUES:</b>   |                                    |  |  |                     |                                |
| Property tax   | \$ -                               | \$ -                                       | \$ -   | \$ 4,391            | \$ 4,391                       |
| Investment earnings  | -                                  | 1  | -  | 140                 | 141                            |
| Total revenues   | -                                  | 1  | -  | 4,531               | 4,532                          |
| <b>EXPENDITURES:</b>   |                                    |  |  |                     |                                |
| Current:   |                                    |  |  |                     |                                |
| Debt service:  |                                    |  |  |                     |                                |
| Principal retirement   | -                                  | 35   | -  | 1,640               | 1,675                          |
| Interest and fiscal charges  | -                                  | 320  | 286  | 2,787               | 3,393                          |
| Total expenditures   | -                                  | 355  | 286  | 4,427               | 5,068                          |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER (UNDER) EXPENDITURES</b> | -                                  | (354)                                      | (286)  | 104                 | (536)                          |
| <b>OTHER FINANCING SOURCES (USES):</b>                               |                                    |  |  |                     |                                |
| Issuance of debt   | -                                  | -  | 302  | -                   | 302                            |
| Transfers in   | -                                  | 372  | -  | -                   | 372                            |
| Transfers out  | (15)                               | -  | -  | -                   | (15)                           |
| Total other financing sources (uses)                                 | (15)                               | 372  | 302  | -                   | 659                            |
| Change in fund balances  | (15)                               | 18   | 16   | 104                 | 123                            |
| <b>FUND BALANCES, BEGINNING OF YEAR</b>                              | 15                                 | -  | -  | 3,556               | 3,571                          |
| <b>FUND BALANCES, END OF YEAR</b>                                    | \$ -                               | \$ 18                                      | \$ 16  | \$ 3,660            | \$ 3,694                       |

**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, 2019**  
**(Amounts in thousands)**

|  | 2018 Golf Course Capital Improvement |                            |                                    | 2019 California Avenue Parking Garage COPs |                           |                                    | Library Projects |                           |                                    |
|--|--------------------------------------|----------------------------|------------------------------------|--|---------------------------|------------------------------------|------------------|---------------------------|------------------------------------|
|  | Budget                               | Actual,<br>Budgetary Basis | Variance<br>Positive<br>(Negative) | Budget                                     | Actual<br>Budgetary Basis | Variance<br>Positive<br>(Negative) | Budget           | Actual<br>Budgetary Basis | Variance<br>Positive<br>(Negative) |
| <b>REVENUES:</b>   |                                      |                            |                                    |  |                           |                                    |                  |                           |                                    |
| Property tax   | \$ -                                 | \$ -                       | \$ -                               | \$ -                                       | \$ -                      | \$ -                               | \$ 4,427         | \$ 4,391                  | \$ (36)                            |
| Investment earnings  | -                                    | -                          | -                                  | -  | -                         | -                                  | -                | 40                        | 40                                 |
| Total revenues   | -                                    | -                          | -                                  | -  | -                         | -                                  | 4,427            | 4,431                     | 4                                  |
| <b>EXPENDITURES:</b>   |                                      |                            |                                    |  |                           |                                    |                  |                           |                                    |
| Debt service:  |                                      |                            |                                    |  |                           |                                    |                  |                           |                                    |
| Principal retirement   | 35                                   | 35                         | -                                  | -  | -                         | -                                  | 1,640            | 1,640                     | -                                  |
| Interest and fiscal charges                                  | 320                                  | 320                        | -                                  | 286  | 286                       | -                                  | 2,787            | 2,787                     | -                                  |
| Total expenditures   | 355                                  | 355                        | -                                  | 286  | 286                       | -                                  | 4,427            | 4,427                     | -                                  |
| Excess (deficiency) of revenues<br>over (under) expenditures | (355)                                | (355)                      | -                                  | (286)                                      | (286)                     | -                                  | -                | 4                         | 4                                  |
| <b>OTHER FINANCING SOURCES (USES):</b>                       |                                      |                            |                                    |  |                           |                                    |                  |                           |                                    |
| Issuance of debt   | -                                    | -                          | -                                  | 302  | 302                       | -                                  | -                | -                         | -                                  |
| Transfers in   | 372                                  | 372                        | -                                  | -  | -                         | -                                  | -                | -                         | -                                  |
| Transfers out  | -                                    | -                          | -                                  | -  | -                         | -                                  | -                | -                         | -                                  |
| Total other financing sources (uses)                         | 372                                  | 372                        | -                                  | 302  | 302                       | -                                  | -                | -                         | -                                  |
| Change in fund balances, Budgetary basis                     | \$ 17                                | 17                         | \$ -                               | \$ 16                                      | 16                        | \$ -                               | \$ -             | 4                         | \$ 4                               |
| Adjustment to Budgetary Basis:                               |                                      |                            |                                    |  |                           |                                    |                  |                           |                                    |
| Unrealized gain/loss on investments                          |                                      | 1                          |                                    |  | -                         |                                    |                  | 100                       |                                    |
| CHANGE IN FUND BALANCE, GAAP BASIS                           |                                      | 18                         |                                    |  | 16                        |                                    |                  | 104                       |                                    |
| FUND BALANCES, BEGINNING OF YEAR                             |                                      | -                          |                                    |  | -                         |                                    |                  | 3,556                     |                                    |
| FUND BALANCES, END OF YEAR                                   |                                      | \$ 18                      |                                    |  | \$ 16                     |                                    |                  | \$ 3,660                  |                                    |

**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, 2019**  
**(Amounts in thousands)**

|                                     | Eyerly Family Permanent Fund |                            |                                    |
|-------------------------------------|------------------------------|----------------------------|------------------------------------|
|                                     | Budget                       | Actual,<br>Budgetary Basis | Variance<br>Positive<br>(Negative) |
| REVENUES:                           |                              |                            |                                    |
| Investment earnings                 | \$ 30                        | \$ 49                      | \$ 19                              |
| Other fees                          | -                            | 847                        | 847                                |
| Total revenues                      | 30                           | 896                        | 866                                |
| Change in fund balance              | \$ 30                        | 896                        | \$ 866                             |
| Adjustment to Budgetary Basis:      |                              |                            |                                    |
| Unrealized gain/loss on investments |                              | 44                         |                                    |
| CHANGE IN FUND BALANCE, GAAP BASIS  |                              | 940                        |                                    |
| FUND BALANCE, BEGINNING OF YEAR     |                              | 1,498                      |                                    |
| FUND BALANCE, END OF YEAR           |                              | \$ 2,438                   |                                    |



## **INTERNAL SERVICE FUNDS**

### **INTRODUCTION**

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

### **Vehicle Replacement and Maintenance**

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

### **Technology**

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

### **Printing and Mailing Services**

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

### **General Benefits**

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

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

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

### **General Liabilities Insurance Program**

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

### **Retiree Health Benefits**

This fund accounts for the retiree health benefits contributions.

**CITY OF PALO ALTO**  
**Internal Service Funds**  
**Combining Statement of Fund Net Position**  
**June 30, 2019**  
**(Amounts in thousands)**

|                                      | Vehicle<br>Replacement<br>and<br>Maintenance | Technology | Printing<br>and<br>Mailing<br>Services | General<br>Benefits | Workers'<br>Compensation<br>Insurance<br>Program | General<br>Liabilities<br>Insurance<br>Program | Retiree<br>Health<br>Benefits | Total<br>Internal<br>Services<br>Funds |
|--------------------------------------|--|------------|--|---------------------|--|--|-------------------------------|--|
| <b>ASSETS:</b>                       |  |            |  |                     |  |  |                               |  |
| Current Assets:                      |  |            |  |                     |  |  |                               |  |
| Cash and investments:                |  |            |  |                     |  |  |                               |  |
| Available for operations             | \$ 10,387                                    | \$ 25,644  | \$ 149                                 | \$ 16,557           | \$ 20,964  | \$ 7,991                                       | \$ 1                          | \$ 81,693                              |
| Restricted investments with trustees | -  | -          | -                                      | 14,030              | -  | -  | -                             | 14,030                                 |
| Accounts receivable, net             | 40   | 319        | -                                      | 22                  | -  | -  | 1,883                         | 2,264                                  |
| Interest receivable                  | 67   | 164        | 1                                      | 110                 | 136  | 45   | 3                             | 526                                    |
| Inventory of materials and supplies  | 248  | -          | -                                      | -                   | -  | -  | -                             | 248                                    |
| Total current assets                 | 10,742                                       | 26,127     | 150                                    | 30,719              | 21,100   | 8,036  | 1,887                         | 98,761                                 |
| Noncurrent Assets:                   |  |            |  |                     |  |  |                               |  |
| Capital assets:                      |  |            |  |                     |  |  |                               |  |
| Nondepreciable                       | 913  | 1,617      | -                                      | -                   | -  | -  | -                             | 2,530                                  |
| Depreciable, net                     | 17,461                                       | 1,780      | 40                                     | -                   | -  | -  | -                             | 19,281                                 |
| Total noncurrent assets              | 18,374                                       | 3,397      | 40                                     | -                   | -  | -  | -                             | 21,811                                 |
| Total assets                         | 29,116                                       | 29,524     | 190                                    | 30,719              | 21,100   | 8,036  | 1,887                         | 120,572                                |
| DEFERRED OUTFLOWS OF RESOURCES:      |  |            |  |                     |  |  |                               |  |
| Pension related                      | 671  | 2,132      | 54                                     | -                   | 57   | -  | -                             | 2,914                                  |
| OPEB related                         | 197  | 402        | 18                                     | -                   | -  | -  | -                             | 617                                    |
| Total deferred outflows of resources | 868  | 2,534      | 72                                     | -                   | 57   | -  | -                             | 3,531                                  |
| LIABILITIES:                         |  |            |  |                     |  |  |                               |  |
| Current Liabilities:                 |  |            |  |                     |  |  |                               |  |
| Accounts payable and accruals        | 180  | 340        | 155                                    | 1,123               | 76   | 20   | -                             | 1,894                                  |
| Accrued salaries and benefits        | 24   | 78         | 3                                      | -                   | 16   | -  | -                             | 121                                    |
| Due to other funds                   | -  | -          | -                                      | -                   | -  | -  | 737                           | 737                                    |
| Accrued compensated absences         | 5  | 12         | -                                      | 6,255               | 1  | -  | -                             | 6,273                                  |
| Accrued claims payable - current     | -  | -          | -                                      | 160                 | 3,442  | 2,569  | -                             | 6,171                                  |
| Total current liabilities            | 209  | 430        | 158                                    | 7,538               | 3,535  | 2,589  | 737                           | 15,196                                 |
| Noncurrent liabilities:              |  |            |  |                     |  |  |                               |  |
| Accrued compensated absences         | -  | -          | -                                      | 6,062               | -  | -  | -                             | 6,062                                  |
| Accrued claims payable               | -  | -          | -                                      | -                   | 17,066   | 5,128  | -                             | 22,194                                 |
| Net pension liabilities              | 3,753  | 12,354     | 338                                    | -                   | 82   | -  | -                             | 16,527                                 |
| Net OPEB liabilities                 | 1,818  | 3,710      | 163                                    | -                   | -  | -  | -                             | 5,691                                  |
| Total noncurrent liabilities         | 5,571  | 16,064     | 501                                    | 6,062               | 17,148   | 5,128  | -                             | 50,474                                 |
| Total liabilities                    | 5,780  | 16,494     | 659                                    | 13,600              | 20,683   | 7,717  | 737                           | 65,670                                 |
| DEFERRED INFLOWS OF RESOURCES:       |  |            |  |                     |  |  |                               |  |
| Pension related                      | 131  | 356        | 2                                      | -                   | 3  | -  | -                             | 492                                    |
| OPEB related                         | 34   | 69         | 3                                      | -                   | -  | -  | -                             | 106                                    |
| Total deferred inflows of resources  | 165  | 425        | 5                                      | -                   | 3  | -  | -                             | 598                                    |
| NET POSITION:                        |  |            |  |                     |  |  |                               |  |
| Net Investment in capital assets     | 18,374                                       | 3,397      | 40                                     | -                   | -  | -  | -                             | 21,811                                 |
| Unrestricted                         | 5,665  | 11,742     | (442)                                  | 17,119              | 471  | 319  | 1,150                         | 36,024                                 |
| Total net position                   | \$ 24,039                                    | \$ 15,139  | \$ (402)                               | \$ 17,119           | \$ 471   | \$ 319   | \$ 1,150                      | \$ 57,835                              |

**CITY OF PALO ALTO**  
**Internal Service Funds**  
**Combining Statement of Revenues, Expenses and Changes in Fund Net Position**  
**For the Year Ended June 30, 2019**  
**(Amounts in thousands)**

|   | Vehicle<br>Replacement<br>and<br>Maintenance | Technology | Printing<br>and<br>Mailing<br>Services | General<br>Benefits | Workers'<br>Compensation<br>Insurance<br>Program | General<br>Liabilities<br>Insurance<br>Program | Retiree<br>Health<br>Benefits | Total<br>Internal<br>Services<br>Funds |
|---|--|------------|--|---------------------|--|--|-------------------------------|--|
| <b>OPERATING REVENUES:</b>                                    |  |            |  |                     |  |  |                               |  |
| Charges for services  | \$ 8,915                                     | \$ 14,905  | \$ 1,604                               | \$ 57,060           | \$ 3,764   | \$ 2,962                                       | \$ 13,800                     | \$ 103,010                             |
| Other   | -  | -          | -                                      | -                   | 295  | 501  | -                             | 796                                    |
| Total operating revenues                                      | 8,915  | 14,905     | 1,604                                  | 57,060              | 4,059  | 3,463  | 13,800                        | 103,806                                |
| <b>OPERATING EXPENSES:</b>                                    |  |            |  |                     |  |  |                               |  |
| Administrative and general                                    | 1,615  | 6,465      | 1,199                                  | 307                 | 944  | 2,105  | 24                            | 12,659                                 |
| Operations and maintenance                                    | 4,084  | 8,395      | 367                                    | 567                 | 165  | -  | -                             | 13,578                                 |
| Depreciation and amortization                                 | 3,007  | 486        | 7                                      | -                   | -  | -  | -                             | 3,500                                  |
| Claim payments and change in estimated self-insured liability | -  | -          | -                                      | 1,514               | 5,108  | 2,376  | -                             | 8,998                                  |
| Refund of charges for services                                | 123  | 24         | -                                      | -                   | -  | -  | -                             | 147                                    |
| Employment benefits   | -  | -          | -                                      | 52,261              | -  | -  | 15,997                        | 68,258                                 |
| Total operating expenses                                      | 8,829  | 15,370     | 1,573                                  | 54,649              | 6,217  | 4,481  | 16,021                        | 107,140                                |
| Operating income (loss)                                       | 86   | (465)      | 31                                     | 2,411               | (2,158)  | (1,018)  | (2,221)                       | (3,334)                                |
| <b>NONOPERATING REVENUES (EXPENSES):</b>                      |  |            |  |                     |  |  |                               |  |
| Investment earnings   | 507  | 1,244      | 2                                      | 1,134               | 1,039  | 328  | 175                           | 4,429                                  |
| Gain on disposal of capital assets                            | 275  | -          | -                                      | -                   | -  | -  | -                             | 275                                    |
| Other nonoperating revenues                                   | 42   | -          | -                                      | -                   | -  | -  | -                             | 42                                     |
| Total nonoperating revenues (expenses)                        | 824  | 1,244      | 2                                      | 1,134               | 1,039  | 328  | 175                           | 4,746                                  |
| Income (loss) before transfers                                | 910  | 779        | 33                                     | 3,545               | (1,119)  | (690)  | (2,046)                       | 1,412                                  |
| Transfers in  | -  | 1,366      | -                                      | 5,992               | -  | 5  | 2,197                         | 9,560                                  |
| Transfers out   | (143)  | (100)      | (2)                                    | (2,197)             | (2)  | -  | -                             | (2,444)                                |
| Change in net position  | 767  | 2,045      | 31                                     | 7,340               | (1,121)  | (685)  | 151                           | 8,528                                  |
| NET POSITION (DEFICIT), BEGINNING OF YEAR                     | 23,272                                       | 13,094     | (433)                                  | 9,779               | 1,592  | 1,004  | 999                           | 49,307                                 |
| NET POSITION, END OF YEAR                                     | \$ 24,039                                    | \$ 15,139  | \$ (402)                               | \$ 17,119           | \$ 471   | \$ 319   | \$ 1,150                      | \$ 57,835                              |

**CITY OF PALO ALTO**  
**Internal Service Funds**  
**Combining Statement of Cash Flows**  
**For the Year Ended June 30, 2019**  
**(Amounts in thousands)**

|   | Vehicle<br>Replacement<br>and<br>Maintenance | Technology       | Printing<br>and<br>Mailing<br>Services | General<br>Benefits | Workers'<br>Compensation<br>Insurance<br>Program | General<br>Liabilities<br>Insurance<br>Program | Retiree<br>Health<br>Benefits | Total<br>Internal<br>Services<br>Funds |
|---|--|------------------|--|---------------------|--|--|-------------------------------|--|
| <b>Cash flows from operating activities:</b>  |  |                  |  |                     |  |  |                               |  |
| Cash received from customers  | \$ 8,879                                     | \$ 14,586        | \$ 1,604                               | \$ 57,070           | \$ 3,781   | \$ 3,463                                       | \$ 11,917                     | \$ 101,300                             |
| Cash refunds to customers   | -  | -                | -                                      | -                   | -  | -  | -                             | -                                      |
| Cash payments to suppliers for goods and services   | (3,373)                                      | (6,974)          | (1,404)                                | (1,308)             | (124)  | (1,560)  | (653)                         | (15,396)                               |
| Cash payments to employees  | (2,365)                                      | (7,393)          | (221)                                  | (51,427)            | (944)  | -  | (16,021)                      | (78,371)                               |
| Cash payments for judgments and claims  | -  | -                | -                                      | (1,514)             | (2,571)  | (526)  | -                             | (4,611)                                |
| Other cash receipts   | 42   | -                | -                                      | -                   | -  | -  | -                             | 42                                     |
| Net cash flows provided by (used in)<br>operating activities  | <u>3,183</u>                                 | <u>219</u>       | <u>(21)</u>                            | <u>2,821</u>        | <u>142</u>                                       | <u>1,377</u>                                   | <u>(4,757)</u>                | <u>2,964</u>                           |
| <b>Cash flows from noncapital financing activities:</b>   |  |                  |  |                     |  |  |                               |  |
| Receipt of loans from other funds   | -  | -                | -                                      | -                   | -  | -  | 737                           | 737                                    |
| Transfers in  | -  | 1,366            | -                                      | 5,992               | -  | 5  | 2,197                         | 9,560                                  |
| Transfers out   | (143)  | (100)            | (2)                                    | (2,197)             | (2)  | -  | -                             | (2,444)                                |
| Net cash flows provided by (used in)<br>noncapital financing activities   | <u>(143)</u>                                 | <u>1,266</u>     | <u>(2)</u>                             | <u>3,795</u>        | <u>(2)</u>                                       | <u>5</u>                                       | <u>2,934</u>                  | <u>7,853</u>                           |
| <b>Cash flows from capital and related financing activities:</b>  |  |                  |  |                     |  |  |                               |  |
| Acquisition of capital assets   | (3,113)                                      | (506)            | (18)                                   | -                   | -  | -  | -                             | (3,637)                                |
| Proceeds from sale of capital assets  | 349  | 30               | -                                      | -                   | -  | -  | -                             | 379                                    |
| Net cash flows (used in)<br>capital and related financing activities  | <u>(2,764)</u>                               | <u>(476)</u>     | <u>(18)</u>                            | <u>-</u>            | <u>-</u>   | <u>-</u>                                       | <u>-</u>                      | <u>(3,258)</u>                         |
| <b>Cash flows from investing activities:</b>  |  |                  |  |                     |  |  |                               |  |
| Interest received (charged)   | 497  | 1,216            | 2                                      | 1,120               | 1,019  | 320  | 192                           | 4,366                                  |
| Net change in cash and cash equivalents   | 773  | 2,225            | (39)                                   | 7,736               | 1,159  | 1,702  | (1,631)                       | 11,925                                 |
| Cash and cash equivalents, beginning of year  | 9,614  | 23,419           | 188                                    | 22,851              | 19,805   | 6,289  | 1,632                         | 83,798                                 |
| Cash and cash equivalents, end of year  | <u>\$ 10,387</u>                             | <u>\$ 25,644</u> | <u>\$ 149</u>                          | <u>\$ 30,587</u>    | <u>\$ 20,964</u>                                 | <u>\$ 7,991</u>                                | <u>\$ 1</u>                   | <u>\$ 95,723</u>                       |
| <b>Reconciliation of operating income (loss) to net cash flows provided by (used in) operating activities:</b>  |  |                  |  |                     |  |  |                               |  |
| Operating income (loss)   | \$ 86  | \$ (465)         | \$ 31                                  | \$ 2,411            | \$ (2,158)                                       | \$ (1,018)                                     | \$ (2,221)                    | \$ (3,334)                             |
| <b>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:</b> |  |                  |  |                     |  |  |                               |  |
| Depreciation  | 3,007  | 486              | 7                                      | -                   | -  | -  | -                             | 3,500                                  |
| Other   | 42   | -                | -                                      | -                   | -  | -  | -                             | 42                                     |
| <b>Change in assets and liabilities:</b>  |  |                  |  |                     |  |  |                               |  |
| Accounts receivable   | (36)   | (319)            | -                                      | 10                  | 17   | -  | (1,883)                       | (2,211)                                |
| Inventory of materials and supplies   | (34)   | -                | -                                      | -                   | -  | -  | -                             | (34)                                   |
| Net OPEB asset  | -  | -                | -                                      | -                   | -  | -  | -                             | -                                      |
| Deferred outflows of resources - pension plan   | 207  | 644              | 10                                     | -                   | 20   | -  | -                             | 881                                    |
| Deferred outflows of resources - OPEB   | 66   | 134              | 5                                      | -                   | -  | -  | -                             | 205                                    |
| Accounts payable and accruals   | (206)  | (95)             | (38)                                   | 121                 | 41   | 20   | (653)                         | (810)                                  |
| Accrued salaries and benefits   | 1  | 2                | 1                                      | -                   | 14   | -  | -                             | 18                                     |
| Accrued compensated absences  | 1  | (4)              | -                                      | 279                 | 1  | -  | -                             | 277                                    |
| Accrued claims payable  | -  | -                | -                                      | -                   | 2,242  | 2,375  | -                             | 4,617                                  |
| Net pension liability   | 49   | (172)            | (28)                                   | -                   | (32)   | -  | -                             | (183)                                  |
| Net OPEB liability  | (70)   | (143)            | (6)                                    | -                   | -  | -  | -                             | (219)                                  |
| Deferred inflows of resources - pension plans   | 67   | 145              | (3)                                    | -                   | (3)  | -  | -                             | 206                                    |
| Deferred inflows of resources - OPEB  | 3  | 6                | -                                      | -                   | -  | -  | -                             | 9                                      |
| Net cash flows provided by (used in)<br>operating activities  | <u>\$ 3,183</u>                              | <u>\$ 219</u>    | <u>\$ (21)</u>                         | <u>\$ 2,821</u>     | <u>\$ 142</u>                                    | <u>\$ 1,377</u>                                | <u>\$ (4,757)</u>             | <u>\$ 2,964</u>                        |

## **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 two 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, 2019**  
**(Amounts in thousands)**

|  | Balance<br>June 30, 2018 | Additions     | Deletions    | Balance<br>June 30, 2019 |
|--|--------------------------|---------------|--------------|--------------------------|
| <u>Cable Joint Powers Authority</u>  |                          |               |              |                          |
| ASSETS:  |                          |               |              |                          |
| Cash and investments available for operations                                  | \$ 549                   | \$ 190        | \$ -         | \$ 739                   |
| Accounts receivable  | 515                      | -             | 18           | 497                      |
| Interest receivable  | 3                        | 1             | -            | 4                        |
| Total assets   | <u>\$ 1,067</u>          | <u>\$ 191</u> | <u>\$ 18</u> | <u>\$ 1,240</u>          |
| LIABILITIES:   |                          |               |              |                          |
| Due to other governments   | <u>\$ 1,067</u>          | <u>\$ 173</u> | <u>\$ -</u>  | <u>\$ 1,240</u>          |
| <u>University Avenue Area</u><br><u>Off-Street Parking Assessment District</u> |                          |               |              |                          |
| ASSETS:  |                          |               |              |                          |
| Cash and investments available for operations                                  | \$ 1,973                 | \$ 55         | \$ -         | \$ 2,028                 |
| Cash and investments with fiscal agents  | 2,594                    | 63            | -            | 2,657                    |
| Accounts receivable  | 17                       | -             | 6            | 11                       |
| Interest receivable  | 11                       | 2             | -            | 13                       |
| Total assets   | <u>\$ 4,595</u>          | <u>\$ 120</u> | <u>\$ 6</u>  | <u>\$ 4,709</u>          |
| LIABILITIES:   |                          |               |              |                          |
| Due to bondholders   | <u>\$ 4,595</u>          | <u>\$ 114</u> | <u>\$ -</u>  | <u>\$ 4,709</u>          |
| <u>Total Agency Funds</u>  |                          |               |              |                          |
| ASSETS:  |                          |               |              |                          |
| Cash and investments available for operations                                  | \$ 2,522                 | \$ 245        | \$ -         | \$ 2,767                 |
| Cash and investments with fiscal agents  | 2,594                    | 63            | -            | 2,657                    |
| Accounts receivable  | 532                      | -             | 24           | 508                      |
| Interest receivable  | 14                       | 3             | -            | 17                       |
| Total assets   | <u>\$ 5,662</u>          | <u>\$ 311</u> | <u>\$ 24</u> | <u>\$ 5,949</u>          |
| LIABILITIES:   |                          |               |              |                          |
| Due to bondholders   | \$ 4,595                 | \$ 114        | \$ -         | \$ 4,709                 |
| Due to other governments   | 1,067                    | 173           | -            | 1,240                    |
| Total liabilities  | <u>\$ 5,662</u>          | <u>\$ 287</u> | <u>\$ -</u>  | <u>\$ 5,949</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
- Supplemental Disclosure for Gas Utilities
- Assessed Value of Taxable Property
- Property Tax Rates, All Overlapping Governments
- Property Tax Levies and Collections
- Principal Property Taxpayers
- Assessed Valuation and Parcels by Land Use
- Per Parcel Assessed Valuation of Single Family Residential

### **Debt Capacity**

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

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

## **STATISTICAL SECTION**

### **Demographic and Economic Information**

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

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

### **Operating Information**

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

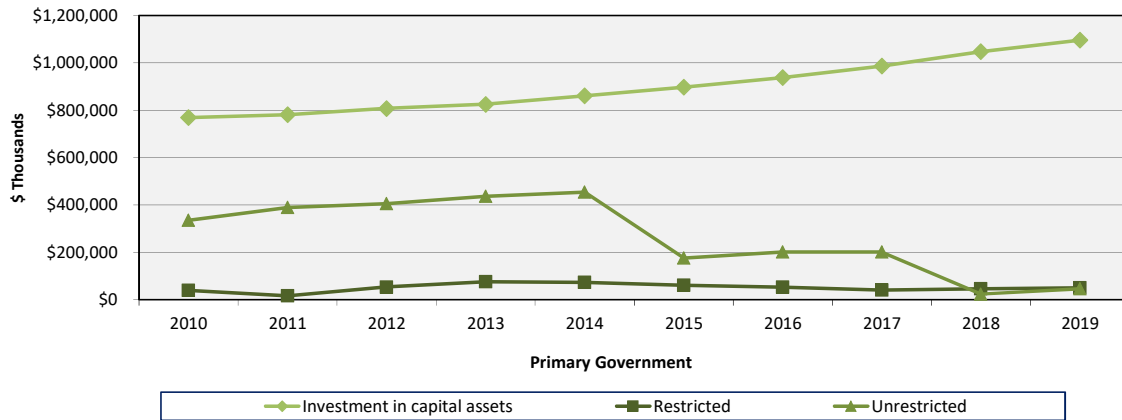
- Operating Indicators by Function/Program
- Capital Asset Statistics by Function/Program
- Full-Time Equivalent City Government Employees by Function

### **Sources**

Unless otherwise noted, the information in these schedules is derived from the 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 |                     |                     |                     |                     |                     |                     |                     |                     |                     |
|--|---------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|  | 2010                      | 2011                | 2012                | 2013                | 2014                | 2015                | 2016                | 2017                | 2018                | 2019                |
| <b>Governmental Activities</b>                     |                           |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| Investment in capital assets                       | \$ 369,499                | \$ 364,747          | \$ 370,111          | \$ 378,047          | \$ 386,696          | \$ 405,921          | \$ 425,179          | \$ 453,878          | \$ 473,233          | \$ 493,706          |
| Restricted   | 34,323                    | 16,437              | 52,934              | 71,717              | 68,331              | 55,963              | 47,907              | 36,081              | 41,177              | 45,639              |
| Unrestricted                                       | 102,199                   | 134,722             | 142,102             | 165,810             | 187,386             | 1,972               | 37,905              | 37,330              | (87,040)            | (89,362)            |
| <b>Total Governmental Activities Net Position</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>\$ 427,370</b>   | <b>\$ 449,983</b>   |
| <b>Business-type Activities</b>                    |                           |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| Investment in capital assets                       | \$ 399,317                | \$ 416,418          | \$ 437,151          | \$ 446,597          | \$ 473,795          | \$ 490,874          | \$ 512,918          | \$ 532,063          | \$ 573,688          | \$ 602,136          |
| Restricted   | 4,300                     | -                   | -                   | 4,060               | 4,166               | 4,142               | 4,115               | 4,073               | 4,014               | 4,016               |
| Unrestricted                                       | 232,420                   | 253,740             | 262,602             | 269,926             | 266,794             | 172,802             | 162,806             | 163,158             | 110,429             | 135,391             |
| <b>Total Business-type Activities Net Position</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>\$ 688,131</b>   | <b>\$ 741,543</b>   |
| <b>Primary Government</b>                          |                           |                     |                     |                     |                     |                     |                     |                     |                     |                     |
| Investment in capital assets                       | \$ 768,816                | \$ 781,165          | \$ 807,262          | \$ 824,644          | \$ 860,491          | \$ 896,795          | \$ 938,097          | \$ 985,941          | \$ 1,046,921        | \$ 1,095,842        |
| Restricted   | 38,623                    | 16,437              | 52,934              | 75,777              | 72,497              | 60,105              | 52,022              | 40,154              | 45,191              | 49,655              |
| Unrestricted                                       | 334,619                   | 388,462             | 404,704             | 435,736             | 454,180             | 174,774             | 200,711             | 200,488             | 23,389              | 46,029              |
| <b>Total Primary Government Net Position</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> | <b>\$ 1,115,501</b> | <b>\$ 1,191,526</b> |

Notes: The City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective July 1, 2014, and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*, effective July 1, 2017. The City's unrestricted net position decreased in FY 2015 and again in FY 2018 as a result.

Source: Annual Financial Statements, Statement of Net Position

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

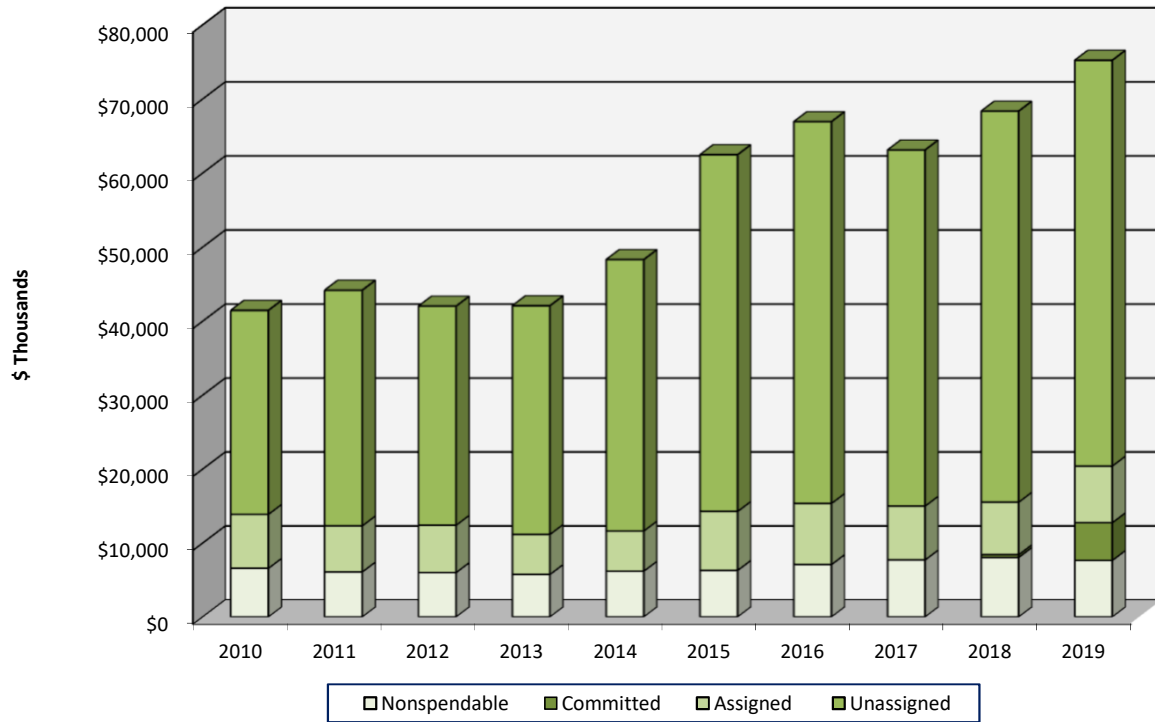
|                                       | Fiscal Year Ended June 30 |                   |                   |                   |                   |                   |                   |                   |                   |                   |
|---------------------------------------|---------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|                                       | 2010                      | 2011              | 2012              | 2013              | 2014              | 2015              | 2016              | 2017              | 2018              | 2019              |
| <b>PROGRAM REVENUES</b>               |                           |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| <b>Governmental Activities</b>        |                           |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Charges for services                  |                           |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| City Attorney                         | \$ 53                     | \$ -              | \$ -              | \$ -              | \$ -              | \$ -              | \$ -              | \$ -              | \$ -              | \$ -              |
| Administrative Services               | 984                       | 2,889             | 1,647             | 15,629            | 4,055             | 5,460             | 9,444             | 5,242             | 6,536             | 6,413             |
| Public Works                          | 1,258                     | 2,419             | 1,008             | 1,314             | 1,093             | 1,209             | 599               | 878               | 781               | 1,478             |
| Planning & Community Environment      | 4,813                     | 7,237             | 31,491            | 28,768            | 12,896            | 8,090             | 9,071             | 6,067             | 5,119             | 11,997            |
| Development Services <sup>1</sup>     | -                         | -                 | -                 | -                 | -                 | 12,019            | 12,570            | 11,768            | 16,000            | 13,904            |
| Public Safety                         | 14,337                    | 15,274            | 15,658            | 16,139            | 14,902            | 15,726            | 13,945            | 12,670            | 13,507            | 14,179            |
| Community Services                    | 8,729                     | 7,724             | 11,365            | 13,808            | 20,882            | 20,912            | 21,551            | 20,472            | 21,285            | 22,805            |
| Library                               | 199                       | 480               | 1,600             | 187               | 166               | 137               | 198               | 139               | 145               | 134               |
| Operating grants and contributions    | 4,829                     | 2,884             | 3,441             | 5,038             | 5,360             | 5,300             | 2,164             | 1,990             | 14,054            | 2,100             |
| Capital grants and contributions      | 1,280                     | 1,903             | 1,064             | 515               | 917               | 619               | 344               | 1,929             | 1,534             | 8,247             |
| <b>Total Governmental Activities</b>  |                           |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| <b>Program Revenues</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>78,961</b>     | <b>81,257</b>     |
| <b>Business-type Activities</b>       |                           |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Charges for services                  |                           |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Water                                 | 26,259                    | 26,624            | 31,467            | 37,746            | 40,291            | 35,847            | 37,588            | 42,678            | 45,087            | 45,571            |
| Electric                              | 121,900                   | 122,109           | 118,886           | 121,805           | 121,916           | 120,842           | 120,743           | 137,543           | 154,142           | 163,514           |
| Fiber Optics                          | 3,105                     | 3,322             | 3,662             | 4,382             | 4,485             | 4,627             | 4,505             | 4,553             | 4,529             | 4,657             |
| Gas                                   | 44,450                    | 43,584            | 41,774            | 34,633            | 35,737            | 30,751            | 30,212            | 36,431            | 37,044            | 42,113            |
| Wastewater Collection                 | 15,136                    | 15,094            | 14,942            | 16,077            | 15,599            | 16,182            | 16,496            | 17,748            | 17,990            | 20,219            |
| Wastewater Treatment                  | 16,915                    | 18,830            | 22,200            | 21,528            | 18,460            | 24,120            | 23,825            | 23,649            | 27,382            | 27,573            |
| Refuse                                | 28,568                    | 30,469            | 30,645            | 30,583            | 30,297            | 31,576            | 32,169            | 33,918            | 34,647            | 33,996            |
| Storm Drainage                        | 5,647                     | 5,796             | 5,892             | 6,053             | 6,183             | 6,281             | 6,520             | 6,693             | 6,964             | 7,249             |
| Airport                               | -                         | -                 | -                 | -                 | -                 | 683               | 826               | 1,286             | 2,382             | 2,483             |
| Operating grants and contributions    | 361                       | 610               | 605               | 572               | 549               | 534               | 744               | 512               | 501               | 488               |
| Capital grants and contributions      | 475                       | 3,004             | 1,526             | 2,224             | 2,005             | 2,080             | 1,061             | 4,265             | 14,194            | 6,677             |
| <b>Total Business-type Activities</b> |                           |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| <b>Program Revenues</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>344,862</b>    | <b>354,540</b>    |
| <b>Total Primary Government</b>       |                           |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| <b>Program Revenues</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>\$ 423,823</b> | <b>\$ 435,797</b> |
| <b>EXPENSES</b>                       |                           |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| <b>Governmental Activities</b>        |                           |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| City Council                          | \$ 455                    | \$ 15             | \$ 345            | \$ 94             | \$ 387            | \$ 271            | \$ 352            | \$ 329            | \$ 345            | \$ 270            |
| City Manager                          | 2,399                     | 1,842             | 1,960             | 1,237             | 2,180             | 2,155             | 2,662             | 1,975             | 2,757             | 3,336             |
| City Attorney                         | 2,621                     | 953               | 1,656             | 1,642             | 1,797             | 1,759             | 2,472             | 2,140             | 2,511             | 3,086             |
| City Clerk                            | 1,369                     | 803               | 908               | 330               | 641               | 680               | 582               | 762               | 931               | 822               |
| City Auditor                          | 2,601                     | 138               | 235               | 464               | 489               | 362               | 414               | 847               | 994               | 1,081             |
| Administrative Services               | 17,893                    | 9,888             | 10,100            | 7,614             | 11,388            | 9,980             | 10,637            | 11,887            | 13,949            | 19,169            |
| Human Resources                       | 3,707                     | 1,346             | 1,071             | 1,420             | 1,346             | 1,464             | 2,224             | 2,272             | 2,674             | 3,021             |
| Public Works                          | 18,658                    | 19,357            | 14,568            | 20,816            | 24,577            | 21,075            | 24,613            | 25,539            | 30,349            | 36,617            |
| Planning & Community Environment      | 12,114                    | 15,031            | 12,074            | 13,549            | 14,926            | 8,423             | 10,208            | 10,918            | 11,357            | 12,169            |
| Development Services <sup>1</sup>     | -                         | -                 | -                 | -                 | -                 | 10,449            | 11,158            | 11,102            | 12,664            | 12,622            |
| Public Safety                         | 55,799                    | 58,996            | 62,817            | 59,452            | 62,883            | 58,660            | 56,653            | 73,320            | 83,923            | 89,189            |
| Community Services                    | 17,171                    | 22,845            | 21,915            | 22,705            | 23,822            | 24,688            | 28,547            | 27,866            | 33,709            | 36,815            |
| Library                               | 6,143                     | 6,920             | 7,323             | 7,319             | 7,758             | 7,721             | 10,825            | 11,437            | 12,208            | 12,557            |
| Interest on long term debt            | 370                       | 2,742             | 2,575             | 2,562             | 3,367             | 3,658             | 3,552             | 2,846             | 2,761             | 3,653             |
| <b>Total Governmental</b>             |                           |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| <b>Activities Expenses</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>211,132</b>    | <b>234,407</b>    |
| <b>Business-type Activities</b>       |                           |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Water                                 | 21,037                    | 24,268            | 29,093            | 30,707            | 31,593            | 33,205            | 35,120            | 37,535            | 40,836            | 40,606            |
| Electric                              | 107,910                   | 100,130           | 102,030           | 106,438           | 113,004           | 122,499           | 120,319           | 128,603           | 146,033           | 139,605           |
| Fiber Optics                          | 1,407                     | 1,561             | 1,489             | 1,437             | 1,661             | 1,891             | 2,107             | 2,159             | 2,653             | 2,476             |
| Gas                                   | 32,498                    | 32,051            | 28,878            | 26,749            | 26,869            | 23,525            | 20,879            | 26,783            | 27,930            | 30,915            |
| Wastewater Collection                 | 10,696                    | 12,275            | 14,825            | 14,313            | 13,235            | 14,595            | 15,199            | 16,405            | 16,801            | 17,324            |
| Wastewater Treatment                  | 13,466                    | 19,731            | 20,712            | 20,635            | 21,018            | 21,553            | 22,546            | 23,498            | 27,518            | 27,070            |
| Refuse                                | 28,119                    | 30,684            | 31,900            | 28,542            | 28,413            | 27,974            | 30,370            | 30,665            | 28,808            | 30,391            |
| Storm Drainage                        | 2,491                     | 3,229             | 3,103             | 3,703             | 3,644             | 3,721             | 3,735             | 4,106             | 5,059             | 4,951             |
| Airport                               | -                         | 31                | 153               | 246               | 466               | 1,004             | 970               | 1,274             | 1,656             | 1,790             |
| <b>Total Business-type</b>            |                           |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| <b>Activities Expenses</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>297,294</b>    | <b>295,128</b>    |
| <b>Total Primary</b>                  |                           |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| <b>Government Expenses</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> | <b>\$ 508,426</b> | <b>\$ 529,535</b> |

|   | <b>Fiscal Year Ended June 30</b> |                    |                    |                    |                    |                    |                    |                    |                    |                    |
|---|----------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|   | 2010                             | 2011               | 2012               | 2013               | 2014               | 2015               | 2016               | 2017               | 2018               | 2019               |
| <b>NET (EXPENSE)/REVENUE</b>                              |                                  |                    |                    |                    |                    |                    |                    |                    |                    |                    |
| Governmental Activities                                   | \$ (104,818)                     | \$ (100,066)       | \$ (70,273)        | \$ (57,806)        | \$ (95,290)        | \$ (81,873)        | \$ (95,013)        | \$ (122,085)       | \$ (132,171)       | \$ (153,150)       |
| Business-type Activities                                  | 45,192                           | 45,482             | 39,416             | 42,833             | 35,619             | 23,556             | 23,444             | 38,248             | 47,568             | 59,412             |
| <b>Total Primary Government</b>                           |                                  |                    |                    |                    |                    |                    |                    |                    |                    |                    |
| <b>Net (Expense)/Revenue</b>                              | <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> | <u>\$ (84,603)</u> | <u>\$ (93,738)</u> |
| <b>GENERAL REVENUES AND OTHER CHANGES IN NET POSITION</b> |                                  |                    |                    |                    |                    |                    |                    |                    |                    |                    |
| <b><u>Governmental Activities</u></b>                     |                                  |                    |                    |                    |                    |                    |                    |                    |                    |                    |
| Taxes   |                                  |                    |                    |                    |                    |                    |                    |                    |                    |                    |
| Property tax  | \$ 25,981                        | \$ 29,156          | \$ 30,104          | \$ 31,929          | \$ 35,299          | \$ 38,750          | \$ 41,189          | \$ 43,953          | \$ 47,170          | \$ 51,718          |
| Sales tax   | 17,991                           | 20,746             | 22,132             | 25,606             | 29,424             | 29,675             | 30,018             | 29,923             | 31,091             | 36,508             |
| Utility user tax  | 11,295                           | 10,851             | 10,834             | 10,861             | 11,008             | 10,861             | 12,469             | 14,240             | 15,414             | 16,402             |
| Transient occupancy tax                                   | 6,858                            | 8,082              | 9,664              | 10,794             | 12,255             | 16,699             | 22,366             | 23,477             | 24,937             | 25,649             |
| Other taxes   | 4,055                            | 8,156              | 8,173              | 10,504             | 9,660              | 11,867             | 7,868              | 8,989              | 11,337             | 9,525              |
| Investment earnings                                       | 6,514                            | 3,500              | 6,238              | (1,228)            | 5,859              | 5,010              | 8,639              | (711)              | 420                | 15,375             |
| Miscellaneous   | 12,729                           | 12,377             | 14,943             | 518                | 2,575              | 3,428              | 894                | 168                | 1,973              | 1,906              |
| Transfers   | 13,994                           | 17,083             | 17,426             | 19,249             | 17,103             | 16,405             | 18,705             | 18,344             | 19,077             | 18,680             |
| <b>Total Governmental Activities</b>                      | <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>     | <u>151,419</u>     | <u>175,763</u>     |
| <b><u>Business-type Activities</u></b>                    |                                  |                    |                    |                    |                    |                    |                    |                    |                    |                    |
| Investment earnings                                       | 10,769                           | 5,722              | 7,605              | (2,754)            | 6,379              | 4,857              | 7,282              | (449)              | 596                | 12,680             |
| Transfers   | (13,994)                         | (17,083)           | (17,426)           | (19,249)           | (17,103)           | (16,405)           | (18,705)           | (18,344)           | (19,077)           | (18,680)           |
| <b>Total Business-type Activities</b>                     | <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>    | <u>(18,481)</u>    | <u>(6,000)</u>     |
| <b>Total Primary Government</b>                           | <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>  | <u>\$ 132,938</u>  | <u>\$ 169,763</u>  |
| <b>CHANGE IN NET POSITION</b>                             |                                  |                    |                    |                    |                    |                    |                    |                    |                    |                    |
| Governmental Activities                                   | \$ (5,401)                       | \$ 9,885           | \$ 49,241          | \$ 50,427          | \$ 27,893          | \$ 50,822          | \$ 47,135          | \$ 16,298          | \$ 19,248          | \$ 22,613          |
| Business-type Activities                                  | 41,967                           | 34,121             | 29,595             | 20,830             | 24,895             | 12,008             | 12,021             | 19,455             | 29,087             | 53,412             |
| <b>Total Primary Government</b>                           |                                  |                    |                    |                    |                    |                    |                    |                    |                    |                    |
| <b>Change in Net Position</b>                             | <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>   | <u>\$ 48,335</u>   | <u>\$ 76,025</u>   |

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

Source: Annual Financial Statements, Statement of Activities

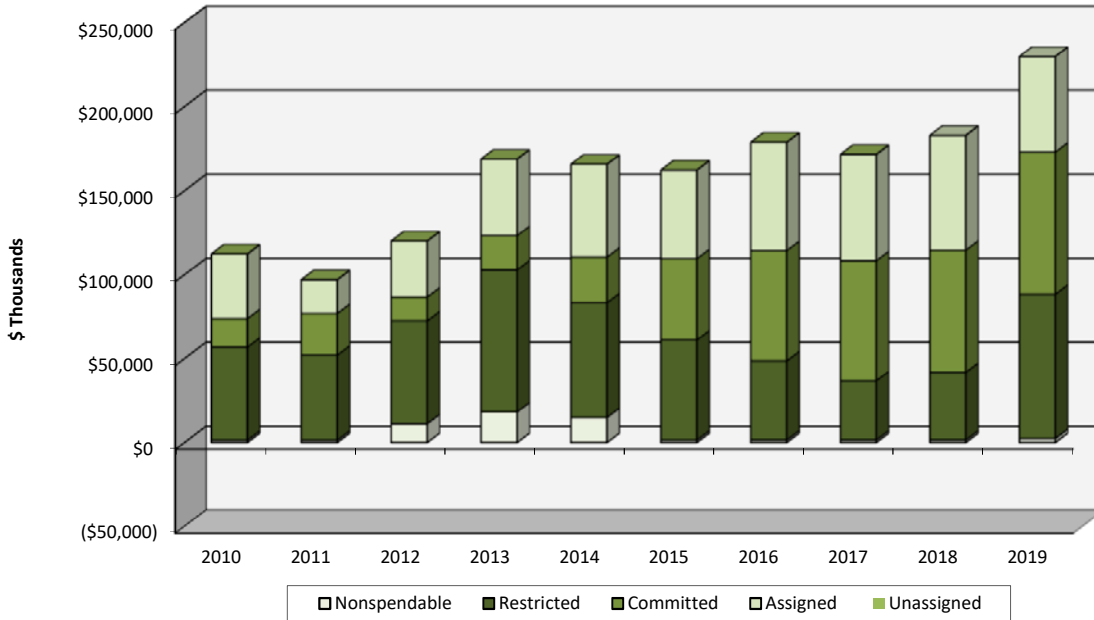
**CITY OF PALO ALTO**  
**Fund Balances of Governmental Funds (General Fund)**  
**Last Ten Fiscal Years**  
**(Modified accrual basis of accounting)**  
**(Amounts in thousands)**



|                           | <b>Fiscal Year Ended June 30</b> |                  |                  |                  |                  |                  |                  |                  |                  |                  |
|---------------------------|----------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                           | 2010                             | 2011             | 2012             | 2013             | 2014             | 2015             | 2016             | 2017             | 2018             | 2019             |
| <b>General Fund</b>       |                                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Nonspendable              | \$ 6,581                         | \$ 6,085         | \$ 6,007         | \$ 5,749         | \$ 6,188         | \$ 6,296         | \$ 7,088         | \$ 7,709         | \$ 8,049         | \$ 7,647         |
| Committed                 | -                                | -                | -                | -                | -                | -                | -                | -                | 373              | 5,100            |
| Assigned                  | 7,295                            | 6,235            | 6,400            | 5,415            | 5,432            | 7,976            | 8,261            | 7,280            | 7,098            | 7,657            |
| Unassigned                | 27,581                           | 31,859           | 29,616           | 30,913           | 36,690           | 48,198           | 51,582           | 48,118           | 52,826           | 54,811           |
| <b>Total General Fund</b> | <b>\$ 41,457</b>                 | <b>\$ 44,179</b> | <b>\$ 42,023</b> | <b>\$ 42,077</b> | <b>\$ 48,310</b> | <b>\$ 62,470</b> | <b>\$ 66,931</b> | <b>\$ 63,107</b> | <b>\$ 68,346</b> | <b>\$ 75,215</b> |

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> |                  |                   |                   |                   |                   |                   |                   |                   |                   |
|---|----------------------------------|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|   | 2010                             | 2011             | 2012              | 2013              | 2014              | 2015              | 2016              | 2017              | 2018              | 2019              |
| <b>All Other Governmental Funds</b>       |                                  |                  |                   |                   |                   |                   |                   |                   |                   |                   |
| Nonspendable                              | \$ 1,402                         | \$ 1,422         | \$ 11,112         | \$ 18,189         | \$ 14,869         | \$ 1,468          | \$ 1,505          | \$ 1,499          | \$ 1,498          | \$ 2,438          |
| Restricted                                | 55,400                           | 50,646           | 61,324            | 84,688            | 68,468            | 59,650            | 47,113            | 35,298            | 40,317            | 85,940            |
| Committed                                 | 16,962                           | 24,775           | 14,284            | 20,400            | 27,145            | 48,434            | 65,745            | 71,566            | 72,781            | 84,616            |
| Assigned                                  | 38,538                           | 20,114           | 33,264            | 45,514            | 55,211            | 52,627            | 64,411            | 63,225            | 68,261            | 56,842            |
| Unassigned                                | -                                | -                | -                 | -                 | -                 | -                 | -                 | -                 | (32)              | (32)              |
| <b>Total All Other Governmental Funds</b> | <b>\$ 112,302</b>                | <b>\$ 96,957</b> | <b>\$ 119,984</b> | <b>\$ 168,791</b> | <b>\$ 165,693</b> | <b>\$ 162,179</b> | <b>\$ 178,774</b> | <b>\$ 171,588</b> | <b>\$ 182,825</b> | <b>\$ 229,804</b> |

Source: Annual Financial Statements, Balance Sheet

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

|  | Fiscal Year Ended June 30 |                    |                  |                  |                 |                  |                  |                    |                  |                  |
|--|---------------------------|--------------------|------------------|------------------|-----------------|------------------|------------------|--------------------|------------------|------------------|
|  | 2010                      | 2011               | 2012             | 2013             | 2014            | 2015             | 2016             | 2017               | 2018             | 2019             |
| <b>Revenues</b>  |                           |                    |                  |                  |                 |                  |                  |                    |                  |                  |
| Property tax   | \$ 25,981                 | \$ 29,248          | \$ 30,216        | \$ 32,040        | \$ 35,393       | \$ 38,836        | \$ 41,289        | \$ 44,050          | \$ 47,242        | \$ 51,776        |
| Sales tax  | 17,991                    | 20,746             | 22,132           | 25,606           | 29,424          | 29,675           | 30,018           | 29,923             | 31,091           | 36,508           |
| Other taxes and fines  | 25,063                    | 27,890             | 29,231           | 32,141           | 35,305          | 41,576           | 44,909           | 48,875             | 53,837           | 53,525           |
| Contributions <sup>3</sup>   | -                         | -                  | -                | -                | -               | -                | -                | -                  | 11,733           | -                |
| Charges for services   | 19,775                    | 22,311             | 46,273           | 38,976           | 23,962          | 25,973           | 23,910           | 22,267             | 26,835           | 27,346           |
| From other agencies  | 3,035                     | 1,614              | 1,116            | 4,109            | 5,700           | 7,727            | 4,417            | 5,443              | 5,392            | 4,689            |
| Permits and licenses   | 4,408                     | 5,433              | 7,136            | 8,218            | 8,990           | 9,179            | 11,228           | 10,523             | 12,786           | 17,759           |
| Interest and rentals   | 19,045                    | 16,553             | 18,583           | 12,136           | 18,445          | 18,658           | 22,269           | 15,348             | 16,288           | 32,905           |
| Other revenue  | 4,724                     | 8,624              | 12,739           | 17,570           | 7,471           | 12,837           | 13,827           | 4,985              | 6,067            | 7,955            |
| <b>Total Revenues</b>  | <b>120,022</b>            | <b>132,419</b>     | <b>167,426</b>   | <b>170,796</b>   | <b>164,690</b>  | <b>184,461</b>   | <b>191,867</b>   | <b>181,414</b>     | <b>211,271</b>   | <b>232,463</b>   |
| <b>Expenditures</b>  |                           |                    |                  |                  |                 |                  |                  |                    |                  |                  |
| Administration <sup>1</sup>  | 17,353                    | 8,351              | 9,412            | 8,291            | 9,961           | 10,806           | 11,501           | 13,192             | 14,721           | 15,799           |
| Public Works   | 9,787                     | 11,317             | 11,304           | 11,489           | 12,439          | 12,276           | 13,112           | 14,485             | 15,426           | 14,764           |
| Planning and Community Environment                                   | 9,480                     | 10,309             | 11,966           | 13,474           | 14,761          | 8,628            | 9,722            | 10,568             | 10,332           | 10,911           |
| Development Services <sup>2</sup>                                    | -                         | -                  | -                | -                | -               | 11,152           | 10,643           | 10,908             | 11,749           | 11,549           |
| Public Safety  | 51,022                    | 58,874             | 62,418           | 59,537           | 62,028          | 61,447           | 63,784           | 71,164             | 73,916           | 76,344           |
| Community Services   | 16,451                    | 20,029             | 20,860           | 21,661           | 22,644          | 23,553           | 25,511           | 25,408             | 29,831           | 31,619           |
| Library  | 5,900                     | 6,509              | 7,072            | 6,902            | 7,340           | 7,980            | 7,960            | 8,953              | 9,120            | 9,288            |
| Non-departmental   | 10,149                    | 7,352              | 6,819            | 4,567            | 8,135           | 6,180            | 8,068            | 6,566              | 7,579            | 12,231           |
| Special revenue and capital projects                                 | 22,006                    | 35,486             | 29,154           | 29,542           | 37,035          | 41,754           | 24,457           | 39,643             | 40,971           | 46,914           |
| Debt service - principal payments                                    | 840                       | 870                | 1,743            | 1,489            | 1,524           | 1,948            | 7,130            | 2,066              | 2,961            | 2,101            |
| Debt service - interest and fiscal fees                              | 382                       | 1,815              | 2,757            | 2,659            | 3,196           | 3,404            | 4,266            | 3,032              | 2,956            | 3,398            |
| Payment to bond refunding escrow                                     | -                         | -                  | 586              | 540              | -               | -                | -                | -                  | -                | -                |
| <b>Total Expenditures</b>  | <b>143,370</b>            | <b>160,912</b>     | <b>164,091</b>   | <b>160,151</b>   | <b>179,063</b>  | <b>189,128</b>   | <b>186,154</b>   | <b>205,985</b>     | <b>219,562</b>   | <b>234,918</b>   |
| <b>Excess (Deficiency) of Revenues<br/>Over (Under) Expenditures</b> | <b>(23,348)</b>           | <b>(28,493)</b>    | <b>3,335</b>     | <b>10,645</b>    | <b>(14,373)</b> | <b>(4,667)</b>   | <b>5,713</b>     | <b>(24,571)</b>    | <b>(8,291)</b>   | <b>(2,455)</b>   |
| <b>Other Financing Sources (Uses)</b>                                |                           |                    |                  |                  |                 |                  |                  |                    |                  |                  |
| Issuance of Debt   | -                         | -                  | -                | -                | -               | -                | -                | -                  | 8,970            | 42,297           |
| Proceeds from sale of capital assets                                 | -                         | -                  | -                | -                | -               | -                | -                | -                  | -                | 2,442            |
| Transfers in   | 34,835                    | 30,323             | 47,200           | 50,343           | 41,683          | 45,137           | 61,835           | 58,331             | 56,882           | 54,711           |
| Transfers out  | (21,415)                  | (14,352)           | (29,782)         | (33,833)         | (24,175)        | (29,824)         | (46,492)         | (44,770)           | (41,085)         | (43,147)         |
| 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>                          | <b>72,491</b>             | <b>15,870</b>      | <b>17,536</b>    | <b>38,216</b>    | <b>17,508</b>   | <b>15,313</b>    | <b>15,343</b>    | <b>13,561</b>      | <b>24,767</b>    | <b>56,303</b>    |
| <b>Net Change in Fund Balances</b>                                   | <b>\$ 49,143</b>          | <b>\$ (12,623)</b> | <b>\$ 20,871</b> | <b>\$ 48,861</b> | <b>\$ 3,135</b> | <b>\$ 10,646</b> | <b>\$ 21,056</b> | <b>\$ (11,010)</b> | <b>\$ 16,476</b> | <b>\$ 53,848</b> |
| <b>Debt Service as a Percentage of<br/>Non-Capital Expenditures</b>  |                           |                    |                  |                  |                 |                  |                  |                    |                  |                  |
|  | 1.0%                      | 2.2%               | 3.5%             | 3.2%             | 3.3%            | 3.7%             | 7.1%             | 3.1%               | 3.3%             | 2.8%             |

Notes:

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

<sup>2</sup>The Development Services Department was formed in FY15.

<sup>3</sup>Contributions from the Stanford University Medical Center.

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> |
|--------------------|--------------------|------------------------------------|--------------------------|--------------|
| 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      |
| 2018               | 22,764             | 100,200                            | 4,264                    | 127,228      |
| 2019               | 23,613             | 103,509                            | 4,404                    | 131,526      |

\* The electric operating revenues include sales to customers and city departments, and excludes the sale of surplus energy, utility billing discounts, and bad debt expense.

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

| <b>Customer (alphabetical order)</b>    | <b>Type of Business</b>       |
|---|-------------------------------|
| 529 Bryant Street LLC                   | Technology                    |
| City of Palo Alto                       | Municipal                     |
| Communications & Power Industries (CPI) | Research                      |
| Lucille Packard Children's Hospital     | Hospital                      |
| Space Systems/Loral, LLC                | Satellite & Satellite Systems |
| Stanford Hospital & Clinics             | Hospital                      |
| Tesla, Inc.                             | Manufacturing                 |
| Varian Medical Systems, Inc.            | Manufacturing                 |
| Veterans Administration Hospital        | Hospital                      |
| VMware, Inc.                            | Computer                      |

<sup>1</sup>The top ten customers accounted for approximately 35.3% of total kWh consumption (311,586,525 kWh) and 31.2% of revenue (\$42,456,824). The largest customer accounted for 9.1% of total kWh consumption and 7.8% of revenue. The smallest customer accounted for 1.9% of total kWh consumption and 1.6% 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  | 25,675                     | 150,602,255                      | \$ 23,613                  |
| Commercial   | 3,703                      | 568,750,819                      | 85,332                     |
| Industrial   | 72                         | 133,791,543                      | 18,177                     |
| CPA          | 141                        | 29,258,401                       | 4,404                      |
| <b>Total</b> | <b>29,591</b>              | <b>882,403,018</b>               | <b>\$ 131,526</b>          |

**City of Palo Alto Power Purchase**

|   |        |
|---|--------|
| Western Area Power Administration Hydroelectric | 42.2%  |
| Forward Market Purchases                        | -3.1%  |
| Wind Energy                                     | 11.3%  |
| Landfill Gas Energy                             | 11.0%  |
| Solar Energy                                    | 37.3%  |
| Northern California Power Agency Hydroelectric  | 21.5%  |
| Short-Term Market                               | -20.3% |

<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 2019**

**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  
Simon Property Group  
Stanford Hospital & Clinics  
Stanford West Management  
Veterans Administration Hospital  
Vi at Palo Alto  
VMware Inc.

The top ten customers total consumption is 817,423 CCF with revenue of \$7,752,774. This amount accounts for approximately 18.5% of total consumption and 16.9% of total revenue. The largest customer (other than the City of Palo Alto) accounted for 2.7% of consumption and 2.4% of revenue. The smallest customer accounted for 0.7% of consumption and 0.7% of revenue. Revenue used to determine top ten water utility customers includes metered and non-metered charges, adjustments, surcharges and discounts. Revenue does not include Utility Users Tax (UUT) and deposits.

Note: This schedule is provided as required by the Continuing Disclosure Agreement for the City's Utility Revenue Bond and is not required by Governmental Accounting Standards Board (GASB).

Source: City of Palo Alto, Utilities Department



**CITY OF PALO ALTO**  
**Supplemental Disclosure for Gas Utilities**  
**Fiscal Year 2019**

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

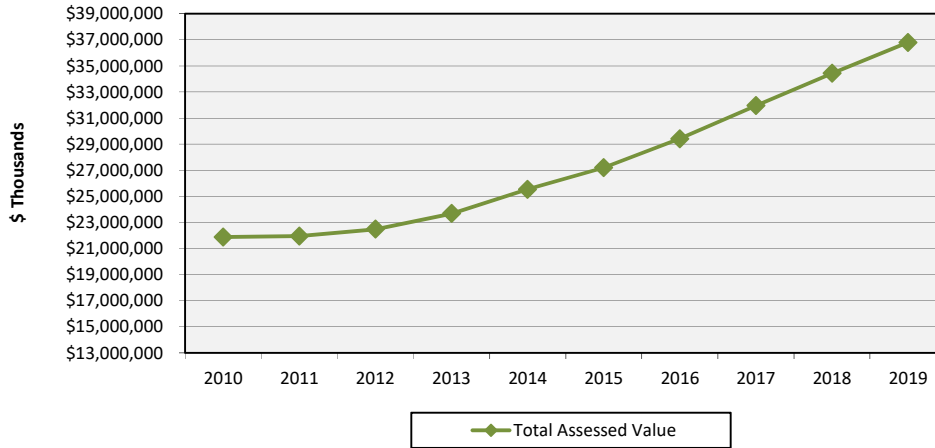
City of Palo Alto  
Communications & Power Industries (CPI)  
Genencor International  
Hewlett Packard  
Palo Alto Unified School District  
Space Systems/Loral, LLC  
Stanford Hospital & Clinics  
Stanford University  
Veterans Administration Hospital  
VMware Inc.

The top ten customers total consumption is 7,172,798 THM with revenue of \$8,791,874. This amount accounts for approximately 24.7% of total consumption and 21.1% of total revenue. The largest customer (other than the City of Palo Alto) accounted for 6.1% of consumption and 5.1% of revenue. The smallest customer accounted for 1.1% of consumption and 1% of revenue.

Note: This schedule is provided as required by the Continuing Disclosure Agreement for the City's Utility Revenue Bond and is not required by Governmental Accounting Standards Board (GASB).

Source: City of Palo Alto, Utilities Department

**CITY OF PALO ALTO**  
**Assessed Value of Taxable Property**  
**Last Ten Fiscal Years**  
**(Amounts in thousands)**

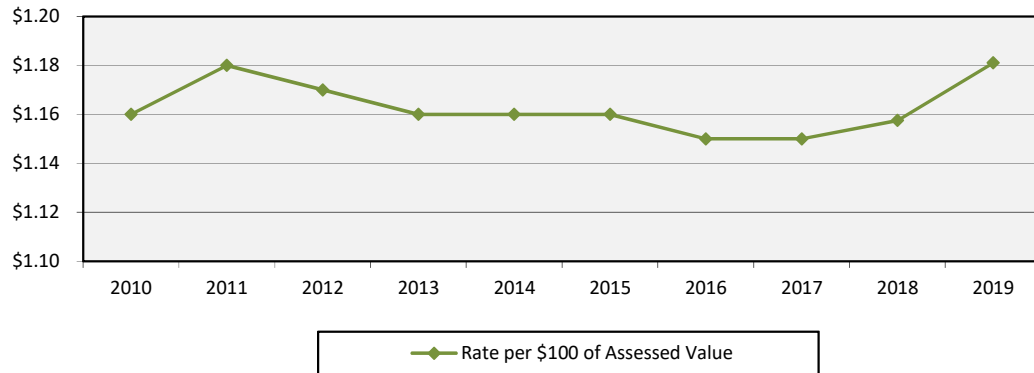


|                                     | Fiscal Year Ended June 30 |                      |                      |                      |                      |                      |                      |                      |                      |                      |
|-------------------------------------|---------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
|                                     | 2010                      | 2011                 | 2012                 | 2013                 | 2014                 | 2015                 | 2016                 | 2017                 | 2018                 | 2019                 |
| <b>Net Local Secured Roll</b>       |                           |                      |                      |                      |                      |                      |                      |                      |                      |                      |
| Land                                | \$ 11,007,650             | \$ 11,011,160        | \$ 11,352,993        | \$ 12,255,515        | \$ 13,357,851        | \$ 14,409,837        | \$ 15,718,665        | \$ 17,333,969        | \$ 18,770,642        | \$ 20,386,904        |
| Improvements                        | 10,752,671                | 10,962,928           | 11,703,597           | 12,381,306           | 12,984,735           | 13,633,986           | 14,998,502           | 16,752,295           | 18,642,970           | 19,845,666           |
| Personal property                   | 288,148                   | 241,280              | 257,436              | 287,296              | 307,499              | 290,590              | 310,929              | 306,576              | 300,352              | 181,381              |
|                                     | <u>22,048,469</u>         | <u>22,215,368</u>    | <u>23,314,026</u>    | <u>24,924,117</u>    | <u>26,650,085</u>    | <u>28,334,413</u>    | <u>31,028,096</u>    | <u>34,392,840</u>    | <u>37,713,964</u>    | <u>40,413,951</u>    |
| <b>Less:</b>                        |                           |                      |                      |                      |                      |                      |                      |                      |                      |                      |
| Exemptions net of state aid         | <u>(1,809,119)</u>        | <u>(1,757,241)</u>   | <u>(2,346,728)</u>   | <u>(2,589,653)</u>   | <u>(2,610,521)</u>   | <u>(2,761,495)</u>   | <u>(3,409,836)</u>   | <u>(4,244,500)</u>   | <u>(5,203,968)</u>   | <u>(5,522,323)</u>   |
| <b>Total Net Local Secured Roll</b> | <u>20,239,350</u>         | <u>20,458,127</u>    | <u>20,967,298</u>    | <u>22,334,464</u>    | <u>24,039,564</u>    | <u>25,572,918</u>    | <u>27,618,260</u>    | <u>30,148,340</u>    | <u>32,509,996</u>    | <u>34,891,628</u>    |
| Public utilities                    | 2,573                     | 2,573                | 2,573                | 2,573                | 2,573                | 2,573                | 2,573                | 2,573                | 2,573                | 7,004                |
| Unsecured property                  | <u>1,638,436</u>          | <u>1,495,574</u>     | <u>1,516,837</u>     | <u>1,355,970</u>     | <u>1,493,922</u>     | <u>1,622,636</u>     | <u>1,794,921</u>     | <u>1,803,468</u>     | <u>1,922,170</u>     | <u>1,902,781</u>     |
| <b>Total Assessed Value</b>         | <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> | <u>\$ 34,434,739</u> | <u>\$ 36,801,413</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> | County Affordable Housing Bond (Measure A) <sup>4</sup> | Total Direct and Overlapping Rates |
|-------------|------------------------|------------------------|--|---|-----------------------------------|-----------------|-------------------|--------------------------------------|---|------------------------------------|
| 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                               |
| 2018        | 1.00                   | 0.0388                 | 0.0082   | 0.0118  | 0.0062                            | 0.0570          | 0.0220            | 0.0009                               | 0.0127  | 1.16                               |
| 2019        | 1.00                   | 0.0388                 | 0.0072   | 0.0111  | 0.0042                            | 0.0858          | 0.0217            | 0.0018                               | 0.0105  | 1.18                               |

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.

<sup>4</sup>The Santa Clara County Affordable Housing Bond - Measure A 2016 passed on November 8, 2016.

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<br>Ended June 30 | Total Tax<br>Levy <sup>1</sup> for FY | Collected within the<br>Fiscal Year of the Levy |                       |   | Total Collections to Date |                       |
|------------------------------|---------------------------------------|---|-----------------------|---|---------------------------|-----------------------|
|                              |                                       | Amount  | Percentage<br>of Levy | Collections in<br>Subsequent Years <sup>2</sup> | Amount                    | Percentage of<br>Levy |
| 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%                  |
| 2018                         | 42,839                                | 42,839  | 100%                  | -   | 42,839                    | 100%                  |
| 2019                         | 47,327                                | 47,327  | 100%                  | -   | 47,327                    | 100%                  |

Notes: <sup>1</sup>During fiscal year 1995, the County of Santa Clara began providing the City 100% of its tax levy under an agreement which allows the county to keep all interest and delinquency charges collected.

<sup>2</sup>Effective fiscal year 1994, the City is on the Teeter Plan, under which the County of Santa Clara pays the full tax levy due.

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

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

| Taxpayer                                    | Fiscal Year 2019          |      |  | Fiscal Year 2010             |      |  |
|---|---------------------------|------|--|------------------------------|------|--|
|   | Taxable Assessed<br>Value | Rank | Percentage of<br>Total Taxable<br>Assessed Value | Taxable<br>Assessed<br>Value | Rank | Percentage of<br>Total Taxable<br>Assessed Value |
| Leland Stanford Jr. University              | \$ 5,446,309              | 1    | 14.8%  | \$ 3,339,922                 | 1    | 15.3%  |
| Loral Space & Communications                | 248,247                   | 2    | 0.7%   | 210,132                      | 2    | 1.0%   |
| Google Inc.                                 | 213,982                   | 3    | 0.6%   |                              |      |  |
| 395 Page Mill LLC                           | 118,303                   | 4    | 0.3%   |                              |      |  |
| ARE-San Francisco 69 LLC                    | 114,575                   | 5    | 0.3%   |                              |      |  |
| SVF Sherman Palo Alto Corporation           | 97,856                    | 6    | 0.3%   |                              |      |  |
| Hohbach Realty Co. LP                       | 94,642                    | 7    | 0.3%   |                              |      |  |
| SI 45 LLC                                   | 81,145                    | 8    | 0.2%   |                              |      |  |
| Gwin Property Inc.                          | 78,540                    | 9    | 0.2%   |                              |      |  |
| BVK Hamilton Ave LLC                        | 73,189                    | 10   | 0.2%   |                              |      |  |
| Arden Realty Limited Partnership            |                           |      |  | 111,897                      | 3    | 0.5%   |
| Whisman Ventures, LLC                       |                           |      |  | 104,529                      | 4    | 0.5%   |
| ECI 2 Bayshore LLC/ECI Hamilton LLC         |                           |      |  | 73,523                       | 5    | 0.3%   |
| Blackhawk Parent LLC                        |                           |      |  | 49,939                       | 6    | 0.2%   |
| Pacific Hotel Dev Venture LP                |                           |      |  | 43,686                       | 7    | 0.2%   |
| 300 / 400 Hamilton Associates               |                           |      |  | 41,221                       | 8    | 0.2%   |
| Ronald & Ann Williams Charitable Foundation |                           |      |  | 40,346                       | 9    | 0.2%   |
| 505 Hamilton Avenue Partners LLC            |                           |      |  | 40,142                       | 10   | 0.2%   |
| <b>Total</b>                                | <b>\$ 6,566,788</b>       |      | <b>17.8%</b>                                     | <b>\$ 4,055,337</b>          |      | <b>18.5%</b>                                     |

**Total City Taxable Assessed Value:**

|         |               |
|---------|---------------|
| FY 2019 | \$ 36,801,413 |
| FY 2010 | \$ 21,880,359 |

Source: California Municipal Statistics, Inc.

**CITY OF PALO ALTO**  
**Assessed Valuation and Parcels by Land Use**  
**As of June 30, 2019**

|                                   | <b>2018-2019</b>             |              |                |              |                |              |
|-----------------------------------|------------------------------|--------------|----------------|--------------|----------------|--------------|
|                                   | <b>Assessed</b>              | <b>% of</b>  | <b>No. of</b>  | <b>% of</b>  | <b>No. of</b>  | <b>% of</b>  |
|                                   | <b>Valuation<sup>1</sup></b> | <b>Total</b> | <b>Parcels</b> | <b>Total</b> | <b>Taxable</b> | <b>Total</b> |
|                                   |                              |              |                |              | <b>Parcels</b> | <b>Total</b> |
| <b>Non-Residential:</b>           |                              |              |                |              |                |              |
| Agricultural/forest               | \$ 33,351,880                | 0.10 %       | 49             | 0.24 %       | 31             | 0.15 %       |
| Commercial                        | 1,957,286,113                | 5.61         | 459            | 2.20         | 456            | 2.23         |
| Professional/office               | 5,325,032,104                | 15.26        | 551            | 2.64         | 531            | 2.60         |
| Industrial/research & development | 1,995,220,030                | 5.72         | 232            | 1.11         | 231            | 1.13         |
| Recreational                      | 46,286,052                   | 0.13         | 15             | 0.07         | 13             | 0.06         |
| Government/social/institutional   | 115,102,472                  | 0.33         | 115            | 0.55         | 51             | 0.25         |
| Miscellaneous                     | <u>7,825,940</u>             | <u>0.02</u>  | <u>18</u>      | <u>0.09</u>  | <u>17</u>      | <u>0.08</u>  |
| Subtotal Non-Residential          | \$ 9,480,104,591             | 27.17 %      | 1,439          | 6.90 %       | 1,330          | 6.50 %       |
| <b>Residential:</b>               |                              |              |                |              |                |              |
| Single family residence           | \$ 20,621,273,432            | 59.10 %      | 15,094         | 72.42 %      | 15,046         | 73.54 %      |
| Condominium/townhouse             | 2,590,656,482                | 7.42         | 3,091          | 14.83        | 3,087          | 15.09        |
| Mobile Home                       | 73,254                       | 0.00         | 7              | 0.03         | 7              | 0.03         |
| 2-4 Residential units             | 494,582,920                  | 1.42         | 497            | 2.38         | 497            | 2.43         |
| 5+ Residential units              | <u>1,523,956,988</u>         | <u>4.37</u>  | <u>341</u>     | <u>1.64</u>  | <u>326</u>     | <u>1.59</u>  |
| Subtotal Residential              | \$ 25,230,543,076            | 72.31 %      | 19,030         | 91.31 %      | 18,963         | 92.68 %      |
| <b>Vacant Parcels</b>             | \$ 180,979,844               | 0.52 %       | 373            | 1.79 %       | 168            | 0.82 %       |
| <b>Total</b>                      | \$ 34,891,627,511            | 100 %        | 20,842         | 100 %        | 20,461         | 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, 2019**

|                           | No. of<br>Taxable<br>Parcels <sup>1</sup> | 2018-2019<br>Assessed Valuation | Average<br>Assessed Valuation | Median<br>Assessed Valuation |
|---------------------------|---|---------------------------------|-------------------------------|------------------------------|
| Single Family Residential | 15,046                                    | \$20,621,273,432                | \$1,370,549                   | \$981,333                    |

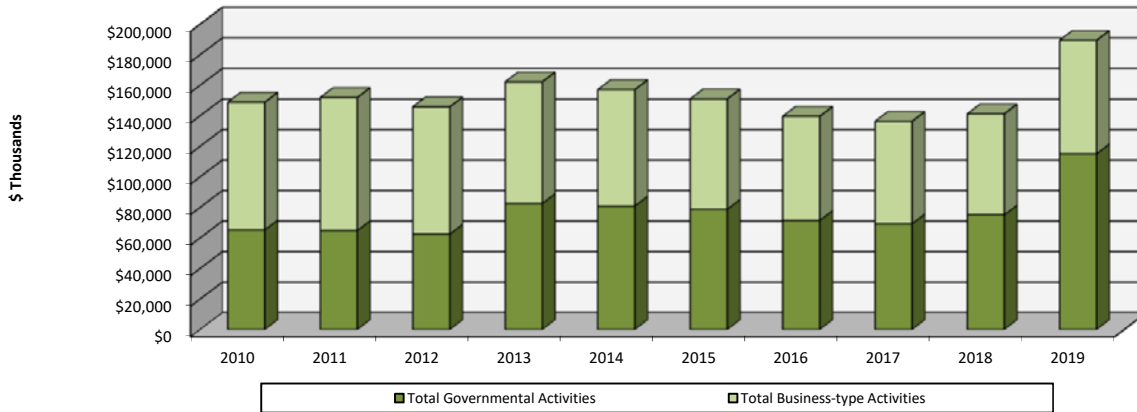
| 2018-2019<br>Assessed Valuation | No. of<br>Taxable<br>Parcels <sup>1</sup> | % of<br>Total<br>Parcels | Cumulative<br>% of Total<br>Parcels | Total<br>Valuation | % of<br>Total<br>Valuation | Cumulative<br>% of Total<br>Valuation |
|---------------------------------|---|--------------------------|-------------------------------------|--------------------|----------------------------|---------------------------------------|
| \$0-99,999                      | 989                                       | 6.57                     | 6.57                                | \$ 79,633,247      | 0.39                       | 0.39                                  |
| \$100,000-199,999               | 1,694                                     | 11.26                    | 17.83                               | 235,648,435        | 1.14                       | 1.53                                  |
| \$200,000-299,999               | 763                                       | 5.07                     | 22.90                               | 189,109,555        | 0.92                       | 2.45                                  |
| \$300,000-399,999               | 685                                       | 4.55                     | 27.46                               | 237,520,031        | 1.15                       | 3.60                                  |
| \$400,000-499,999               | 582                                       | 3.87                     | 31.32                               | 261,675,882        | 1.27                       | 4.87                                  |
| \$500,000-599,999               | 637                                       | 4.23                     | 35.56                               | 350,220,578        | 1.70                       | 6.57                                  |
| \$600,000-699,999               | 657                                       | 4.37                     | 39.92                               | 425,039,262        | 2.06                       | 8.63                                  |
| \$700,000-799,999               | 570                                       | 3.79                     | 43.71                               | 427,135,161        | 2.07                       | 10.70                                 |
| \$800,000-899,999               | 478                                       | 3.18                     | 46.89                               | 407,331,229        | 1.98                       | 12.67                                 |
| \$900,000-999,999               | 584                                       | 3.88                     | 50.77                               | 554,955,818        | 2.69                       | 15.36                                 |
| \$1,000,000-1,099,999           | 531                                       | 3.53                     | 54.30                               | 557,321,101        | 2.70                       | 18.07                                 |
| \$1,100,000-1,199,999           | 516                                       | 3.43                     | 57.73                               | 592,667,085        | 2.87                       | 20.94                                 |
| \$1,200,000-1,299,999           | 413                                       | 2.74                     | 60.47                               | 515,011,442        | 2.50                       | 23.44                                 |
| \$1,300,000-1,399,999           | 434                                       | 2.88                     | 63.36                               | 585,810,095        | 2.84                       | 26.28                                 |
| \$1,400,000-1,499,999           | 388                                       | 2.58                     | 65.94                               | 563,108,182        | 2.73                       | 29.01                                 |
| \$1,500,000-1,599,999           | 386                                       | 2.57                     | 68.50                               | 597,626,574        | 2.90                       | 31.91                                 |
| \$1,600,000-1,699,999           | 378                                       | 2.51                     | 71.02                               | 623,525,260        | 3.02                       | 34.93                                 |
| \$1,700,000-1,799,999           | 331                                       | 2.20                     | 73.22                               | 578,946,367        | 2.81                       | 37.74                                 |
| \$1,800,000-1,899,999           | 298                                       | 1.98                     | 75.20                               | 551,743,555        | 2.68                       | 40.41                                 |
| \$1,900,000-1,999,999           | 284                                       | 1.89                     | 77.08                               | 553,327,425        | 2.68                       | 43.10                                 |
| \$2,000,000 and greater         | 3,448                                     | 22.92                    | 100.00                              | 11,733,917,348     | 56.90                      | 100.00                                |
| Total                           | 15,046                                    | 100.00                   |                                     | \$ 20,621,273,632  | 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> |                   |                   |                   |                   |                   |                   |                   |                   |                   |
|--|----------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|  | 2010                             | 2011              | 2012              | 2013              | 2014              | 2015              | 2016              | 2017              | 2018              | 2019              |
| <b>Governmental Activities</b>                       |                                  |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Certificates of Participation                        | \$ 6,765                         | \$ 5,895          | \$ 1,685          | \$ 1,560          | \$ 1,430          | \$ 1,285          | \$ 1,135          | \$ 975            | \$ 8,970          | \$ 46,305         |
| General Obligation Bonds                             | 55,305                           | 55,305            | 54,540            | 74,235            | 73,215            | 71,795            | 65,210            | 63,710            | 62,140            | 60,500            |
| 2011 Lease-Purchase Agreement                        | -                                | -                 | 2,764             | 2,400             | 2,026             | 1,643             | 1,248             | 842               | 426               | -                 |
| Add: unamortized premium                             | 3,766                            | 3,640             | 3,514             | 4,400             | 4,242             | 4,084             | 3,926             | 3,768             | 3,610             | 8,331             |
| Less: unamortized discount/<br>issuance costs        | (571)                            | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 | -                 |
| <b>Total Governmental Activities</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>75,146</b>     | <b>115,136</b>    |
| <b>Business-type Activities</b>                      |                                  |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Utility Revenue Bonds                                | 72,104                           | 69,551            | 65,879            | 63,104            | 60,224            | 57,224            | 54,095            | 50,825            | 47,400            | 43,815            |
| Energy Tax Credits                                   | 1,200                            | 1,100             | 1,000             | 900               | 800               | 700               | 600               | 500               | 400               | 300               |
| State Water Resources Loan                           | 13,080                           | 16,696            | 15,900            | 15,109            | 14,309            | 13,500            | 12,681            | 15,034            | 17,711            | 29,589            |
| Less: unamortized discount/<br>issuance costs        | (2,737)                          | (229)             | 580               | 543               | 867               | 803               | 737               | 673               | 608               | 544               |
| <b>Total Business-type Activities</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>66,119</b>     | <b>74,248</b>     |
| <b>Total Primary Government<br/>Outstanding Debt</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> | <b>\$ 141,265</b> | <b>\$ 189,384</b> |
| Percentage of Personal Income <sup>1</sup>           | 4.51%                            | 3.86%             | 3.36%             | 3.36%             | 3.24%             | 2.94%             | 2.52%             | 2.38%             | 2.33%             | 2.88%             |
| Population   | 65,408                           | 64,417            | 65,544            | 66,368            | 66,861            | 66,029            | 66,968            | 66,478            | 66,649            | 67,082            |
| Debt Per Capita                                      | \$ 2.28                          | \$ 2.36           | \$ 2.23           | \$ 2.44           | \$ 2.35           | \$ 2.29           | \$ 2.09           | \$ 2.05           | \$ 2.12           | \$ 2.82           |

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)  
 2019 Official City Data Set (population)  
 California Department of Transportation Long-Term Socio-Economic Forecasts (personal income)  
 Annual Financial Statements and Note 7 General Long-Term Obligations



**CITY OF PALO ALTO**  
**Computation of Direct and Overlapping Debt**  
**As of June 30, 2019**

**2018-2019 Assessed Valuation** \$ 36,801,413,139

|   | <b>Total Debt<br/>Outstanding</b>      | <b>Percentage<br/>Applicable<br/>to City of<br/>Palo Alto<sup>1</sup></b> | <b>Amount<br/>Applicable<br/>to City of<br/>Palo Alto</b> |
|---|--|---|---|
| <b><u>Direct and Overlapping Tax and Assessment Debt</u></b>                      |  |   |   |
| Santa Clara County  | \$ 947,220,000                         | 7.62%   | \$ 72,197,108   |
| Foothill-DeAnza Community College District  | 620,143,886                            | 21.99%  | 136,344,835   |
| Palo Alto Unified School District   | 269,174,345                            | 90.02%  | 242,321,512   |
| Fremont Union High School District  | 562,210,088                            | 0.01%   | 50,599  |
| Los Gatos-Saratoga Joint Union High School District                               | 95,760,000                             | 0.01%   | 11,491  |
| Mountain View-Los Altos Union High School District                                | 148,973,967                            | 0.94%   | 1,403,335   |
| Cupertino Union School District   | 274,238,303                            | 0.02%   | 46,621  |
| Los Altos School District   | 50,665,000                             | 1.19%   | 601,900   |
| Mountain View-Whisman School District   | 180,470,000                            | 0.72%   | 1,304,798   |
| Saratoga Union School District  | 23,580,378                             | 0.03%   | 6,131   |
| Whisman School District   | 13,105,005                             | 1.94%   | 254,892   |
| <b>City of Palo Alto</b>  | <b>60,500,000</b>                      | <b>100%</b>   | <b>60,500,000</b>   |
| El Camino Hospital District   | 124,490,000                            | 0.08%   | 99,592  |
| Midpeninsula Regional Open Space District   | 92,460,000                             | 12.86%  | 11,885,733  |
| <b>City of Palo Alto Special Assessment Bonds</b>                                 | <b>20,935,000</b>                      | <b>100%</b>   | <b>20,935,000</b>   |
| Santa Clara Valley Water District Benefit Assessment District                     | 73,570,000                             | 7.62%   | 5,607,505   |
| <b>Total Direct and Overlapping Tax and Assessment Debt</b>                       |  |   | <u><b>553,571,052</b></u>                                 |
| <b><u>Direct and Overlapping General Fund Debt</u></b>                            |  |   |   |
| Santa Clara County General Fund Obligations                                       | 710,539,120                            | 7.62%   | 54,157,292  |
| Santa Clara County Pension Obligations  | 352,378,882                            | 7.62%   | 26,858,318  |
| Santa Clara County Board of Education Certificates of Participation               | 4,255,000                              | 7.62%   | 324,316   |
| Foothill-DeAnza Community College District Certificates of Participation          | 26,723,002                             | 21.99%  | 5,875,319   |
| Los Gatos-Saratoga Joint Union High School District Certificates of Participation | 3,538,000                              | 0.01%   | 425   |
| Mountain View-Los Altos Union High School District Certificates of Participation  | 1,745,000                              | 0.94%   | 16,438  |
| Mountain View-Whisman School District Certificates of Participation               | 31,645,000                             | 0.72%   | 228,793   |
| Saratoga Union High School District Certificates of Participation                 | 3,535,000                              | 0.03%   | 919   |
| Los Altos School District Certificates of Participation                           | 2,405,945                              | 1.19%   | 28,583  |
| <b>City of Palo Alto General Fund Obligations</b>                                 | <b>46,305,000</b>                      | <b>100%</b>   | <b>46,305,000</b>   |
| Santa Clara County Vector Control District Certificates of Participation          | 2,245,000                              | 7.62%   | 171,114   |
| Midpeninsula Regional Open Space Park District General Fund Obligations           | 117,450,600                            | 12.86%  | 15,098,275  |
| <b>Total Gross Direct and Overlapping General Fund Debt</b>                       |  |   | <u><b>\$ 149,064,792</b></u>                              |
| Less: Santa Clara County supported obligations                                    |  |   | <u><b>24,532,813</b></u>                                  |
| <b>Total Net Direct and Overlapping General Fund Debt</b>                         |  |   | <u><b>\$ 124,531,979</b></u>                              |
| <b>Total Combined Debt</b>  |  |   | <u><b>\$ 678,103,031</b></u>                              |
|   | <b>Ratio to<br/>Assessed Valuation</b> |   |   |
| <b>Total Direct Debt</b>  | 0.29%                                  |   | \$ 106,805,000 <sup>3</sup>                               |
| <b>Total Overlapping Debt</b>   | 1.55%                                  |   | <u>571,298,031</u>  |
| <b>Total Direct and Overlapping Debt</b>  | 1.84%                                  |   | <u><b>\$ 678,103,031</b></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.

<sup>3</sup>Total direct debt excludes any premiums, discounts or other amortization amounts.

Source: California Municipal Statistics, Inc.

**CITY OF PALO ALTO**  
**Computation of Legal Bonded Debt Margin**  
**As of June 30, 2019**  
**(Amounts in thousands)**

|   |               |              |
|---|---------------|--------------|
| <b>Assessed Valuation:</b>                                      |               |              |
| Secured property assessed value,<br>net of exempt real property | \$ 36,801,413 |              |
| <b>Bonded Debt Limit (3.75% of Assessed Value) <sup>1</sup></b> |               | 1,380,053    |
| <b>Direct Debt:</b>   |               |              |
| Certificates of Participation                                   | 46,305        |              |
| General Obligation bonds  | 60,500        |              |
| <b>Total Direct Debt <sup>3</sup></b>                           |               | 106,805      |
| <b>Less: Amount of Debt Not Subject to Limit <sup>2</sup></b>   | 46,305        |              |
| <b>Total Net Debt Applicable to Limit</b>                       |               | 60,500       |
| <b>Legal Bonded Debt Margin</b>                                 |               | \$ 1,319,553 |

| 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 |
|-------------|---------------------------|---------------------------------|------------------------------------|--------------------------|------------|--|-------------------------------------|--------------------------------|
| 2010        | \$ 21,085,609             | \$ 790,710                      | \$ 55,305                          | \$ 735,405               | 65,408     | 6.99%  | 0.0026                              | 0.85                           |
| 2011        | 21,880,359                | 820,513                         | 55,305                             | 765,208                  | 64,417     | 6.74%  | 0.0025                              | 0.86                           |
| 2012        | 21,956,274                | 823,360                         | 54,540                             | 768,820                  | 65,544     | 6.62%  | 0.0025                              | 0.83                           |
| 2013        | 22,486,708                | 843,252                         | 74,235                             | 769,017                  | 66,368     | 8.80%  | 0.0033                              | 1.12                           |
| 2014        | 23,693,007                | 888,488                         | 73,215                             | 815,273                  | 66,861     | 8.24%  | 0.0031                              | 1.10                           |
| 2015        | 27,198,127                | 1,019,930                       | 71,795                             | 948,135                  | 66,029     | 7.04%  | 0.0026                              | 1.09                           |
| 2016        | 29,415,754                | 1,103,091                       | 65,210                             | 1,037,881                | 66,968     | 5.91%  | 0.0022                              | 0.97                           |
| 2017        | 31,954,381                | 1,198,289                       | 63,710                             | 1,134,579                | 66,478     | 5.32%  | 0.0020                              | 0.96                           |
| 2018        | 34,434,739                | 1,291,303                       | 62,140                             | 1,229,163                | 66,649     | 4.81%  | 0.0018                              | 0.93                           |
| 2019        | 36,801,413                | 1,380,053                       | 60,500                             | 1,319,553                | 67,082     | 4.38%  | 0.0016                              | 0.90                           |

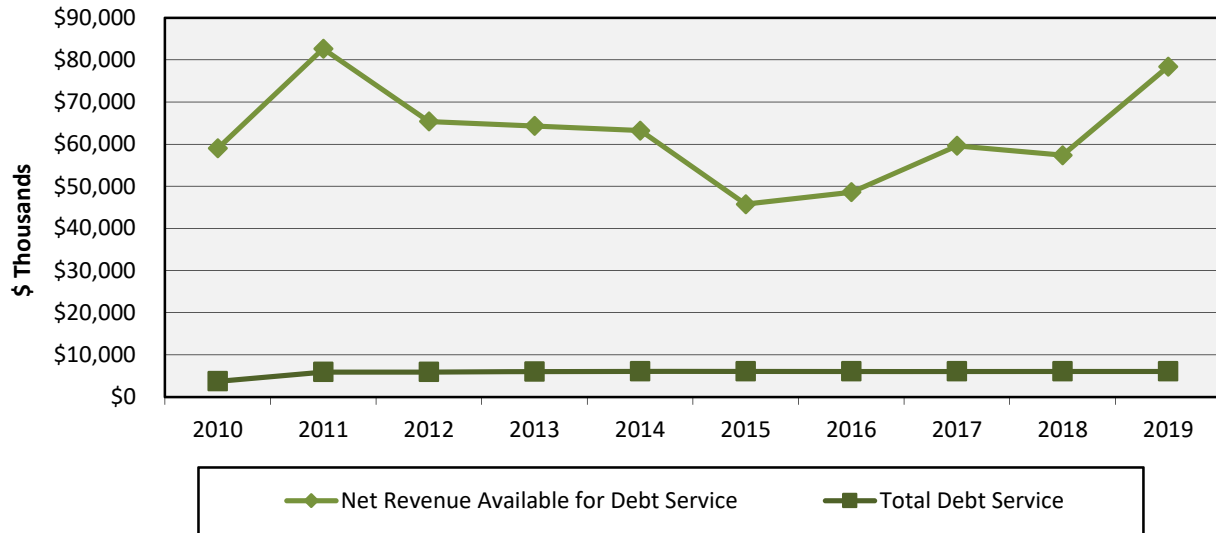
Notes: <sup>1</sup>California Government Code, Section 43605 sets the debt limit at 15% of the assessed value of all real and personal property of the City. Because this Code section was enacted when assessed value was 25% of market value, the limit is calculated at one-fourth, or 3.75%. This legal debt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

<sup>2</sup>In accordance with California Government Code Section 43605, only the City's General Obligation bonds are subject to the legal debt limit of 15%. Enterprise Fund debt is not subject to legal debt margin.

<sup>3</sup>Total direct debt excludes any premiums, discounts or other amortization amounts.

Source: Annual Financial Statements, Assessed Value of Taxable Property and Note 7 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    |                |
| 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           |
| 2018        | 288,610       | 231,255                                      | 57,355                                 | 3,525        | 2,524                 | 6,049    | 9.48           |
| 2019        | 306,237       | 227,824                                      | 78,413                                 | 3,685        | 2,359                 | 6,044    | 12.97          |

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

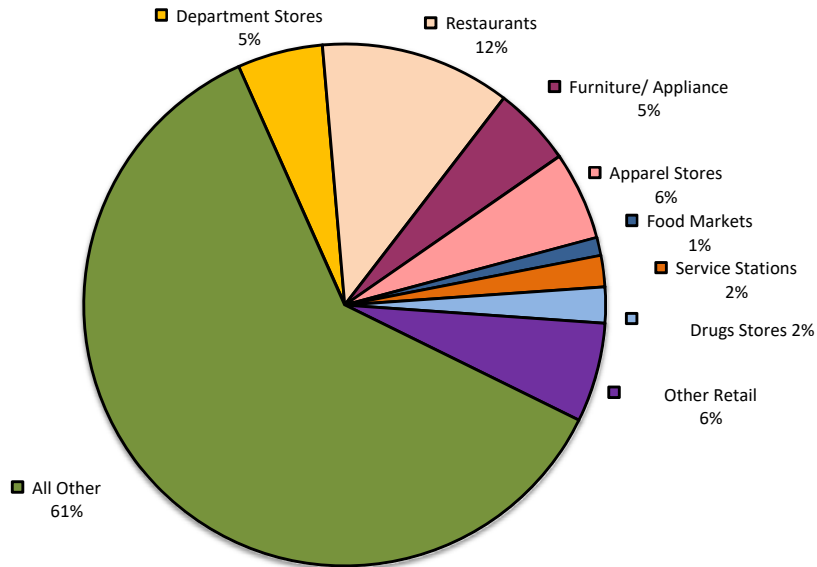
<sup>2</sup>Excludes depreciation and amortization expense.

<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 2019**



**ECONOMIC SEGMENT**

| Fiscal Year | Department Stores |          | Furniture/ Appliance |          | Apparel Stores |        | Food Markets |          | Service Stations |           | Drug Stores |  | Other Retail |  | All Other | Total |
|-------------|-------------------|----------|----------------------|----------|----------------|--------|--------------|----------|------------------|-----------|-------------|--|--------------|--|-----------|-------|
|             | \$                |          | \$                   |          | \$             |        | \$           |          | \$               |           | \$          |  | \$           |  |           |       |
| 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    |             |  |              |  |           |       |
| 2018        | 2,001             | 4,224    | 1,716                | 1,647    | 428            | 614    | 243          | 3,184    | 15,663           | 29,720    |             |  |              |  |           |       |
| 2019        | 1,934             | 4,299    | 1,795                | 1,994    | 409            | 706    | 810          | 2,245    | 22,254           | 36,446    |             |  |              |  |           |       |

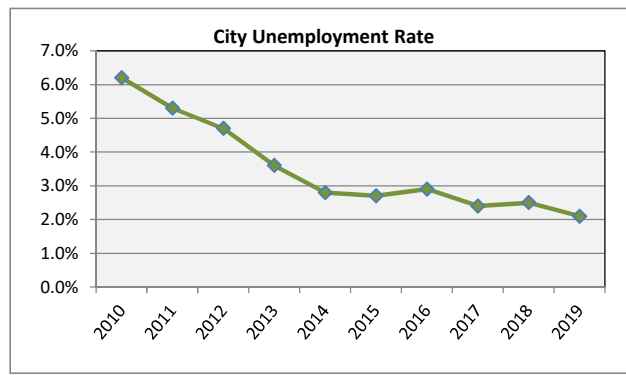
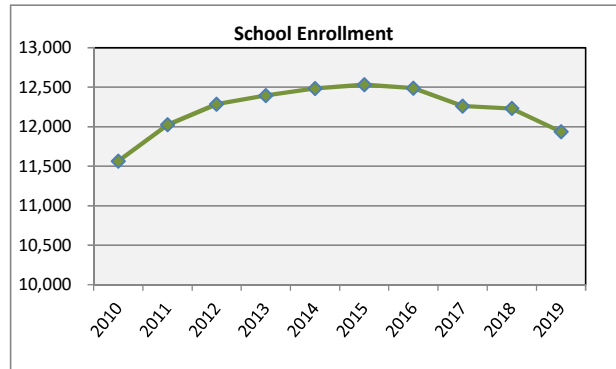
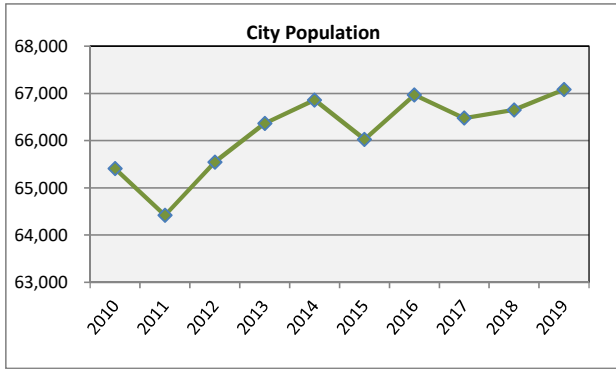
Source: California State Board of Equalization, compiled by MuniServices LLC

**Sales Tax Rates for the Fiscal Year ended June 30, 2019**

|  |               |
|--|---------------|
| <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) |
|-------------|------------------------------|-------------------------------------|-------------------------------------|-------------------------------|--|---|--|
| 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   |
| 2018        | 66,649                       | 2.5%                                | 12,230                              | 1,948,176                     | 3.42%  | 177,600,000   | 91,162   |
| 2019        | 67,082                       | 2.1%                                | 11,938                              | 1,965,597                     | 3.41%  | 192,600,000   | 97,985   |

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 of California Employment Development Office (unemployment rate)  
 Palo Alto Unified School District (school enrollment)

\* California Department of Transportation Long-Term Socio-Economic Forecasts (personal income). Forecasts from prior years are updated annually.

**CITY OF PALO ALTO**  
**Principal Employers**  
**Current Year and Nine Years Ago**

| <b>Employer</b>                                | <b>FY 2019<sup>1</sup></b> |             |  | <b>FY 2010</b>             |             |  |
|--|----------------------------|-------------|--|----------------------------|-------------|--|
|  | <b>Number of Employees</b> | <b>Rank</b> | <b>Percentage of Total City Employment</b> | <b>Number of Employees</b> | <b>Rank</b> | <b>Percentage of Total City Employment</b> |
| Stanford Health Care                           | 5,500                      | 1           | 4.2%                                       | 5,569                      | 2           | 5.1%                                       |
| Lucile Packard Children's Hospital             | 5,700                      | 2           | 4.3%                                       | 3,549                      | 3           | 3.2%                                       |
| Stanford University <sup>2</sup>               | 4,500                      | 3           | 3.4%                                       | 10,101                     | 1           | 9.2%                                       |
| Veteran's Affairs Palo Alto Health Care System | 3,900                      | 4           | 3.0%                                       | 3,500                      | 4           | 3.2%                                       |
| VMware Inc.                                    | 3,500                      | 5           | 2.6%                                       |                            |             |  |
| SAP Labs Inc.                                  | 3,500                      | 6           | 2.6%                                       |                            |             |  |
| Space Systems/Loral                            | 2,800                      | 7           | 2.1%                                       | 1,700                      | 7           | 1.5%                                       |
| Hewlett-Packard Company                        | 2,500                      | 8           | 1.9%                                       | 2,001                      | 5           | 1.8%                                       |
| Palo Alto Medical Foundation                   | 2,200                      | 9           | 1.7%                                       | 2,000                      | 6           | 1.8%                                       |
| Varian Medical Systems                         | 1,400                      | 10          | 1.1%                                       |                            |             |  |
| Wilson Sonsini Goodrich & Rosati               |                            |             |  | 1,500                      | 8           | 1.4%                                       |
| Palo Alto Unified School District              |                            |             |  | 1,336                      | 9           | 1.2%                                       |
| City of Palo Alto                              |                            |             |  | 1,100                      | 10          | 1.0%                                       |
| <b>Total</b>                                   | <b>35,500</b>              |             | <b>26.9%</b>                               | <b>32,356</b>              |             | <b>29.3%</b>                               |

**Estimated Total City Day Population:**

|         |         |
|---------|---------|
| FY 2019 | 132,112 |
| FY 2010 | 110,246 |

Notes: <sup>1</sup>Available data sources are limited and may be unreliable. The City does not affirm the validity of this data. 2019 numbers are rounded. Figures may include employees not located within City limits.

<sup>2</sup>FY19 data was not available for Stanford Health Care and Stanford University. Prior year's data was used.

Source: 2019 Official City Data Set (total City day population); AtoZ databases; Stanford website, Stanford Planning Office.

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

| FUNCTIONS/PROGRAMS                                       | Fiscal Year Ended June 30 |            |            |            |
|--|---------------------------|------------|------------|------------|
|  | 2009                      | 2010       | 2011       | 2012       |
| <b><u>Governmental activities</u></b>                    |                           |            |            |            |
| <b>Community Services</b>                                |                           |            |            |            |
| Number of theater performances                           | 159                       | 174        | 175        | 175        |
| Total hours of athletic field usage <sup>2</sup>         | 45,762                    | 41,705     | 42,687     | 44,226     |
| Number of rounds of golf                                 | 72,170                    | 69,791     | 67,381     | 65,653     |
| Enrollment in recreation classes (includes summer camps) | 13,091                    | 12,880     | 12,310     | 11,703     |
| <b>Planning and Community Environment</b>                |                           |            |            |            |
| Planning applications completed                          | 273                       | 226        | 238        | 204        |
| Building permits issued                                  | 2,543                     | 2,847      | 3,559      | 3,320      |
| Caltrain average weekday boarding <sup>3</sup>           | 4,407                     | 4,359      | 4,923      | 5,730      |
| <b>Police</b>  |                           |            |            |            |
| Calls for service  | 53,275                    | 55,860     | 52,159     | 51,086     |
| Total arrests  | 2,612                     | 2,451      | 2,288      | 2,212      |
| Parking citations issued                                 | 49,996                    | 42,591     | 40,426     | 41,875     |
| <b>Animal Services</b>                                   |                           |            |            |            |
| Number of service calls                                  | 2,873                     | 2,692      | 2,804      | 3,051      |
| Number of animals handled                                | 3,422                     | 3,147      | 3,323      | 3,379      |
| <b>Fire</b>  |                           |            |            |            |
| Calls for service  | 7,549                     | 7,468      | 7,555      | 7,796      |
| Number of fire incidents                                 | 239                       | 182        | 165        | 186        |
| Number of fire inspections <sup>4</sup>                  | 1,028                     | 1,526      | 1,807      | 1,654      |
| <b>Library</b>   |                           |            |            |            |
| Total number of cardholders                              | 54,878                    | 51,969     | 53,246     | 60,283     |
| Total number of items in collection                      | 293,735                   | 298,667    | 314,101    | 306,160    |
| Total checkouts  | 1,633,955                 | 1,624,785  | 1,476,648  | 1,559,932  |
| <b>Public Works</b>                                      |                           |            |            |            |
| Street resurfacing (lane miles)                          | 23                        | 32         | 29         | 40         |
| Number of potholes repaired                              | 3,727                     | 3,149      | 2,986      | 3,047      |
| Sq. ft. of sidewalk replaced or permanently repaired     | 56,909                    | 54,602     | 71,174     | 72,787     |
| Number of trees planted                                  | 250                       | 201        | 150        | 143        |
| Tons of materials recycled or composted                  | 49,911                    | 48,811     | 56,586     | 51,725     |
| <b><u>Business-type activities</u></b>                   |                           |            |            |            |
| <b>Electric</b>  |                           |            |            |            |
| Number of customer accounts                              | 28,527                    | 29,430     | 29,708     | 29,545     |
| Residential MWH consumed                                 | 159,899                   | 163,098    | 160,318    | 160,604    |
| <b>Gas</b>   |                           |            |            |            |
| Number of customer accounts                              | 23,090                    | 23,724     | 23,816     | 23,915     |
| Residential therms consumed                              | 11,003,088                | 11,394,712 | 11,476,609 | 11,522,999 |
| <b>Water</b>   |                           |            |            |            |
| Number of customer accounts                              | 19,422                    | 20,134     | 20,248     | 20,317     |
| Residential water consumption (CCF)                      | 2,566,962                 | 2,415,467  | 2,442,415  | 2,513,595  |
| <b>Wastewater collection</b>                             |                           |            |            |            |
| Number of customer accounts                              | 22,210                    | 22,231     | 22,320     | 22,421     |
| Millions of gallons processed                            | 7,958                     | 8,184      | 8,652      | 8,130      |

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.

<sup>4</sup>The method for calculating the number of fire inspections changed in FY17. The department now uses a more detailed feature which categorizes inspections by type and location.

Source: City of Palo Alto Performance Report (formerly the Service Efforts and Accomplishments Report); 2018 Official City Data Set (Caltrain)



**Fiscal Year Ended June 30**

| <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> |
|-------------|-------------|-------------|-------------|-------------|-------------|
| 184         | 108         | 172         | 161         | 171         | 160         |
| -           | -           | 47,504      | 65,723      | 71,431      | 65,443      |
| 60,153      | 46,527      | 42,048      | 42,573      | -           | 6,790       |
| 11,598      | 11,997      | 12,586      | 12,974      | 11,649      | 10,652      |
| 307         | 310         | 335         | 383         | 365         | 376         |
| 3,682       | 3,624       | 3,844       | 3,492       | 2,970       | 3,105       |
| 6,763       | 7,564       | 8,294       | 9,622       | 9,994       | 9,977       |
| 54,628      | 58,559      | 59,795      | 53,870      | 53,901      | 55,480      |
| 2,274       | 2,589       | 3,273       | 2,988       | 2,745       | 2,678       |
| 43,877      | 36,551      | 41,412      | 37,624      | 33,661      | 37,441      |
| 2,909       | 2,398       | 2,013       | 2,421       | 1,674       | 1,737       |
| 2,675       | 2,480       | 2,143       | 2,184       | 2,211       | 2,077       |
| 7,904       | 7,829       | 8,548       | 8,882       | 9,153       | 8,981       |
| 150         | 150         | 135         | 150         | 155         | 189         |
| 2,069       | 1,741       | 1,964       | 2,806       | 5,476       | 9,581       |
| 51,007      | 46,950      | 51,792      | 57,307      | 54,676      | 56,159      |
| 277,749     | 361,103     | 429,460     | 461,292     | 427,548     | 472,895     |
| 1,512,975   | 1,364,872   | 1,499,406   | 1,400,926   | 1,524,614   | 1,538,118   |
| 36          | 36          | 31          | 39          | 39          | 31          |
| 2,726       | 3,418       | 2,487       | 3,435       | 3,449       | 2,835       |
| 82,118      | 74,051      | 120,776     | 115,293     | 17,275      | 38,557      |
| 245         | 148         | 305         | 387         | 319         | 411         |
| 47,941      | 49,594      | 50,546      | 56,438      | 60,582      | 57,744      |
| 29,299      | 29,338      | 29,065      | 29,304      | 29,616      | 29,475      |
| 156,411     | 153,190     | 145,284     | 150,112     | 148,986     | 149,526     |
| 23,659      | 23,592      | 23,461      | 23,467      | 23,637      | 23,395      |
| 10,834,793  | 10,253,776  | 8,537,754   | 9,535,377   | 10,233,669  | 10,261,276  |
| 20,043      | 20,037      | 20,061      | 19,994      | 20,213      | 20,000      |
| 2,521,930   | 2,496,549   | 2,052,176   | 1,696,383   | 1,856,879   | 2,120,588   |
| 22,152      | 22,105      | 21,990      | 22,016      | 22,216      | 21,979      |
| 7,546       | 7,186       | 6,512       | 6,387       | 7,176       | 6,464       |

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

| FUNCTION/PROGRAM                           | Fiscal Year Ended June 30 |        |        |        |        |
|--|---------------------------|--------|--------|--------|--------|
|  | 2010                      | 2011   | 2012   | 2013   | 2014   |
| <b>Public Safety</b>                       |                           |        |        |        |        |
| Fire:                                      |                           |        |        |        |        |
| Fire Stations Operated                     | 8                         | 8      | 7      | 7      | 7      |
| Police:                                    |                           |        |        |        |        |
| Police Stations                            | 1                         | 1      | 1      | 1      | 1      |
| Police Patrol Vehicles                     | 30                        | 30     | 30     | 30     | 30     |
| <b>Community Services</b>                  |                           |        |        |        |        |
| Acres - Downtown/Urban Parks <sup>2</sup>  | 157                       | 157    | 157    | 157    | 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 <sup>3</sup>    | 32,007                    | 31,993 | 31,890 | 31,923 | 31,757 |
| <b>Electric Utility<sup>1</sup></b>        |                           |        |        |        |        |
| Miles of Overhead Lines                    | 193                       | 193    | 223    | 222    | 223    |
| Miles of Underground Lines                 | 253                       | 253    | 245    | 246    | 249    |
| <b>Water Utility</b>                       |                           |        |        |        |        |
| Miles of Water Mains                       | 214                       | 214    | 234    | 233    | 236    |
| <b>Gas Utility</b>                         |                           |        |        |        |        |
| Miles of Gas Mains                         | 205                       | 205    | 210    | 210    | 214    |
| <b>Waste Water</b>                         |                           |        |        |        |        |
| Miles of Sanitary Sewer Lines              | 207                       | 207    | 217    | 217    | 217    |

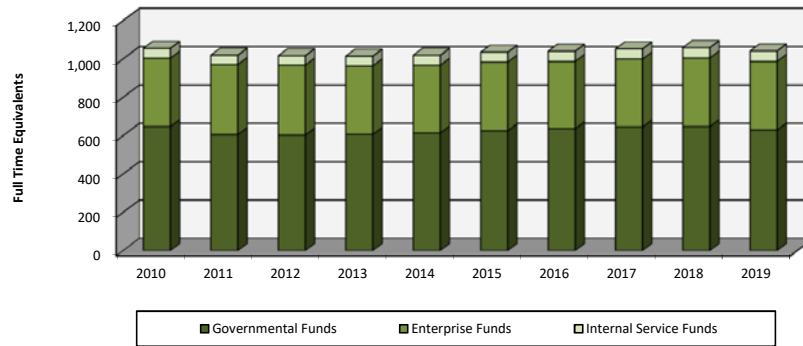
Note: <sup>1</sup>The City of Palo Alto Utilities Department recently completed the conversion of its electric system maps to a GIS mapping system database. Therefore, the distances reported for FY 11/12 and forward are more accurate than the distances reported in previous years.  
<sup>2</sup>Beginning 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.  
<sup>3</sup>Due to an error in the beginning balance, the number of trees maintained was adjusted for all prior years in FY18.

Source: City of Palo Alto

Fiscal Year Ended June 30

| <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> |
|-------------|-------------|-------------|-------------|-------------|
| 7           | 7           | 7           | 7           | 7           |
| 1           | 1           | 1           | 1           | 1           |
| 30          | 30          | 30          | 30          | 30          |
| 157         | -           | -           | -           | -           |
| 3,752       | -           | -           | -           | -           |
| -           | 3,921       | 174         | 174         | 174         |
| -           | 4,489       | 4,030       | 4,030       | 4,030       |
| -           | -           | 181         | 181         | 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           |
| 31,652      | 31,699      | 31,712      | 31,849      | 31,815      |
| 223         | 222         | 223         | 222         | 220         |
| 262         | 268         | 264         | 272         | 274         |
| 236         | 235         | 236         | 236         | 236         |
| 211         | 209         | 210         | 210         | 210         |
| 217         | 216         | 216         | 216         | 216         |

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



**Full Time Equivalent Employees as of June 30**

|   | 2010 | 2011         | 2012         | 2013         | 2014         | 2015         | 2016         | 2017         | 2018         | 2019         |
|---|------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Governmental Funds</b>                       |      |              |              |              |              |              |              |              |              |              |
| General Fund:                                   |      |              |              |              |              |              |              |              |              |              |
| Administrative                                  |      | 89           | 83           | 83           | 85           | 83           | 84           | 86           | 87           | 89           |
| Community Services                              |      | 94           | 74           | 74           | 74           | 74           | 76           | 77           | 78           | 79           |
| Development Services <sup>5</sup>               |      | -            | -            | -            | -            | -            | 38           | 38           | 36           | 36           |
| Fire  |      | 123          | 121          | 122          | 119          | 116          | 107          | 107          | 109          | 98           |
| Library   |      | 42           | 41           | 41           | 41           | 42           | 44           | 48           | 48           | 48           |
| Office of Emergency Services <sup>4</sup>       |      | -            | -            | -            | -            | 3            | 3            | 3            | 3            | 3            |
| Planning and Community Environment <sup>5</sup> |      | 49           | 44           | 43           | 48           | 49           | 28           | 31           | 32           | 30           |
| Police  |      | 161          | 157          | 157          | 154          | 155          | 155          | 155          | 155          | 155          |
| Public Works <sup>1</sup>                       |      | 64           | 59           | 56           | 57           | 56           | 53           | 54           | 56           | 51           |
| <b>Subtotal General Fund</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>   | <b>586</b>   |
| All Other Funds:                                |      |              |              |              |              |              |              |              |              |              |
| Capital Projects Fund                           |      | 24           | 24           | 24           | 26           | 27           | 27           | 28           | 31           | 33           |
| Special Revenue Fund                            |      | 1            | 2            | 2            | 2            | 9            | 10           | 9            | 10           | 10           |
| <b>Total Governmental Funds</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>629</b>   |
| <b>Enterprise Funds</b>                         |      |              |              |              |              |              |              |              |              |              |
| Public Works <sup>2</sup>                       |      | 115          | 115          | 115          | 104          | 99           | 100          | 95           | 99           | 101          |
| Utilities <sup>3</sup>                          |      | 242          | 251          | 251          | 254          | 255          | 258          | 256          | 255          | 257          |
| External Services <sup>4</sup>                  |      | -            | -            | -            | -            | -            | -            | -            | -            | -            |
| <b>Total Enterprise Funds</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>358</b>   |
| <b>Internal Service Funds</b>                   |      |              |              |              |              |              |              |              |              |              |
| Printing and Mailing                            |      | 4            | 2            | 2            | 2            | 2            | 2            | 2            | 2            | 2            |
| Technology                                      |      | 31           | 30           | 30           | 31           | 32           | 32           | 34           | 35           | 36           |
| Vehicle Replacement                             |      | 16           | 16           | 16           | 17           | 17           | 17           | 17           | 16           | 16           |
| <b>Total Internal Service Funds</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>54</b>    |
| <b>Total</b>                                    |      | <b>1,055</b> | <b>1,019</b> | <b>1,016</b> | <b>1,014</b> | <b>1,019</b> | <b>1,034</b> | <b>1,040</b> | <b>1,052</b> | <b>1,041</b> |

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 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>5</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 2019 Adopted Operating Budget

**CITY OF PALO ALTO**  
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For the Year Ended June 30, 2019

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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, 2019, 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 4, 2019.

**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 of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses 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 4, 2019





## **Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the 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, 2019. 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 opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

#### ***Opinion on Each Major Federal Program***

In our opinion, the City of Palo Alto, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

## 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.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Macias Gini É O'Connell LAP

Walnut Creek, California  
November 4, 2019

**CITY OF PALO ALTO**  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2019

| Grantor/Pass-Through Grantor/Program Title                                    | Grantor<br>Identifying<br>Number                                 | Federal<br>CFDA<br>Number | Expenditures        | Subrecipients<br>Expenditures |
|---|--|---------------------------|---------------------|-------------------------------|
| <b>U.S. Department of Housing and Urban Development</b>                       |  |                           |                     |                               |
| <i>Direct</i>   |  |                           |                     |                               |
| CDBG - Entitlement Grants Cluster   |  |                           |                     |                               |
| Community Development Block Grants/Entitlement Grants                         | B-16-MC-06-0020<br>B-17-MC-06-0020<br>B-18-MC-06-0020            |                           | 14.218              | \$ 830,121                    |
|   |  |                           |                     | \$ 747,128                    |
| <b>U.S. Department of Justice</b>   |  |                           |                     |                               |
| <i>Direct</i>   |  |                           |                     |                               |
| Bulletproof Vest Partnership  | n/a  | 16.607                    | 8,529               | -                             |
| <b>U.S. Department of Transportation</b>                                      |  |                           |                     |                               |
| <i>Direct</i>   |  |                           |                     |                               |
| Public Transportation Research, Technical Assistance<br>and Training          | CA-2017-020-00   | 20.514                    | 317,278             | -                             |
| Airport Improvement Program   | 3-06-0182-011-2016,<br>3-06-0182-013-2017,<br>3-06-0182-014-2018 | 20.106                    | 5,876,389           | -                             |
| <i>Subtotal - Direct Awards</i>   |  |                           | <u>6,193,667</u>    | <u>-</u>                      |
| <i>Pass-through from State of California Department of Transportation</i>     |  |                           |                     |                               |
| Highway Planning and Construction   | BRLS-5100(017)   | 20.205                    | 78,137              | -                             |
| Highway Planning and Construction   | CMAQ-T4  | 20.205                    | 1,000,000           | -                             |
| Highway Planning and Construction   | SR2SL 5100(020)  | 20.205                    | 450,000             | -                             |
| Highway Planning and Construction   | SCL 170021   | 20.205                    | 211,236             | -                             |
| <i>Subtotal - Highway Planning and Construction</i>                           |  |                           | <u>1,739,373</u>    | <u>-</u>                      |
| Total U.S. Department of Transportation                                       |  |                           | <u>7,933,040</u>    | <u>-</u>                      |
| <b>National Endowment for the Humanities</b>                                  |  |                           |                     |                               |
| <i>Pass-through from California State Library</i>                             |  |                           |                     |                               |
| Museums for America   | MA-10-17-0327-17<br>MA-11-15-0104-15                             | 45.301<br>45.301          | 56,893<br>9,364     | -<br>-                        |
| Total National Endowment for the Humanities                                   |  |                           | <u>66,257</u>       | <u>-</u>                      |
| <b>U.S. Department of Homeland Security</b>                                   |  |                           |                     |                               |
| <i>Pass-through from County of Santa Clara Office of Emergency Management</i> |  |                           |                     |                               |
| Emergency Management Performance Grants                                       | 2018-0008  | 97.042                    | 3,900               | -                             |
| <b>TOTAL FEDERAL FINANCIAL AWARDS</b>   |  |                           | <u>\$ 8,841,847</u> | <u>\$ 747,128</u>             |

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**CITY OF PALO ALTO**  
Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2019

**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, 2019

**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? No
- ◆ Significant deficiency(ies) identified? None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance? No

Identification of Major Programs: CFDA No. 14.218 – CDBG Entitlement Grants Cluster  
 CFDA No. 20.106 - Airport Improvement Program  
 CFDA No. 20.205 – Highway Planning and Construction

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

Auditee qualified as a low-risk auditee? No

**CITY OF PALO ALTO**  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2019

**Section II – Financial Statements Findings**

No current year findings are reported.

**Section III - Federal Award Findings and Questioned Costs**

No current year findings are reported.



**ADMINISTRATIVE SERVICES**

CITY OF  
**PALO  
ALTO**  
250 Hamilton Avenue, 4th Floor  
Palo Alto, CA 94301  
650.329.2692

**CITY OF PALO ALTO**  
**Schedule of Prior Year Finding and Questioned Costs**  
**For the Year Ended June 30, 2019**

**Reference Number: 2018-001 – Significant Deficiency - Internal Controls over Financial Reporting**

**Condition:** Effective March 20, 2017, the City and the State Water Resources Control Board (SWRCB) entered into an agreement to award the City up to \$30 million from its Clean Water State Revolving Fund for the Sludge Dewatering and Loadout Facility project. The SWRCB loan is to be repaid over 30 years at a rate of 1.8%, with the first annual installment due on May 31, 2020. In September 2017, due to the projected lower project costs, the agreement was amended to reduce the SWRCB loan amount to \$29.7 million. Under the terms of the agreement, \$4 million of the SWRCB loan is a federal pass through grant from the U.S. Environmental Protection Agency under its Capitalization Grants for Clean Water State Revolving Funds program.

On August 4, 2018, the City received a letter from the SWRCB explaining the status of the SWRCB loan and the federal pass through grant. The letter clarified the funding sources and summarized the project draws through the date of the letter. Based on the information provided in the SWRCB letter, we observed the following two issues:

1. The SWRCB letter on August 4, 2018 clarified that the project costs included in the first two draws submitted to SWRCB were applied to the federal awards first, before applying them to State funding sources. Therefore, an adjustment of \$4,000,000 was necessary to reduce the SWRCB loan balance and recognize grant revenue for the year ended June 30, 2018.
2. The City incurred eligible project costs of \$4,964,775 during the year ended June 30, 2018 and submitted the loan draws subsequent to year end. Accordingly, the City accrued draws made in July and August as a receivable from the SWRCB and as an obligation for SWRCB loan payable. The draws for the \$4,964,775 were not made by June 30, 2018, therefore City does not owe that amount to SWRCB as of year-end and overstated its obligation for the SWRCB loan. An audit adjustment of \$4,964,775 was necessary to reduce the SWRCB loan balance at June 30, 2018 and reduce receivables from the SWRCB to properly account for the loan.

**Recommendation:** It was recommended that the City document the important terms and conditions of the SWRCB loan to ensure proper internal controls over the financial reporting and compliance. It was recommended that the City's Finance department collaborate with other departments that have material or complex transactions to strengthen internal controls over financial reporting and compliance.

**Status:** Corrective action plan has been implemented.



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# *Americans with Disabilities Act Statement*



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

For information contact:  
ADA Coordinator  
City of Palo Alto  
250 Hamilton Ave  
(650) 329-2550  
[ADA@cityofpaloalto.org](mailto:ADA@cityofpaloalto.org)

# Palo Alto



Spanish explorers named the area for the tall, twin-trunked redwood tree they camped beneath in 1769. Palo Alto incorporated in 1894 and the State of California granted its first charter in 1909. The City has long been known for its innovative people and its exploration of ideas that have changed the world. In Palo Alto, our history has always been about the future.