

ANNUAL COMPREHENSIVE FINANCIAL REPORT



CITY OF
**PALO
ALTO**

**CITY OF PALO ALTO
CALIFORNIA**

FISCAL YEAR ENDED
JUNE 30, 2022



Fiscal Year 2022 Annual Comprehensive Financial Report

City of Palo Alto, CA
Fiscal Year Ended June 30, 2022

City Council

Patrick Burt, Mayor

Lydia Kou, Vice Mayor

Alison Cormack

Tom DuBois

Eric Filseth

Greer Stone

Greg Tanaka

Ed Shikada, City Manager

Kiely Nose, Director of Administrative Services/Chief Financial Officer

Prepared by: Administrative Services Department

CITY OF PALO ALTO
For the Year Ended June 30, 2022

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Transmittal Letter.....



OFFICE OF THE CITY MANAGER

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Palo Alto, CA 94301
650.329.2692

November 16, 2022

THE HONORABLE CITY COUNCIL

Palo Alto, California

ANNUAL COMPREHENSIVE FINANCIAL REPORT

YEAR ENDED JUNE 30, 2022

Members of the Council and Citizens of Palo Alto:

I am pleased to present the Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2022, in accordance with Article III, Section 16 and Article IV, Section 13 of the City of Palo Alto Charter. The format and content of this ACFR complies with the principles and standards of accounting and financial reporting adopted by the Governmental Accounting Standards Board (GASB), and contains all information needed for readers to gain a reasonable understanding of City of Palo Alto (City) financial affairs. Management takes sole responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. The objective of internal controls is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The City's financial statements have been audited by Macias Gini & O'Connell LLP, Certified Public Accountants (MGO). The goal of the audit is to obtain reasonable assurance that the financial statements are free of material misstatements and are fairly presented in accordance with U.S. generally accepted accounting principles in the United States of America (U.S. GAAP). MGO issued unmodified opinions for the fiscal year ended June 30, 2022. Their report is presented as the first component of the financial section of this report. While MGO has issued unmodified opinions for this report, information and the contents of this report is the responsibility of the City.

An overview of the City's financial activities for the fiscal year is discussed in detail in the Management's Discussion and Analysis (MD&A) section of the ACFR. 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 67,973 residents. The City delivers a full range of municipal services and public utilities under the Council-Manager form of government and offers an outstanding quality of life for its residents. It covers an area of twenty-six square miles and has dedicated almost one-half of the area to open spaces of parks and wildlife preserves. Public facilities include five libraries, four community centers, a cultural arts center, an adult and children's theater, a junior museum and zoo, an airport, and a golf course. The City provides a diverse array of services for seniors and youth, an extensive continuing education program, concerts, exhibits, team sports and special events. The independent Palo Alto Unified School District (PAUSD) has achieved State and national recognition for the excellence of its programs.

City Council: The seven members 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, the Finance Committee and the Policy and Services Committee. The Finance Committee considers and makes recommendations on matters relating to finance, budget, financial audits, capital planning and debt. Each subcommittee is comprised of three Council members. Staff provides the subcommittees and Council with reports such as the ACFR, the Long Range Financial Forecast (LRFF), and various planning reports, all of which are utilized in their review of the City's financial position.

FISCAL/ECONOMIC CONDITIONS AND OUTLOOK

The City declared a state of emergency in March 2020 due to a global pandemic (aka COVID-19) which had significant negative impacts to the budgets in Fiscal Years 2020 and 2021. Economic recovery began in earnest in Fiscal Year 2022 with the expectation of full recovery over several years. California job growth has been strong and is expected to continue albeit at a slow pace, led by the leisure and hospitality segment, with health care and social services, technology and construction having solid gains. As of the printing of this document, a mixed economic data increases difficulty in determining when and the severity of the next recession. Economic projections released in late September 2022 indicated a significant slowdown in the economy in late 2022. Consumer spending has leveled and the sentiment that a recession is likely has heightened. The Federal Open Market Committee (FOMC) has raised and is expected to further raise the federal funds (interest) rate to tame the elevated inflation rate which will negatively impact the national and local economic growth rate.

During FY 2022 service restoration began which included the restoration of over 20 positions. Future budget is built on cautious optimism, consistent with the conservative financial assumptions used to develop the FY 2022 Adopted Budget as directed by the City Council. This budget builds on the Council approved reinvestments and recommends additional investments focusing on 1) the community's immediate health and safety-related service needs, 2) reinvesting in a range of services with the use of one-time funding, in anticipation of continued fiscal sustainability conversations including identification of ongoing revenues and 3) investments to support the City Council's priorities.



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 historically and relatively stable employers such as Lucille Packard Children’s Hospital, Stanford Health Care, Stanford University, Veteran’s Affairs Palo Alto Healthcare System, Palo Alto Medical Foundation, Palo Alto Unified School District, Stanford Shopping Center and businesses such as Hewlett-Packard, VMware, Tesla, SAP labs Inc. and Space Systems Loral. Palo Alto has enjoyed diverse employment and revenue bases. As of June 2022, the City’s unemployment rate was 1.8 percent compared to the prior year level of 3.2 percent. The County of Santa Clara’s unemployment rate was 2.2 percent compared to the prior year level of 5.2 percent. The State of California’s unemployment rate was 4.0 percent, compared to the prior year level of 8.0 percent. The improved unemployment rates are driven by job gains in the leisure, hospitality and accommodation; food services; arts, and entertainment and professional, scientific, and technical services.

Real Estate Market: The 2021-2022 County of Santa Clara Assessor’s Annual Report noted that the County of Santa Clara’s annual assessment roll increased by \$25.4 billion to \$576.9 billion, a 4.60 percent increase over the prior year. Palo Alto’s assessment roll represents 7.63 percent of the County of Santa Clara’s assessment roll and grew 3.85 percent over the prior year to \$44.0 billion. Per the Santa Clara County Association of Realtors, home prices in Palo Alto remain well above the County of Santa Clara’s average at \$4.2 million as of second quarter 2022. According to Colliers, a company that tracks real estate trends throughout the county, Silicon Valley and Palo Alto average rent for office space was reported at \$5.27 and \$8.66 per square foot, respectively, while research and development space was noted at \$2.47 and \$6.82 per square foot, respectively.

Based on the Colliers report, Silicon Valley’s economy continues to outperform the national average as positive net absorption is seen in the local office and R&D property markets, although the industrial vacancy rate increased for the first time since the first quarter of 2021.

Local Trends: Development of the FY 2022 followed an extremely difficult year for the community and advanced a number of discussions around the City’s continued economic condition and fiscal challenges. California’s ‘Blueprint for a Safer Economy’, which implemented a color-coded tier system and associated restrictions, was lifted on June 15, 2021 and provided a milestone to entering a recovery phase. While COVID-19 had not gone away, work continued to ensure ongoing safety for all as the longstanding pandemic evolved. It was more important than ever to be nimble and continue to seek opportunities through community partnerships, explore changes in service delivery and work together to handle unexpected challenges. The adopted Operating and Capital Budgets maintained services at the same levels as the previous year, while recognizing that these service levels are not sustainable for the fiscal health of Palo Alto in the long-term. The Adopted Budget reflected current fiscal reality as a result of the ongoing, extended pandemic, related economic challenges, and continued resource limitations. As the hopeful signs for recovery continued, the Adopted Budget positioned Palo Alto to respond quickly and adapt when more moderate growth occurred than forecasted. This was reflected with service additions in FY 2022 in both the Preliminary Q1 Financial Report and the Mid-Year Review.

General Fund Balancing and Results: The FY 2022 budget was developed as the world continued to grapple with COVID-19, and the uncertain long-term financial implications impacting regional, national and global economies. The City of Palo Alto took swift, decisive, and difficult action to balance an approximately \$40 million decline in FY 2021 revenues. As the community continued to be challenged by various impacts of COVID-19, the City took a hard look at both the operating and capital budgets

and prioritized essential services, pared back discretionary items, and continued to monitor impacts the global pandemic had on the City's major revenue sources and economic sectors. In addition to these challenges, the City remained focused on maintaining high quality services with the resources available, while addressing issues facing the City as well as the state, and nation. These issues were reflected in the setting of Council priorities for 2022:

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

Progress continues to be made on these priorities, which require long-term strategies. The FY 2022 budget established several reserves to address needs related to these priorities. This allowed the organization to continue the work to address these priorities, while minimizing the fiscal impact to other City services.

The FY 2022 budget reflected a continuance of the significant service reductions taken in the first year of the pandemic and further aligned service levels with resources that continue to be dampened. While the Adopted Budget built on reductions taken in the prior year and assumed modest service level reductions, the balancing strategy navigated through this difficult time by focusing limited resources on funding services with the greatest community impact, maintaining core City services, and managing vulnerabilities and risk associated with a shrinking organization. The balancing strategy also leveraged one-time Federal American Rescue Plan Act (ARPA) funding and one-time use of the General Fund Budget Stabilization Reserve to mitigate further and more steep service reductions in the long-term. These one-time funds addressed a \$13 million gap in FY 2022 stemming from a combination of impacts resulting from the pandemic and pending litigation related to the City's Utility Transfer. Overall, the City's General Fund was adopted to collect \$206.5 million in revenues against \$209.2 million in expenses. These funding levels reflected a \$12.2 million, or 6.2 percent, increase compared to the FY 2021 Adopted Budget. In the General Fund, full-time staffing was reduced from 574.43 FTE to 506.80 FTE (a reduction of 67.63 FTE) and part-time staffing was reduced from 81.31 FTE to 56.58 FTE (a reduction of 24.73 FTE). The majority of these reductions reflected the City Council's direction to eliminate positions that were defunded and frozen in FY 2021 (CMR 11872). Prioritizing essential services and reducing or eliminating discretionary services was reflected in this budget and achieved through compiling feedback from community budget conversations and service prioritization surveys as well as the May and June budget sessions with the Finance Committee and City Council. Notwithstanding the service delivery reductions reflected in this budget, the budget balancing strategy ensured that the City continued to proactively pay for long term liabilities, maintained capital investments in its most critical infrastructure, provided resources for the City to successfully adapt from shelter in place to future service delivery models, and established funding to ensure those service delivery transitions. The City's budget strategy addressed immediate City service needs, but it is not a sustainable fiscal strategy for the long-term to meet the needs of the community. From an operating budget standpoint, the use of one-time Federal relief funding and General Fund Budget Stabilization Reserves addressed immediate resource limitations, while the City continues plans to move forward with a tax measure to maintain or build back services in future years. From a Capital infrastructure standpoint, the level of reductions included in the Adopted Budget will require the City to play 'catch up' in future years. Overall, more sustainable budget approaches will be needed as the City continues to recover from the pandemic, such as increased use of non-profit partners to provide services, evaluating current core services and continuing modernization of service delivery, and diversifying the City's revenue mix and/or increasing revenues to fund services.



Despite the financial constraints, the City maintained its commitment to addressing its long-term liabilities. Contributions towards the City's long-term pension obligations and other post-employment obligations were maintained this fiscal year including payment to trust funds. These were made possible by cost containment strategies utilized across the organization over the past several years. In addition to the City's past practice of planning for staffing costs contained in the agreed upon labor terms outlined in memorandums of agreement, CalPERS-determined retirement contribution levels, and a vacancy factor in the General Fund, proactive pension funding contributions to the City's irrevocable Section 115 Pension Trust Fund were achieved in FY 2022. In the General Fund, this resulted in \$3.1 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 7.0 percent discount rate). As of June 30, 2022, the City's irrevocable pension trust fund has a total of \$37.3 million in Citywide contributions (excluding earnings from investments), of which \$24.1 million is from the General Fund.

In FY 2014, the City Council approved a \$125.8 million Infrastructure Plan (IP), which included projects such as a new Public Safety Building, replacement of two Fire Stations, a Bike and Pedestrian plan, and two parking garages. As part of the development of the 2022-2026 Capital Improvement Plan (CIP), the IP projects were updated for scope increases and cost escalations, resulting in a revised Infrastructure Plan of \$259.8 million. These projects are 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. TOT funding was one of the revenue sources most severely impacted by the COVID-19 pandemic; staff continually revises these figures to adjust and plan for these impacts, while maintaining funding for the City's most critical infrastructure improvements.

Due to the COVID-19 pandemic, the City Council aimed to provide economic relief for residential and commercial utility customers by directing staff to maintain a second year of flat rates without compromising the safety and integrity of the utility systems. Rates increased in 2022 for gas, wastewater, stormwater, and fiber 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 financial issues for the City Council so that the Council and staff can work proactively to address the City's fiscal health and necessary policy updates as part of the annual budget process that follows the LRFF. Moreover, it is a tool that allows policymakers an opportunity to prioritize funding needs over time, sets the tone for the annual budget process, and is one of the many tools and reports that Council uses for future financial planning. The FY 2022 LRFF was developed in a time where the world grappled with the fiscal uncertainties of entering the second year of the COVID-19 pandemic, and when national, state, and local economic indicators modeled a three to five year economic recovery. Unemployment remained high, job growth slowed, and international trade had negative impacts on economic data.

The FY 2022-2031 LRFF was presented to the Finance Committee in December 2020 and approved by the City Council in February 2021. Being the second year of difficult conversations regarding the City's financial position and long-term outlook, the Council was presented with three financial balancing scenarios to help guide development of the FY 2022 Adopted Budget. The financial balancing scenarios did not assume restoration of the reductions taken in the FY 2021 Adopted Budget. The financial balancing scenario that was accepted by the City Council assumed a moderately paced economic recovery over three to five years and that shelter in place orders would continue through the spring/early summer, followed by an economic recessionary period of slow growth once the order was lifted. This scenario also reflected impacts related to longer term social distancing requirements and travel restrictions that spanned over the term of the economic recovery. In this scenario, revenue levels returned to pre-COVID-19 levels in FY's 2025 and 2026. In FY 2026, total tax revenues were projected to exceed pre-COVID levels by 3.0 percent, or approximately \$5 million. At the end of five years, assuming that the annual budget shortfalls were balanced through service reductions, this scenario resulted in approximately a cumulative 25 percent, or \$56.6 million, overall budget reduction between FY 2021 and FY 2026. This scenario most closely aligned with staff's research and review of economic forecasts, including the UCLA Anderson forecast.

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 and accomplishments:

- The Palo Alto Junior Museum and Zoo (JMZ) re-opened its doors to the community in November 2021 after a major renovation, in partnership with the Friends of the Junior Museum and Zoo. The new facility has all new exhibits designed by JMZ staff, a re-imagined zoo called Loose in the Zoo with new animals like flamingos and meerkats. The new facility and exhibits were designed with a focus on inclusion, accessibility, and the highest standards in animal care. The Friends of the JMZ raised over \$25 million for the project.
- As outlined in the Rinconada Park Long Range Plan, adopted by Council in 2017, Phase 1 improvements was completed, which include the removal and installation of a new playground, pathways, picnic tables, and a parking lot entry.
- Supported businesses throughout the pandemic and encouraged the community to patronize local businesses. Continued the Uplift Local program to expand outdoor dining, retail, and more, generally supporting the business community and connecting the broader Palo Alto community together during challenging economic and public health emergencies. Continued to partner with Santa Clara County's Public Health Department and other local healthcare providers to provide residents and businesses with quick, convenient, and free COVID-19 testing clinics in the community, greatly expanding access to critical coronavirus tests.
- Recognized by Tree City USA 2021 awardee, for the 10th consecutive year in a row.
- Maintained the City's AAA credit rating in was confirmed in May 2022 by Standard and Poor's, while Moody's March 2021 AAA rating continues to be in place, giving the City the lowest possible borrowing costs. This rating has been awarded to only a few cities in the State of California.



- Expanded participation in AlertWildfire camera ecosystem by installing a camera at the Montebello Reservoir to enhance wildfire identification in the Palo Alto area of operations.
- Completed the third and final phase of the Airport Apron Reconstruction project.
- Formed a Sustainability and Climate Action Plan (S/CAP) Ad Hoc Committee to guide the development, implementation, and communication of the S/CAP and to engage with a stakeholder group of domain experts and community activists.
- Conducted pilot projects for alternative processing and tracking of recyclable materials. Led regional dialogue on traceability and international shipments of recyclables materials. Created goals and draft legislation to reduce environmental and social impacts from the processing of recyclable materials, with feedback from multiple jurisdictions, haulers, the processing industry, and environmental advocates.
- Exhibitions at the Palo Alto Art Center promoted diversity, equity, access, and inclusion, showcasing the power of representation. The Black Index exhibition featured portraiture by black and brown artists. The Art of Disability Culture celebrated the work of 20 artists with disabilities.
- Earned a Top 10 Champion Partner Award from the Responsible Appliance Disposal (RAD) Leadership Program for accomplishments in reducing ozone depleting substances and Greenhouse Gas (GHG) emissions through the Refrigerator Recycling Program
- Received for the third year in a row the Smart Energy Provider Award from American Public Power Association (APPA), which recognizes utilities for demonstrating commitment to and accomplishment in smart energy program planning; energy efficiency and distributed energy resources; environmental and sustainability programs; and communication and customer experience.

Awards: During the past year, the City received an award for the prior fiscal year (2021) ACFR from the Government Finance Officers Association (GFOA) for “excellence in financial reporting.” The 2022 ACFR will be submitted to the GFOA award program to be considered for this distinguished financial reporting award.

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

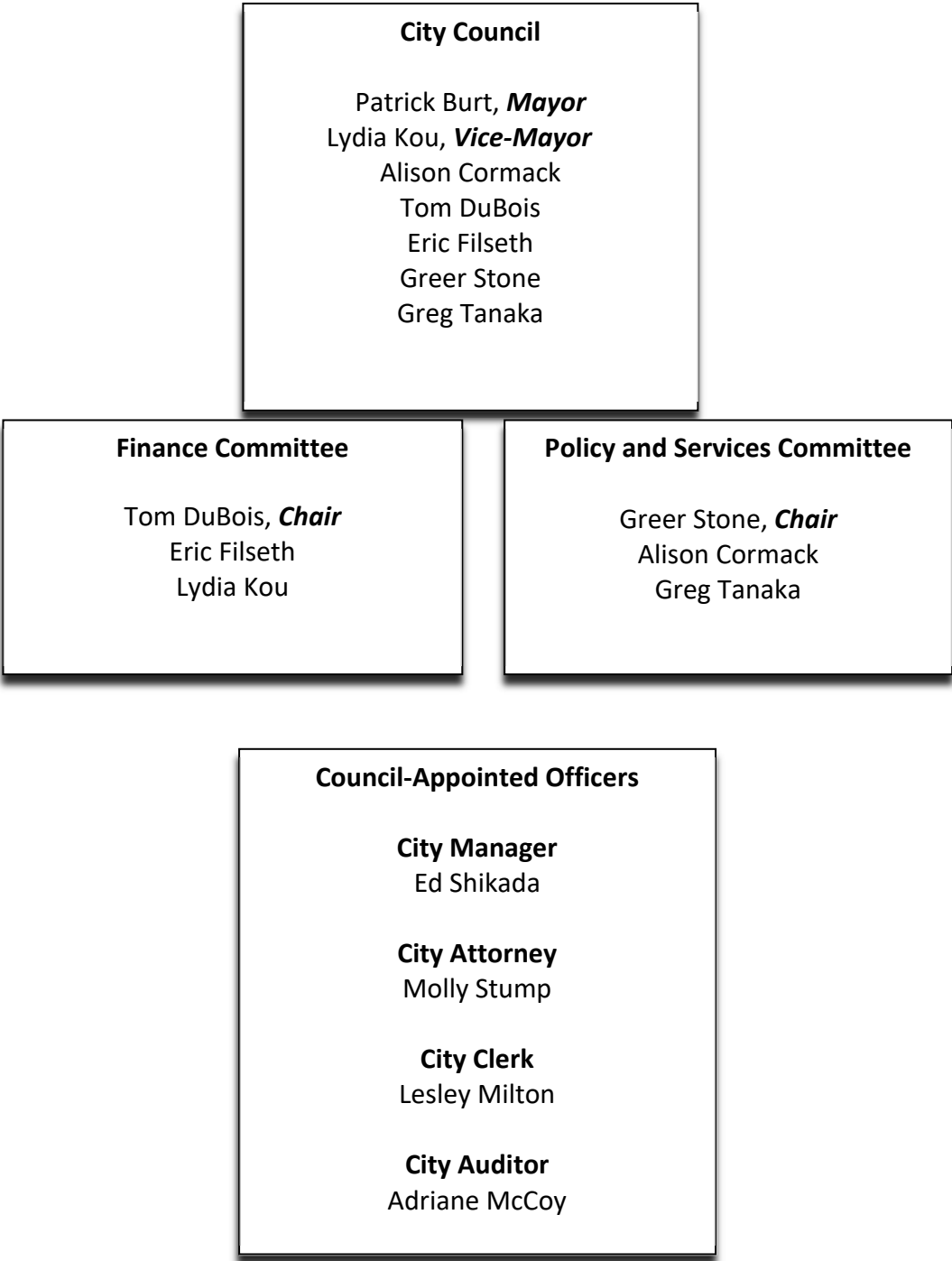
Special acknowledgment must be given to City Council and the Finance and Policy and Services Committees for their dedication to directing the financial affairs of the City in a responsible, professional and progressive manner.

Respectfully submitted,

KIELY NOSE
Chief Financial Officer

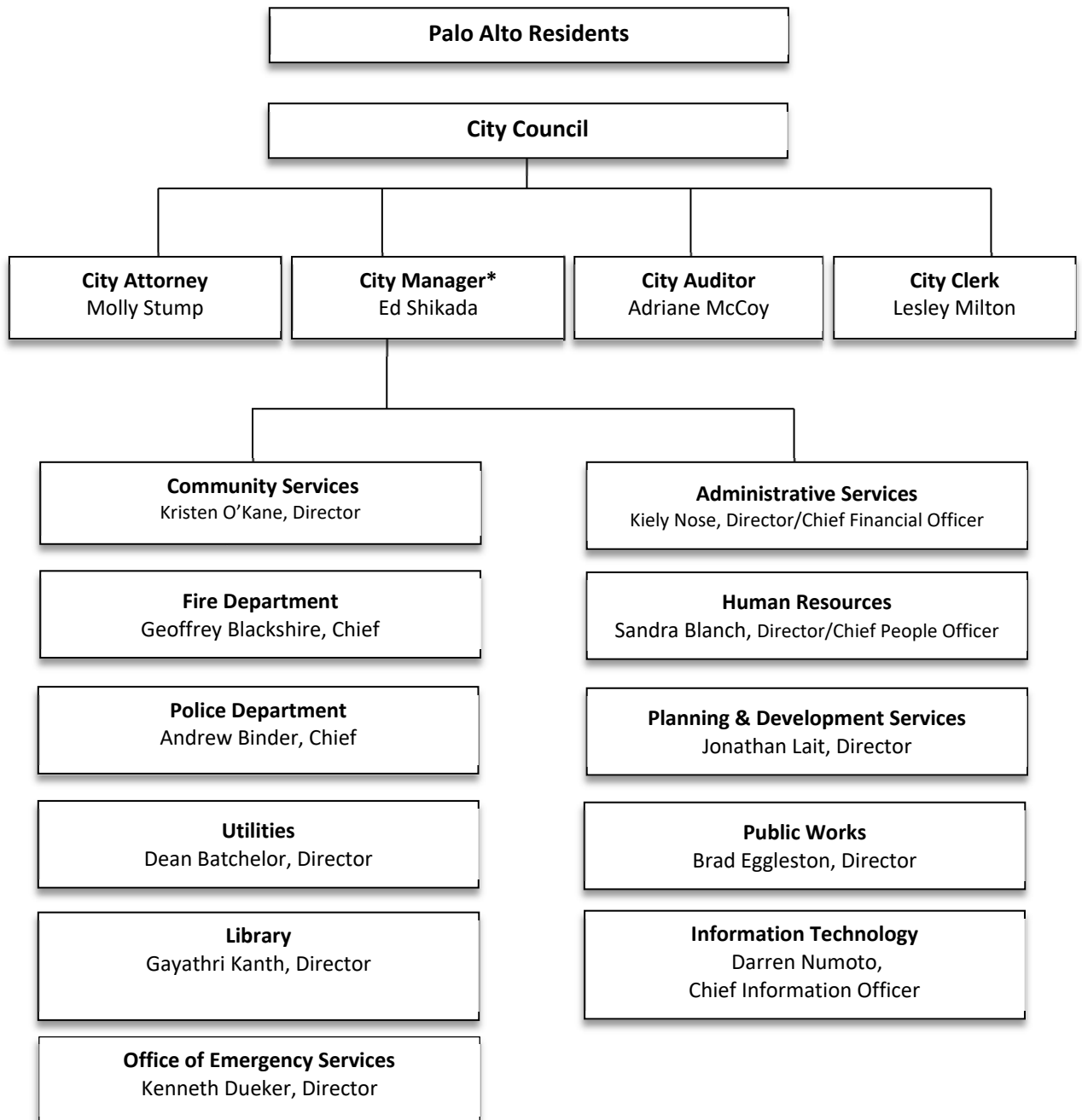
ED SHIKADA
City Manager

City of Palo Alto City Officials



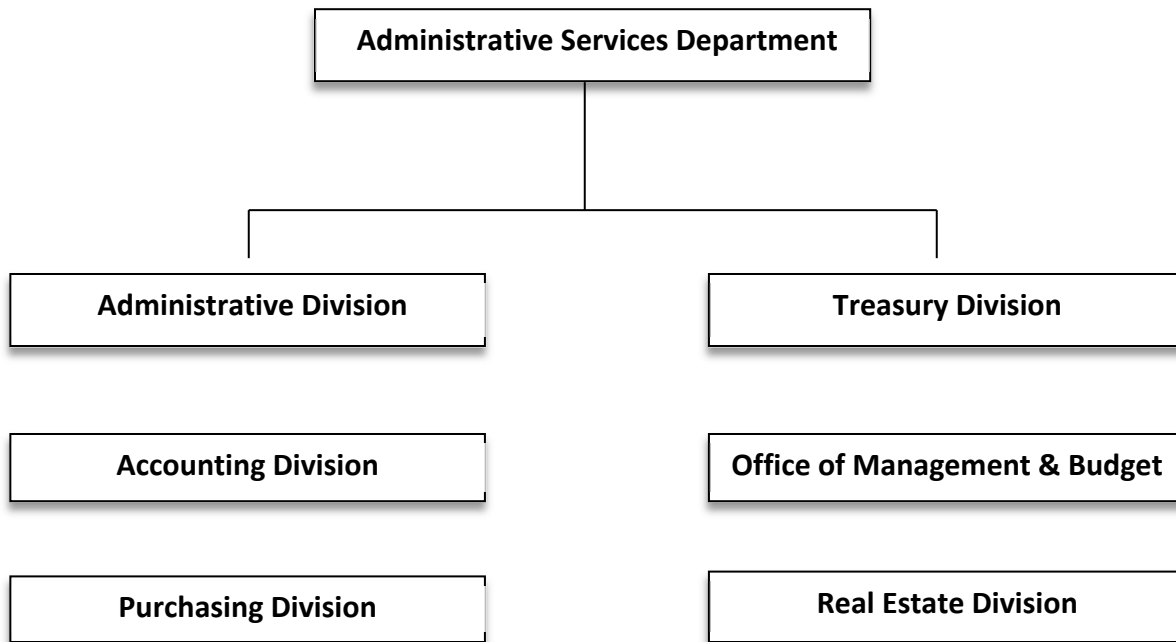


City of Palo Alto Organization



* The Office of Transportation is situated in the City Manager’s Office.

Administrative Services Organization



Mission Statement

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



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



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

**City of Palo Alto
California**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2021

Christopher P. Morill

Executive Director/CEO



Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Palo Alto, California (City), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Emphasis of Matter

As discussed in Note 1 to the financial statements, as of July 1, 2021, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of changes in net pension liability and related ratios, the schedules of pension contributions, the schedule of changes in net OPEB liability and related ratios, and the schedule of employer OPEB contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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.

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual and combining fund financial statements and schedules is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2022, 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.



Walnut Creek, California
November 16, 2022

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Management's Discussion and Analysis (Unaudited)

Management's Discussion and Analysis (MD&A) provides an overview of the City of Palo Alto's (City) financial performance for the Fiscal Year (FY) ended June 30, 2022. To obtain a complete understanding of the City's financial condition, this document should be read in conjunction with the accompanying Transmittal Letter and Basic Financial Statements. Certain balances for prior year are reclassified to conform with current year presentation.

FINANCIAL HIGHLIGHTS

- Assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of FY 2022 by \$1.3 billion. Of this amount, \$20.0 million represents unrestricted Net Position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total Net Position is \$1.3 billion, an increase of \$40.6 million, or 3.2 percent over the prior fiscal year. Of this amount, \$51.0 million was generated by Governmental Activities and offset by a decrease of \$10.4 million by Business-Type Activities.
- The City's governmental funds reported total fund balances of \$327.1 million, a decrease of \$38.5 million from the prior year. Approximately \$61.1 million of this amount, or 18.7 percent, is unassigned fund balance and available for spending at the City's discretion.
- Unrestricted fund balance (the total of the committed, assigned and unassigned components of fund balance) for the General Fund was \$90.9 million, or 48.4 percent of total General Fund expenditures, including transfers.
- The City's total outstanding long-term debt decreased by \$11.9 million due debt refinancing activities and scheduled debt service payments. The City refinanced the 2010A General Obligation (GO) Bonds and partially refinanced the 2013A GO Bonds to take advantage of low interest rates. See Note 8 in the Notes to the Basic Financial Statements for details.
- The City's Net Pension Liabilities and Net Other Post-Employment Benefit (OPEB) Liabilities decreased by \$128.5 million or 27.2 percent, and \$43.4 million, or 34.8 percent, respectively. The decrease in Net Pension Liabilities and Net OPEB impacts all funds and is referred to throughout the MD&A. The decrease in liability was driven primarily due to investment earnings that increased Plan's Net Position.
- The U.S. economy and stock market struggled the first half of 2022. As reported in the 2022 4th quarter investment activity report, the market value of the City's investment portfolio was 93.5 percent of book value. Interest rates are further expected to increase, causing market values to fluctuate. The City's practice is to buy and hold investments to maturity to minimize investment risk in a fluctuating market and to ensure preservation of capital in the overall investment portfolio. As required by Governmental Accounting Standards Board (GASB) Statement No. 31, an unrealized loss was recorded to adjust for market fluctuations and is referred to throughout this MD&A.
- The City implemented the GASB Statement No. 87, *Leases*, effective fiscal year ended June 30, 2022. The objective of this statement is to better meet the informational needs of financial statement users by improving accounting and financial reporting for leases by governments. See Note 6 in the Notes to the Basic Financial Statements for details.

OVERVIEW OF THE ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR)

The ACFR is presented in five sections:

- An introductory section that includes the Transmittal Letter and general information
- Management's Discussion and Analysis
- Basic Financial Statements that include the Government-wide and Fund Financial Statements, along with the Notes to the Basic Financial Statements
- Required and Other Supplemental Information
- Statistical Information

Government-wide Financial Statements

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

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

The Statement of Activities presents the City's revenues and expenses, with an emphasis on measuring net revenues or expenses for each of the City's programs. The Statement of Activities details the change in Net Position for the year. All changes in Net Position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

In addition, to provide a snapshot of the two primary types of activities that the City operates, both Statements categorize activity as either Governmental or Business-Type. The amounts in the Statement of Net Position and the Statement of Activities are separated into Governmental and Business-type Activities in order to provide a summary of each type of activity.

Governmental Activities

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 Development Services, Office of Transportation, Police, Fire, Community Services, and Library. These services are supported by City's general revenues such as taxes, and by specific program revenues such as fees and grants.

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

Business-Type Activities

The City's enterprise activities are reported as Business-Type Activities, 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 33 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 funds are major funds, was

established by GASB Statement No. 34. Each major fund is individually presented and all non-major funds are combined in a single column on each fund statement. Supplemental schedules display these non-major funds in more detail. The General Fund is always considered a major fund, but other funds may change from 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. Fund Financial Statements include Governmental, Proprietary, and Fiduciary Funds.

Governmental Funds

Governmental Fund Financial Statements are prepared using the modified accrual basis of accounting, which measures current financial resources and uses. Capital assets and other long-term assets, along with long-term liabilities, are presented only in the Government-wide Financial Statements. In FY 2022, the City had two major governmental funds - the General Fund and the Capital Projects Fund. Detail for non-major funds can be found in the Supplemental Information section of this report.

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

The Governmental Fund Financial Statements can be found on pages 37-41 of this report.

Proprietary Funds

Enterprise and Internal Service Fund Financial Statements are prepared on the full accrual basis of accounting, the same basis of accounting that is used in the Government-Wide Financial Statements. These statements include current and long-term assets, deferred outflows of resources, current and long-term liabilities, and deferred inflows of resources.

The City's Internal Service Funds provide goods and services exclusively to the City's governmental and Business-Type Activities. Internal Service Funds 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 Position of the Internal Service Funds.

The Proprietary Fund Financial Statements can be found on pages 42-47 of this report.

Fiduciary Funds

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

The Fiduciary Fund Financial Statements can be found on pages 48-49 of this report.

Notes to the Basic Financial Statements

The Notes to the Basic Financial Statements provide additional information that is necessary to acquire a full understanding of the data provided in the Government-wide and Fund Financial Statements. The Notes to the financial statements can be found on pages 53-116 of this report.

Required and Other Supplemental Information

The Required Supplementary Information related to the City's pension and OPEB plans are included after the Notes to the Basic Financial Statements on pages 117-122. The combining statements and individual fund statements and schedules referred to earlier in connection with non-major Governmental Funds and Internal Service Funds are presented immediately following the Required Supplementary Information and can be found on pages 123-147 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 ended June 30, 2022. As noted previously, the City's total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$1.3 billion at the end of the fiscal year, an increase in Net Position of \$40.6 million.

CONDENSED STATEMENT OF NET POSITION

As of June 30
(in millions)

	Governmental Activities		Business-type Activities		Government-wide Totals	
	2022	2021	2022	2021	2022	2021
Cash and investments	\$ 400.7	\$ 443.4	\$ 241.3	\$ 285.6	\$ 642.0	\$ 729.0
Other assets	82.4	76.6	50.7	47.7	133.1	124.3
Capital assets	674.2	602.0	735.2	708.5	1,409.4	1,310.5
Total Assets	1,157.3	1,122.0	1,027.2	1,041.8	2,184.5	2,163.8
Unamortized loss from refunding	-	-	0.1	0.1	0.1	0.1
Pension and OPEB related	59.2	60.8	24.6	24.1	83.8	84.9
Total Deferred Outflows of Resources	59.2	60.8	24.7	24.2	83.9	85.0
Net pension and OPEB liabilities	316.5	438.2	109.5	159.7	426.0	597.9
Long-term debt	210.2	217.5	64.3	68.9	274.5	286.4
Other liabilities	102.9	87.6	33.1	23.8	136.0	111.4
Total Liabilities	629.6	743.3	206.9	252.4	836.5	995.7
Pension and OPEB related	107.7	16.3	45.3	6.4	153.0	22.7
Lease related	2.7	-	2.9	-	5.6	-
Unamortized gain from refunding	2.4	-	-	-	2.4	-
Total Deferred Inflows of Resources	112.8	16.3	48.2	6.4	161.0	22.7
Net Position						
Net investment in capital assets	503.9	480.6	670.8	642.0	1,174.7	1,122.6
Restricted	72.9	80.3	3.3	3.4	76.2	83.7
Unrestricted	(102.7)	(137.7)	122.7	161.8	20.0	24.1
Total Net Position	\$ 474.1	\$ 423.2	\$ 796.8	\$ 807.2	\$ 1,270.9	\$ 1,230.4

The largest portion, 92.4 percent, of the City's Net Position is its net investment in capital assets. This category of Net Position includes 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, 6.0 percent, of the City's Net Position represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$20.0 million, representing 1.6 percent of the City's Net Position, is unrestricted and may be used to meet the City's ongoing obligations to its citizens and creditors.

Overall, the City's Unrestricted Net Position is positive on a combined basis for Governmental Activities and Business-Type Activities. The Unrestricted Net Position for Governmental Activities is negative mainly due to recognition of the net pension liabilities, as required by GASB Statement No. 68, and net OPEB liabilities, as required by GASB Statement No. 75. The \$102.7 million net deficit for Governmental Activities includes the \$286.6 million net impact of net pension liabilities and its related deferred outflows and inflows of resources and \$78.3 million net impact of net OPEB liabilities and its related deferred outflows and inflows of resources. Net Position for Governmental Activities, excluding these impacts, is \$262.2 million.

Components of the \$40.6 million increase in total Net Position are discussed in the following sections for Governmental Activities and Business-Type Activities.

The City implemented GASB 87 effective July 1, 2021. GASB 87 requires that leases be reported in the financial statements. The following categories were added to the financial statements: lease receivables, deferred inflows of resources, intangible (right-to-use asset) lease assets, and lease liabilities. Additional information and discussion of these changes can be found in Note 6 of the City's Notes to the Basic Financial Statements.

Governmental Activities – Net Position

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

CONDENSED STATEMENT OF NET POSITION

GOVERNMENTAL ACTIVITIES

As of June 30

(in millions)

	2022	2021	Increase/ (Decrease)
Cash and investments	\$ 400.7	\$ 443.4	\$ (42.7)
Other assets	82.4	76.6	5.8
Capital assets	674.2	602.0	72.2
Total Assets	1,157.3	1,122.0	35.3
Pension and OPEB related	59.2	60.8	(1.6)
Total Deferred Outflows of Resources	59.2	60.8	(1.6)
Net pension and OPEB liabilities	316.5	438.2	(121.7)
Long-term debt	210.2	217.5	(7.3)
Other liabilities	102.9	87.6	15.3
Total Liabilities	629.6	743.3	(113.7)
Pension and OPEB related	107.7	16.3	91.4
Lease related	2.7	-	2.7
Unamortized gain from refunding	2.4	-	2.4
Total Deferred Inflows of Resources	112.8	16.3	96.5
Net investment in capital assets	503.9	480.6	23.3
Restricted	72.9	80.3	(7.4)
Unrestricted	(102.7)	(137.7)	35.0
Total Net Position	\$ 474.1	\$ 423.2	\$ 50.9

Net Position for Governmental Activities increased \$50.9 million to \$474.1 million as of June 30, 2022 due to the following:

Assets and Deferred Outflows of Resources

- Cash and investments decreased \$42.7 million mainly due to lower cash position in the Capital Project Fund as a result of the public safety building construction and the fair value adjustment.
- Other assets increased \$5.8 million due to increased accounts receivable balances for major taxes, federal grants and gas taxes of \$2.4 million, receivable from Stanford for fire services of \$1.6 million, and \$1.8 million for medical premium prepayments.
- Capital assets increased \$72.2 million due to continued construction of Public Safety Building, Reconfiguration of Charleston/Arastradero Corridor, and Highway 101 Bicycle and Pedestrian Project. The newly renovated Junior Museum and Zoo (JMZ) was also completed totaling \$29.2 million, of which \$25.7 million was donated by the Friends of the JMZ. In addition, \$7.0 million of right to use assets were recorded as a result of implementing GASB 87.

Liabilities and Deferred Inflows of Resources

- Net pension and OPEB liabilities decreased \$121.7 million due to decrease in net pension liabilities and net OPEB liabilities of \$91.1 million and \$30.6 million, respectively. The increase in plan's fiduciary Net Position from investment income during the current year drove the decrease in net pension liabilities.
- Long-term debt decreased \$7.3 million due to scheduled debt retirements.
- Other liabilities increased \$15.3 million primarily due mainly to implementation of GASB 87. The City leases two automatic public toilets (APT), and two spaces for community use and childcare services. Another factor driving the increase was the additional claim liability amount of \$4.9 million for a class action lawsuit.
- The investment return of the Pension and OPEB plans were higher than expected and resulted in a \$91.4 million increase in pension and OPEB related deferred inflows of resources. Of this amount, approximately of \$71.4 million is attributed to pension related inflows of resources and \$20.0 million for OPEB related deferred inflows of resources.
- Implementation of GASB 87 resulted in a \$2.7 million increase for lease related deferred inflows of resources for spaces and land that is leased by the City.
- Unamortized gain on refunding amounting to \$2.4 million, from refinancing the 2010A GO Bonds and the partial refinancing of the 2013A GO Bonds.

Net Position

- Net investment in capital assets increased by \$23.3 million to \$503.9 million due to current year capital additions, as noted above, offset by current year depreciation and asset retirements.
- Restricted Net Position decreased \$7.4 million to \$72.9 million primarily due to decreases in transportation mitigation and public benefit.
- Unrestricted Net Position increased \$35.0 million mainly due to decrease in pension and net OPEB liabilities, offset by increases in related deferred inflows of resources. Recognition of the net pension and OPEB liabilities as required by GASB Statements Nos. 68 and 75 results in a negative balance in this category.

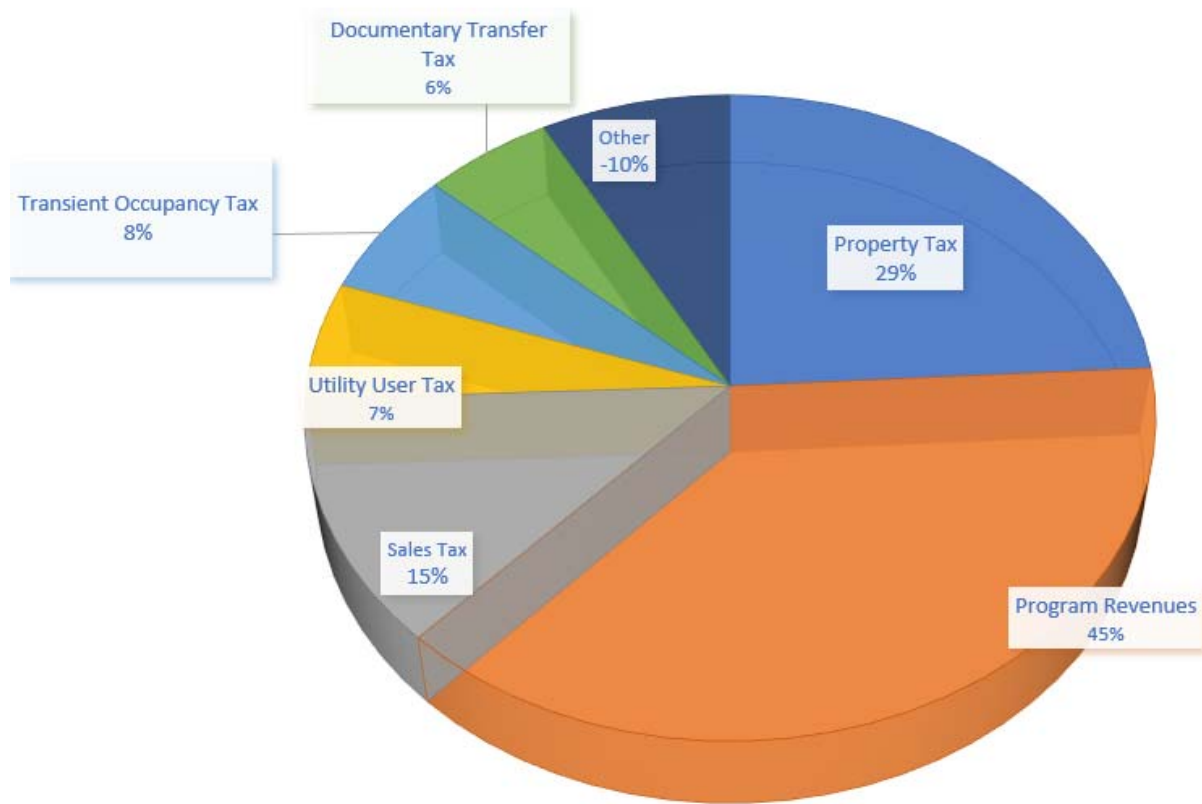
Governmental Activities – Revenues

The table below shows that Governmental Activities revenues totaled \$219.7 million in FY 2022, an increase of \$21.6 million, compared to prior year revenues of \$198.1 million.

GOVERNMENTAL ACTIVITIES			
<i>Revenues for the Year Ended June 30</i>			
(in millions)			
Revenues by Source	2022	2021	Increase/ (Decrease)
Program Revenues:			
Charges for services	\$ 59.7	\$ 55.5	\$ 4.2
Operating grants and contributions	9.9	3.0	6.9
Capital grants and contributions	30.4	11.3	19.1
Total Program Revenues	100.0	69.8	30.2
General Revenues:			
Property tax	63.6	60.9	2.7
Sales tax	32.7	29.1	3.6
Utility user tax	15.6	14.6	1.0
Transient occupancy tax	16.9	5.2	11.7
Documentary transfer tax	12.0	10.6	1.4
Other tax	3.0	2.8	0.2
Investment earnings	(24.5)	4.9	(29.4)
Miscellaneous	0.4	0.2	0.2
Total General Revenues	119.7	128.3	(8.6)
Total Revenues	\$ 219.7	\$ 198.1	\$ 21.6

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 – Revenues by Source



Program Revenues such as charges for services, operating grants and contributions, and capital grants and contributions are generated from or restricted to each activity. Total Program Revenues increased \$30.2 million, or 43.3 percent, from the prior year.

Charges for services increased by \$4.2 million compared to prior year, totaling \$59.7 million. The increase includes the following:

- Resumption and increase of in-person classes and other program offerings due to the lifting of State and County Public Health restrictions.
- Paramedic service fees due to an increased number of trips and higher average amount billed per trip.

Operating contributions and grants increased \$6.9 million primarily due to \$13.7 million from ARPA allocation, of which \$8.2 million were already earned and spent.

Capital grants and contributions increased \$19.1 million from the prior year due to a \$25.7 million donation received from Friends of the JMZ for the newly renovated Junior Museum and Zoo (JMZ), partially offset by the decrease in grant reimbursements for various capital projects.

General Revenues decreased \$8.6 million, or 6.7 percent, from the prior year mainly due to decreases in investment earnings from the negative impact of fair value adjustments, offset by the increases in sales tax, utility user tax, and transient occupancy tax revenues.

Further analysis of program revenues and general revenues can be found in the Financial Analysis of Governmental Funds section of the MD&A.

Governmental Activities – Expenses

The table below presents a comparison of FY 2022 and FY 2021 expenses by function, along with interest and other expenses and transfers. Total Governmental Activities functional expense was \$189.1 million in FY 2022, a decrease of \$45.5 million.

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

Activities	2022	2021	Increase/ (Decrease)
City Council	\$ (0.1)	\$ 0.2	\$ (0.3)
City Manager	1.6	2.5	(0.9)
City Attorney	2.0	2.3	(0.3)
City Clerk	0.4	0.7	(0.3)
City Auditor	0.5	0.6	(0.1)
Administrative Services	15.0	23.0	(8.0)
Human Resources	1.6	2.5	(0.9)
Public Works	31.2	52.7	(21.5)
Planning and Development Services	15.7	18.1	(2.4)
Office of Transportation	4.4	3.6	0.8
Police	35.1	43.6	(8.5)
Fire	31.2	37.1	(5.9)
Community Services	31.9	30.3	1.6
Library	9.5	11.1	(1.6)
Interest and Other Expense	9.2	6.3	2.9
Total Functional Expense	189.2	234.6	(45.4)
Change in Net Position before Transfers	30.6	(36.5)	67.1
Transfers	20.3	19.1	1.2
Change in Net Position	50.9	(17.4)	68.3
Net Position, Beginning	423.2	440.6	(17.4)
Net Position, Ending	\$ 474.1	\$ 423.2	\$ 50.9

Functional expenses consisted of depreciation, uncapitalized operating expenses from capital project funds, internal service funds allocation, changes in pension, OPEB liabilities due to deferred contributions, amortization of pension and OPEB-related outflows and inflows of resources, and lease activities.

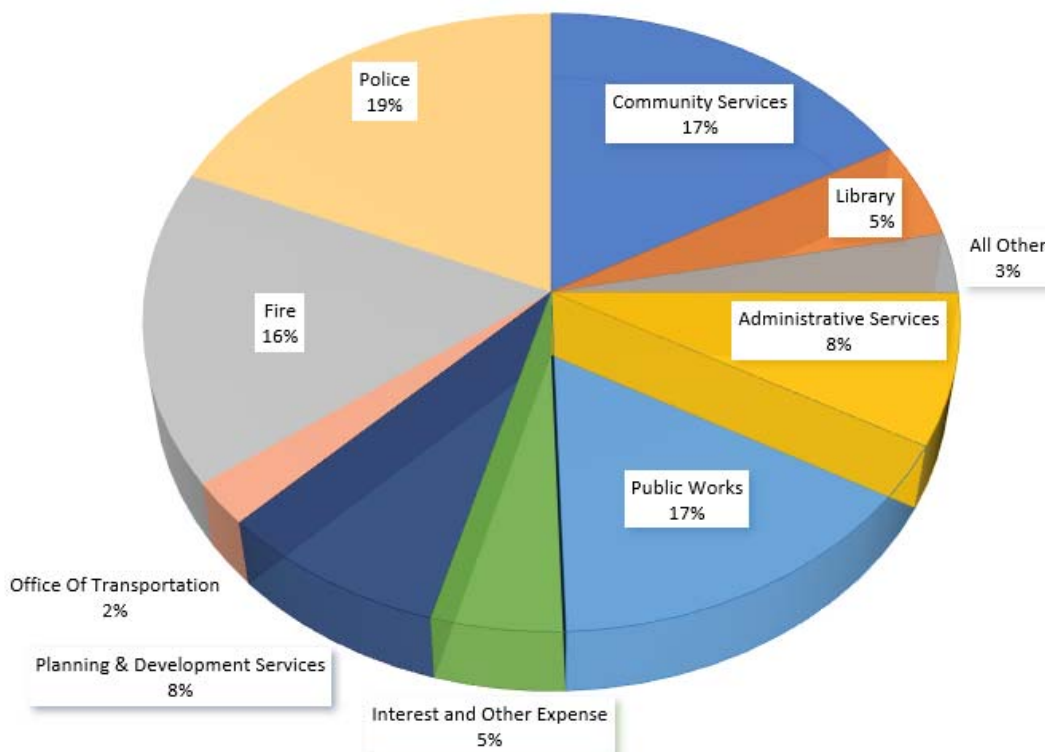
Total functional expenses were \$189.1 million in the current fiscal year, a decrease of \$45.4 million from the prior year mainly due to the decrease in pension and OPEB related adjustments for GASB 68 and GASB 75, primarily due to higher actual than expected interest earnings of City's pension and OPEB plans.

Administrative Services expenses decreased \$8.0 million, due to \$12.6 million claims related to a class lawsuit involving the City's gas and electric rates, *Green v. City of Palo Alto* (Santa Clara Superior Court, Case No. 1-16-CV-300760) recorded in FY 2021. This was partially offset by the additional claims of \$4.9 million related to the *Green v. City of Palo Alto* class action lawsuit recorded in FY2022.

The Public Works decreased \$21.5 million mainly due to clean up of capitalized construction in progress balances for various repairs and maintenance cost incurred for streets, sidewalks, facilities, and parks in FY2021.

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 less than 2 percent 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.

**CONDENSED STATEMENT OF NET POSITION
BUSINESS-TYPE ACTIVITIES
As of June 30
(in millions)**

	2022	2021	Increase/ (Decrease)
Cash and investments	\$ 241.3	\$ 285.6	\$ (44.3)
Other assets	50.7	47.7	3.0
Capital assets	735.2	708.5	26.7
Total Assets	1,027.2	1,041.8	(14.6)
Unamortized loss from refunding	0.1	0.1	-
Pension and OPEB related	24.6	24.1	0.5
Total Deferred Outflows of Resources	24.7	24.2	0.5
Net pension and OPEB liabilities	109.5	159.7	(50.2)
Long-term debt	64.3	68.9	(4.6)
Other liabilities	33.1	23.8	9.3
Total Liabilities	206.9	252.4	(45.5)
Pension and OPEB related	45.3	6.4	38.9
Lease related	2.9	-	2.9
Total Deferred Inflows of Resources	48.2	6.4	41.8
Net Position			
Net investment in capital assets	670.8	642.0	28.8
Restricted	3.3	3.4	(0.1)
Unrestricted	122.7	161.8	(39.1)
Total Net Position	\$ 796.8	\$ 807.2	\$ (10.4)

The City's Business-Type Activities total Net Position decreased \$10.4 million to \$796.8 million as of June 30, 2022 due to the following:

Assets and Deferred Outflows of Resources

- Cash and investments decreased \$44.3 million mainly due to decreases in Net Position for all Enterprise Funds, except for the Wastewater Collection Fund and Airport Fund.
- Other assets increased \$3.0 million due to implementation of GASB 87. Fiber Optics Fund leases cable as equipment for business use and Electric fund leases access and land for communication facilities and equipment.
- Capital assets increased \$26.7 million to \$735.2 million primarily due continued construction of projects in the Gas Fund, Water Fund, Electric Fund and Wastewater Treatment Fund. These capital

assets additions and reduction in related long-term debt also contributed to the \$28.8 million increase in net investment in capital assets to \$670.8 million in FY 2022.

Liabilities and Deferred Inflows of Resources

- Net pension and OPEB liabilities decreased \$50.2 million due to decrease in net pension liabilities and net OPEB liabilities of \$37.4 million and \$12.8 million, respectively. The decrease is mainly due to increase in plan's Net Position from investment income during the current year.
- Long-term debt decreased \$4.6 million due to \$5.8 million scheduled debt retirements offset by an addition of \$1.2 million for a State Water Resource loan.
- Other liabilities increased \$9.3 million due to higher year-end accruals of commodity purchases and contract services, and recognition of lease liabilities due to implementation of GASB 87.
- Pension and OPEB related deferred inflow of resources increased \$38.9 million due to increase of pension related deferred inflows of resources and OPEB related deferred inflows of resources of \$30.0 million and \$8.9 million, respectively. The decrease is due to actual plan's investment returns are higher than expected.
- Lease related deferred inflow increased \$2.9 million due to implementation of GASB 87.

Net Position

- Unrestricted Net Position of \$122.7 million, a decrease of \$39.1 million from the prior year, represents assets available to finance day-to-day operations and other expenses approved by the City Council. The amount includes Rate Stabilization Reserves (RSR) of \$49.6 million and operations reserves of \$61.0 million, along with the electric special projects (Calaveras) reserve of \$24.6 million, and the CIP reserve of \$18.6 million.

Business-Type Activities – Revenues

The table below presents the revenues by source of the City's Business-Type Activities. The City operates the Water, Electric, Fiber Optics, Gas, Wastewater Collection, Wastewater Treatment, Refuse, Storm Drainage, and Airport funds.

BUSINESS-TYPE ACTIVITIES			
<i>Revenues for the Year Ended June 30</i>			
(in millions)			
Revenues by Source	2022	2021	Increase/ (Decrease)
Program Revenues:			
Charges for services	\$ 353.7	\$ 346.5	\$ 7.2
Operating grants and contributions	0.7	0.5	0.2
Capital grants and contributions	7.3	6.4	0.9
Total Program Revenues	361.7	353.4	8.3
General Revenues:			
Investment earnings	(16.1)	2.2	(18.3)
Gain on sale of capital assets	0.1	0.0	0.1
Total General Revenues	(16.0)	2.2	(18.2)
Total Revenues	\$ 345.7	\$ 355.6	\$ (9.9)

Business-Type Activities revenues totaled \$345.7 million, a decrease of \$9.9 million from the prior year. Program revenues increased \$8.3 million year over year. Revenues were affected by the following events:

- Overall, charges for services increased \$7.2 million, driven by 3 percent increase in gas and a portion of commodity price increases being passed through to customers, which was partially offset by a decrease in Water Fund revenues due to conservation effort from responding to the drought.
- Investment earnings decreased \$18.3 million compared to prior year due to the investment fair value adjustment.

Business-Type Activities – Expenses

The table below presents a comparison of the FY 2022 and FY 2021 expenses for the City's Business-Type Activities.

BUSINESS-TYPE ACTIVITIES			
<i>Expenses and Change in Net Position for the Year Ended June 30</i>			
(in millions)			
<u>Business-type Activities</u>	<u>2022</u>	<u>2021</u>	<u>Increase/ (Decrease)</u>
Water	\$ 41.9	\$ 43.6	\$ (1.7)
Electric	169.1	156.1	13.0
Fiber Optics	2.2	2.5	(0.3)
Gas	40.7	28.6	12.1
Wastewater Collection	18.3	19.6	(1.3)
Wastewater Treatment	27.1	28.4	(1.3)
Refuse	30.0	29.1	0.9
Storm Drainage	4.6	4.9	(0.3)
Airport	1.9	1.5	0.4
Total Functional Expense	<u>335.8</u>	<u>314.3</u>	<u>21.5</u>
Increase in Net Position before Transfers	9.9	41.3	(31.4)
Transfers	<u>(20.3)</u>	<u>(19.1)</u>	<u>(1.2)</u>
Change in Net Position	(10.4)	22.2	(32.6)
Net Position, Beginning	<u>807.2</u>	<u>785.0</u>	<u>22.2</u>
Net Position, Ending	<u>\$ 796.8</u>	<u>\$ 807.2</u>	<u>\$ (10.4)</u>

Business-Type Activities expenses increased \$21.5 million for a total of \$335.8 million mainly due to the following:

- Electric Fund expenses increased \$13.0 million due to an increase in energy purchase costs and partially offset by decreases in surplus energy. The availability of hydroelectric energy resources is lower than average and requires electricity purchases at market rates which were significantly higher in the current fiscal year. The increase in commodity cost was partially offset by administrative and general expenses decreases attributed GASB 68 pension and GASB 75 OPEB adjustments.
- Gas Fund expenses increased \$12.1 million due to higher commodity purchases as a result of higher natural gas prices. In September 2014, Council authorized the City's participation in natural gas purchase from MuniGas for the next 10 years, under a variable cost rate structure. A combination of flat U.S. natural gas production, below-average U.S. natural gas storage levels, high levels of U.S. liquefied natural gas exports, inflation, supply chain issues, and global geopolitical events have put upward pressure on prices of U.S. natural gas.

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

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

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

As of June 30, 2022, the City's Governmental Funds reported a combined fund balances of \$327.1 million, a decrease of \$38.5 million from the prior year. Approximately \$61.1 million, or 18.7 percent, constitutes unassigned fund balance, which is available for spending at the City's discretion and other purposes. The remainder of the fund balance is either non-spendable, restricted, committed, or assigned to indicate that it is: 1) not in spendable form (\$11.6 million); 2) restricted for particular purposes (\$81.5 million); 3) committed for particular purposes (\$88.1 million); or 4) assigned for particular purposes (\$84.8 million).

Governmental Fund revenues increased \$10.4 million, or 5.3 percent, from the prior year to \$205.3 million. General Fund revenues increased \$23.6 million and Capital Projects Fund revenue decreased \$5.8 million. Non-major Governmental Funds revenue decreased \$7.4 million. Details of significant changes are discussed in the following sections.

Governmental Fund expenditures were \$261.4 million, an increase of \$39.2 million from the prior year. General Fund expenditures increased \$9.4 million, Capital Projects Fund expenditures increased by \$23.9 million, and Non-major Governmental Funds expenditures increased by \$5.9 million. Details of significant changes are discussed in the following sections.

Governmental Fund other financing resources decreased \$108.6 million, from the prior year to \$17.6 million mainly due to the issuance of COPs for the construction of a public safety building in FY 2021.

General Fund

Balance Sheet

The General Fund is the primary operating fund of the City. At the end of the current fiscal year, the fund balance of the General Fund was \$100.1 million, compared to \$75.6 million in the prior year. The fund balance is classified as follows: \$9.2 million non-spendable, \$3.5 million committed, \$26.3 million assigned, and \$61.1 million unassigned. The unassigned amount is designated by the City Council for spending at the City's discretion and other purposes.

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

The City's General Fund revenues totaled \$190.4 million in FY 2022. This represents an increase of \$23.6 million, or 14.1 percent, compared to the prior year. The year over year change in significant revenue sources is noted in the following table.

GENERAL FUND			
<i>Revenues for the Year Ended June 30</i>			
(in millions)			
<u>Revenues by Source</u>	<u>2022</u>	<u>2021</u>	<u>Increase/ (Decrease)</u>
Property tax	\$ 59.4	\$ 56.6	\$ 2.8
Sales tax	32.7	29.1	3.6
Utility user tax	15.6	14.6	1.0
Transient occupancy tax	16.9	5.2	11.7
Documentary transfer tax	12.0	10.6	1.4
Charges for services	29.3	25.1	4.2
Permits and license	8.5	7.3	1.2
Rental income	13.8	13.3	0.5
Intergovernmental	10.8	3.8	7.0
Investment earnings	(10.4)	(0.2)	(10.2)
Other	<u>1.8</u>	<u>1.3</u>	<u>0.4</u>
Total Revenues	<u>\$ 190.4</u>	<u>\$ 166.7</u>	<u>\$ 23.6</u>

Property tax revenue increased \$2.8 million, or 4.9 percent, due to property assessed value growth that was driven by the change of ownership, and an increase of \$1.1 million in the Excess Educational Revenue Augmentation Fund (ERAF) distribution. The FY 2022 secured and unsecured property tax assessed values growth rates are 4.0 percent and 1.7 percent, respectively, and have a weighted average of 3.9 percent. The ten-year Compound Annual Growth Rate (CAGR) is 8.4 percent. This growth rate is lower than historical growth, a reflection of the typical impact during recessions and/or economic downturns which typically lags a year after more economically sensitive revenues such as sales and transient occupancy taxes.

Over an eight-year period, ERAF distribution has grown from \$0.4 million in FY 2014 to \$6.6 million in FY 2022. ERAF is the fund used to collect and disburse property taxes that are shifted to/from cities, the County, and special districts prior to their reallocation to K-14 school agencies. When the state shifts more local property tax than required to support schools, these funds are returned and known as excess ERAF. Due to the uncertainty of whether local agencies will continue to receive excess ERAF funds, it is not considered a permanent local revenue source. Of this \$6.6 million receipt, \$1.7 million is being set aside for the at-risk amount due to the lawsuit filed in November 2021 by the California School Boards of Association and its Education Legal Alliance against the Controller of the State of California for over the calculation methodology of the Excess ERAF.

Sales tax receipts were \$3.6 million, or 12.4 percent, higher than the prior year. The increase is due to the strong performance of apparel and department stores, furniture/appliance, and food products categories which include restaurants, and transportation such as new auto sales. The City's revenue base also benefits from many high-end goods and dining options at regional destinations, such as Stanford Shopping Center.

Utility user tax (UUT) revenues are \$1.0 million, or 6.8 percent, higher compared to prior year. UUT on electric, water, and gas services increased 3.8 percent while telephone services increased 11.9 percent. The economic recovery resulted in increased business activity and workers returning to the office/business site resulting in an increased use of services subject to UUT.

Transient occupancy tax (TOT) ended the year \$11.7 million or 225 percent, higher than prior year. The increase is exceptionally high because this is compared to a time when there was a high-level of health, safety and travel restrictions, however remains lower than the pre-pandemic levels. In FY 2022, the average occupancy rate was 63.5 percent, a 57.4 percent increase and the average room rate was \$194.89, a 68.6 percent decrease over the prior year. Individual hotels average occupancy rate ranged from a low of 28.2 percent to a high of 95.3 percent and average room rate ranged from a low of \$68.31 to a high of \$574.38.

Documentary transfer taxes increased \$1.4 million, or 13.2 percent when compared to prior year due to nine large commercial property transactions that occurred in FY2022. The number of transactions was comparable to the prior year. This revenue source is volatile since it is highly dependent on sales volume and the mix of commercial and residential sales.

Charges for services increased \$4.2 million, or 16.7 percent, when compared to prior year mainly due to resumption of program and classes and offered both virtually and in-person with the lifting of many State and County Public Health restrictions.

Permits and licenses increased over prior year by \$1.2 million, or 16.4 percent, most of which is attributed to an increase in new construction permits and hazmat fees.

Intergovernmental increased over prior year by \$7.0 million, or 184.2 percent, due to the American Rescue Plan Act distribution of \$8.2 million recognized as revenue in FY 2022.

investment earnings, decreased \$10.2 million when compared to prior year due to unrealized market losses on investments.

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

General Fund expenditures totaled \$169.7 million for FY 2022 compared to \$160.3 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)			
Expenditures by Function	2022	2021	Increase/ (Decrease)
Administrative Services	\$ 5.8	\$ 5.2	\$ 0.6
Public Works	12.0	13.3	(1.3)
Planning and Development Service	17.1	15.8	1.3
Police	43.6	41.3	2.3
Fire	38.0	34.9	3.1
Community Services	29.7	26.3	3.4
Library	8.6	8.5	0.1
Non-Departmental	1.1	4.6	(3.5)
All other	13.8	10.4	3.4
Total Expenditures	\$ 169.7	\$ 160.3	\$ 9.4

General Fund expenditures increased by \$9.4 million, or 5.9 percent compared to prior year primarily due to the increase in salary and benefit costs, and indirect charges. The increase in salaries and benefits are due to overtime, specifically police and fire, paid leave, and pension. The indirect charges were higher in the current year primarily due to liability insurance charges, vehicle equipment maintenance service and information technology (IT) support. The increase in liability insurance charges is based on actuarial analysis of the City's liabilities costs over the past few years and provides an 85 percent confidence level.

Police expenses increased \$2.3 million mainly due to increased salaries and benefits costs and indirect charges. Salaries and benefits were higher in the current fiscal year primarily due to overtime incurred for backfilling vacancies and adding staffing resources to the 24/7 dispatch center, paid leave, and pension expenses. Indirect charges were higher in the current year primarily due to liability insurance charges, vehicle equipment allocation and IT support.

Fire expenses increased \$3.1 million primarily due to increases in salaries and benefits costs due to overtime incurred for backfilling vacancies and staff on leave, paid leave, and pension expense.

Community Services expenses increased \$3.4 million primarily due to increases in salaries and benefits costs and contract services. Department resumed operating hours in community centers, museums, theater, and open space preserves in accordance with the lifting of County Public Health restrictions. Special events, art exhibits and teen programs were also back to normal.

Non-departmental expenses decreased \$3.5 million due to reclassification of lease expenses to All Other Expenses due to implementation of GASB 87.

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

Revenues, excluding Charges to Other Funds, were originally budgeted at \$169.1 million. Budget estimates were revised upward by \$6.6 million. The revenue categories that were adjusted are shown in the table below.

GENERAL FUND			
<i>Budgeted Revenues for the Year Ended June 30</i>			
(in millions)			
<u>Budgeted Revenues</u>	<u>Adopted Budget</u>	<u>Final Budget</u>	<u>Increase/ (Decrease)</u>
Property tax	\$ 51.2	\$ 53.2	\$ 2.0
Sales tax	28.2	28.2	-
Utility user tax	14.4	14.4	-
Transient occupancy tax	8.4	10.6	2.2
Documentary transfer tax	7.1	7.1	-
All other	59.8	62.2	2.4
	169.1	175.7	6.6
Charges to other funds	14.2	14.2	-
Prior year encumbrances and appropriations	0.20	11.10	10.9
Total Budgeted Revenues	<u>\$ 183.5</u>	<u>\$ 201.0</u>	<u>\$ 17.5</u>

Adjustments to the adopted budget General Funds revenues were primarily due to the following:

- Property tax increased \$2.0 million due to higher anticipated assessed value growth and an increase in ERAF.
- Transient occupancy tax increased \$2.2 million to adjust for increased hotel room rates and activities.
- All other revenues increased \$2.4 million including increases in the Charges for Service Permits and Licenses based on year-to-date receipts tracking higher than anticipated and Revenues from Other Agencies based on grants that were approved.

Expenditures, excluding Operating Transfers, were originally budgeted at \$194.4 million and were revised upward by \$20.7 million, for a final budgeted amount of \$215.1 million.

GENERAL FUND				
<i>Budgeted Expenditures for the Year Ended June 30</i>				
(in millions)				
Budgeted Expenditures	Adopted Budget	Final Budget	Increase/ (Decrease)	Actuals, plus Encumbrances
Community Services	\$ 31.1	\$ 32.8	\$ 1.7	\$ 31.7
Fire	35.7	38.6	2.9	38.6
Police	44.4	45.8	1.4	44.8
Library	8.9	9.1	0.2	8.9
Planning and Development Services	17.7	21.6	3.9	21.2
Public Works	18.8	20.0	1.2	19.4
Non-Departmental	13.5	20.3	6.8	19.5
All Other	24.3	26.9	2.6	25.4
Total Budgeted Expenditures	\$ 194.4	\$ 215.1	\$ 20.7	209.5
Less: Charges to Other Funds and Departments				(14.0)
Less: Encumbrances and Reappropriations				(25.8)
Net General Fund Expenditures				\$ 169.7

Adjustments of \$20.7 million to the original budget were primarily due to the following:

- \$11.1 million carry-forward of encumbrances from prior year and reappropriations.
- \$9.6 million of various budget adjustments that were approved through the year by the City Council to address the most immediate needs of the City and its residents considering the ongoing uncertainties from the pandemic and related economic challenges. This includes additional funding for Neighborhood, Community and Library Services, Public Safety, Infrastructure and Environment.

Final actual expenditures plus encumbrances and reappropriations totaled \$209.5 million, \$5.6 million lower than the final budget totaling \$215.1 million. Actual expenditures were lower as compared to budget were realized across the departments, and the largest variances were experienced in Community Services, Police Department and Non-Departmental, \$1.1 million, \$1.0 million, and \$0.8 million, respectively.

Transfers out were originally budgeted at \$14.7 million, with the final budget number at \$18.1 million, an increase of \$3.4 million. The increase was due to \$2.2 transfers to Capital Project Fund because of increases in TOT revenues, transfer General Benefit Fund for additional \$1.0 million Section 115 Pension Trust contributions, and \$0.2 million transfer to Technology and Vehicle funds.

Capital Projects Fund

At the end of the current fiscal year, the fund balance of the Capital Projects Fund was \$117.9 million, compared to \$165.7 million in the prior year. The fund balance is restricted for the public safety building (\$48.2 million) and library project (\$0.3 million), committed for Roth building rehabilitation (\$5.2 million) and Cubberley improvements (\$5.7 million). The remaining balance of \$58.5 million is available for all other capital projects.

Capital Projects Fund revenues were \$5.6 million in FY 2022, a decrease of \$5.8 million from the prior year due to the decrease in grant reimbursements for various projects such as Highway 101 Pedestrian/Bicycle Overpass, and Street Maintenance. Other financing sources were \$18.7 million, a decrease of \$100.1 million mainly due to issuance of COPs in the prior year.

Capital Projects Fund expenditures were \$72.1 million in FY 2022, an increase of \$24.0 million from prior year driven by higher construction cost of the public safety building. This level of expenditure is consistent with the City's effort to rehabilitate and maintain its existing infrastructure

Non-Major Governmental Funds

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

At the end of the current fiscal year, the fund balance of the Non-Major Governmental Funds was \$109.1 million, compared to \$124.3 million in the prior year. The fund balance is classified as follows: \$2.4 million non-spendable, \$33.0 million restricted, and \$73.7 million committed.

Non-major Governmental Funds revenue were \$9.4 million in FY2022, a decrease \$7.4 million from prior year primarily due to unrealized market losses on investments and decrease in housing-in-lieu fees.

Non-major Governmental Funds expenditures were \$19.6 million in FY2022, an increase of \$5.9 million from prior year primarily due to \$2.2 million agreement between Santa Clara County and Palo Alto related to project construction cost for Mill Road Intersection Improvement and higher debt service payments.

FINANCIAL ANALYSIS OF ENTERPRISE FUNDS

At June 30, 2022, the City's Enterprise Funds reported total Net Position of \$790.7 million, a decrease of \$12.6 million or 1.6 percent from the prior year. The decrease is primarily from Electric Fund. Further analysis is noted in the following section.

The changes in Net Position in the Enterprise Funds are summarized in the following table.

ENTERPRISE FUNDS			
Change in Net Position for the Year Ended June 30			
(in millions)			
Fund Name	2022	2021	Increase/ (Decrease)
Water	\$ 0.7	\$ 6.6	\$ (5.9)
Electric	(24.2)	(4.8)	(19.4)
Fiber Optics	(1.2)	1.5	(2.7)
Gas	(0.6)	3.5	(4.1)
Wastewater Collection	1.2	0.7	0.5
Wastewater Treatment	1.4	3.1	(1.7)
Refuse	(0.2)	1.9	(2.1)
Storm Drainage	2.6	3.0	(0.4)
Airport	7.7	6.7	1.0
Total Change in Net Position	\$ (12.6)	\$ 22.2	\$ (34.8)

The most significant factors in the change in Net Position between years for Enterprise Funds are as follows:

- As required by GASB Statement No. 31, the City adjusted its investments fair market value. Overall, in the Enterprise Funds, the impact of this fair value adjustment resulted over \$21.5 million net unrealized market loss as noted below for each fund.
- Water Fund change in Net Position decreased \$5.9 million due to residential water conservation efforts which resulted in an overall \$2.3 million decrease in operating revenues. The net unrealized market loss in the Water Fund was \$3.7 million.
- The change in Net Position for Electric Fund decreased \$19.4 million from prior year due to increases in purchases of electricity which is primarily driven by higher than historical forward energy prices, increased resource adequacy costs, and a lower hydroelectric supply. The net unrealized market loss in the Water Fund was \$7.7 million.
- Gas change in Net Position decreased \$4.1 million due to higher commodity prices partially offset by 3 percent rate increase and higher revenue because portion of the commodity price increases is passed through to customers. The net unrealized market loss in the Water Fund was \$2.3 million.
- The change in Net Position for Fiber Optic Fund, Wastewater Treatment Fund and Refuse Fund decreased \$2.7 million, \$1.7 million, and \$2.1 million, respectively, mainly due to the impact of negative investment fair market value adjustments.
- The change in Net Position for Airport Fund increased \$1.0 million due to federal grants received for the Apron Reconstruction project.

CAPITAL ASSETS

GASB Statement No. 34 requires that the City record all its capital assets, including infrastructure and intangible assets. Infrastructure includes roads, bridges, signals, and similar assets used by the entire population. The table below shows capital assets and the amount of accumulated depreciation for these assets for Governmental and Business-Type Activities. Further detail can be found in Note 7 to the financial statements.

CAPITAL ASSETS AT JUNE 30 (in millions)			
	2022	2021	Increase/ (Decrease)
Governmental activities			
Capital Assets			
Land and improvements	\$ 82.1	\$ 82.1	-
Street trees	15.0	14.8	0.2
Construction in progress	117.4	137.8	(20.4)
Building and improvements	350.6	272.1	78.5
Intangible assets	3.8	3.8	-
Equipment	18.1	17.2	0.9
Roadway network	359.1	335.3	23.8
Recreation and open space network	37.0	35.2	1.8
Less accumulated depreciation	(337.3)	(319.3)	(18.0)
Internal Service funds			
Construction in progress	4.5	5.6	(1.1)
Equipment	64.8	63.1	1.7
Less accumulated depreciation	(47.9)	(45.7)	(2.2)
Amortized Assets			
Intangible assets-right to use leased assets	9.8	-	9.8
Less accumulated amortization	(2.8)	-	(2.8)
Total Governmental Activities	\$ 674.2	\$ 602.0	\$ 72.2
Business-Type Activities			
Land	\$ 5.0	\$ 5.0	\$ -
Construction in progress	136.9	129.0	7.9
Buildings and improvements	80.5	74.5	6.0
Infrastructure	0.6	0.6	-
Transmission, distribution and treatment systems	948.9	914.8	34.1
Less accumulated depreciation	(438.8)	(415.4)	(23.4)
Amortized assets	2.9	-	2.9
Less accumulated amortization	(0.8)	-	(0.8)
Total Business-type Activities	\$ 735.2	\$ 708.5	\$ 26.7

Governmental Activities' capital assets net of depreciation increased by \$72.2 million from the prior year. The increase in construction in progress was due to activity in various projects such as the Charleston Arastradero Corridor, the Public Safety Building, and Highway 101 Bicycle and Pedestrian Transportation. The increase in building and improvements was primarily due to the renovated Junior Museum and Zoo, of which \$25.7 million is a donation from Friends of JMZ and the completion of the California Avenue Parking Garage.

The City Council approved a \$125.8 million, Infrastructure Plan (IP) in June 2014. Through the development of the 2022-2026 Capital Improvement Plan (CIP), the IP projects were updated resulting in a revised Infrastructure Plan of \$259.8 million. These projects will be funded partially by debt to be repaid with voter-approved increases of 3.5 percent in the TOT rate, TOT funding from new hotels built after January 2015 and from other sources such as impact fees, grants, SB1 gas tax and Stanford University Medical Center development agreement monies.

As of June 30, 2022, major Governmental Activities capital projects that were in progress, including the remaining capital commitment and estimated completion date of each, are listed below:

- Public Safety Building - \$56.1 million, Fall 2023
- Municipal Service Center Improvements - \$6.0 million, Spring 2023
- Churchill Ave/Alma Street - \$4.1million, Winter 2024
- Charleston Arastradero Corridor - \$3.2 million, Fall 2022
- Boulware Park Improvement - \$3.1 million, Summer 2023

Business-Type Activities' capital assets net of depreciation increased by \$26.7 million from the prior year. The increase is primarily due to gas main replacements for Gas Fund, water main replacements for Water Fund, and rehabilitation of Regional Water Quality Control Plant infrastructure for Wastewater Treatment Fund.

Major Business-Type Activities' capital projects that are currently in progress, including the remaining capital commitment and estimated completion date of each, are as follows:

- Water Mains Replacement Project - \$9.5 million, FY 2023
- Smart Grid Technology Installation - \$5.9 million, Spring 2024
- Electric System Improvements - \$10.2 million, continuous
- Primary Sedimentation Tank Rehabilitation - \$12.1 million, Winter 2023

The City depreciates its capital assets over their estimated useful lives, as required by GASB Statement No. 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 7.

DEBT ADMINISTRATION

Each of the City's debt issues is discussed in detail in Note 8 to the financial statements. The City's debt as of June 30, 2022, is shown in the following table.

LONG-TERM DEBT AT JUNE 30			
(in millions)			
	2022	2021	Increase/ (Decrease)
Governmental Activities			
General Long-Term Obligations			
General Obligation Bonds			
2010	\$ -	\$ 42.0	\$ (42.0)
2013A	12.2	15.0	(2.8)
2022 Series A	34.4	-	34.4
2022 Series B	2.1	-	2.1
Certificates of Participation			
2018 Capital Improvement Projects	8.4	8.6	(0.2)
2019 California Ave Parking Garage			
Series A & B	35.7	36.4	(0.7)
2021 Public Safety Building	101.5	101.5	0.0
Add: Unamortized Premium	15.9	14.0	1.9
Total Governmental Activities	\$ 210.2	\$ 217.5	\$ (7.3)
Business-type Activities			
Enterprise Long-Term Obligations			
Utility Revenue Bonds			
1999 Refunding	\$ 3.5	\$ 5.1	\$ (1.6)
2009 Series A	23.1	24.3	(1.2)
2011 Refunding	5.4	6.7	(1.3)
Add: unamortized premium	0.3	0.4	(0.1)
Energy Tax Credit Bonds			
2007 Series A	-	0.1	(0.1)
State Water Resources Loan			
2007	3.2	3.6	(0.4)
2009	4.4	4.8	(0.4)
2017	23.2	23.9	(0.7)
2021	1.2	-	1.2
Total Business-type Activities	\$ 64.3	\$ 68.9	\$ (4.6)

City-wide long-term debt decreased by \$11.9 million mainly due to the scheduled debt retirement.

On March 2, 2022, Council approved the refinancing of the Series 2010 and 2013A outstanding principal of \$40.6 million and \$13.6 million, respectively. The Series 2010 bonds were refinanced as a tax-exempt bond and Series 2013A was partially refinanced as taxable bonds. The portions of the Series 2013A bonds or \$2.4 million in principal, that had realized savings were refinanced. After the refinancing, there are three GO Bonds outstanding, the portion of the tax-exempt Series 2013A bonds that were not refinanced, the tax-exempt Series 2022A bonds that fully refinanced the Series 2010 bonds, and the taxable Series 2022B bonds that partially refinanced the Series 2013A bonds.

ECONOMIC OUTLOOK

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

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

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CITY OF PALO ALTO
Statement of Net Position
June 30, 2022
(Amounts in thousands)

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and investments available for operations (Note 3)	\$ 311,653	\$ 238,002	\$ 549,655
Receivables, net:			
Accounts and intergovernmental	20,107	40,416	60,523
Interest receivable	1,647	1,379	3,026
Notes and loans receivable (Note 5)	53,649	-	53,649
Lease receivables (Note 6)	2,844	3,179	6,023
Internal balances (Note 4)	(3,331)	3,331	-
Deposits	15	-	15
Due from other government agencies	-	2,100	2,100
Inventory of materials and supplies, prepaids and deposits	7,463	252	7,715
Restricted cash and investments with fiscal agents and trustees (Note 3)	89,071	3,340	92,411
Capital assets (Note 7):			
Nondepreciable	222,477	141,922	364,399
Depreciable, net of accumulated depreciation	451,711	593,255	1,044,966
Total assets	<u>1,157,306</u>	<u>1,027,176</u>	<u>2,184,482</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Unamortized loss from refunding	-	119	119
Pension related (Note 12)	43,047	17,678	60,725
OPEB related (Note 13)	16,203	6,901	23,104
Total deferred outflows of resources	<u>59,250</u>	<u>24,698</u>	<u>83,948</u>
LIABILITIES:			
Accounts payable and accruals	17,537	22,885	40,422
Accrued salaries and benefits	3,201	1,530	4,731
Unearned revenue	7,996	-	7,996
Accrued compensated absences (Note 1):			
Due in one year	5,025	-	5,025
Due in more than one year	10,743	-	10,743
Claims payable (Notes 15 and 17):			
Due in one year	6,927	-	6,927
Due in more than one year	43,703	-	43,703
Landfill post-closure liability (Note 10):			
Due in more than one year	-	6,432	6,432
Net pension liabilities (Note 12):			
Due in more than one year	258,208	86,413	344,621
Net OPEB liabilities (Note 13):			
Due in more than one year	58,280	23,110	81,390
Lease liabilities (Note 6):			
Due in one year	2,438	696	3,134
Due in more than one year	5,290	1,581	6,871
Long-term debt (Note 8):			
Due in one year	2,056	5,866	7,922
Due in more than one year	208,189	58,413	266,602
Total liabilities	<u>629,593</u>	<u>206,926</u>	<u>836,519</u>
DEFERRED INFLOWS OF RESOURCES:			
Pension related (Note 12)	71,463	29,991	101,454
OPEB related (Note 13)	36,260	15,257	51,517
Lease related (Note 6)	2,756	2,884	5,640
Unamortized gain from refunding	2,378	-	2,378
Total deferred inflows of resources	<u>112,857</u>	<u>48,132</u>	<u>160,989</u>
NET POSITION (Note 11):			
Net Investment in capital assets	503,869	670,830	1,174,699
Restricted for:			
Transportation mitigation	9,608	-	9,608
Public benefit	14,921	-	14,921
Supplemental pension	39,039	-	39,039
Others	6,302	-	6,302
Debt service	637	3,340	3,977
Nonexpendable - Eyerly Family	2,394	-	2,394
Total restricted net position	<u>72,901</u>	<u>3,340</u>	<u>76,241</u>
Unrestricted	<u>(102,664)</u>	<u>122,646</u>	<u>19,982</u>
Total net position	<u>\$ 474,106</u>	<u>\$ 796,816</u>	<u>\$ 1,270,922</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, 2022
(Amounts in thousands)

					Net (Expense) Revenue and Changes in Net Position		
		Program Revenues					
		Charges for	Operating	Capital			
Functions/Programs	Expenses	Services	Grants and Contributions	Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
City Council	\$ (113)	\$ -	\$ -	\$ -	\$ 113	\$ -	\$ 113
City Manager	1,600	-	-	-	(1,600)	-	(1,600)
City Attorney	1,984	-	-	-	(1,984)	-	(1,984)
City Clerk	407	-	-	-	(407)	-	(407)
City Auditor	487	-	-	-	(487)	-	(487)
Administrative Services	15,019	4,173	8,289	-	(2,557)	-	(2,557)
Human Resources	1,637	-	-	-	(1,637)	-	(1,637)
Public Works	31,177	1,401	-	3,362	(26,414)	-	(26,414)
Planning and Development Services	15,680	17,499	435	-	2,254	-	2,254
Office of Transportation	4,398	560	-	-	(3,838)	-	(3,838)
Police	35,073	1,855	215	-	(33,003)	-	(33,003)
Fire	31,164	10,443	820	-	(19,901)	-	(19,901)
Community Services	31,928	23,767	127	27,011	18,977	-	18,977
Library	9,527	40	15	-	(9,472)	-	(9,472)
Interest on long-term debt	9,167	-	-	-	(9,167)	-	(9,167)
Total Governmental Activities	189,135	59,738	9,901	30,373	(89,123)	-	(89,123)
Business-Type Activities:							
Water	41,893	44,892	676	123	-	3,798	3,798
Electric	169,098	163,704	-	-	-	(5,394)	(5,394)
Fiber Optics	2,242	2,520	-	-	-	278	278
Gas	40,744	49,970	-	-	-	9,226	9,226
Wastewater Collection	18,256	20,435	-	32	-	2,211	2,211
Wastewater Treatment	27,106	29,984	-	-	-	2,878	2,878
Refuse	29,955	31,650	-	-	-	1,695	1,695
Storm Drainage	4,631	7,896	-	-	-	3,265	3,265
Airport	1,924	2,657	-	7,148	-	7,881	7,881
Total Business-Type Activities	335,849	353,708	676	7,303	-	25,838	25,838
Total	\$ 524,984	\$ 413,446	\$ 10,577	\$ 37,676	(89,123)	25,838	(63,285)
General Revenues:							
Taxes:							
Property tax					63,632	-	63,632
Sales tax					32,705	-	32,705
Utility user tax					15,599	-	15,599
Transient occupancy tax					16,946	-	16,946
Documentary transfer tax					11,990	-	11,990
Other taxes					3,038	-	3,038
Investment earnings					(24,497)	(16,098)	(40,595)
Gain from sale of capital assets					-	118	118
Miscellaneous					418	-	418
Transfers (Note 4)					20,261	(20,261)	-
Total general revenues and transfers					140,092	(36,241)	103,851
Change in net position					50,969	(10,403)	40,566
Net position, beginning of year					423,137	807,219	1,230,356
Net position, end of year					\$ 474,106	\$ 796,816	\$ 1,270,922

See accompanying notes to the basic financial statements.

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CITY OF PALO ALTO
Governmental Funds
Balance Sheet
June 30, 2022
(Amounts in thousands)

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and investments available for operations (Note 3)	\$ 88,246	\$ 77,207	\$ 54,433	\$ 219,886
Receivables, net:				
Accounts and intergovernmental	18,587	666	762	20,015
Interest receivable	804	27	320	1,151
Notes and loans receivable (Note 5)	804	-	52,845	53,649
Lease receivable (Note 6)	2,844	-	-	2,844
Deposits	15	-	-	15
Prepaid items	277	-	-	277
Due from other fund (Note 4)	515	-	-	515
Advances to other funds (Note 4)	2,835	-	-	2,835
Inventory of materials and supplies	5,244	-	-	5,244
Restricted cash and investments with fiscal agents (Note 3)	-	48,467	1,565	50,032
Total assets	<u>\$ 120,171</u>	<u>\$ 126,367</u>	<u>\$ 109,925</u>	<u>\$ 356,463</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:				
Liabilities:				
Accounts payable and accruals	\$ 6,451	\$ 8,093	\$ 266	\$ 14,810
Accrued salaries and benefits	2,780	173	43	2,996
Unearned revenue	7,996	-	-	7,996
Due to other funds (Note 4)	-	-	515	515
Total liabilities	<u>17,227</u>	<u>8,266</u>	<u>824</u>	<u>26,317</u>
Deferred inflows of resources				
Unavailable revenue	88	163	-	251
Lease related (Note 6)	2,756	-	-	2,756
Total deferred inflows of resources	<u>2,844</u>	<u>163</u>	<u>-</u>	<u>3,007</u>
Total liabilities and deferred inflows of resources	<u>20,071</u>	<u>8,429</u>	<u>824</u>	<u>29,324</u>
Fund balances (Note 11):				
Nonspendable:				
Deposits	15	-	-	15
Prepaid items	277	-	-	277
Inventories	5,244	-	-	5,244
Advances to other funds	2,835	-	-	2,835
Notes and loans receivable	804	-	-	804
Eyerly family	-	-	2,394	2,394
Restricted for:				
Transportation mitigation	-	-	9,608	9,608
Federal revenue	-	-	5,293	5,293
Street improvement	-	-	158	158
Local law enforcement	-	-	851	851
Public safety building	-	48,216	-	48,216
Library bond project	-	251	-	251
Public benefit	-	-	14,921	14,921
Debt service	-	-	2,202	2,202
Committed for:				
Development services	3,563	-	-	3,563
Roth building rehabilitation	-	5,184	-	5,184
Cubberley improvements	-	5,720	-	5,720
Developer impact fees	-	-	11,386	11,386
Housing in-lieu	-	-	60,181	60,181
Special districts	-	-	2,059	2,059
Downtown business	-	-	48	48
Assigned for:				
Capital projects	-	58,567	-	58,567
Other general government purposes	10,627	-	-	10,627
Electric charger	42	-	-	42
Reappropriations	15,613	-	-	15,613
Unassigned	61,080	-	-	61,080
Total fund balances	<u>100,100</u>	<u>117,938</u>	<u>109,101</u>	<u>327,139</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 120,171</u>	<u>\$ 126,367</u>	<u>\$ 109,925</u>	<u>\$ 356,463</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, 2022
(Amounts in thousands)

Total fund balances reported on the governmental funds balance sheet	\$ 327,139
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Amounts reported for governmental activities in the statement of net position are different from those reported in the governmental funds balance sheet because of the following:

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

Deferred outflows of resources	59,250
Deferred inflows of resources	(110,101)

Certain receivables are not available to pay for current period expenditures and therefore are deferred in the governmental funds.	251
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Capital assets, including leased assets, used in governmental activities are not current assets or financial resources and therefore are not reported in the governmental funds.	674,188
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Internal service funds are used by management to charge the costs of activities such as insurance, equipment acquisition and maintenance, and certain employee benefits to individual funds. The assets and liabilities of the internal service funds are therefore included in governmental activities in the statement of net position (excludes capital assets, deferred outflows of resources, deferred inflows of resources, net pension liabilities and net OPEB liabilities reported herein)	76,500
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Some liabilities, including bonds payable and claims payable, are not due and payable in the current period and therefore are not reported in the governmental funds:

Interest payable	(1,160)
Net pension liabilities (Note 12)	(258,208)
Net OPEB liabilities (Note 13)	(58,280)
Claims payable (Note 15 and 17)	(17,500)
Lease liabilities (Note 6)	(7,728)
Long-term debt (Note 8)	(210,245)

Net position of governmental activities	<u><u>\$ 474,106</u></u>
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CITY OF PALO ALTO
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2022
(Amounts in thousands)

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Property tax	\$ 59,353	\$ -	\$ 4,279	\$ 63,632
Special assessments	-	-	1	1
Sales tax	32,705	-	-	32,705
Utility user tax	15,599	-	-	15,599
Transient occupancy tax	16,946	-	-	16,946
Documentary transfer tax	11,990	-	-	11,990
Other taxes and fines	893	-	2,991	3,884
Charges for services	29,252	-	-	29,252
Intergovernmental	10,817	4,908	602	16,327
Licenses, permits and fees	8,529	-	3,634	12,163
Investment earnings	(10,408)	682	(4,177)	(13,903)
Rental income	13,832	-	1	13,833
Housing In-Lieu - residential	-	-	1,790	1,790
Other revenue	864	(16)	235	1,083
Total revenues	190,372	5,574	9,356	205,302
EXPENDITURES:				
Current:				
City Council	219	-	-	219
City Manager	2,018	-	-	2,018
City Attorney	2,585	-	-	2,585
City Clerk	713	-	-	713
City Auditor	489	-	-	489
Administrative Services	5,784	-	290	6,074
Human Resources	2,295	-	-	2,295
Public Works	12,037	-	1,505	13,542
Planning and Development Services	17,102	-	516	17,618
Office of Transportation	1,629	-	1,071	2,700
Police	43,557	-	33	43,590
Fire	38,004	-	-	38,004
Community Services	29,663	-	305	29,968
Library	8,591	-	-	8,591
Non-Departmental	1,083	-	2,723	3,806
Capital outlay	-	72,082	-	72,082
Debt service:				
Principal	1,970	-	2,742	4,712
Interest and fiscal charges	1,972	-	8,754	10,726
Payment to bond refunding escrow	-	-	1,640	1,640
Total expenditures	169,711	72,082	19,579	261,372
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	20,661	(66,508)	(10,223)	(56,070)
OTHER FINANCING SOURCES (USES):				
Issuance of debt	-	-	36,545	36,545
Original debt premium	-	-	4,780	4,780
Payment to bond refunding escrow	-	-	(41,325)	(41,325)
Transfers in (Note 4)	21,926	21,122	3,518	46,566
Transfers out (Note 4)	(18,123)	(2,380)	(8,496)	(28,999)
Total other financing sources (uses)	3,803	18,742	(4,978)	17,567
Change in fund balances	24,464	(47,766)	(15,201)	(38,503)
FUND BALANCES, BEGINNING OF YEAR	75,636	165,704	124,302	365,642
FUND BALANCES, END OF YEAR	\$ 100,100	\$ 117,938	\$ 109,101	\$ 327,139

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, 2022
(Amounts in thousands)

Net change in fund balances - total governmental funds \$ (38,503)

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	59,209
Donated assets received	25,670
Depreciation and amortization expense is deducted from fund balance (depreciation expense is net of internal service fund depreciation of \$3,162) (Note 7), which has already been allocated through the internal service fund activities below	(20,760)
Disposal of capital assets	(142)

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	46,031
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Pension and OPEB expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	(19,082)
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Principal payments on long-term liabilities are reported as expenditures in governmental funds when paid. The governmental activities, however, report principal payments as a reduction of long-term debt on the statement of net position. Interest accrued on long-term debt, amortization of premium, and changes in claims payable do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Therefore, the activities associated with these balances are as follows:

Principal payment for bonds during the year	2,695
Proceeds from debt issuance	(36,545)
Original debt premium	(4,780)
Payment to bond refunding escrow	42,965
Principal payment for leases during the year	2,017
Change in interest payable	983
Amortization of bond premium	576
Change in claims payable	(4,881)

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	(668)
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Internal service funds are used by management to charge the costs of activities, such as insurance, equipment acquisition and maintenance, and employees benefits to individual funds. The portion of the net expense of these internal service funds arising out of their transactions with governmental funds is reported with governmental activities.

Change in net position of governmental activities	(3,816)
See accompanying notes to the basic financial statements.	\$ 50,969

CITY OF PALO ALTO
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2022
(Amounts in thousands)

	Budgeted Amounts		Actual, Budgetary Basis	Variance with Final Budget
	Adopted	Final		
REVENUES:				
Property tax	\$ 51,228	\$ 53,228	\$ 59,353	\$ 6,125
Sales tax	28,184	28,184	32,705	4,521
Utility user tax	14,370	14,370	15,599	1,229
Transient occupancy tax	8,428	10,647	16,946	6,299
Documentary transfer tax	7,137	7,137	11,990	4,853
Other taxes and fines	1,434	1,434	893	(541)
Charges for services	24,515	25,532	29,547	4,015
Intergovernmental	10,277	11,044	10,817	(227)
Licenses, permits and fees	7,761	8,273	8,529	256
Investment earnings	898	898	1,365	467
Rental income	14,403	14,403	13,863	(540)
Other revenues	504	526	864	338
	<u>169,139</u>	<u>175,676</u>	<u>202,471</u>	<u>26,795</u>
Charges to other funds and departments	14,165	14,165	13,980	(185)
Prior year encumbrances	150	11,101	11,101	-
Total revenues	<u>183,454</u>	<u>200,942</u>	<u>227,552</u>	<u>26,610</u>
EXPENDITURES:				
Current:				
City Council	433	475	404	71
City Manager	3,319	3,833	3,469	364
City Attorney	3,945	4,466	4,466	-
City Clerk	1,327	1,383	1,161	222
City Auditor	972	1,026	1,027	(1)
Administrative Services	8,923	9,684	9,338	346
Human Resources	3,878	4,229	3,843	386
Public Works	18,755	20,000	19,448	552
Planning and Development Services	17,673	21,554	21,231	323
Office of Transportation	1,747	1,892	1,648	244
Police	44,353	45,755	44,774	981
Fire	35,677	38,566	38,565	1
Community Services	31,052	32,789	31,712	1,077
Library	8,903	9,145	8,904	241
Non-Departmental	13,482	20,253	19,508	745
Total expenditures	<u>194,439</u>	<u>215,050</u>	<u>209,498</u>	<u>5,552</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>(10,985)</u>	<u>(14,108)</u>	<u>18,054</u>	<u>32,162</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	22,546	22,198	22,198	-
Transfers out	(14,702)	(18,123)	(18,123)	-
Total other financing sources (uses)	<u>7,844</u>	<u>4,075</u>	<u>4,075</u>	<u>-</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES, BUDGETARY BASIS	<u>\$ (3,141)</u>	<u>\$ (10,033)</u>	<u>22,129</u>	<u>\$ 32,162</u>
Adjustment to Budgetary Basis:				
Unrealized gain/loss on investments			(11,960)	
Changes in interfund balances			(202)	
GASB 87 leases and Interest			89	
Current year encumbrances and reappropriations			25,509	
Prior year encumbrances and reappropriations			(11,101)	
CHANGE IN FUND BALANCE, GAAP BASIS			<u>24,464</u>	
FUND BALANCE AT BEGINNING OF YEAR, GAAP BASIS			<u>75,636</u>	
FUND BALANCE AT END OF YEAR, GAAP BASIS			<u>\$ 100,100</u>	

See accompanying notes to the basic financial statements.

CITY OF PALO ALTO
Proprietary Funds
Statement of Net Position
June 30, 2022
(Amounts in thousands)

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
ASSETS:				
Current assets:				
Cash and investments available for operations (Note 3)	\$ 43,523	\$ 76,743	\$ 33,820	\$ 23,944
Accounts receivable, net of allowance of \$1,971	6,142	16,418	654	4,500
Interest receivable	239	487	185	144
Lease receivables (Note 6)	-	15	407	-
Due from other government agencies	-	-	-	-
Prepaid expense	58	-	-	-
Inventory of materials and supplies	-	-	-	-
Restricted cash and investments with fiscal agents and trustees (Note 3)	2,906	-	-	434
Total current assets	52,868	93,663	35,066	29,022
Noncurrent assets:				
Due from other government agencies	-	-	-	-
Deposits	-	44	-	-
Lease receivables (Note 6)	-	141	2,616	-
Capital assets (Note 7):				
Nondepreciable	17,644	44,658	3,759	8,029
Depreciable, net	120,209	169,538	6,689	107,368
Total noncurrent assets	137,853	214,381	13,064	115,397
Total assets	190,721	308,044	48,130	144,419
DEFERRED OUTFLOWS OF RESOURCES:				
Unamortized loss from refunding	52	-	-	67
Pension related (Note 12)	2,434	6,009	325	2,790
OPEB related (Note 13)	905	2,606	-	1,090
Total deferred outflows of resources	3,391	8,615	325	3,947
LIABILITIES:				
Current liabilities:				
Accounts payable and accruals	5,288	3,611	627	3,200
Accrued salaries and benefits	217	507	29	246
Due to other funds	-	-	-	-
Accrued compensated absences (Note 1)	-	-	-	-
Current portion of long term debt (Note 8)	1,930	-	-	715
Current portion of lease liabilities (Note 6)	124	237	-	98
Accrued claims payable (Note 15)	-	-	-	-
Total current liabilities	7,559	4,355	656	4,259
Noncurrent liabilities:				
Accrued compensated absences (Note 1)	-	-	-	-
Accrued claims payable (Note 15)	-	-	-	-
Advance from other fund (Note 4)	-	-	-	-
Landfill post-closure liability (Note 10)	-	-	-	-
Net pension liabilities (Note 12)	11,564	28,247	1,798	11,668
Net OPEB liabilities (Note 13)	2,346	8,213	-	3,758
Lease liabilities (Note 6)	201	336	-	139
Long term debt, net of unamortized discounts/premiums (Note 8)	24,083	-	-	2,459
Total noncurrent liabilities	38,194	36,796	1,798	18,024
Total liabilities	45,753	41,151	2,454	22,283
DEFERRED INFLOWS OF RESOURCES:				
Pension related (Note 12)	4,072	9,450	681	4,819
OPEB related (Note 13)	1,987	5,791	3	2,415
Lease related (Note 6)	-	154	2,730	-
Total deferred inflows of resources	6,059	15,395	3,414	7,234
NET POSITION (Note 11):				
Net investment in capital assets	111,567	213,613	10,448	112,053
Restricted for:				
Debt service	2,906	-	-	434
Supplemental pension	-	-	-	-
Unrestricted (deficit)	27,827	46,500	32,139	6,362
Total net position	\$ 142,300	\$ 260,113	\$ 42,587	\$ 118,849

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

Internal Service Fund net positions are included with Business-type Activities

Net position reported in Business-type Activities

See accompanying notes to the basic financial statements.

Business-Type Activities-Enterprise Funds						Governmental Activities - Internal Service Funds
Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Non-Major Airport	Totals	
\$ 9,943	\$ 12,699	\$ 27,850	\$ 9,427	\$ 53	\$ 238,002	\$ 91,767
2,814	2,757	3,792	999	2,340	40,416	92
47	81	149	47	-	1,379	496
-	-	-	-	-	422	-
-	300	-	-	-	300	-
-	117	-	-	-	175	1,758
-	-	-	-	-	-	184
-	-	-	-	-	3,340	39,039
12,804	15,954	31,791	10,473	2,393	284,034	133,336
-	1,800	-	-	-	1,800	-
-	33	-	-	-	77	-
-	-	-	-	-	2,757	-
2,640	19,664	1,952	5,986	37,590	141,922	4,501
90,294	55,909	2,996	37,323	2,929	593,255	16,927
92,934	77,406	4,948	43,309	40,519	739,811	21,428
105,738	93,360	36,739	53,782	42,912	1,023,845	154,764
-	-	-	-	-	119	-
1,233	3,254	734	645	254	17,678	2,329
418	1,200	440	192	50	6,901	882
1,651	4,454	1,174	837	304	24,698	3,211
788	4,150	3,569	161	1,491	22,885	1,567
110	275	65	54	27	1,530	205
-	-	-	-	-	-	-
-	-	-	-	-	-	5,025
117	2,249	-	855	-	5,866	-
72	165	-	-	-	696	-
-	-	-	-	-	-	6,927
1,087	6,839	3,634	1,070	1,518	30,977	13,724
-	-	-	-	-	-	10,743
-	-	-	-	-	-	26,203
-	-	-	-	2,835	2,835	-
-	-	6,432	-	-	6,432	-
7,042	17,745	5,027	3,118	204	86,413	12,833
1,435	4,696	1,624	733	305	23,110	3,152
102	803	-	-	-	1,581	-
122	30,852	-	897	-	58,413	-
8,701	54,096	13,083	4,748	3,344	178,784	52,931
9,788	60,935	16,717	5,818	4,862	209,761	66,655
2,043	5,449	1,362	1,362	753	29,991	3,355
925	2,615	986	420	115	15,257	1,977
-	-	-	-	-	2,884	-
2,968	8,064	2,348	1,782	868	48,132	5,332
92,521	43,604	4,948	41,557	40,519	670,830	21,428
-	-	-	-	-	3,340	-
-	-	-	-	-	-	39,039
2,112	(14,789)	13,900	5,462	(3,033)	116,480	25,521
\$ 94,633	\$ 28,815	\$ 18,848	\$ 47,019	\$ 37,486	790,650	\$ 85,988

6,166
\$ 796,816

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, 2022
(Amounts in thousands)

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
OPERATING REVENUES:				
Sales to:				
Customers	\$ 40,587	\$ 125,588	\$ 1,421	\$ 46,120
City departments	2,476	4,450	1,044	821
Surplus energy	-	5,927	-	-
Service connection charges and miscellaneous	951	852	54	475
Charges for services	-	-	-	-
Other	878	26,400	1	2,305
Total operating revenues	<u>44,892</u>	<u>163,217</u>	<u>2,520</u>	<u>49,721</u>
OPERATING EXPENSES:				
Purchase of utilities:				
Retail purchase of utilities	21,249	110,783	-	24,103
Surplus energy	-	1,742	-	-
Administrative and general	4,671	6,989	601	3,786
Engineering (operating)	492	1,811	-	659
Resource management and energy efficiency	1,262	7,185	-	974
Operations and maintenance	7,189	18,242	1,225	7,047
Rent	2,270	6,069	53	481
Depreciation and amortization	3,570	8,847	421	3,635
Claims payments and changes in estimated self-insurance liability	-	-	-	-
Refund of charges for services	-	-	-	-
Employment benefits	-	-	-	-
Total operating expenses	<u>40,703</u>	<u>161,668</u>	<u>2,300</u>	<u>40,685</u>
Operating income	<u>4,189</u>	<u>1,549</u>	<u>220</u>	<u>9,036</u>
NONOPERATING REVENUES (EXPENSES):				
Investment earnings	(2,915)	(6,106)	(1,263)	(1,824)
Interest expense	(1,453)	(8,085)	-	(122)
Gain on disposal of capital assets	-	118	-	-
Loss on disposal of capital assets	(72)	-	-	(265)
Other nonoperating revenues	676	487	-	249
Total nonoperating revenues (expenses)	<u>(3,764)</u>	<u>(13,586)</u>	<u>(1,263)</u>	<u>(1,962)</u>
Income before transfers and capital contributions	425	(12,037)	(1,043)	7,074
Capital contributions	123	-	-	-
Transfers in (Note 4)	323	2,291	-	-
Transfers out (Note 4)	(138)	(14,473)	(173)	(7,720)
Change in net position	733	(24,219)	(1,216)	(646)
NET POSITION, BEGINNING OF YEAR	<u>141,567</u>	<u>284,332</u>	<u>43,803</u>	<u>119,495</u>
NET POSITION, END OF YEAR	<u>\$ 142,300</u>	<u>\$ 260,113</u>	<u>\$ 42,587</u>	<u>\$ 118,849</u>

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

Change in net position reported in Business-type Activities

See accompanying notes to the basic financial statements.

Business-Type Activities-Enterprise Funds							Governmental
Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Non-Major		Activities- Internal Service Funds	
				Airport	Totals		
\$ 19,482	\$ 18,672	\$ 28,209	\$ 7,381	\$ 1,796	\$ 289,256	\$ -	
119	9,529	813	443	-	19,695	-	
-	-	-	-	-	5,927	-	
172	-	-	-	-	2,504	-	
-	-	-	-	-	-	124,935	
486	1,783	2,628	72	861	35,414	192	
20,259	29,984	31,650	7,896	2,657	352,796	125,127	
9,479	-	19,578	-	-	185,192	-	
-	-	-	-	-	1,742	-	
1,543	-	1,023	695	1,013	20,321	14,275	
261	1,752	290	368	-	5,633	-	
-	-	-	1,021	-	10,442	-	
3,697	20,444	8,981	1,326	803	68,954	10,292	
257	-	102	19	-	9,251	-	
3,130	4,401	80	1,155	70	25,309	3,162	
-	-	-	-	-	-	8,315	
-	-	-	-	-	-	194	
-	-	-	-	-	-	82,825	
18,367	26,597	30,054	4,584	1,886	326,844	119,063	
1,892	3,387	1,596	3,312	771	25,952	6,064	
(578)	(1,005)	(1,821)	(559)	(27)	(16,098)	(10,475)	
(51)	(985)	-	(133)	(69)	(10,898)	-	
-	-	-	-	-	118	117	
-	-	-	-	-	(337)	-	
176	-	-	-	-	1,588	14	
(453)	(1,990)	(1,821)	(692)	(96)	(25,627)	(10,344)	
1,439	1,397	(225)	2,620	675	325	(4,280)	
32	-	-	-	7,148	7,303	-	
-	-	-	-	-	2,614	5,451	
(229)	(14)	(21)	(6)	(101)	(22,875)	(2,757)	
1,242	1,383	(246)	2,614	7,722	(12,633)	(1,586)	
93,391	27,432	19,094	44,405	29,764		87,574	
\$ 94,633	\$ 28,815	\$ 18,848	\$ 47,019	\$ 37,486		\$ 85,988	

2,230
\$ (10,403)

See accompanying notes to the basic financial statements.

CITY OF PALO ALTO
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2022
(Amounts in thousands)

	Business-Type Activities-Enterprise Funds			
	Water	Electric	Fiber Optics	Gas
Cash flows from operating activities:				
Cash received from customers	\$ 42,032	\$ 135,191	\$ 1,392	\$ 45,091
Cash payments to suppliers for goods and services	(25,584)	(134,638)	(391)	(27,049)
Cash payments to employees	(9,953)	(23,500)	(1,208)	(9,783)
Internal activity- receipts (payments) from (to) other funds	2,476	4,450	1,044	821
Other receipts	878	26,400	1	2,305
Net cash provided by operating activities	9,849	7,903	838	11,385
Cash flows from noncapital financing activities:				
Repayment of loans to other funds	-	-	-	-
Operating grants and contributions	-	487	-	249
Interest subsidy received from Build America Bonds	676	-	-	-
Transfers in	323	2,291	-	-
Transfers out	(138)	(14,473)	(173)	(7,720)
Net cash provided by (used in) noncapital financing activities	861	(11,695)	(173)	(7,471)
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(7,549)	(12,249)	(1,558)	(7,705)
Proceeds from sale of capital assets	-	175	-	-
Capital grants and contributions	123	-	-	-
Proceeds from long-term debt issuance	-	-	-	-
Principal paid on lease liabilities	(107)	(202)	-	(83)
Principal paid on long-term debt	(1,850)	(100)	-	(696)
Interest paid on long-term debt	(1,480)	(8,080)	-	(151)
Net cash used in capital and related financing activities	(10,863)	(20,456)	(1,558)	(8,635)
Cash flows from investing activities:				
Investment interest received (expenses paid)	(2,926)	(6,053)	(1,270)	(1,819)
Net cash provided by (used in) investing activities	(2,926)	(6,053)	(1,270)	(1,819)
Net change in cash and cash equivalents	(3,079)	(30,301)	(2,163)	(6,540)
Cash and cash equivalents, beginning of year	49,508	107,044	35,983	30,918
Cash and cash equivalents, end of year	\$ 46,429	\$ 76,743	\$ 33,820	\$ 24,378
Financial statement presentation:				
Cash and investments available for operations	\$ 43,523	\$ 76,743	\$ 33,820	\$ 23,944
Restricted cash and investments with fiscal agents and trustees	2,906	-	-	434
Cash and cash equivalents, end of year	\$ 46,429	\$ 76,743	\$ 33,820	\$ 24,378
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 4,189	\$ 1,549	\$ 220	\$ 9,036
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	3,570	8,847	421	3,635
Other	-	-	-	-
Change in assets and liabilities:				
Accounts receivable	494	2,826	210	(1,504)
Inventory of materials and supplies	-	-	-	-
Deposit	9	-	-	-
Prepaid items	-	-	-	-
Lease receivable	-	15	428	-
Deferred outflow of resources - pension plans	226	155	24	(50)
Deferred outflow of resources - OPEB	(148)	(322)	83	(129)
Accounts payable and accruals	3,113	(1,052)	352	2,015
Accrued salaries and benefits	41	94	10	64
Accrued compensated absences	-	-	-	-
Landfill closure and post-closure care	-	-	-	-
Accrued claims payable	-	-	-	-
Net pension liability	(5,239)	(12,129)	(789)	(5,864)
Net OPEB liability	(1,663)	(4,809)	(67)	(2,028)
Deferred inflow of resources - lease related	-	(17)	(721)	-
Deferred inflow of resources - pension plans	4,072	9,450	681	4,819
Deferred inflow of resources - OPEB	1,185	3,296	(14)	1,391
Net cash provided by operating activities	\$ 9,849	\$ 7,903	\$ 838	\$ 11,385

See accompanying notes to the basic financial statements.

Business-Type Activities-Enterprise Funds						Governmental Activities- Internal Service Funds
Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Non-Major	Totals	
				Airport		
\$ 19,549 (11,011) (4,896) 119 486 4,247	\$ 18,516 (7,835) (13,615) 9,529 1,783 8,378	\$ 27,714 (27,047) (3,022) 813 2,881 1,339	\$ 7,272 (1,281) (2,382) 443 72 4,124	\$ 3,540 (2,202) (1,168) - 861 1,031	\$ 300,297 (237,038) (69,527) 19,695 35,667 49,094	\$ 124,941 (18,533) (92,662) (7,524) 14 6,236
- 176 - - (229)	- - - - (14)	- - - - (21)	- - - - (6)	(803) - - - (101)	(803) 912 676 2,614 (22,875)	- - - 5,451 (2,757)
(53)	(14)	(21)	(6)	(904)	(19,476)	2,694
(2,840) - 32 - (62) (109) (51)	(8,951) - 300 1,203 (120) (2,187) (983)	- - - - - - -	(1,542) - - - - (815) (131)	(7,126) - 7,148 - - - (69)	(49,520) 175 7,603 1,203 (574) (5,757) (10,945)	(1,680) 148 - - - - -
(3,030)	(10,738)	-	(2,488)	(47)	(57,815)	(1,532)
(579)	(1,003)	(1,831)	(564)	(27)	(16,072)	(10,487)
(579)	(1,003)	(1,831)	(564)	(27)	(16,072)	(10,487)
585	(3,377)	(513)	1,066	53	(44,269)	(3,089)
9,358	16,076	28,363	8,361	-	285,611	133,895
\$ 9,943	\$ 12,699	\$ 27,850	\$ 9,427	\$ 53	\$ 241,342	\$ 130,806
\$ 9,943 -	\$ 12,699 -	\$ 27,850 -	\$ 9,427 -	\$ 53 -	\$ 238,002 3,340	\$ 91,767 39,039
\$ 9,943	\$ 12,699	\$ 27,850	\$ 9,427	\$ 53	\$ 241,342	\$ 130,806
\$ 1,892	\$ 3,387	\$ 1,596	\$ 3,312	\$ 771	\$ 25,952	\$ 6,064
3,130 -	4,401 -	80 -	1,155 -	70 -	25,309 -	3,162 14
(105) - - - - 23 (50) 121 19 - - -	(156) - (17) - - 101 (270) 2,902 33 - - -	(495) - - - - 31 (18) 442 19 - 253 -	(109) - - - - 50 (40) 34 17 - - -	1,744 - - - - (119) 5 (1,474) 9 - - -	2,905 - (8) - 443 441 (889) 6,453 306 - 253 -	6 (68) - (1,758) - 249 (38) (142) (45) 121 - 599 (4,715) (1,648) - 3,355 1,080
\$ 4,247	\$ 8,378	\$ 1,339	\$ 4,124	\$ 1,031	\$ 49,094	\$ 6,236

See accompanying notes to the basic financial statements.

CITY OF PALO ALTO
Statement of Fiduciary Net Position
June 30, 2022
(Amounts in thousands)

	<u>Custodial Funds</u>
ASSETS:	
Cash and investments available for operations (Note 3)	\$ 3,324
Accounts receivable	425
Interest receivable	18
Restricted cash and investments with fiscal agents (Note 3)	<u>2,712</u>
Total assets	<u>6,479</u>
LIABILITIES:	
Accounts payable and accruals	<u>412</u>
NET POSITION:	
Restricted for:	
Governmental entities	1,412
Bondholders of special assessment bonds	<u>4,655</u>
Total net position	<u><u>\$ 6,067</u></u>

See accompanying notes to the basic financial statements.

CITY OF PALO ALTO
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2022
(Amounts in thousands)

	<u>Custodial Funds</u>
ADDITIONS:	
Franchise and other fees collected	\$ 1,814
Special assessments collected	2,392
Investment earnings	<u>(220)</u>
Total additions	<u>3,986</u>
DEDUCTIONS:	
Administrative and general	22
Distribution to governmental entities	1,569
Debt services payments	<u>2,405</u>
Total deductions	<u>3,996</u>
Changes in net position	(10)
NET POSITION, BEGINNING OF YEAR	<u>6,077</u>
NET POSITION, END OF YEAR	<u><u>\$ 6,067</u></u>

See accompanying notes to the basic financial statements.

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CITY OF PALO ALTO
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For the Year Ended June 30, 2022

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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, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Reporting Entity

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

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

The **University Avenue Area Off-Street Parking Assessment District** (the District) provides financing for the construction of public vehicle off-street parking improvements. The City is responsible for the governance of the District. The City can impose its will on the District but does not have a financial benefit or burden from the District. The assets associated with the District are for the benefit of the District and are not derived from the City's provision of goods or services to the District. The District is a fiduciary component unit of the City. The financial activities of the District are included in the University Avenue Area Off-Street Parking Assessment District Custodial Fund.

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

(b) Basis of Presentation

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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of Presentation (Continued)

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

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

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

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

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

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

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

(c) Major Funds and Other Funds

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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Major Funds and Other Funds (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Major Funds and Other Funds (Continued)

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

The City also reports the following funds:

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.

Custodial Funds – These funds are fiduciary funds used to report fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private purpose trust funds. These include balances and activities of the Cable Joint

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Major Funds and Other Funds (Continued)

Powers Authority and the assessment district. The financial activities of these funds are excluded from the government-wide financial statements, but are presented in separate fiduciary fund financial statements.

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

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

(d) Basis of Accounting

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

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

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

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

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

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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

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, 2022, changes to the compensated absences liabilities were as follows (in thousands):

Beginning balance	\$ 15,647
Additions	11,567
Payments	<u>(11,446)</u>
Ending balance	<u>\$ 15,768</u>
Current portion	<u>\$ 5,025</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Property Tax

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

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

	<u>Secured</u>	<u>Unsecured</u>
Lien Dates	January 1	January 1
Levy Dates	October 1	July 1
Due Dates	50% on November 1 50% on February 1	Upon receipt of billing
Delinquent after	December 10 (for November) April 10 (for February)	August 31

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

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

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

(l) Pensions and OPEB

For purposes of measuring the net pension liability and net OPEB liability, deferred outflows/inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position of the City’s pension and OPEB plans and additions to/deductions from the plans’ fiduciary net positions have been determined on the same basis as they are reported by the California Public Employees’ Retirement System (CalPERS) and the California Employer’s Retiree Benefit Trust Fund Program (CERBT), respectively. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The governmental activities’ share of net pension liability and net OPEB liability are typically liquidated by the General Fund.

(m) Rounding

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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) *Effects of New Pronouncements*

As of July 1, 2021, the City implemented the following GASB Statement:

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 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 application of this statement had a material impact on the financial statements and footnote disclosures for the City for the fiscal year ended June 30, 2022. Please refer to Note 6.

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. Implementation of this statement did not have a significant impact on the City's financial statements for the fiscal year ended June 30, 2022.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements. The requirements of this statement are effective for the City's fiscal year ending June 30, 2022. Implementation of this statement did not have a significant impact on the City's financial statements for the fiscal year ended June 30, 2022.

In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this statement is to address those and other accounting and financial reporting implications that result from the replacement of an interbank offered rate. The requirements of this statement are effective for the City's fiscal year ending June 30, 2022. Implementation of this statement did not have a significant impact on the City's financial statements for the fiscal year ended June 30, 2022.

In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (a) practice issues that been identified during implementation and application of certain GASB Statements and (b) accounting and financial

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Effects of New Pronouncements (Continued)

reporting for financial guarantees. The requirements related to the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to statements 53 and 63 are effective upon issuance. Implementation of these requirements did not have any impact for the City.

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*. The primary objectives of this statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of this statement are effective for the City's fiscal year ending June 30, 2022. Implementation of this statement did not have a significant impact on the City's financial statements for the fiscal year ended June 30, 2022.

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

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, 2023.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this statement are effective for the City's fiscal year ending June 30, 2023.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Effects of New Pronouncements (Continued)

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this statement are effective for the City's fiscal year ending June 30, 2023.

In April 2022, the GASB issued Statement No. 99, *Omnibus 2022*. The requirements related to leases, public-private partnerships (PPPs), and SBITAs are effective for the City's fiscal year ending June 30, 2023. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of statement 53 are effective for the City's fiscal year ending June 30, 2024.

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

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

(o) Use of Estimates

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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING

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

1. The City Manager submits proposed operating and capital budgets to the City Council for the fiscal year commencing the following July 1. The budget includes planned expenditures and the means of financing them.
2. Public hearings are conducted to obtain comments on the proposed budgets.
3. The budget is approved with the adoption of a budget ordinance for all funds except Custodial Funds.
4. Per the Palo Alto Municipal Code, only the City Manager is authorized to reallocate funds from contingency accounts maintained in the General Fund. Amendments to appropriations to departments in the General Fund, to total appropriations for all other budgeted funds, or to transfer of appropriations between funds, require approval by the City Council. Amendments to budgeted revenue and expenditures are added to or subtracted from the Adopted Budget and the resulting totals are reflected as Final Budget amounts.
5. As defined in the Palo Alto Municipal Code, expenditures may not exceed budgeted appropriations at the department level for the General Fund, and at the fund level for Enterprise, Internal Service, Special Revenue and Debt Service Funds.
6. Budgets for governmental funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America (U.S. GAAP), except that unrealized gains or losses on investments, changes in advances to other funds and notes receivable, and GASB 87 leases and interest, are not recognized on a budgetary basis and encumbrances are treated as budgetary expenditures when incurred.
7. Expenditures for the Capital Projects Fund are budgeted and maintained at a project level for the life of the project. Budget to actual comparisons for these expenditures have been excluded from the accompanying financial statements.

NOTE 3 – CASH AND INVESTMENTS

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

Policies

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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

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 Activities	Business-Type Activities	Fiduciary Funds	Total
Cash and investments:				
Available for operations	\$ 311,653	\$ 238,002	\$ 3,324	\$ 552,979
With fiscal agents and trustees	89,071	3,340	2,712	95,123
Total cash and investments	<u>\$ 400,724</u>	<u>\$ 241,342</u>	<u>\$ 6,036</u>	<u>\$ 648,102</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, 2022

NOTE 3 – CASH AND INVESTMENTS (Continued)

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Government Securities	10 years (*)	N/A	No Limit	No Limit
U.S. Federal Agency Securities (C)	10 years (*)	N/A	No Limit (A)	No Limit
Certificates of Deposit	10 years (*)	N/A	20%	10% of the par value of portfolio
Bankers Acceptances	180 days (D)	N/A (D)	30%	\$5 million
Commercial Paper	270 days	A-1	15%	\$3 million (B)
Local Agency Investment Fund	N/A	N/A	No Limit	\$75 million per account
Short-Term Repurchase Agreements	1 year	N/A	No Limit	No Limit
City of Palo Alto Bonds	N/A	N/A	No Limit	No Limit
Money Market Mutual Funds	N/A	N/A (E)	No Limit	No Limit
Mutual Funds (F)	N/A	N/A	20%	10%
Negotiable Certificates of Deposit	10 years (*)	N/A	10%	\$5 million
Medium-Term Corporate Notes	5 years	AA	10%	\$5 million
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, and 3) the entire face value of the security is redeemable at the call date.

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

Debt Agreements:

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

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

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

(F) Utility Revenue Bonds 2011 Refunding and General Obligation Bonds 2013A and 2022A&B are allowed to invest in the California Asset Management Program.

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

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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 3 – CASH AND INVESTMENTS (Continued)

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

Fair Value Measurements

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

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

The following is a summary of the fair value measurements of the City as of June 30, 2022 (in thousands):

Type of Investment	June 30, 2022	Level 2
Investments by fair value hierarchy		
U.S. Federal Agency Securities	\$ 208,157	\$ 208,157
U.S. Treasury Notes	13,056	13,056
Local Government Bonds	196,072	196,072
Negotiable Certificates of Deposit	27,610	27,610
Corporate Bonds	25,342	25,342
Supranational Bonds	36,154	36,154
Total investments by fair value hierarchy	506,391	<u>\$ 506,391</u>
Investment not subject to fair value hierarchy		
Money Market Mutual Funds	56,839	
Equity Mutual Funds (Irrevocable for Pension)	39,039	
California Asset Management Program	2,963	
Local Agency Investment Fund	42,368	
Total investments not subject to fair value hierarchy	<u>141,209</u>	
Total investments measured at fair value	<u>\$ 647,600</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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 3 – CASH AND INVESTMENTS (Continued)

accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is part of the State's Pooled Money Investment Account (PMIA). The total balance of the PMIA is approximately \$234.5 billion as of June 30, 2022. Of that amount, 98.1 percent was invested in nonderivative financial products and 1.9 percent in structured notes and asset backed securities. At June 30, 2022, LAIF had a weighted average maturity of 311 days.

Money Market Mutual Funds

Money market mutual funds are available for withdrawal on demand and at June 30, 2022, had a weighted average maturity of 19 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, 2022, the fair value approximated the City's cost. CAMP had a weighted average maturity of 28 days at June 30, 2022.

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, 2022, the City's investments consisted of the following (in thousands):

Type of Investment	Maturities				Total
	Less Than One Year	One to Three Years	Three to Five Years	Over Five Years	
U.S. Federal Agency Securities	\$ 39,161	\$ 16,001	\$ 76,166	\$ 76,829	\$ 208,157
U.S. Treasury Notes	8,961	-	4,095	-	13,056
Local Government Bonds	16,244	39,125	74,931	65,772	196,072
Corporate Bonds	547	12,627	12,168	-	25,342
Money Market Mutual Funds	56,839	-	-	-	56,839
Equity Mutual Funds					
(Irrevocable for Pension)	39,039	-	-	-	39,039
Negotiable Certificates of Deposit	7,363	10,055	7,433	2,759	27,610
California Asset Management Program	2,963	-	-	-	2,963
Supranational Bonds	3,038	1,975	31,141	-	36,154
Local Agency Investment Fund	42,368	-	-	-	42,368
Total Investments	<u>\$ 216,523</u>	<u>\$ 79,783</u>	<u>\$ 205,934</u>	<u>\$ 145,360</u>	647,600
Cash in bank and on hand					502
Total Cash and Investments					<u>\$ 648,102</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 3 – CASH AND INVESTMENTS (Continued)

Investment with Fair Values Highly Sensitive to Interest Rate Fluctuations

At June 30, 2022, the City's investments (including investments held by bond trustees) include U.S. Federal Agency Callable Securities totaling \$126.0 million. These investments are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above) and are subject to early redemption.

Credit Risk

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

Presented below is the actual rating as provided by Standard & Poor's, Moody's and/or Fitch's investment rating system as of June 30, 2022, for each investment type (in thousands):

Type of Investment	Rating	Total
U.S. Federal Agency Securities	AA+	\$ 208,157
Corporate Bonds	AAA	19,312
	AA+	6,030
Total Corporate Bonds		25,342
Local Government Bonds	AAA	62,120
	AA+	60,930
	AA	62,162
	AA-	2,077
	N/A	8,783
Total Government Bonds		196,072
Supranational Bonds	AAA	36,154
Money Market Mutual Funds	AAA	53,122
	N/A	3,717
Total Money Market Mutual Funds		56,839
Subtotal rated investments		522,564
Not Applicable:		
U.S. Treasury Notes		13,056
Not Rated:		
California Asset Management Program		2,963
Local Agency Investment Fund		42,368
Negotiable Certificates of Deposit		27,610
Equity Mutual Funds (Irrevocable for Pension)		39,039
Cash in bank and on hand		502
Total Cash and Investments		\$ 648,102

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

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, 2022 (in thousands):

Investments	Reporting Type	Fair Value at Year-End
Federal Agricultural Mortgage Corporation	U.S. Federal Agency Securities	\$ 79,102
Federal Home Loan Mortgage Corporation	U.S. Federal Agency Securities	38,810
Federal Home Loan Bank	U.S. Federal Agency Securities	40,431

Custodial Credit Risk

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

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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 4 – INTERFUND TRANSACTIONS

Transfers Between Funds

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to subsidize a fund. Less often, a transfer may be made to open or close a fund. Transfers between City funds during fiscal year 2022 were as follows on the following page (in thousands):

Fund Receiving Transfer	Fund Making Transfer	Amount Transferred
General Fund	Nonmajor Governmental Funds	\$ 547 A
	Electric Services Fund	14,139 B
	Gas Services Fund	7,240 B
		<u>21,926</u>
Capital Projects Fund	General Fund	12,625 C
	Nonmajor Governmental Funds	7,949 C
	Water Services Fund	97 C
	Electric Services Fund	247 C
	Fiber Optics Fund	66 C
	Gas Services Fund	90 C
	Wastewater Collection Fund	48 C
		<u>21,122</u>
Nonmajor Governmental Funds	General Fund	1,051 A
	Capital Projects Fund	2,380 A
	Water Services Fund	13 A
	Electric Services Fund	27 A
	Fiber Optics Fund	2 A
	Gas Services Fund	12 A
	Wastewater Collection Fund	6 A
	Internal Service Funds	27 A
		<u>3,518</u>
Water Services Fund	Gas Services Fund	162 C
	Wastewater Collection Fund	161 C
		<u>323</u>
Electric Services Fund	General Fund	2,082 D
	Fiber Optics Fund	102 C
	Internal Service Funds	107 C
		<u>2,291</u>
Internal Service Funds	General Fund	2,365 E
	Water Services Fund	28 E
	Electric Services Fund	60 E
	Fiber Optics Fund	3 E
	Gas Services Fund	216 E
	Wastewater Collection Fund	14 E
	Wastewater Treatment Fund	14 E
	Refuse Fund	21 E
	Storm Drainage Services Fund	6 E
	Airport	101 E
	Internal Service Funds	2,623 E/F
		<u>5,451</u>
	Total	<u>\$ 54,631</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

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 replacement and maintenance of critical desktop, software, infrastructure, vehicles and equipment.
- (F) Transfer to fund for retiree healthcare.

Current Interfund Balances

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. At June 30, 2022, the non-major Street Improvement Special Revenue Fund and the non-major Federal Revenue Special Revenue Fund owed the General Fund \$208,000 and \$307,000, respectively.

Long-Term Interfund Advance

On December 6, 2010, the City Council accepted an Airport Business Plan of the Palo Alto Airport (PAO) and approved creation of the Airport Enterprise Fund to facilitate the transition of PAO control from the County of Santa Clara to the City. The City Council approved six separate general fund advances to the non-major Airport Enterprise Fund. All advances bear interest equal to the average return yield on the City's investment portfolio. The six separate advances and interest incurred have been consolidated and are scheduled to be repaid by June 2034. At June 30, 2022, the outstanding advances was \$2.8 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, 2022

NOTE 5 – NOTES AND LOANS RECEIVABLE

At June 30, 2022, the City's notes and loans receivable totaled (in thousands):

Palo Alto Housing Corporation:	
Tree House Apartments	\$ 5,344
Emerson Street Project	375
Alma Single Room Occupancy Development	2,222
Barker Hotel	2,111
Sheridan Apartments	2,222
Oak Court Apartments, L.P.	7,834
El Dorado Palace, LLC	150
Mid-Peninsula Housing Coalition:	
Palo Alto Gardens Apartments	100
Community Working Group, Inc.	1,280
Opportunity Center Associates, L.P.	945
Home Rehabilitation Loans	47
Executive Relocation Assistance Loans	804
Below Market Rate Assessment Loans	53
Oak Manor Townhouse Water System	114
Lytton Gardens Assisted Living	101
Emergency Housing Consortium	75
Alma Gardens Apartments	1,150
2811-2825 Alma Street Acquisition	1,890
Palo Alto Family Housing, 801 Alma Street	6,422
Palo Alto Senior Housing Project - Stevenson House, LP	895
MP Palo Alto Garden, LLC	671
Colorado Park Housing Corporation	204
Buena Vista Mobile Home Park – Santa Clara County	14,500
Wilton Court Apartments	18,752
	<hr/>
Total Notes and Loans Receivable	68,261
Less: Valuation Allowance	(14,612)
	<hr/>
Total Notes and Loans Receivable, Net	\$ 53,649

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, 2022

NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)

Tree House Apartments

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

Emerson Street Project

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

Alma Single Room Occupancy Development

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

Barker Hotel

On April 12, 1994, the City loaned a total of \$2.1 million for the preservation, rehabilitation and expansion of a low-income, single occupancy hotel. This loan was funded by three sources: \$400,000 from the Housing In-Lieu Fund, \$1.0 million from HOME Investment Partnership Program Funds, and \$670,000 from CDBG funds. All three notes bear no interest and are collateralized by a deed of trust, which is subordinated to private financing. Loan repayments are deferred until 2035.

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

Sheridan Apartments

On December 8, 1998, the City loaned \$2.2 million to PAHC for the purchase and rehabilitation of a 57-unit apartment complex to be used for senior and low-income housing (Sheridan Apartments). The loan was funded with \$1.6 million in CDBG funds, and \$825,000 of Housing In-Lieu funds. The note is collateralized by a second deed of trust and an affordability reserve account held by PAHC. The loan was amended in June 2017. It will not accrue interest between May 1, 2017 and March 1, 2030. The loan will be forgiven on June 30, 2030 if PAHC uses the funds that would otherwise have been due to the City for another affordable housing project.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)

Oak Court Apartments, L.P.

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

El Dorado Palace, LLC

On June 22, 2015, the City approved a loan to PAHC in the amount of \$375,000 to increase the supply of affordable low income housing in the City. The City loaned \$52,000 and \$13,000 in June 2017 and March 2018, respectively. In February 2019, the City loaned an additional \$85,000. The loan bears three percent (3%) interest, however in the event of default will accrue at the lesser of 8% or the highest rate permitted by law. The term of the loan shall expire 55 years unless the City agree to extend an additional 44 years. As of June 30, 2022, 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. The remaining principal balance is due in 2039. As of June 30, 2022, the outstanding balance was \$100,000.

Community Working Group, Inc.

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

Opportunity Center Associates, L.P.

On July 19, 2004, the City loaned \$750,000 for a 55-year term to Opportunity Center Associates, L.P. for construction of 89 units of rental housing for extremely low-income and very low-income households. The loan was funded with \$750,000 of residential housing funds. The note bears 3 percent interest and is secured by a deed of trust. The loan remains outstanding and becomes due at the end of the 55-year term. During fiscal year 2019, the City received \$25,000 in principal payments. On April 17, 2019, the City approved up to an additional \$220,000 loan drawn from CDBG for the improvement of rental housing. In February 2019 and April 2019, the City loaned \$191,000 and \$29,000, respectively. The note bears 3 percent interest, and all payments of interest and principal shall be deferred until July 19, 2103. The loan balance owed as of June 30, 2022 was \$945,000.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)

Home Rehabilitation Loans

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

Executive Relocation Assistance Loans

The City Council may authorize a mortgage loan as part of a relocation assistance package to executive staff. The loans are secured by first deeds of trust, and interest is adjusted annually based on the rate of return of invested funds of the City for the year ended June 30 plus one-quarter of a percent. Principal and interest payments are due monthly. Employees must pay any outstanding balance on their loans within a certain period after ending employment with the City. During the year ended June 30, 2020, the City entered into a 30-year loan with the City Manager for \$845,000. The purchase cost for the City Manager's home was \$3.4 million and the City holds 75 percent equity share. During the year ended June 30, 2021, the City Manager paid \$21,000 for capital improvements and \$100,000 to the City to exercise a one-time option to purchase a portion of the City's equity share which decreased to 71.43 percent. As of June 30, 2022, the outstanding balance was \$804,000.

Below Market Rate Assessment Loans

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

Oak Manor Townhouse Water System

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

Lytton Gardens Assisted Living

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

Emergency Housing Consortium

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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)

Alma Garden Apartments

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

2811-2825 Alma Street Acquisition

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

Palo Alto Family Housing, 801 Alma Street

On February 14, 2011, the City agreed to loan Palo Alto Family, LP up to \$9.3 million for the purposes of predevelopment expenses and acquiring certain real property for the Alma Street Affordable Multi-Family Rental Housing Project. The loan bears simple interest of 3 percent. Principal and interest are due and payable during the term of the agreement on a “residual receipt” basis as described in the agreement. Except in the case of default, all remaining principal and interest shall be payable on the Restriction Termination Date as defined in the agreement. As of June 30, 2022, the outstanding amount is \$6.4 million.

Palo Alto Senior Housing Project – Stevenson House, LP

On October 1, 2015, the City entered into an affordable housing fund loan agreement with PASHPI Stevenson House LP, a California limited partnership, in the principal amount of \$1 million to assist in the rehabilitation of the Stevenson House. The loan bears simple interest of 3 percent. As of June 30, 2021, the loan outstanding balance is \$895,000 and is due at the end of the 55-year term.

MP Palo Alto Garden, LLC

The City loaned \$619,000 and \$52,000 in March 2017 and October 2017, respectively, in CDBG funds for the rehabilitation of the property. The note bears 3% simple interest and shall be deferred until April 24, 2054. If there are no Events of Default prior to the end of the terms, the unpaid principal and interest will be treated as a grant and no repayment will be due to the City.

Colorado Park Housing Corporation

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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 5 – NOTES AND LOANS RECEIVABLE (Continued)

Buena Vista Mobile Home Park – Santa Clara County

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

Wilton Court Apartments

In October 2020, the City entered into a predevelopment and construction loan agreement with Wilton ECR L.P. to construct approximately fifty-nine (59) residential rental units on property located at 3703-3709 El Camino Real with the City. Fifty-eight (58) would be affordable to low, very low, and extremely low-income households earning between thirty percent to sixty percent of area median income as determined by the United States Department of Housing and Urban Development, of which twenty-one (21) of the units will be designated for persons with developmental disabilities. The City entered into a loan agreement with Wilton ECR L.P. in the amount of \$18.8 million. The loan bear interest rate of 0% until the date of the permanent closing and 3% commencing the date of the permanent closing. The loan matures on December 31, 2077. As of June 30, 2022, the outstanding balance was \$18.8 million.

NOTE 6 – LEASES

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

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

City as Lessor

At June 30, 2022, the City recorded 18 lease receivables as lessor.

The City's General Fund and Governmental Activities lease space used as a restaurant.

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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 6 – LEASES (continued)

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

Information about lease revenues and interest revenues recognized during the year ended June 30, 2022, as well as lease receivable and lease related deferred inflows of resources as of June 30, 2022 are as follows (in thousands):

	<u>Asset Class</u>	<u>Term</u>	<u>Rent Increases</u>	<u>Lease Receivables at June 30, 2022</u>	<u>Deferred Inflows of Resources at June 30, 2022</u>	<u>Lease Revenue for the Year</u>	<u>Lease Interest Revenue for the Year</u>
Governmental Activities:							
	Land	25 years	3%	\$ 606	\$ 588	\$ 65	\$ 19
	Land	20 years	3%	423	411	26	13
	Land	20 years	3%	1,592	1,546	91	48
	Land	20 years	CPI	94	92	19	2
	Space	9 years	0%	129	119	23	37
Total Governmental Activities				<u>\$ 2,844</u>	<u>\$ 2,756</u>	<u>\$ 224</u>	<u>\$ 119</u>
Business-Type Activities:							
	Access	20 years	0%	\$156	\$154	\$17	\$5
	Equipment*	10 years	0%	3,023	2,730	721	1,013
Total Business-Type Activities				<u>\$ 3,179</u>	<u>\$ 2,884</u>	<u>\$ 738</u>	<u>\$ 1,018</u>

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

The annual lease receipt schedule for the lease receivables is as follows (dollars in thousands):

<u>Fiscal Year Ending June 30</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 147	\$ 112	\$ 422	\$ 918
2024	161	104	375	823
2025	177	94	371	717
2026	195	82	174	638
2027	216	68	160	590
2028-2032	859	231	1,677	1,494
2033-2037	759	117	-	-
2038-2042	330	14	-	-
Total	<u>\$ 2,844</u>	<u>\$ 822</u>	<u>\$ 3,179</u>	<u>\$ 5,180</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 6 – LEASES (continued)

City as Lessee

At June 30, 2022, the City recorded 18 lease liabilities as lessee.

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

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

	Balance July 1, 2021 (as restated)	Additions	Retirements	Balance June 30, 2022
Governmental activities				
Equipment	\$ 1,233	\$ -	\$ -	\$ 1,233
Office Space	1,566	-	-	1,566
Space	6,946	-	-	6,946
Total depreciable capital assets	9,745	-	-	9,745
Less accumulated amortization:				
Equipment	-	(98)	-	(98)
Office Space	-	(379)	-	(379)
Space	-	(2,244)	-	(2,244)
Total accumulated amortization	-	(2,721)	-	(2,721)
Total governmental activities lease assets, net	\$ 9,745	\$ (2,721)	\$ -	\$ 7,024
Business-Type activities				
Office Space	\$ 2,773	\$ -	\$ -	\$ 2,773
Land	78	-	-	78
Total depreciable capital assets	2,851	-	-	2,851
Less accumulated amortization:				
Office Space	-	(766)	-	(766)
Land	-	(15)	-	(15)
Total accumulated amortization	-	(781)	-	(781)
Total business-type activities lease assets, net	\$ 2,851	\$ (781)	\$ -	\$ 2,070

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

	Balance July 1, 2021 (as restated)	Additions	Retirements	Balance June 30, 2022	Current Portion
Governmental activities	\$ 9,745	\$ -	\$ (2,017)	\$ 7,728	\$ 2,428
Business-Type activities	\$ 2,851	\$ -	\$ (574)	\$ 2,277	\$ 696

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 6 – LEASES (continued)

Detailed information about lease assets and liabilities as of June 30, 2022 are as follows (in thousands):

	<u>Asset Class</u>	<u>Term</u>	<u>Rent Increases</u>	<u>Lease Asset at June 30, 2022</u>	<u>Lease Liability at June 30, 2022</u>
Governmental Activities					
	Equipment	30 years	CPI	\$ 1,134	\$ 1,186
	Space	3 years	0%	605	651
	Space	4.5 years	0%	4,098	4,609
	Office Space	24 years	3%	1,153	1,245
	Office Space	2 years	3%	34	37
Total Governmental Activities				<u>\$ 7,024</u>	<u>\$ 7,728</u>
	<u>Asset Class</u>	<u>Term</u>	<u>Rent Increases</u>	<u>Lease Asset at June 30, 2022</u>	<u>Lease Liability at June 30, 2022</u>
Business-Type Activities					
	Office Space	5 years	3%	\$ 787	\$ 895
	Office Space	3 years	0%	67	73
	Office Space**	28 years	2.50%	1153	1246
	Land	100 years	CPI	63	63
Total Business-Type Activities				<u>\$ 2,070</u>	<u>\$ 2,277</u>

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

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

Fiscal Year Ending June 30	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 2,438	\$ 1,597	\$ 696	\$ 399
2024	2,304	1,001	848	264
2025	1,670	368	378	134
2026	381	143	355	53
2027	83	105	-	-
2028 - 2032	595	346	-	-
2033 - 2037	257	267	-	-
Total	<u>\$ 7,728</u>	<u>\$ 3,827</u>	<u>\$ 2,277</u>	<u>\$ 850</u>

Significant Lease from Palo Alto Unified School District

The City leased 27 acres of the former Cubberley School site through December 31, 2024 and the twelve extended day care sites from Palo Alto Unified School District (PAUSD) through June 30, 2022. The City and the PAUSD signed a new lease dated July 1, 2022 that extended the lease of the twelve extended day care sites through June 30, 2023. Under the Cubberley lease, the City leases approximately 65,046 rentable square feet of building area and 15.94 acres of outdoor recreational area. The City has the right to reduce the leased premises by surrendering Building S or the JMZ Building used as the temporary location of the City of Palo Alto Junior Museum and Zoo (JMZ). On April 15, 2022, the City exercised the right and surrendered JMZ Building.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 7 – CAPITAL ASSETS

Valuation

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

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

The City has recorded all its public domain capital assets, consisting of roadway and recreation and open space, in its government-wide financial statements. All capital assets with limited useful lives are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of those assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

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

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

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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 7 – CAPITAL ASSETS (Continued)

Governmental Activities

Changes in the capital assets for governmental activities during the year ended June 30, 2022 were (in thousands):

	Balance July 1, 2021 (as restated)	Additions	Retirements	Transfers	Balance June 30, 2022
<i>Governmental activities</i>					
Nondepreciable capital assets:					
Land and improvements	\$ 82,131	\$ -	\$ -	\$ -	\$ 82,131
Street trees	14,825	135	-	-	14,960
Intangible assets - Easement	3,567	-	-	-	3,567
Construction in progress	137,813	58,979	(142)	(79,332)	117,318
Total nondepreciable capital assets	238,336	59,114	(142)	(79,332)	217,976
Depreciable capital assets:					
Buildings and structures	272,097	25,765	-	52,742	350,604
Intangible assets - Software	279	-	-	-	279
Equipment	17,192	-	-	910	18,102
Roadway network	335,202	-	-	23,872	359,074
Recreation and open space network	35,186	-	-	1,808	36,994
Total depreciable capital assets	659,956	25,765	-	79,332	765,053
Less accumulated depreciation:					
Buildings and structures	(113,711)	(8,448)	-	-	(122,159)
Intangible assets - Software	(279)	-	-	-	(279)
Equipment	(8,927)	(541)	-	-	(9,468)
Roadway network	(179,216)	(7,724)	-	-	(186,940)
Recreation and open space network	(17,121)	(1,326)	-	-	(18,447)
Total accumulated depreciation	(319,254)	(18,039)	-	-	(337,293)
Depreciable capital assets, net	340,702	7,726	-	79,332	427,760
Internal service fund capital assets					
Construction in progress	5,587	1,654	-	(2,740)	4,501
Equipment	63,025	26	(979)	2,740	64,812
Less accumulated depreciation	(45,671)	(3,162)	948	-	(47,885)
Net internal service fund capital assets	22,941	(1,482)	(31)	-	21,428
Amortized lease-related assets					
Intangible assets - right to use leased assets	9,745	-	-	-	9,745
Less accumulated amortization	-	(2,721)	-	-	(2,721)
Net amortized assets	9,745	(2,721)	-	-	7,024
Governmental activities capital assets, net	\$ 611,724	\$ 62,637	\$ (173)	\$ -	\$ 674,188

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 7 – CAPITAL ASSETS (Continued)

Business-Type Activities Capital Assets

Changes in the capital assets for the business-type activities during the year ended June 30, 2022 were (in thousands):

	Balance July 1, 2021	Additions	Retirements	Transfers	Balance June 30, 2022
<i>Business-type activities</i>					
Nondepreciable capital assets:					
Land and improvements	\$ 4,973	\$ -	\$ -	\$ -	\$ 4,973
Construction in progress	128,936	49,071	-	(41,058)	136,949
Total nondepreciable capital assets	133,909	49,071	-	(41,058)	141,922
Depreciable capital assets:					
Buildings and structures	74,568	-	(274)	6,232	80,526
Infrastructure	633	-	-	-	633
Transmission, distribution and treatment systems	914,789	449	(1,127)	34,826	948,937
Total depreciable capital assets	989,990	449	(1,401)	41,058	1,030,096
Less accumulated depreciation:					
Buildings and structures	(17,534)	(1,572)	-	-	(19,106)
Infrastructure	(86)	(21)	-	-	(107)
Transmission, distribution and treatment systems	(397,770)	(22,935)	1,007	-	(419,698)
Total accumulated depreciation	(415,390)	(24,528)	1,007	-	(438,911)
Depreciable capital assets, net	574,600	(24,079)	(394)	41,058	591,185
Amortized assets					
Intangible assets - right to use leased assets	2,851	-	-	-	2,851
Less accumulated amortization	-	(781)	-	-	(781)
Net amortized assets	2,851	(781)	-	-	2,070
Business-type activities capital assets, net	\$ 711,360	\$ 24,211	\$ (394)	\$ -	\$ 735,177

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. U.S. GAAP 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, 2022

NOTE 7 – CAPITAL ASSETS (Continued)

Depreciation Allocation

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

<i>Governmental Activities</i>		<i>Business-type Activities</i>	
City Manager	\$ 20	Water	\$ 3,443
City Attorney	1	Electric	8,602
City Clerk	4	Fiber Optics	421
City Auditor	1	Gas	3,534
Administrative Services	4	Wastewater Collection	3,055
Public Works	10,667	Wastewater Treatment	4,168
Planning and Development Services	420	Refuse	80
Office of Transportation	9	Storm Drainage	1,155
Police	116	Airport	70
Fire	570		<u>\$ 24,528</u>
Community Services	3,849		
Library	2,378		
Internal Service Funds	3,161		
	<u>\$ 21,200</u>		

Amortization of Right to Use Leased Assets

Right to use leased assets are amortized in a systematic and rational manner over the shorter of the lease term of the useful life of the underlying leased asset. The amount of amortized expense recognized in the fiscal year ended June 30, 2022 is as follows (in thousands):

<i>Governmental Activities</i>		<i>Business-type Activities</i>	
Public Works	\$ 98	Water	\$ 127
Planning and Development Services	379	Electric	245
Non-Departmental	2,244	Gas	101
	<u>\$ 2,721</u>	Wastewater Collection	75
		Wastewater Treatment	233
			<u>\$ 781</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 7 – CAPITAL ASSETS (Continued)

Construction In Progress

Construction in progress as of June 30, 2022 is comprised of the following (in thousands):

Governmental Activities	Expended to June 30, 2022
New Public Safety Building	\$ 61,562
Charleston/Arastradero Corridor	17,770
Bicycle Boulevards Implementation Project	9,195
Traffic Signal Upgrades	5,137
Technology Fund	4,424
Railroad Grade Separation	3,836
Rinconada Park Improvements	2,942
Animal Shelter Renovation	2,916
Newell Road Bridge/SFC Bridge Replacemen	2,308
JMZ Renovation	1,843
New Downtown Parking Garage	1,440
Quarry Road	1,282
Tennis & Basketball Court Resurfacing	1,075
Art In Public Places	846
Fire Station No. 3 Replacement Design	818
Municipal Service Center Improvements	571
Emerg Vehicle Traffic Signal Preempt Sys	486
Boulevard Park Improvement Project	480
Parking Wayfinding Design	475
Civic Center Electrical Upgrade	465
Other Construction In Progress	1,948
Total Governmental Activities	<u>\$ 121,819</u>
Business-type Activities	Expended to June 30, 2022
Airport's Apron Reconstruction	\$ 37,459
Electric distribution system improvements	28,123
Water quality control plant equipment replacement and lab facilities	15,573
Gas system extension replacements and improvements	7,978
Storm drainage structural and water quality improvements	5,964
Water system extension replacements and improvements	3,385
Other electrical improvement projects	3,635
Sewer system rehabilitation and extensions	2,096
Other construction in progress	32,736
Total Business-type Activities	<u>\$ 136,949</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 7 – CAPITAL ASSETS (Continued)

Construction In Progress Commitments

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

- Public Safety Building - \$56.1 million
- Municipal Service Center Improvements - \$6.0 million
- Churchill Ave/Alma Street - \$4.1 million
- Charleston Arastradero Corridor - \$3.2 million
- Boulware Park Improvement - \$3.1 million

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

- Water Mains Replacement Project 28 - \$9.5 million
- Smart Grid Technology Installation - \$5.9 million
- Electric System Improvements- \$10.2 million
- Primary Sedimentation Tank Rehabilitation - \$12.1 million

Vehicle Registration Fees (VRF)

In fiscal year 2022, the City received VRF funds from the Santa Clara Valley Transportation Authority and expended the full amount on capital expenditures for the Overlay Resurfacing Project (PE-86070) (in thousands):

Starting VRF balance July 1, 2021	\$	-
VRF revenue		410
VRF interest earned		2
VRF expense		(412)
Ending VRF balance June 30, 2022	\$	-

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 8 – LONG-TERM DEBT

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

	Original Issue Amount	Balance July 1, 2021	Additions	Retirements	Balance June 30, 2022	Current Portion
Governmental Activities Debt:						
2010 General Obligation Bonds, 3.25% - 5%, due 08/01/2040	\$ 55,305	\$ 41,965	\$ -	\$ 41,965	\$ -	\$ -
2013A General Obligation Bonds, 2 - 5%, due 08/01/2041	20,695	15,030	-	2,860	12,170	485
2022 General Obligation Bonds, Series A, 5%, due 08/01/2040	34,435	-	34,435	-	34,435	-
2022 General Obligation Bonds, Series B, 4%, due 08/01/2028	2,110	-	2,110	-	\$ 2,110	-
2018 Captial Improvement Project and Refinancing Certificates of Participation, 2.2%- 4.22%, due 11/1/2047	8,970	8,570	-	190	8,380	195
2019 California Ave Parking Garage Certificates of Participation, Series A & B 2.5%-5%, due 11/1/2048	37,370	36,365	-	645	35,720	665
2021 Public Safety Building Certificates of Participation, 2%-5%, due 11/1/2050	101,505	101,505	-	-	101,505	-
Add: Unamortized Premium	-	14,099	4,780	2,954	15,925	711
Total Governmental Activities Debt	\$ 260,390	\$ 217,534	\$ 41,325	\$ 48,614	\$ 210,245	\$ 2,056

	Original Issue Amount	Balance July 1, 2021	Additions	Retirements	Balance June 30, 2022	Current Portion
Business-type Activities Debt:						
Utility Revenue Bonds						
1999 Refunding, 5.125-5.25%, due 06/01/2024	\$ 17,735	\$ 5,120	\$ -	\$ 1,620	\$ 3,500	\$ 1,705
2009 Series A, 1.80-5.95%, due 06/01/2035	35,015	24,330	-	1,235	23,095	1,295
2011 Refunding, 3-4%, due 06/01/2035	17,225	6,680	-	1,260	5,420	1,300
Add: Unamortized Premium	-	398	-	83	315	-
Energy Tax Credit Bonds						
2007 Series A, 0%, Due 12/15/2021	1,500	100	-	100	-	-
Less: Unamortized Discount	-	(6)	-	(6)	-	-
Total Bonds	71,475	36,622	-	4,292	32,330	4,300
State Water Resources Loans						
Direct Borrowings:						
2007, 1.02%, due 06/30/2029	9,000	3,600	-	450	3,150	450
2009, 2.6%, due 11/30/2030	8,596	4,839	-	430	4,409	441
2017, 1.8%, due 5/31/2049	25,197	23,849	-	662	23,187	675
2021, 0.9%, due 2/15/2053	17,484	-	1,203	-	1,203	-
Total Direct Borrowings	60,277	32,288	1,203	1,542	31,949	1,566
Total Business-type Activities Debt	\$ 131,752	\$ 68,910	\$ 1,203	\$ 5,834	\$ 64,279	\$ 5,866

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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 8 – LONG-TERM DEBT (Continued)

Description of Long-Term Debt Issues

2010 General Obligation Bonds (2010 GO Bonds), 2013A General Obligation Bonds (2013A GO Bonds) and 2022A and B General Obligation Bonds (2022A&B GO Bonds) – On June 30, 2010, the City issued the first series of \$55.3 million and on June 26, 2013 the second series of \$20.6 million of GO bonds to finance costs for constructing a new Mitchell Park Library and Community Center, as well as substantial improvements to the Main Library and the Downtown Library. Principal payments are due annually on August 1 and interest payments semi-annually on February 1 and August 1, from 2.0 percent to 5.0 percent, and are payable from property tax revenues.

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

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

After the refinancing, there are three GO Bonds outstanding, the portion of the tax-exempt Series 2013A bonds that were not refinanced, the tax-exempt Series 2022A bonds that fully refinanced the Series 2010A bonds, and the taxable Series 2022B bonds that partially refinanced the Series 2013A bonds. As of June 30, 2022, the outstanding principal, interest, and final payment date is summarized in the below table.

	Principal Outstanding	Interest Outstanding	Total GO Bonds Outstanding	Final Payment Date
2013A GO Bonds	\$12,170,000	\$5,956,400	\$18,126,400	08/01/2041
2022A GO Bonds	34,435,000	18,072,969	\$52,507,969	08/01/2040
2022B GO Bonds	2,110,000	394,550	\$2,504,550	08/01/2028
Total	\$48,715,000	\$24,423,919	\$73,138,919	

The City's 2013A, 2022A and 2022B GO Bonds are general obligations of the City, secured and payable solely from ad valorem property taxes levied by the City and collected by the County of Santa Clara. The City is empowered and obligated to annually levy ad valorem taxes for the payment of the Bonds and the interest thereon upon all property within the City subject to taxation by the City, without limitation of rate or amount (except certain personal property which is taxable at limited rates) until the final maturity dates of the bonds. For the fiscal year ended June 30, 2022, the City received \$4.3 million in ad valorem property taxes.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 8 – LONG-TERM DEBT (Continued)

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.

2019 California Avenue Parking Garage Series A and B Certificates of Participation (2019A and 2009B COPs) – On March 21, 2019, the City issued tax exempt 2019A COPs of \$26.8 million and taxable 2019B COPs of \$10.6 million for the construction of the California Avenue Parking Garage. There are two semi-annual debt service payments, consisting of principal payments due annually on November 1 and interest payments due on May 1 and November 1. The debt service is payable solely from and secured by the lease payments to be made by the City’s General Fund to the Public Improvement Corporation pursuant to the Lease Agreement. The leased property is the Rinconada Library and after construction and the substantial readiness of the California Avenue Parking Garage project, the garage will become the leased property. The maturity dates for the 2019A COPs and 2019B COPs are November 1, 2044 and November 1, 2048, respectively. The reserve account requirement was waived due to the City being a highly rated bond issuer.

2021 Public Safety Building Certificates of Participation (2021 COPs) – On March 24, 2021, the City issued taxable COPs of \$101.5 million for the construction of the City’s new public safety building. There are two semi-annual debt service payments, consisting of principal payments due annually on November 1 and interest payments due on May 1 and November 1. The debt service is payable solely from and secured by the lease payments to be made by the City’s General Fund to the Public Improvement Corporation pursuant to the Lease Agreement. The leased property is the City’s Civic Center and after construction and the substantial readiness of the Public Safety Building project, the new public safety building will become the leased property. The maturity date for the 2021 COPs is November 1, 2050. The reserve account requirement was waived due to the City being a highly rated bond issuer.

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

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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 8 – LONG-TERM DEBT (Continued)

As required by the Indenture, the City established a Reserve Account with a Reserve Requirement. At the time it issued the Bonds, the City satisfied the Reserve Requirement with a deposit into the Reserve Account of a surety bond issued by Ambac Indemnity Corporation (renamed to Ambac Assurance Corporation in 1997).

The pledge of future Net Revenues for the above bonds ends upon repayment of the \$3.5 million principal and \$0.3 million interest as the remaining debt service on the bonds, which is scheduled to occur in fiscal year 2024. For fiscal year 2022, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$56.0 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$40.9 million. Net Revenues available for debt service amounted to \$15.1 million, which represents coverage of 8.0 times over the \$1.9 million in debt service.

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

The pledge of future Net Revenues for the above bonds ends upon repayment of the \$23.1 million principal and \$10.2 million interest as the remaining debt service on the bonds, which is scheduled to occur in fiscal year 2035. For fiscal year 2022, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$42.0 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$37.1 million. Net Revenues available for debt service amounted to \$4.8 million, which represented coverage of 1.9 times over the \$2.6 million in debt service.

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

The pledge of future Net Revenues of the above bonds ends upon repayment of the \$5.4 million principal and \$0.4 million interest as remaining debt service on the bonds, which is scheduled to occur in fiscal year 2026. For fiscal year 2022, Net Revenues, including operating revenues and non-operating interest earnings, amounted to \$89.9 million; operating costs, including operating expenses but not interest, depreciation or amortization, amounted to \$74.2 million. Net Revenues available for debt service amounted to \$15.7 million, which represented coverage of 10.8 times over the \$1.5 million in debt service.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 8 –LONG-TERM DEBT (Continued)

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

The pledge of future Electric Fund Net Revenues ended upon repayment of the \$0.1 million remaining debt service on the bonds, which occurred during fiscal year 2022.

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, 2022 was \$2.1 million.

Direct Borrowing - 2009 State Water Resources Loan – In October 2009, the City approved an \$8.6 million direct loan agreement with SWRCB to finance the City’s Ultraviolet Disinfection project. Principal and interest payments are payable annually on November 30. The loan interest rate is 2.60 percent which represents a combination of loan service charge and interest.

Direct Borrowing - 2017 State Water Resources Loan - In June 2017, the SWRCB and the City executed a direct loan agreement for an award up to \$30 million, payable over 30 years to finance the replacement of sewage sludge “bio-solids” incinerators at the City’s Regional Water Quality Control Plant (RWQCP). In September 2017, due to the projected lower project costs, the agreement was amended to a lower loan amount of \$29.7 million, however, the actual loan was \$25.2 million, net of \$4.0 loan principal forgiveness for environmental benefits and other adjustments for actual costs. The loan interest rate is 1.80 percent.

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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 8 – LONG-TERM DEBT (Continued)

Direct Borrowing - 2021 State Water Resources Loan – In July 2021, the City approved an \$17.5 million direct loan agreement with SWRCB to finance the rehabilitation and upgrade of the City’s RWQCP Primary Sedimentation Tanks (PSTs) and ancillary systems to improve reliability of the treatment processes at RWQCP. Repayment of loan will begin one year after completion of construction, which is currently ongoing. The loan interest rate is 0.9 percent which represents a combination of loan service charge and interest. The City has drawn \$1.2 million in loan proceeds during the year ended June 30, 2022.

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.

Direct Borrowing - 2022 State Water Resources Loan – In May 2022, the City approved a \$168.7 million direct loan agreement with SWRCB to finance the Secondary Treatment Upgrades project to produce treated effluent with reduced total nitrogen content, increase treatment capacity, and rehabilitate aging infrastructure. The loan interest rate is 0.8 percent per annum. There is no outstanding balance as of June 30, 2022.

The RWQCP provides treatment and disposal for wastewater for the City, Mountain View, Los Altos, Los Altos Hills, East Palo Alto Sanitary District, and Stanford University. Though the City is the recipient of the loan, the City’s agreement with the partner agencies oblige them to pay their proportionate share of the principal and interest of this loan.

Debt Service Requirements (in thousands):

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

For the Year Ending June 30	Governmental Activities			Business-Type Activities					
	Principal	Interest	Total	Bonds			Direct Borrowings		
				Principal	Interest	Total	Principal	Interest	Total
2023	\$ 1,345	\$ 6,698	\$ 8,043	\$ 4,300	\$ 1,616	\$ 5,916	\$ 1,566	\$ 300	\$ 1,866
2024	4,635	7,238	11,873	4,485	1,427	5,912	1,655	300	1,955
2025	5,075	6,730	11,805	2,790	1,229	4,019	1,649	276	1,925
2026	5,275	6,206	11,481	2,900	1,121	4,021	1,674	258	1,932
2027	5,535	5,944	11,479	1,555	1,009	2,564	1,700	240	1,940
2028-2032	32,310	26,577	58,887	9,125	3,698	12,823	6,994	910	7,904
2033-2037	40,180	19,625	59,805	6,860	832	7,692	4,373	605	4,978
2038-2042	42,295	11,649	53,944	-	-	-	4,772	423	5,195
2043-2047	33,520	5,833	39,353	-	-	-	5,208	223	5,431
2048-2052	24,150	1,082	25,232	-	-	-	2,349	26	2,375
2053	-	-	-	-	-	-	9	-	9
Total	<u>\$ 194,320</u>	<u>\$ 97,582</u>	<u>\$ 291,902</u>	<u>\$ 32,015</u>	<u>\$ 10,932</u>	<u>\$ 42,947</u>	<u>\$ 31,949</u>	<u>\$ 3,561</u>	<u>\$ 35,510</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 8 – LONG-TERM DEBT (Continued)

Debt Call Provisions

Long-term debt as of June 30, 2022 is callable on the following terms and conditions:

	<u>Initial Call Date</u>	
<i>Business-Type Activities Long-Term Debt</i>		
Utility Revenue Bonds		
1999 Refunding	06/01/09	(1)
2011 Refunding	06/01/21	(1)

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

Leasing Arrangements

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

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

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.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 9 – SPECIAL ASSESSMENT DEBT

Special Assessment Debt with no City Commitment

On February 29, 2012, the District issued Limited Obligation Refunding Improvement Bonds (2012 Bonds), but the City has no legal or moral liability with respect to the payment of this debt, which is secured only by assessments on properties in this District. The City is in no way responsible for the repayment of the Bonds, but is only acting as an agent for the property owners in collecting the assessments, forwarding the collections to bondholders, and initiating foreclosure proceedings, when appropriate. Therefore, this debt is not included in Governmental Activities long-term debt of the City. At June 30, 2022, the District's outstanding debt amounted to \$16.3 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 was paid on September 2, 2022. Reserve and redemption funds held by the District are reported within the University Avenue Area Off-Street Parking Assessment District Custodial Fund.

NOTE 10 – LANDFILL POST-CLOSURE MAINTENANCE

The 126-acre Palo Alto Refuse Disposal Site (Palo Alto Landfill) was filled to capacity and stopped accepting waste in July 2011. State and federal laws and regulations require the City to construct a final cover to cap the waste, and to perform certain post-closure maintenance and monitoring activities at the site for a minimum of thirty years after closure. As of November 2015, the Palo Alto Landfill has been fully capped and subsequently converted to a pastoral park (Byxbee Park) that is open to the public. A final post-closure maintenance plan and cost estimate for the thirty-year post-closure maintenance related activities and corrective action costs was approved by State and local regulatory agencies in 2014. As required by the State, an updated five-year post-closure maintenance plan and cost estimate was submitted and approved in FY 2021. This cost estimate is adjusted annually for inflation at a percentage provided by the State. Landfill post-closure liabilities as of June 30, 2022 are \$6.4 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.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 11 – NET POSITION AND FUND BALANCES

Net Position

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

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

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

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

Fund Balances

Governmental funds report fund balances in classifications based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balances for governmental funds are made up of the following:

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

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

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

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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 11 – NET POSITION AND FUND BALANCES (Continued)

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.

The General Fund Budget Stabilization Reserve (BSR) is established by authority of the General Fund Reserve Policy, which is approved by the City Council and included in the City's annual adopted budget. The BSR is maintained in the range of 15 to 20 percent of General Fund expenditures and operating transfers, with a target of 18.5 percent. Any reserve level below 15 percent requires City Council approval. At the discretion of the City Manager, a reserve balance above 18.5 percent may be transferred to the Infrastructure Reserve within the Capital Projects Fund or the City's Section 115 Pension Trust, as outlined in the Pension Funding Policy. The purpose of the General Fund BSR is to fund unbudgeted, unanticipated one-time costs. The BSR is not meant to fund ongoing, recurring General Fund expenditures.

As of June 30, 2022, total outstanding encumbrances and reappropriations related to governmental funds were \$25.5 million for the General Fund, \$96.7 million for the Capital Projects Fund, and \$6.3 million for the Special Revenue Funds.

Enterprise Funds

At June 30, 2022, enterprise funds' unrestricted net position (in thousands) were as follows:

	Water	Electric	Fiber Optics	Gas	Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	Airport	Total
Unrestricted										
Rate stabilization										
Supply	\$ -	\$ -	\$ -	\$ (838)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (838)
Distribution	9,069	-	33,857	-	342	(9,772)	18,401	5,010	(6,457)	50,450
	<u>9,069</u>	<u>-</u>	<u>33,857</u>	<u>(838)</u>	<u>342</u>	<u>(9,772)</u>	<u>18,401</u>	<u>5,010</u>	<u>(6,457)</u>	<u>49,612</u>
Operations										
Supply	-	27,197	-	-	-	-	-	-	-	27,197
Distribution	14,420	2,944	-	12,137	4,252	-	-	-	-	33,753
	<u>14,420</u>	<u>30,141</u>	<u>-</u>	<u>12,137</u>	<u>4,252</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,950</u>
Emergency plant replacement	-	-	1,000	-	-	1,980	-	-	-	2,980
Electric special projects	-	24,649	-	-	-	-	-	-	-	24,649
Reappropriations	3,339	9,483	179	2,205	625	-	-	4,611	-	20,442
Commitments	10,595	18,696	1,815	3,337	4,231	18,663	4,630	1,354	4,499	67,820
Underground loan	-	727	-	-	-	-	-	-	-	727
Notes and loans	-	-	-	-	-	1,651	-	-	-	1,651
Landfill corrective action	-	-	-	-	-	-	709	-	-	709
Hydro stabilization reserve	-	400	-	-	-	-	-	-	-	400
Public benefit program	-	3,891	-	-	-	-	-	-	-	3,891
Reserve for LCFS	-	7,236	-	-	-	-	-	-	-	7,236
CIP reserve	10,707	880	-	3,820	3,178	-	-	-	-	18,585
Geng Road reserve	-	-	-	-	-	-	268	-	-	268
Cap & Trade	-	1,189	-	6,731	-	-	-	-	-	7,920
GASB 68 Pension	(13,202)	(31,688)	(2,154)	(13,697)	(7,852)	(19,940)	(5,655)	(3,835)	(703)	(98,726)
GASB 75 OPEB	(3,428)	(11,398)	(3)	(5,083)	(1,942)	(6,111)	(2,170)	(961)	(370)	(31,466)
GASB 87 Leases	-	2	293	-	-	-	-	-	-	295
Unrealized loss on investments	(3,673)	(7,708)	(2,848)	(2,250)	(722)	(1,260)	(2,283)	(717)	(2)	(21,463)
Total	<u>\$ 27,827</u>	<u>\$ 46,500</u>	<u>\$ 32,139</u>	<u>\$ 6,362</u>	<u>\$ 2,112</u>	<u>\$ (14,789)</u>	<u>\$ 13,900</u>	<u>\$ 5,462</u>	<u>\$ (3,033)</u>	<u>\$ 116,480</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 11 – 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, 2022, Internal Service Funds unrestricted net position (in thousands) were as follows:

	Vehicle Replacement and Maintenance	Technology	Printing and Mailing Services	General Benefits	Workers' Compensation Insurance Program	General Liabilities Insurance Program	Retiree Health Benefits	Total
Unrestricted net position:								
Commitments	\$ 4,865	\$ 6,917	\$ 2	\$ 594	\$ 32	\$ 30	\$ -	\$ 12,440
Future catastrophic losses	-	-	-	-	-	2,695	-	2,695
Retiree health care	-	-	-	-	-	-	1,219	1,219
GASB 68 pension	(2,946)	(10,723)	(240)	-	93	-	-	(13,816)
GASB 75 OPEB	(1,360)	(2,740)	(133)	-	11	-	-	(4,222)
Prepaid Items	-	-	-	1,426	-	-	-	1,426
Available	7,745	13,528	158	5,049	(701)	-	-	25,779
Total	<u>\$ 8,304</u>	<u>\$ 6,982</u>	<u>\$ (213)</u>	<u>\$ 7,069</u>	<u>\$ (565)</u>	<u>\$ 2,725</u>	<u>\$ 1,219</u>	<u>\$ 25,521</u>

- **Commitments** represent the portion of net position set aside for open purchase orders and reappropriations.
- **Future catastrophic losses** represent the portion of net position to be used for unforeseen future losses.
- **Retiree health care** represents the portion of net position set aside to defer future costs of retiree health care coverage.
- **GASB 68 pension** represents the net impact of net pension liability and related deferred outflows/inflows of resources balances.
- **GASB 75 OPEB** represents the net impact of net OPEB liability and related deferred outflows/inflows of resources balances.
- **Prepaid Items** represent medical premium advance payments.

Deficit Fund Balance and Net Position:

At June 30, 2022, the City's Printing and Mailing Services internal service fund had a deficit net position of \$194,000. The deficit is due to the impact of Pension and OPEB liabilities and related balances. The Workers' Compensation Insurance Program internal service fund had a deficit net position of \$565,000 at June 30, 2022. The deficit is due to unrealized market losses on investments. These deficits are expected to be funded by future internal service charges to other City funds.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 12 – PENSION PLANS

(a) General Information about the Pension Plans

Plan Descriptions - Substantially all permanent City employees are eligible to participate in the City's separate Safety (police and fire) and Miscellaneous (all other) Plans, agent multiple-employer defined benefit pension plans administered by CalPERS, which acts as a common investment and administrative agent for its participating member employers. Benefits provisions under the Plans are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans including benefits provisions, assumptions and membership information. The reports can be found on the CalPERS website at www.calpers.ca.gov.

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

The Plans' provisions and benefits in effect at June 30, 2022, are summarized in the following table. Contribution rates are based on the Actuarial Valuation Report as of June 30, 2019.

	Safety Plan			
	Fire Fighters, Fire Chief Association, Police Officers,	Fire Fighters, Fire Chief Association	Police Officers, Police Management	Fire Fighters, Fire Chief Association, Police Officers,
	Prior to June 8, 2012	On or after June 8, 2012	On or after Dec. 8, 2012	On or after Jan 1, 2013
Hire Date	Prior to June 8, 2012	On or after June 8, 2012	On or after Dec. 8, 2012	On or after Jan 1, 2013
Benefit formula ¹	3% at 55	3% at 55	3% at 50	2.7% at 57
Benefit vesting schedule	5 years service	5 years service	5 years service	5 years service
Benefit payment	monthly for life	monthly for life	monthly for life	monthly for life
Retirement age	50	55 ¹	55 ¹	57 ¹
Monthly benefit as % of eligible compensation	3%	3%	3%	2.7%
Actuarially determined contribution rate - EE	9%	9%	9%	11.25%
Actuarially determined contribution rate - ER	69.560%	69.560%	69.560%	69.560%

	Miscellaneous Plan		
	Prior to July 17, 2010	On or after July 17, 2010	On or after Jan 1, 2013
Hire Date	Prior to July 17, 2010	On or after July 17, 2010	On or after Jan 1, 2013
Benefit formula	2.7% at 55 ²	2% at 60 ²	2% at 62 ³
Benefit vesting schedule	5 years service	5 years service	5 years service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	55 ²	60 ²	62 ³
Monthly benefit as % of eligible compensation ²	2.70%	2.0% - 2.418%	2%
Actuarially determined contribution rate - EE	8%	7%	6.25%
Actuarially determined contribution rate - ER	41.770%	41.770%	41.770%

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

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

³ Employees can retire at age 52 with reduced benefits of 1.0% - 1.9%

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 12 – PENSION PLANS (Continued)

Employees Covered – Based on the Actuarial Valuation Report as of June 30, 2021, the most recent information available, the following employees were covered by the benefits terms for each Plan:

	Miscellaneous Plan	Safety Plan
Inactive employees or beneficiaries currently receiving benefits	1,276	443
Inactive employees entitled to but not yet receiving benefits	849	107
Active employees	723	163
Total	2,848	713

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

In April 2017, the City established a Section 115 irrevocable trust with the Public Agency Retirement Services (PARS). The Trust Account allows more control and flexibility in investment allocations compared to City’s portfolio which is restricted by State regulations to fixed income instruments. The City proactively contributes to the Section 115 irrevocable trust amounts reflective of what retirement costs would be if the normal cost of contributions was budgeted at a 6.2% discount rate. During the year, the City contributed \$6.1 million to the PARS Trust. As of June 30, 2022, the City reported the account balance of \$39.0 million as restricted investments in the General Benefits Internal Service Fund.

(b) Net Pension Liability

The City’s net pension liability for each plan is measured as the total pension liability, less each plan’s fiduciary net position. Net pension liability is measured as of June 30, 2021 (measurement date), using the Actuarial Valuation Report as of June 30, 2020 rolled forward to June 30, 2021 using standard update procedures.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 12 – PENSION PLANS (Continued)

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

	Miscellaneous and Safety Plans
Valuation Date	June 30, 2020
Measurement Date	June 30, 2021
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varies by Entry Age and Service
Mortality ¹	Derived using CalPERS membership data for all funds.
Post Retirement Benefit Increase	The lesser of contract COLA or 2.50% until Purchasing Power Protection Allowance Floor on purchasing power applies, 2.50% thereafter.

¹ The mortality table used was developed based on CalPERS' specific data. The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and post-retirement mortality rates includes 15 years of projected mortality improvements using 90% of Scale MP-2016 published by the Society of Actuaries. For more details on this table, please refer to the 2017 CalPERS Experience Study available on the CalPERS website.

All other actuarial assumptions used in the June 30, 2020 actuarial valuation were based on the 2017 CalPERS Experience Study for the period from 1997 to 2015, including updates to salary increase, mortality and retirement rates. Further details of the 2017 CalPERS Experience Study can be found on the CalPERS website under Forms and Publications.

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 current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 12 – PENSION PLANS (Continued)

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations 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 10 years) and the long-term (11+ 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 rounded 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, 2020, are as follows:

Asset Class	Current Target Allocation	Real Return Years 1 - 10 ¹	Real Return Years 11+ ²
Global Equity	50.0%	4.80%	5.98%
Global Fixed Income	28.0	1.00	2.62
Inflation Sensitive	0.0	0.77	1.81
Private Equity	8.0	6.30	7.23
Real Estate	13.0	3.75	4.93
Liquidity	1.0	0.00	(0.92)

(1) An expected inflation rate of 2.00% is used for this period.

(2) An expected inflation rate of 2.92% is used for this period.

On November 17, 2021, the CalPERS Board adopted a new strategic asset allocation. The new asset allocation along with the new capital market assumptions, economic assumptions and administrative expenses assumption support a discount rate of 6.90% (net of investment expenses but without a reduction for administrative expense) for financial reporting purposes. This includes a reduction in the price inflation assumption from 2.50% to 2.30% as recommended in the November 2021 CalPERS Experience Study and Review of Actuarial Assumptions. The study also recommended modifications to retirement rates, termination rates, mortality rates and rates of salary increases that were adopted by the CalPERS Board. These new assumptions will be reflected in the accounting valuation reports for the June 30, 2022 measurement date.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 12 – PENSION PLANS (Continued)

(c) *Changes in the Net Pension Liability*

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

	Total Pension Liability	Plan Net Position	Net Pension Liability
<u>Miscellaneous Plan:</u>			
Balances calculated at July 1, 2021	\$ 884,335	\$ 594,063	\$ 290,272
Changes for the year:			
Service cost	15,012	-	15,012
Interest on total pension liability	62,769	-	62,769
Differences between expected and actual experiences	9,554	-	9,554
Contributions from employer	-	31,005	(31,005)
Contributions from employees	-	7,295	(7,295)
Net investment income	-	135,446	(135,446)
Benefit payments, including refunds of employee contributions	(47,027)	(47,027)	-
Administrative expense	-	(593)	593
Net changes	<u>40,308</u>	<u>126,126</u>	<u>(85,818)</u>
Balances reported at June 30, 2022	<u>924,643</u>	<u>720,189</u>	<u>204,454</u>
<u>Safety Plan:</u>			
Balances calculated at July 1, 2021	\$ 477,551	\$ 294,739	\$ 182,812
Changes for the year:			
Service cost	8,180	-	8,180
Interest on total pension liability	33,559	-	33,559
Differences between expected and actual experiences	1,197	-	1,197
Contributions from employer	-	15,703	(15,703)
Contributions from employees	-	3,490	(3,490)
Net investment income	-	66,683	(66,683)
Benefit payments, including refunds of employee contributions	(26,959)	(26,959)	-
Administrative expense	-	(295)	295
Net changes	<u>15,977</u>	<u>58,622</u>	<u>(42,645)</u>
Balances reported at June 30, 2022	<u>493,528</u>	<u>353,361</u>	<u>140,167</u>
Total	<u>\$ 1,418,171</u>	<u>\$ 1,073,550</u>	<u>\$ 344,621</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 12 – PENSION PLANS (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following table presents the net pension liability of the Plans as of the measurement date, calculated using the discount rate of 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% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Miscellaneous Plan:			
Plan's Net Pension Liability	\$ 320,370	\$ 204,454	\$ 108,124
Safety Plan:			
Plan's Net Pension Liability	\$ 202,999	\$ 140,167	\$ 88,146

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

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

For the year ended June 30, 2022, the City recognized a pension expense of \$16.5 million and \$10.0 million for the Miscellaneous and Safety Plan, respectively, for a total of \$26.5 million. At June 30, 2022, the City reported pension related deferred outflows of resources and deferred inflows of resources for the Miscellaneous and Safety Plans from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Miscellaneous Plan:		
Pension contributions subsequent to measurement date	\$ 33,220	\$ -
Difference between expected and actual experience	7,528	-
Net difference between projected and actual earnings on plan investments	-	(68,116)
Balance reported at June 30, 2022	40,748	(68,116)
Safety Plan:		
Pension contributions subsequent to measurement date	17,375	-
Difference between expected and actual experience	2,602	-
Net difference between projected and actual earnings on plan investments	-	(33,338)
Balance reported at June 30, 2022	19,977	\$ (33,338)
Total, Miscellaneous and Safety Plans	\$ 60,725	\$ (101,454)

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 12 – PENSION PLANS (Continued)

The \$50.6 million reported as deferred outflows of resources relates to contributions paid by the City from July 1, 2021 through June 30, 2022 which is subsequent to the City's measurement date of June 30, 2021 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, 2023.

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

Year Ending June 30,	Miscellaneous Plan	Safety Plan	Total
2023	\$ (12,529)	\$ (6,280)	\$ (18,809)
2024	(13,095)	(7,292)	(20,387)
2025	(16,292)	(7,980)	(24,272)
2026	(18,672)	(9,184)	(27,856)
	<u>\$ (60,588)</u>	<u>\$ (30,736)</u>	<u>\$ (91,324)</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 13 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

(a) General Information about the OPEB Plan

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

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

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

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

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

⁴ For the year ended June 20, 2022, City pays \$840-\$871 for employee, \$1,680-1,742 for employee +1, and \$2,180-\$2,260 for family.

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

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

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

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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

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

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

Employees Covered – Employees covered by the benefit terms as of June 30, 2021, the most recent information available, are as follows:

Inactive employees or beneficiaries currently receiving benefits	1,009
Inactive employees entitled to but not yet receiving benefits	134
Active employees	874
Total	<u><u>2,017</u></u>

Contributions – The City's OPEB funding policy is to contribute 100 percent or more of the actuarially determined contribution each year pursuant to City Council Resolution. For the year ended June 30, 2022, the City's contributions totaled \$17.8 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, 2021, using an annual actuarial valuation as of June 30, 2021. A summary of principal assumptions and methods used to determine the net OPEB liability is shown below.

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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

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

Change of Assumptions – During measurement period 2021, actuarial assumptions were changed as follows: (1) the discount rate was updated based upon newer capital market assumptions, (2) medical plan at retirement percentages were updated and Medicare advantage plan implied subsidy was excluded, (3) medical trend rates for Kaiser Senior Advantage was decreased, (4) Experience Study was updated to 2021 CalPERS Experience Study, (5) 25 basis point inflation rate was decreased which reduce the discount rate and long term rate of return, and (6) the mortality improvement scale was updated to Scale MP-2021.

Discount Rate – The discount rate used to measure the total OPEB liability was 6.25%. The projection of cash flows used to determine the discount rate assumed that the City's contribution will be made equal to the actuarially determined contribution. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments applied to all periods of projected benefit payments to determine the total OPEB liability.

The long-term expected rate of return for OPEB plan investments was 6.25%. The asset class target allocation and geometric real rates of return for each major asset class are summarized in the following table.

Asset Class	Current Target Allocation	Expected Real Rate of Return
Global Equity	59.0%	4.56%
Fixed Income	25.0	0.78
TIPS	5.0	-0.08
Commodities	3.0	1.22
REITS	8.0	4.06
Assumed long-term rate of inflation of 2.50%		

(c) Changes in the Net OPEB Liability

The following table shows the changes in the net OPEB liability (in thousands):

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2021	\$ 251,293	\$ 126,495	\$ 124,798
Changes during the measurement period:			
Service cost	6,448	-	6,448
Interest on the total OPEB liability	16,959	-	16,959
Changes in assumptions	2,596	-	2,596
Differences between expected and actual experience	(20,122)	-	(20,122)
Contributions - employer	-	14,592	(14,592)
Investment income	-	34,772	(34,772)
Administrative expenses	-	(75)	75
Benefit payments	(12,977)	(12,977)	-
Net changes	(7,096)	36,312	(43,408)
Balance at June 30, 2022	\$ 244,197	\$ 162,807	\$ 81,390

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

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

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate – The following presents the net OPEB liability of the City as of the measurement date, calculated using the discount rate of 6.25 percent, as well as what the City’s net OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.25 percent) or 1 percentage-point higher (7.25 percent) than the current discount rate:

Discount Rate -1% (5.25%)	Current Discount Rate (6.25%)	Discount Rate +1% (7.25%)
\$ 111,930	\$ 81,390	\$ 56,014

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

Healthcare Trend Rate - 1%	Healthcare Trend Current Rate	Healthcare Trend Rate + 1%
\$ 53,707	\$ 81,390	\$ 115,119

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, 2022, the City recognized an OPEB expense of \$1.4 million for the OPEB plan. At June 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 17,790	\$ -
Differences between expected and actual experience	-	(29,918)
Changes in assumptions	5,314	(2,816)
Net differences between projected and actual earnings on plan investments	-	(18,783)
Total	<u>\$ 23,104</u>	<u>\$ (51,517)</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

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

The \$17.8 million reported as deferred outflows of resources relates to contributions made by the City from July 1, 2021 through June 30, 2022, which is subsequent to the City's measurement date of June 30, 2021. This amount will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2023.

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

<u>Fiscal Year Ending June 30,</u>	
2023	\$ (12,890)
2024	(12,679)
2025	(10,689)
2026	(8,954)
2027	<u>(991)</u>
Total	<u>\$ (46,203)</u>

NOTE 14 – DEFERRED COMPENSATION PLAN

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

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

NOTE 15 – RISK MANAGEMENT

Coverage

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

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

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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 15 – RISK MANAGEMENT (Continued)

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

The City is a member of the Authority for California Cities Excess Liability (ACCEL), which provides excess general liability insurance coverage, including auto liability, up to \$55 million per occurrence. The City retains the risk for the first \$1.0 million in losses for each occurrence under various policies. California municipalities' liability claim costs have significantly increased all cities' costs, and have caused insurance underwriters to pull back from the California insurance market which resulted in a lower amount of insurance limits available to the City.

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

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

During the year ended June 30, 2022, the City paid \$3.2 million to ACCEL for current year coverage, which included an increase for the pool's shared layer of coverage.

Audited financial statements are available from ACCEL at 100 Pine Street, 11th Floor, San Francisco, California 94111.

Claims Liability

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

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

	Year Ended June 30	
	2022	2021
Beginning balance	\$ 32,531	\$ 29,713
Claims expense, including claims incurred but not reported (IBNR)	6,758	11,197
Claims paid	(6,159)	(8,379)
Ending balance	<u>\$ 33,130</u>	<u>\$ 32,531</u>
Current portion	<u>\$ 6,927</u>	<u>\$ 6,811</u>

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 15 – RISK MANAGEMENT (Continued)

The City also recorded claims payable of \$17.5 million on its governmental activities' financial statements for a class action lawsuit filed against the City that challenged the City's gas and electric rates. See Note 17.

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

NOTE 16 – JOINT VENTURES

General

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

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

Northern California Power Agency

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

During the year ended June 30, 2022, the City incurred expenses totaling \$110.8 million for purchased power and assessments earned by NCPA.

The City's interest in NCPA projects and reserves, as computed by NCPA, was \$8.6 million at June 30, 2022. This amount represents the City's portion of funds, which resulted from the settlement with third parties of issues with financial consequences and reconciliations of several prior years' budgets for programs. It is recognized that all the funds credited to the City are linked to the collection of revenue from the City's ratepayers, or to the settlement of disputes relating to electric power supply and that the money was collected from the City's ratepayers to pay power bills. Additionally, the NCPA Commission identified and approved the funding of specific reserves for working capital, accumulated employees' post-retirement

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 16 – JOINT VENTURES (Continued)

medical benefits, and billed property taxes for the geothermal project. The Commission also identified a number of contingent liabilities that may or may not be realized, the cost of which in most cases is difficult to estimate at this time. One such contingent liability is the steam field depletion, which will require funding to cover debt service and operational costs in excess of the expected value of the electric power. The General Operating Reserve (GOR) is intended to minimize the number and amount of individual reserves needed for each project, protect NCPA's financial condition and maintain its credit worthiness. There are no funds on deposit with NCPA as a reserve against these contingencies identified by NCPA.

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

NCPA's financial statements can be obtained from NCPA, 651 Commerce Drive, Roseville, CA 95678.

Calaveras Hydroelectric Project

In July 1981, NCPA agreed with Calaveras County Water District to purchase the output of the North Fork Stanislaus River Hydroelectric Development Project and to finance its construction. Debt service payments to NCPA began in February 1990 when the project was declared substantially complete and power was delivered to the participants. Under its power purchase agreement with NCPA, the City is obligated to pay 22.9 percent of this Project's debt service and operating costs. At June 30, 2022, the book value of this Project's plant, equipment and other assets was \$262.2 million, while its long-term debt totaled \$205.8 million and other liabilities totaled \$53.3 million. The City's share of the Project's long-term debt amounted to \$52.4 million at June 30, 2022. During the fiscal year, the City paid its share of the annual debt service of \$8.0 million.

Transmission Agency of Northern California (TANC)

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

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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 16 – JOINT VENTURES (Continued)

Bay Area Water Supply and Conservation Agency (BAWSCA)

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

In 2013 the City participated in a debt issuance by BAWSCA. The debt was issued to repay certain long-term costs associated with the San Francisco Public Utilities Commission (SFPUC) water supply contract. During the fiscal year, the City paid its share of the annual debt service of \$1.9 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 17 – COMMITMENTS AND CONTINGENCIES

City of Palo Alto Regional Water Quality Control Plant – The cities of Palo Alto, Mountain View and Los Altos (the Partners) participate jointly in the cost of maintaining and operating the City of Palo Alto Regional Water Quality Control Plant and related system (the Plant). The City is the owner and administrator of the Plant, which provides the transmission, treatment and disposal of sewage for the Partners. The cities of Mountain View and Los Altos are entitled to use a portion of the capacity of the Plant for a specified period of time. Each partner has the right to rent unused capacity from/to the other partners. The expenses of operations and maintenance are paid quarterly by each partner based on its pro rata share of treatment costs. Additionally, joint system revenues are shared by the partners in the same ratio as expenses are paid. The amended agreement will terminate on December 31, 2060, but may be terminated by any partner upon ten years' written notice to the other partners. All sewage treatment property, plant and equipment are included in the Wastewater Treatment Enterprise Fund's capital assets balance. If the City initiates the termination of the contracts, it is required to pay the other partners their unamortized contribution towards the capital assets.

GreenWaste of Palo Alto – GreenWaste of Palo Alto is the City's contractor for waste collection, transportation, and processing services. The agreement expires June 30, 2026. The base compensation for GreenWaste of Palo Alto is adjusted annually based on CPI indicators stipulated in the contract. In fiscal year 2022 payments to GreenWaste of Palo Alto were \$12.2 million for their base compensation.

Sunnyvale Materials Recovery and Transfer Station (SMaRT Station) – On September 30, 1991, as amended on June 9, 1992, the City, the City of Sunnyvale, and the City of Mountain View, entered into a Memorandum of Understanding (MOU) 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 capital share of 21.3 percent of this facility and reimburses its proportionate capital share of design, construction and operation costs to Sunnyvale. The MOU expired on December 31, 2021, the partnership ended, and payments towards design, construction and operation costs concluded.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 17 – COMMITMENTS AND CONTINGENCIES (Continued)

GreenWaste Recovery – GreenWaste Recovery is the City’s contractor for processing and recovering recyclable and compostable materials from the municipal solid waste collected in the City effective January 1, 2022. This agreement expires June 30, 2030, with an option to extend for up to two years. The base compensation for GreenWaste Recovery is adjusted annually based on CPI indicators stipulated in the agreement. In fiscal year 2022 payments to GreenWaste of Recovery were \$1.7 million.

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, 2022, the approximate minimum obligations for the contracts, assuming the energy is delivered over the next four years, are as follows:

Fiscal Year	Projected Obligation
2023	\$66.88 million
2024	\$65.28 million
2025	\$60.22 million
2026	\$50.67 million
2027	\$50.88 million

Contractual Commitments beyond 2023 (Electricity) – Several of the City’s purchase power and transmission contracts extend beyond the five-year summary presented above. These contracts expire between 2026 and 2051 and provide for power under various terms and conditions. The City also has a new solar power purchase agreement that is scheduled to start in January 2023. The City estimates that its annual minimum commitments under all of its contracts, assuming the energy is delivered, ranges between \$62.06 million in 2025 and \$67.13 million in 2034. The City’s largest single purchase power source is the Western Base Resource contract, whereby the City receives 12.31 percent of the amount of energy made available by Western, after meeting Central Valley Project use requirements, in any given year at a 12.31 percent share of their revenue requirement. The Western contract expires on December 31, 2024. The City has the option to extend the Western contract for an additional 30-year period beyond 2024, but still retains the ability to reduce its share or terminate the agreement until 6/30/2024.

Gas Transmission and Local Transportation Rates – The City relies on Pacific Gas and Electric Company’s (PG&E) natural gas pipeline infrastructure, including both high-pressured transmission and medium-pressure local transportation, to move gas from the California border to the City’s distribution system. Rates are determined through proceedings at the California Public Utilities Commission. The gas transmission and local transportation rates increased by 8% and 25%, respectively, from fiscal year 2021 to fiscal year 2022. The gas transmission and local transportation rates are expected to decrease by 5% and increase by 12%, respectively, in fiscal year 2023.

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

NOTE 17 – COMMITMENTS AND CONTINGENCIES (Continued)

San Francisco Public Utilities Commission – The City purchases water from the San Francisco Public Utilities Commission (SFPUC) under a Water Supply Agreement (WSA) terminating in 2034. The City's wholesale water rate under this contract is determined by a ratemaking process under the authority of the SFPUC, with contractual limitations on the types of costs that may be allocated to wholesale water purchasers like the City. The WSA contains certain restrictions regarding water purchases from other water suppliers, though those restrictions do not apply to recycled water or emergency water supplies. The City's cost of water under this contract is projected to increase by 10.5% for FY2024 and then is projected to remain flat through FY2027. However, draught conditions make forecasts highly uncertain.

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 was filed against the City in October 2016 that challenged the City's gas and electric rates under Proposition 26. On June 24, 2021, a trial court entered judgment partially against the City and ordered the City to pay \$12.6 million to a common fund to refund gas rate payers and for payment of incurred litigation costs. The City and the plaintiffs have appealed the trial court's judgment. Payment of refunds due to gas rate payers under the trial court judgment are stayed pending a decision by the Court of appeal (expected in 2023) on the parties' respective appeals. While the ultimate outcome of the claim is uncertain, the City has recorded a claims payable of \$17.5 million on its governmental activities' financial statements, which includes the trial court judgment covering claims for 2015 – 2019, plus an amount covering refunds for 2020 - 2022 of plaintiffs' claims that were tolled (paused) during active litigation. In 2022, the City set aside funding in the General Fund for the potential financial impacts.

A personal injury lawsuit was filed against the City in August 2018. Plaintiff, a bicyclist, alleges that the City created a dangerous condition of public property that caused him to suffer catastrophic injuries. The City has contributed its \$1 million self-insured retention (SIR) to ACCEL insurance group and anticipates any settlement and litigation costs in excess of the SIR amount will be covered by the City's primary and excess insurance coverage.

Grant Programs

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

CITY OF PALO ALTO
Notes to the Basic Financial Statements
For the Year Ended June 30, 2022

Note 18 – SUBSEQUENT EVENT

As of September 30, 2022, the market value of the City's June 30, 2022 investment portfolio is 90.0 percent of the book value, or \$55.2 million unrealized market loss. Interest rates are expected to further increase and it is expected as of the report date that market value will likely decline further. The City's practice is to buy and hold investments until maturity; this minimizes the risk of loss for investment principal due to lower market values.

CITY OF PALO ALTO
Required Supplementary Information (Unaudited)
Last 8 Fiscal Years*

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

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

Notes to Schedule:

Benefit changes - The figures above do not include any liability that may have resulted from plan changes which occurred after the June 30, 2020 valuation date. This applies for voluntary benefit changes as well as any offers of two years additional service credit (a.k.a. Golden Handshake).

Change in assumptions - During measurement period 2014, the discount rate was 7.50%. During measurement period 2015, the discount rate was increased from 7.50 percent to 7.65 percent. There is no change in discount rate during measurement period 2016. During measurement period 2017, the discount rate was reduced from 7.65 percent to 7.15 percent. During measurement period 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There are no change in assumptions during measurement periods 2019, 2020 or 2021.

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

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

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

Fiscal Year	2021-22	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14
Actuarially determined contribution	\$ 33,220	\$ 31,005	\$ 28,889	\$ 25,423	\$ 23,342	\$ 20,638	\$ 18,840	\$ 18,610	\$ 17,400
Actual contribution	(33,220)	(31,005)	(28,889)	(25,423)	(23,342)	(20,638)	(18,840)	(18,610)	(17,400)
Contribution deficiency/(excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 85,534	\$ 87,227	\$ 81,017	\$ 82,573	\$ 80,634	\$ 77,606	\$ 73,722	\$ 69,837	\$ 66,373
Contributions as percentage of covered payroll	38.84%	35.55%	35.66%	30.79%	28.95%	26.59%	25.56%	26.65%	26.22%

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2022 contribution rates are as follows:

ADC for fiscal year	June 30, 2022
Actuarial valuation date	June 30, 2019
Actuarial cost method	Entry-Age Normal Cost Method
Asset valuation method	Actuarial value of assets
Inflation	2.50%
Salary increases	Varies by entry age and services
Payroll growth	2.75%
Investment rate of return	7.00%, net of pension plan investment and administrative expenses, includes inflation.
Retirement age	The probabilities of retirement are based on the 2017 CalPERS Experience Study for the period 1997 to 2015.
Mortality	The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and post-retirement mortality rates includes 15 years of projected mortality improvements using 90% of Scale MP-2016 published by the Society of Actuaries.

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

CITY OF PALO ALTO
Required Supplementary Information (Unaudited)
Last 8 Fiscal Years*

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

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

Notes to Schedule:

Benefit changes - The figures above do not include any liability that may have resulted from plan changes which occurred after the June 30, 2020 valuation date. This applies for voluntary benefit changes as well as any offers of two years additional service credit (a.k.a. Golden Handshake).

Change in assumptions - During measurement period 2014, the discount rate was 7.50%. During measurement period 2015, the discount rate was increased from 7.50 percent to 7.65 percent. There is no change in discount rate during measurement period 2016. During measurement period 2017, the discount rate was reduced from 7.65 percent to 7.15 percent. During measurement period 2018, demographic assumptions and inflation rate were changed in accordance to the CalPERS Experience Study and Review of Actuarial Assumptions December 2017. There are no change in assumptions during measurement periods 2019, 2020 and 2021.

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

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

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

Fiscal Year	2021-22	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14
Actuarially determined contribution	\$ 17,375	\$ 15,703	\$ 14,297	\$ 12,370	\$ 11,030	\$ 10,220	\$ 9,403	\$ 8,617	\$ 7,616
Actual contribution	(17,375)	(15,703)	(14,297)	(12,370)	(11,030)	(10,220)	(9,403)	(8,617)	(7,616)
Contribution deficiency/(excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 27,649	\$ 27,843	\$ 26,189	\$ 24,263	\$ 24,131	\$ 21,906	\$ 21,822	\$ 21,912	\$ 21,896
Contributions as percentage of covered payroll	62.84%	56.40%	54.59%	50.98%	45.71%	46.65%	43.09%	39.33%	34.78%

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2022 contribution rates are as follows:

ADC for fiscal year	June 30, 2022
Actuarial valuation date	June 30, 2019
Actuarial cost method	Entry-Age Normal Cost Method
Asset valuation method	Actuarial value of assets
Inflation	2.50%
Salary increases	Varies by entry age and services
Payroll growth	2.75%
Investment rate of return	7.00%, net of pension plan investment and administrative expenses, includes inflation.
Retirement age	The probabilities of retirement are based on the 2017 CalPERS Experience Study for the period 1997 to 2015.
Mortality	The probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and post-retirement mortality rates includes 15 years of projected mortality improvements using 90% of Scale MP-2016 published by the Society of Actuaries.

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

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

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

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

Notes to Schedule:

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

Changes in assumptions - During measurement period 2020, demographic assumptions were change in accordance to the 2017 CalPERS Experience Study while mortality improvement scale was updated to Scale MP-2019. During measurement period 2021, (1) the discount rate was updated based upon newer capital market assumptions, (2) medical plan at retirement percentages were updated and Medicare advantage plan implied subsidy was excluded, (3) medical trend rates for Kaiser Senior Advantage was decreased, (4) Experience Study was updated to 2021 CalPERS Experience Study, (5) 25 basis point inflation rate was decreased which reduce the discount rate and long term rate of return, and (6) the mortality improvement scale was updated to Scale MP-2021.

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

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

VI. SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS
(In thousands)

Fiscal Year	2021-22	2020-21	2019-20	2018-19	2017-18	2016-17
Actuarially Determined						
Contributions	\$ 15,013	\$ 14,566	\$ 16,482	\$ 15,997	\$ 16,938	\$ 16,365
Actual contribution	(17,790)	(14,592)	(16,475)	(15,997)	(21,349)	(14,739)
Contribution deficiency/(excess)	<u>\$ (2,777)</u>	<u>\$ (26)</u>	<u>\$ 7</u>	<u>\$ -</u>	<u>\$ (4,411)</u>	<u>\$ 1,626</u>
Covered employee payroll	\$ 123,304	\$ 120,869	\$ 125,676	\$ 118,014	\$ 119,090	\$ 118,774
Contributions as percentage of covered employee payroll	14.43%	12.07%	13.11%	13.56%	17.93%	12.41%

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for fiscal year 2022 contribution rates are as follows:

ADC for fiscal year	June 30, 2022
Actuarial valuation date	June 30, 2021
Actuarial cost method	Entry-Age, level percentage of payroll
Amortization method	Level percent of pay
Amortization period	23-year fixed period for 2021/22
Asset valuation method	Market value, no smoothing
Inflation	2.75%
Investment rate of return	6.75%
Medical trend	Non-Medicare - 7.25% for 2021, decreasing to an ultimate rate of 4.0% in 2076 Medicare - 6.3% for 2021, decreasing to an ultimate rate of 4.0% in 2076
Mortality	CalPERS 1997-2015 Experience Study
Mortality Improvement	Post-retirement mortality projected fully generational with Society of Actuaries Scale MP-2019

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

CITY OF PALO ALTO
Non-major Governmental Funds
Combining Balance Sheet
June 30, 2022
(Amounts in thousands)

	Special Revenue Funds	Debt Service Funds	Permanent Fund	Total Other Governmental Funds
ASSETS:				
Cash and investments available for operations	\$ 51,465	\$ 587	\$ 2,381	\$ 54,433
Receivables, net:				
Accounts and intergovernmental	723	39	-	762
Interest	296	11	13	320
Notes and loan receivable	52,845	-	-	52,845
Restricted cash and investments with fiscal agents	-	1,565	-	1,565
Total assets	<u>\$ 105,329</u>	<u>\$ 2,202</u>	<u>\$ 2,394</u>	<u>\$ 109,925</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts payable and accruals	\$ 266	\$ -	\$ -	\$ 266
Accrued salaries and benefits	43	-	-	43
Due to other funds	515	-	-	515
Total liabilities	<u>824</u>	<u>-</u>	<u>-</u>	<u>824</u>
Fund balances:				
Nonspendable				
Eyerly family	-	-	2,394	2,394
Restricted for:				
Transportation mitigation	9,608	-	-	9,608
Federal revenue	5,293	-	-	5,293
Street improvement	158	-	-	158
Local law enforcement	851	-	-	851
Public benefit	14,921	-	-	14,921
Debt service	-	2,202	-	2,202
Committed for:				
Developer impact fee	11,386	-	-	11,386
Housing In-Lieu	60,181	-	-	60,181
Special districts	2,059	-	-	2,059
Downtown business	48	-	-	48
Total fund balances	<u>104,505</u>	<u>2,202</u>	<u>2,394</u>	<u>109,101</u>
Total liabilities and fund balances	<u>\$ 105,329</u>	<u>\$ 2,202</u>	<u>\$ 2,394</u>	<u>\$ 109,925</u>

CITY OF PALO ALTO
Non-major Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2022
(Amounts in thousands)

	Special Revenue Funds	Debt Service Funds	Permanent Fund	Total Other Governmental Funds
REVENUES:				
Property tax	\$ -	\$ 4,279	\$ -	\$ 4,279
Special assessments	1	-	-	1
Other taxes and fines	2,991	-	-	2,991
Intergovernmental	602	-	-	602
Licenses, permits and fees:				
University Avenue Parking	1,428	-	-	1,428
California Avenue Parking	220	-	-	220
Other licenses, permits and fees	1,986	-	-	1,986
Investment earnings	(3,837)	(178)	(162)	(4,177)
Housing In-Lieu - residential	1,790	-	-	1,790
Other revenue	235	-	-	235
Total revenues	5,417	4,101	(162)	9,356
EXPENDITURES:				
Current:				
Administrative Services	290	-	-	290
Public Works	1,505	-	-	1,505
Planning and Development Services	516	-	-	516
Office of Transportation	1,071	-	-	1,071
Police	33	-	-	33
Community Services	305	-	-	305
Non-Departmental	2,458	265	-	2,723
Debt service:				
Principal retirement	47	2,695	-	2,742
Interest and fiscal charges	141	8,613	-	8,754
Payment to bond refunding escrow	-	1,640	-	1,640
Total expenditures	6,366	13,213	-	19,579
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(949)	(9,112)	(162)	(10,223)
OTHER FINANCING SOURCES (USES):				
Issuance of debt	-	36,545	-	36,545
Original debt premium	-	4,780	-	4,780
Payment to bond refunding escrow	-	(41,325)	-	(41,325)
Transfers in	608	2,910	-	3,518
Transfers out	(8,496)	-	-	(8,496)
Total other financing sources (uses)	(7,888)	2,910	-	(4,978)
Change in fund balances	(8,837)	(6,202)	(162)	(15,201)
FUND BALANCES, BEGINNING OF YEAR	113,342	8,404	2,556	124,302
FUND BALANCES, END OF YEAR	\$ 104,505	\$ 2,202	\$ 2,394	\$ 109,101

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, 2022
(Amounts in thousands)

	Street Improvement	Federal Revenue	Housing In-Lieu	Special Districts
ASSETS:				
Cash and investments available for operations	\$ -	\$ -	\$ 12,635	\$ 2,229
Receivables, net:				
Accounts and intergovernmental	366	357	-	-
Interest	-	-	64	15
Notes and loan receivable	-	5,351	47,494	-
Total assets	<u>\$ 366</u>	<u>\$ 5,708</u>	<u>\$ 60,193</u>	<u>\$ 2,244</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts payable and accruals	\$ -	\$ 108	\$ 11	\$ 147
Accrued salaries and benefits	-	-	1	38
Due to other funds	208	307	-	-
Total liabilities	<u>208</u>	<u>415</u>	<u>12</u>	<u>185</u>
Fund balances:				
Restricted				
Transportation mitigation	-	-	-	-
Federal revenue	-	5,293	-	-
Street improvement	158	-	-	-
Local law enforcement	-	-	-	-
Public benefit	-	-	-	-
Committed				
Developer impact fee	-	-	-	-
Housing In-Lieu	-	-	60,181	-
Special districts	-	-	-	2,059
Downtown business	-	-	-	-
Total fund balances	<u>158</u>	<u>5,293</u>	<u>60,181</u>	<u>2,059</u>
Total liabilities and fund balances	<u>\$ 366</u>	<u>\$ 5,708</u>	<u>\$ 60,193</u>	<u>\$ 2,244</u>

Transportation Mitigation	Local Law Enforcement	Asset Seizure	Developer Impact Fee	Downtown Business Development District	Public Benefit	Total Special Revenue Funds
\$ 9,549	\$ 844	\$ 3	\$ 11,324	\$ 48	\$ 14,833	\$ 51,465
-	-	-	-	-	-	723
59	4	-	66	-	88	296
-	-	-	-	-	-	52,845
<u>\$ 9,608</u>	<u>\$ 848</u>	<u>\$ 3</u>	<u>\$ 11,390</u>	<u>\$ 48</u>	<u>\$ 14,921</u>	<u>\$ 105,329</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 266
-	-	-	4	-	-	43
-	-	-	-	-	-	515
-	-	-	4	-	-	824
9,608	-	-	-	-	-	9,608
-	-	-	-	-	-	5,293
-	-	-	-	-	-	158
-	848	3	-	-	-	851
-	-	-	-	-	14,921	14,921
-	-	-	11,386	-	-	11,386
-	-	-	-	-	-	60,181
-	-	-	-	-	-	2,059
-	-	-	-	48	-	48
<u>9,608</u>	<u>848</u>	<u>3</u>	<u>11,386</u>	<u>48</u>	<u>14,921</u>	<u>104,505</u>
<u>\$ 9,608</u>	<u>\$ 848</u>	<u>\$ 3</u>	<u>\$ 11,390</u>	<u>\$ 48</u>	<u>\$ 14,921</u>	<u>\$ 105,329</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, 2022
(Amounts in thousands)

	Street Improvement	Federal Revenue	Housing In-Lieu	Special Districts
REVENUES:				
Special assessments	\$ -	\$ -	\$ -	\$ -
Other taxes and fines	2,960	-	-	31
Intergovernmental	-	434	-	-
Licenses, permits and fees:				
University Avenue Parking	-	-	-	1,428
California Avenue Parking	-	-	-	220
Other licenses, permits and fees	-	-	-	496
Investment earnings	7	-	(844)	(227)
Housing In-Lieu - residential	-	-	1,790	-
Other revenue	-	-	183	52
Total revenues	<u>2,967</u>	<u>434</u>	<u>1,130</u>	<u>2,000</u>
EXPENDITURES:				
Current:				
Administrative Services	-	-	-	290
Public Works	-	-	-	1,505
Planning and Development Services	-	434	71	11
Office of Transportation	-	-	-	1,071
Police	-	-	-	-
Community Services	-	-	-	33
Non-Departmental	-	-	32	226
Debt service:				
Principal retirement	-	-	-	47
Interest and fiscal charges	-	-	-	141
Total expenditures	<u>-</u>	<u>434</u>	<u>103</u>	<u>3,324</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>2,967</u>	<u>-</u>	<u>1,027</u>	<u>(1,324)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	438
Transfers out	<u>(2,837)</u>	<u>-</u>	<u>-</u>	<u>(320)</u>
Total other financing sources (uses)	<u>(2,837)</u>	<u>-</u>	<u>-</u>	<u>118</u>
Change in fund balances	130	-	1,027	(1,206)
FUND BALANCES, BEGINNING OF YEAR	<u>28</u>	<u>5,293</u>	<u>59,154</u>	<u>3,265</u>
FUND BALANCES, END OF YEAR	<u><u>\$ 158</u></u>	<u><u>\$ 5,293</u></u>	<u><u>\$ 60,181</u></u>	<u><u>\$ 2,059</u></u>

Transportation Mitigation	Local Law Enforcement	Asset Seizure	Developer Impact Fee	Downtown Business Development District	Public Benefit	Total Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ 1	\$ -	\$ 1
-	-	-	-	-	-	2,991
-	168	-	-	-	-	602
-	-	-	-	-	-	1,428
-	-	-	-	-	-	220
252	-	-	1,238	-	-	1,986
(748)	(50)	-	(846)	(4)	(1,125)	(3,837)
-	-	-	-	-	-	1,790
-	-	-	-	-	-	235
(496)	118	-	392	(3)	(1,125)	5,417
-	-	-	-	-	-	290
-	-	-	-	-	-	1,505
-	-	-	-	-	-	516
-	-	-	-	-	-	1,071
-	33	-	-	-	-	33
-	-	-	272	-	-	305
2,200	-	-	-	-	-	2,458
-	-	-	-	-	-	47
-	-	-	-	-	-	141
2,200	33	-	272	-	-	6,366
(2,696)	85	-	120	(3)	(1,125)	(949)
-	-	-	170	-	-	608
(395)	-	-	(2,419)	-	(2,525)	(8,496)
(395)	-	-	(2,249)	-	(2,525)	(7,888)
(3,091)	85	-	(2,129)	(3)	(3,650)	(8,837)
12,699	763	3	13,515	51	18,571	113,342
\$ 9,608	\$ 848	\$ 3	\$ 11,386	\$ 48	\$ 14,921	104,505

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, 2022
(Amounts in thousands)

	Street Improvement			Federal Revenue		
	Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance
REVENUES:						
Special assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes and fines	2,993	2,960	(33)	-	-	-
Intergovernmental	-	-	-	673	434	(239)
Licenses, permits and fees						
University Avenue Parking	-	-	-	-	-	-
California Avenue Parking	-	-	-	-	-	-
Other licenses, permits and fees	-	-	-	-	-	-
Investment earnings	9	7	(2)	-	-	-
Rental income	-	-	-	-	-	-
Housing In-Lieu - residential	-	-	-	-	-	-
Other:						
Loan payoffs	-	-	-	-	-	-
Other revenue	-	-	-	-	-	-
Total revenues	<u>3,002</u>	<u>2,967</u>	<u>(35)</u>	<u>673</u>	<u>434</u>	<u>(239)</u>
EXPENDITURES:						
Current:						
Administrative Services	-	-	-	-	-	-
Public Works	-	-	-	-	-	-
Planning and Development Services	-	-	-	1,109	1,018	91
Office of Transportation	-	-	-	-	-	-
Police	-	-	-	-	-	-
Community Services	-	-	-	-	-	-
Non-Departmental	-	-	-	-	-	-
Debt service:						
Principal retirement	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,109</u>	<u>1,018</u>	<u>91</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,002</u>	<u>2,967</u>	<u>(35)</u>	<u>(436)</u>	<u>(584)</u>	<u>(148)</u>
OTHER FINANCING SOURCES (USES):						
Transfers in	-	-	-	-	-	-
Transfers out	(2,956)	(2,837)	119	-	-	-
Total other financing sources (uses)	<u>(2,956)</u>	<u>(2,837)</u>	<u>119</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in fund balances, budgetary basis	<u>\$ 46</u>	<u>130</u>	<u>\$ 84</u>	<u>\$ (436)</u>	<u>(584)</u>	<u>\$ (148)</u>
Adjustment to Budgetary Basis:						
Unrealized gain (loss) on investments		-			-	
Current year encumbrances/reappropriations		-			584	
CHANGE IN FUND BALANCE, GAAP BASIS		<u>130</u>			<u>-</u>	
FUND BALANCES, BEGINNING OF YEAR, GAAP BASIS		<u>28</u>			<u>5,293</u>	
FUND BALANCES, END OF YEAR, GAAP BASIS		<u>\$ 158</u>			<u>\$ 5,293</u>	

Housing In-Lieu			Special Districts			Transportation Mitigation		
Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	156	31	(125)	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	2,038	1,228	(810)	-	-	-
-	-	-	621	220	(401)	-	-	-
-	-	-	1,023	696	(327)	276	252	(24)
463	232	(231)	109	44	(65)	260	178	(82)
9	1	(8)	-	-	-	-	-	-
2,150	1,790	(360)	-	-	-	-	-	-
25	-	(25)	-	-	-	-	-	-
170	183	13	-	52	52	-	-	-
2,817	2,206	(611)	3,947	2,271	(1,676)	536	430	(106)
-	-	-	347	290	57	-	-	-
-	-	-	2,078	1,505	573	-	-	-
4,513	4,416	97	1	11	(10)	-	-	-
-	-	-	2,591	1,775	816	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	43	33	10	-	-	-
653	632	21	175	226	(51)	2,200	2,200	-
-	-	-	-	47	-	-	-	-
-	-	-	-	141	-	-	-	-
5,166	5,048	118	5,235	4,028	1,395	2,200	2,200	-
(2,349)	(2,842)	(493)	(1,288)	(1,757)	(469)	(1,664)	(1,770)	(106)
-	-	-	438	438	-	-	-	-
-	-	-	(320)	(320)	-	(395)	(395)	-
-	-	-	118	118	-	(395)	(395)	-
<u>\$ (2,349)</u>	<u>(2,842)</u>	<u>\$ (493)</u>	<u>\$ (1,170)</u>	<u>(1,639)</u>	<u>\$ (469)</u>	<u>\$ (2,059)</u>	<u>(2,165)</u>	<u>\$ (106)</u>
	(1,076)			(271)			(926)	
	4,945			704			-	
	1,027			(1,206)			(3,091)	
	59,154			3,265			12,699	
	<u>\$ 60,181</u>			<u>\$ 2,059</u>			<u>\$ 9,608</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, 2022
(Amounts in Thousands)

	Local Law Enforcement			Asset Seizure		
	Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance
REVENUES:						
Special assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes and fines	-	-	-	-	-	-
Intergovernmental	104	168	64	-	-	-
Licenses, permits and fees						
University Avenue Parking	-	-	-	-	-	-
California Avenue Parking	-	-	-	-	-	-
Other licenses, permits and fees	-	-	-	-	-	-
Investment earnings	7	14	7	-	-	-
Rental income	-	-	-	-	-	-
Housing In-Lieu - residential	-	-	-	-	-	-
Other:						
Loan payoffs	-	-	-	-	-	-
Other revenue	-	-	-	-	-	-
Total revenues	<u>111</u>	<u>182</u>	<u>71</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES:						
Current:						
Administrative Services	-	-	-	-	-	-
Public Works	-	-	-	-	-	-
Planning and Development Services	-	-	-	-	-	-
Office of Transportation	-	-	-	-	-	-
Police	104	33	71	-	-	-
Community Services	-	-	-	-	-	-
Non-Departmental	-	-	-	-	-	-
Debt service:						
Principal retirement	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	<u>104</u>	<u>33</u>	<u>71</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>7</u>	<u>149</u>	<u>142</u>	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in fund balances, budgetary basis	<u>\$ 7</u>	<u>149</u>	<u>\$ 142</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Adjustment to Budgetary Basis:						
Unrealized gain (loss) on investments		(64)			-	
Current year encumbrances/reappropriations		-			-	
CHANGE IN FUND BALANCE, GAAP BASIS		<u>85</u>			<u>-</u>	
FUND BALANCES, BEGINNING OF YEAR, GAAP BASIS		<u>763</u>			<u>3</u>	
FUND BALANCES, END OF YEAR, GAAP BASIS		<u>\$ 848</u>			<u>\$ 3</u>	

Developer Impact Fee			Downtown Business Improvement District			Public Benefit		
Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance	Budget	Actual, Budgetary Basis	Variance
\$ -	\$ -	\$ -	\$ -	\$ 1	\$ 1	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
948	1,238	290	-	-	-	-	-	-
352	194	(158)	-	-	-	370	273	(97)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
1,300	1,432	132	-	1	1	370	273	(97)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
272	272	-	-	-	-	-	-	-
-	-	-	25	25	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
272	272	-	25	25	-	-	-	-
1,028	1,160	132	(25)	(24)	1	370	273	(97)
170	170	-	-	-	-	-	-	-
(4,750)	(2,419)	2,331	-	-	-	(2,525)	(2,525)	-
(4,580)	(2,249)	2,331	-	-	-	(2,525)	(2,525)	-
<u>\$ (3,552)</u>	(1,089)	<u>\$ 2,463</u>	<u>\$ (25)</u>	(24)	<u>\$ 1</u>	<u>\$ (2,155)</u>	(2,252)	<u>\$ (97)</u>
	(1,040)			(4)			(1,398)	
	-			25			-	
	(2,129)			(3)			(3,650)	
	13,515			51			18,571	
<u>\$ 11,386</u>			<u>\$ 48</u>			<u>\$ 14,921</u>		

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NON-MAJOR GOVERNMENTAL FUNDS

DEBT SERVICE FUNDS

2018 Golf Course Capital Improvement

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

2019 California Avenue Parking Garage COPs

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

Library Projects

This fund accounts for revenues received from property taxes to provide payment of principal and interest associated with the 2010 and 2013A, 2022A and 2022B General Obligation Bonds as they become due.

Public Safety Building

This fund accounts for revenues received from the General Fund to provide payment of principal and interest associated with the 2021 Public Safety Building Certificates of Participation as they become due.

CITY OF PALO ALTO
Non-major Debt Service Funds
Combining Balance Sheet
June 30, 2022
(Amounts in thousands)

	2018 Golf Course Capital Improvement	2019 California Avenue Parking Garage COPs	Library Projects	Public Safety Building	Total Debt Service Funds
ASSETS:					
Cash and investments available for operations	\$ 19	\$ 25	\$ 543	\$ -	\$ 587
Receivables:					
Accounts and intergovernmental	-	-	39	-	39
Interest	-	-	11	-	11
Restricted cash and investments with fiscal agents	-	-	76	1,489	1,565
Total assets	<u>\$ 19</u>	<u>\$ 25</u>	<u>\$ 669</u>	<u>\$ 1,489</u>	<u>\$ 2,202</u>
FUND BALANCES:					
Restricted:					
Debt service	<u>\$ 19</u>	<u>\$ 25</u>	<u>\$ 669</u>	<u>\$ 1,489</u>	<u>\$ 2,202</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, 2022
(Amounts in thousands)

	2018 Golf Course Capital Improvement	2019 California Avenue Parking Garage COPs	Library Projects	Public Safety Building	Total Debt Service Funds
REVENUES:					
Property tax	\$ -	\$ -	\$ 4,279	\$ -	\$ 4,279
Investment earnings	-	-	(178)	-	(178)
Total revenues	-	-	4,101	-	4,101
EXPENDITURES:					
Current:					
Non-Departmental	-	-	265	-	265
Debt service:					
Principal retirement	190	645	1,860	-	2,695
Interest and fiscal charges	340	1,731	3,410	3,132	8,613
Payment to bond refunding escrow	-	-	1,640	-	1,640
Total expenditures	530	2,376	7,175	3,132	13,213
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(530)	(2,376)	(3,074)	(3,132)	(9,112)
OTHER FINANCING SOURCES (USES):					
Issuance of debt	-	-	36,545	-	36,545
Original debt premium	-	-	4,780	-	4,780
Payment to bond refunding escrow	-	-	(41,325)	-	(41,325)
Transfers in	530	2,380	-	-	2,910
Total other financing sources (uses)	530	2,380	-	-	2,910
Change in fund balances	-	4	(3,074)	(3,132)	(6,202)
FUND BALANCES, BEGINNING OF YEAR	19	21	3,743	4,621	8,404
FUND BALANCES, END OF YEAR	\$ 19	\$ 25	\$ 669	\$ 1,489	\$ 2,202

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, 2022
(Amounts in thousands)

	2018 Golf Course Capital Improvement			2019 California Avenue Parking Garage COPs			Library Projects			Public Safety Building		
	Actual, Budgetary			Actual, Budgetary			Actual, Budgetary			Actual, Budgetary		
	Budget	Basis	Variance	Budget	Basis	Variance	Budget	Basis	Variance	Budget	Basis	Variance
REVENUES:												
Property tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,399	\$ 4,279	\$ (120)	\$ -	\$ -	\$ -
Investment earnings	-	-	-	-	-	-	30	20	(10)	-	-	-
Total revenues	-	-	-	-	-	-	4,429	4,299	(130)	-	-	-
EXPENDITURES:												
Debt service:												
Principal retirement	190	190	-	645	645	-	1,860	1,860	-	-	-	-
Interest and fiscal charges	340	340	-	1,735	1,731	4	2,569	3,410	(841)	3,132	3,132	-
Payment to bond refunding escrow	-	-	-	-	-	-	2,481	1,640	841	-	-	-
Total expenditures	530	530	-	2,380	2,376	4	6,910	7,175	265	3,132	3,132	-
Excess (deficiency) of revenues over (under) expenditures	(530)	(530)	-	(2,380)	(2,376)	4	(2,481)	(2,876)	(395)	(3,132)	(3,132)	-
OTHER FINANCING SOURCES (USES):												
Issuance of debt	-	-	-	-	-	-	36,545	36,545	-	-	-	-
Original debt premium	-	-	-	-	-	-	4,780	4,780	-	-	-	-
Payment to bond refunding escrow	-	-	-	-	-	-	(41,325)	(41,325)	-	-	-	-
Transfers in	530	530	-	2,380	2,380	-	-	-	-	-	-	-
Total other financing sources (uses)	530	530	-	2,380	2,380	-	-	-	-	-	-	-
Change in fund balances, budgetary basis	\$ -	-	\$ -	\$ -	4	\$ 4	\$ (2,481)	(2,876)	\$ (395)	\$ (3,132)	(3,132)	\$ -
Adjustment to Budgetary Basis:												
Unrealized gain (loss) on investments	-	-	-	-	-	-	-	(198)	-	-	-	-
CHANGE IN FUND BALANCE, GAAP BASIS	-	-	-	-	4	-	(3,074)	-	-	(3,132)	-	-
FUND BALANCES, BEGINNING OF YEAR	19	19	-	21	21	-	3,743	3,743	-	4,621	4,621	-
FUND BALANCES, END OF YEAR	\$ 19	\$ 19	-	\$ 25	\$ 25	-	\$ 669	\$ 669	-	\$ 1,489	\$ 1,489	-

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, 2022
(Amounts in thousands)

	Eyerly Family Permanent Fund		
	Budget	Actual, Budgetary Basis	Variance Positive (Negative)
REVENUES:			
Investment earnings	\$ 42	\$ 40	\$ (2)
Change in fund balance	<u>\$ 42</u>	<u>40</u>	<u>\$ (2)</u>
Adjustment to Budgetary Basis:			
Unrealized gain (loss) on investments		<u>(202)</u>	
CHANGE IN FUND BALANCE, GAAP BASIS		(162)	
FUND BALANCE, BEGINNING OF YEAR		<u>2,556</u>	
FUND BALANCE, END OF YEAR		<u>\$ 2,394</u>	

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, 2022
(Amounts in thousands)

	Vehicle Replacement and Maintenance	Technology	Printing and Mailing Services	General Benefits	Workers' Compensation Insurance Program	General Liabilities Insurance Program	Retiree Health Benefits	Total Internal Services Funds
ASSETS:								
Current Assets:								
Cash and investments available for operations	\$ 12,562	\$ 20,747	\$ 252	\$ 22,477	\$ 25,783	\$ 9,068	\$ 878	\$ 91,767
Accounts receivable, net	3	-	-	21	68	-	-	92
Interest receivable	64	113	1	118	141	50	9	496
Prepaid items	-	-	-	1,426	-	-	332	1,758
Inventory of materials and supplies	184	-	-	-	-	-	-	184
Restricted cash and investments with fiscal agents and trustees	-	-	-	39,039	-	-	-	39,039
Total current assets	12,813	20,860	253	63,081	25,992	9,118	1,219	133,336
Noncurrent Assets:								
Capital assets:								
Nondepreciable	77	4,424	-	-	-	-	-	4,501
Depreciable, net	15,248	1,660	19	-	-	-	-	16,927
Total noncurrent assets	15,325	6,084	19	-	-	-	-	21,428
Total assets	28,138	26,944	272	63,081	25,992	9,118	1,219	154,764
DEFERRED OUTFLOWS OF RESOURCES:								
Pension related	493	1,767	18	-	51	-	-	2,329
OPEB related	262	594	14	-	12	-	-	882
Total deferred outflows of resources	755	2,361	32	-	63	-	-	3,211
LIABILITIES:								
Current Liabilities:								
Accounts payable and accruals	167	265	90	1,045	-	-	-	1,567
Accrued salaries and benefits	37	149	2	-	17	-	-	205
Accrued compensated absences	-	-	-	5,025	-	-	-	5,025
Accrued claims payable - current	-	-	-	160	4,461	2,306	-	6,927
Total current liabilities	204	414	92	6,230	4,478	2,306	-	13,724
Noncurrent liabilities:								
Accrued compensated absences	-	-	-	10,743	-	-	-	10,743
Accrued claims payable	-	-	-	-	22,116	4,087	-	26,203
Net pension liabilities	2,743	9,831	259	-	-	-	-	12,833
Net OPEB liabilities	1,027	2,008	117	-	-	-	-	3,152
Total noncurrent liabilities	3,770	11,839	376	10,743	22,116	4,087	-	52,931
Total liabilities	3,974	12,253	468	16,973	26,594	6,393	-	66,655
DEFERRED INFLOWS OF RESOURCES:								
Pension related	696	2,659	-	-	-	-	-	3,355
OPEB related	594	1,327	30	-	26	-	-	1,977
Total deferred inflows of resources	1,290	3,986	30	-	26	-	-	5,332
NET POSITION:								
Net Investment in capital assets	15,325	6,084	19	-	-	-	-	21,428
Restricted for supplemental pension	-	-	-	39,039	-	-	-	39,039
Unrestricted	8,304	6,982	(213)	7,069	(565)	2,725	1,219	25,521
Total net position	\$ 23,629	\$ 13,066	\$ (194)	\$ 46,108	\$ (565)	\$ 2,725	\$ 1,219	\$ 85,988

CITY OF PALO ALTO
Internal Service Funds
Combining Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended June 30, 2022
(Amounts in thousands)

	Vehicle Replacement and Maintenance	Technology	Printing and Mailing Services	General Benefits	Workers' Compensation Insurance Program	General Liabilities Insurance Program	Retiree Health Benefits	Total Internal Services Funds
OPERATING REVENUES:								
Charges for services	\$ 7,758	\$ 14,444	\$ 1,139	\$ 77,051	\$ 6,764	\$ 3,980	\$ 13,799	\$ 124,935
Other	-	-	-	-	192	-	-	192
Total operating revenues	7,758	14,444	1,139	77,051	6,956	3,980	13,799	125,127
OPERATING EXPENSES:								
Administrative and general	1,701	7,109	849	129	1,078	3,380	29	14,275
Operations and maintenance	3,197	6,681	201	-	213	-	-	10,292
Depreciation	2,757	398	7	-	-	-	-	3,162
Claim payments and change in estimated self-insured liability	-	-	-	1,365	6,036	914	-	8,315
Refund of charges for services	184	10	-	-	-	-	-	194
Employment benefits	-	-	-	65,064	-	-	17,761	82,825
Total operating expenses	7,839	14,198	1,057	66,558	7,327	4,294	17,790	119,063
Operating income (loss)	(81)	246	82	10,493	(371)	(314)	(3,991)	6,064
NONOPERATING REVENUES (EXPENSES):								
Investment earnings	(793)	(1,423)	(22)	(5,752)	(1,735)	(647)	(103)	(10,475)
Gain on disposal of capital assets	117	-	-	-	-	-	-	117
Other nonoperating revenues	14	-	-	-	-	-	-	14
Total nonoperating revenues (expenses)	(662)	(1,423)	(22)	(5,752)	(1,735)	(647)	(103)	(10,344)
Income (loss) before transfers	(743)	(1,177)	60	4,741	(2,106)	(961)	(4,094)	(4,280)
Transfers in	331	1,496	-	1,000	-	5	2,619	5,451
Transfers out	(106)	(32)	-	(2,619)	-	-	-	(2,757)
Change in net position	(518)	287	60	3,122	(2,106)	(956)	(1,475)	(1,586)
NET POSITION, BEGINNING OF YEAR	24,147	12,779	(254)	42,986	1,541	3,681	2,694	87,574
NET POSITION, END OF YEAR	\$ 23,629	\$ 13,066	\$ (194)	\$ 46,108	\$ (565)	\$ 2,725	\$ 1,219	\$ 85,988

CITY OF PALO ALTO
Internal Service Funds
Combining Statement of Cash Flows
For the Year Ended June 30, 2022
(Amounts in thousands)

	Vehicle Replacement and Maintenance	Technology	Printing and Mailing Services	General Benefits	Workers' Compensation Insurance Program	General Liabilities Insurance Program	Retiree Health Benefits	Total Internal Services Funds
Cash flows from operating activities:								
Cash received from customers	\$ 7,825	\$ 14,444	\$ 1,139	\$ 77,046	\$ 6,708	\$ 3,980	\$ 13,799	\$ 124,941
Cash payments to suppliers for goods and services	(3,000)	(6,055)	(938)	(3,843)	(985)	(3,380)	(332)	(18,533)
Cash payments to employees	(2,524)	(8,873)	(158)	(62,863)	(454)	-	(17,790)	(92,662)
Cash payments for judgments and claims	-	-	-	(1,365)	(5,299)	(860)	-	(7,524)
Other cash receipts	14	-	-	-	-	-	-	14
Net cash flows provided by (used in) operating activities	2,315	(484)	43	8,975	(30)	(260)	(4,323)	6,236
Cash flows from noncapital financing activities:								
Transfers in	331	1,496	-	1,000	-	5	2,619	5,451
Transfers out	(106)	(32)	-	(2,619)	-	-	-	(2,757)
Net cash flows provided by (used in) noncapital financing activities	225	1,464	-	(1,619)	-	5	2,619	2,694
Cash flows from capital and related financing activities:								
Acquisition of capital assets	(855)	(825)	-	-	-	-	-	(1,680)
Proceeds from sale of capital assets	148	-	-	-	-	-	-	148
Net cash flows (used in) capital and related financing activities	(707)	(825)	-	-	-	-	-	(1,532)
Cash flows from investing activities:								
Investment interest received (expenses paid)	(795)	(1,417)	(22)	(5,762)	(1,742)	(647)	(102)	(10,487)
Net change in cash and cash equivalents	1,038	(1,262)	21	1,594	(1,772)	(902)	(1,806)	(3,089)
Cash and cash equivalents, beginning of year	11,524	22,009	231	59,922	27,555	9,970	2,684	133,895
Cash and cash equivalents, end of year	\$ 12,562	\$ 20,747	\$ 252	\$ 61,516	\$ 25,783	\$ 9,068	\$ 878	\$ 130,806
Financial statement presentation:								
Cash and investments available for operations	\$ 12,562	\$ 20,747	\$ 252	\$ 22,477	\$ 25,783	\$ 9,068	\$ 878	\$ 91,767
Restricted cash and investments with fiscal agents and trustees	-	-	-	39,039	-	-	-	39,039
Cash and cash equivalents, end of year	\$ 12,562	\$ 20,747	\$ 252	\$ 61,516	\$ 25,783	\$ 9,068	\$ 878	\$ 130,806
Reconciliation of operating income (loss) to net cash flows provided by (used in) operating activities:								
Operating income (loss)	\$ (81)	\$ 246	\$ 82	\$ 10,493	\$ (371)	\$ (314)	\$ (3,991)	\$ 6,064
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:								
Depreciation	2,757	398	7	-	-	-	-	3,162
Other	14	-	-	-	-	-	-	14
Change in assets and liabilities:								
Accounts receivable	67	-	-	(5)	(56)	-	-	6
Inventory of materials and supplies	(68)	-	-	-	-	-	-	(68)
Prepaid items	-	-	-	(1,426)	-	-	(332)	(1,758)
Deferred outflows of resources - pension plans	(24)	291	(8)	-	(10)	-	-	249
Deferred outflows of resources - OPEB	9	(42)	(4)	-	(1)	-	-	(38)
Accounts payable and accruals	105	70	(15)	(208)	(94)	-	-	(142)
Accrued salaries and benefits	-	9	-	-	(54)	-	-	(45)
Accrued compensated absences	-	-	-	121	-	-	-	121
Accrued claims payable	-	-	-	-	545	54	-	599
Net pension liability	(961)	(3,736)	(14)	-	(4)	-	-	(4,715)
Net OPEB liability	(505)	(1,119)	(24)	-	-	-	-	(1,648)
Deferred inflows of resources - pension plans	696	2,659	-	-	-	-	-	3,355
Deferred inflows of resources - OPEB	306	740	19	-	15	-	-	1,080
Net cash flows provided by (used in) operating activities	\$ 2,315	\$ (484)	\$ 43	\$ 8,975	\$ (30)	\$ (260)	\$ (4,323)	\$ 6,236

FIDUCIARY FUNDS

INTRODUCTION

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

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

Custodial Funds are fiduciary funds used to report fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private purpose trust funds. The City maintains two agency custodial funds as follows:

Cable Joint Powers Authority

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

University Avenue Area Off-Street Parking Assessment District

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

CITY OF PALO ALTO
Custodial Funds
Combining Statement of Fiduciary Net Position
June 30, 2022
(Amounts in thousands)

	Cable Joint Powers Authority	University Avenue Area Off-Street Parking Assessment District	Total
ASSETS:			
Cash and investments available for operations (Note 3)	\$ 1,417	\$ 1,907	\$ 3,324
Accounts receivable	400	25	425
Interest receivable	7	11	18
Restricted cash and investments with fiscal agents (Note 3)	-	2,712	2,712
Total assets	<u>1,824</u>	<u>4,655</u>	<u>6,479</u>
LIABILITIES:			
Accounts payable and accruals	<u>412</u>	<u>-</u>	<u>412</u>
NET POSITION:			
Restricted for:			
Governmental entities	1,412	-	1,412
Bondholders of special assessment bonds	<u>-</u>	<u>4,655</u>	<u>4,655</u>
Total net position	<u>\$ 1,412</u>	<u>\$ 4,655</u>	<u>\$ 6,067</u>

CITY OF PALO ALTO
Custodial Funds
Combining Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2022
(Amounts in thousands)

	Cable Joint Powers Authority	University Avenue Area Off-Street Parking Assessment District	Total
ADDITIONS:			
Franchise and other fees collected	\$ 1,814	\$ -	\$ 1,814
Special assessments collected	-	2,392	2,392
Investment earnings	(77)	(143)	(220)
Total additions	<u>1,737</u>	<u>2,249</u>	<u>3,986</u>
DEDUCTIONS:			
Administrative and general	16	6	22
Distribution to governmental entities	1,569	-	1,569
Debt services payments	-	2,405	2,405
Total deductions	<u>1,585</u>	<u>2,411</u>	<u>3,996</u>
Changes in net position	152	(162)	(10)
NET POSITION, BEGINNING OF YEAR	<u>1,260</u>	<u>4,817</u>	<u>6,077</u>
NET POSITION, END OF YEAR	<u><u>\$ 1,412</u></u>	<u><u>\$ 4,655</u></u>	<u><u>\$ 6,067</u></u>

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STATISTICAL SECTION

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

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

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

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

Financial Trends

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

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

Revenue Capacity

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

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

Debt Capacity

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

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

STATISTICAL SECTION

Demographic and Economic Information

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

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

Operating Information

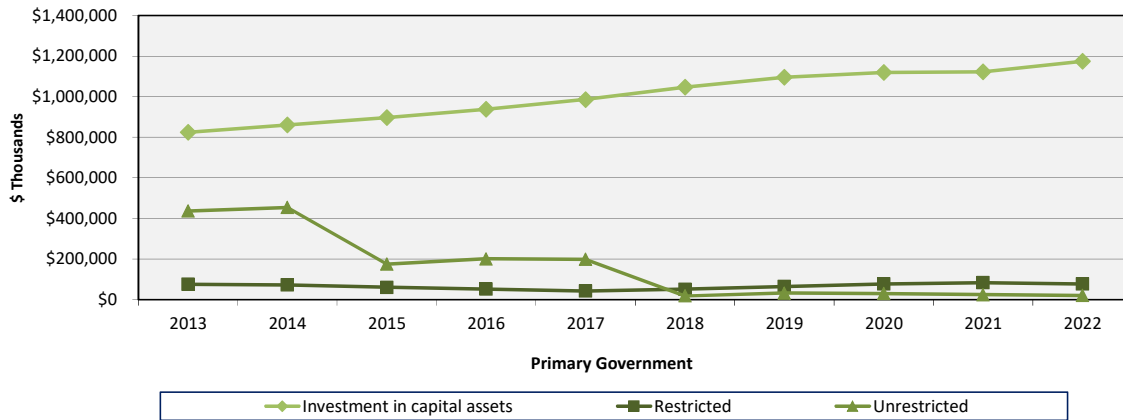
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs:

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

Sources

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

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



	Fiscal Year Ended June 30									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<u>Governmental Activities</u>										
Investment in capital assets	\$ 378,047	\$ 386,696	\$ 405,921	\$ 425,179	\$ 453,878	\$ 473,233	\$ 493,706	\$ 497,378	\$ 480,620	\$ 503,869
Restricted	71,717	68,331	55,963	47,907	38,138	46,724	59,669	73,274	80,265	72,901
Unrestricted	165,810	187,386	1,972	37,905	35,273	(92,587)	(103,392)	(130,078)	(137,748)	(102,664)
Total Governmental Activities Net Position	\$ 615,574	\$ 642,413	\$ 463,856	\$ 510,991	\$ 527,289	\$ 427,370	\$ 449,983	\$ 440,574	\$ 423,137	\$ 474,106
<u>Business-type Activities</u>										
Investment in capital assets	\$ 446,597	\$ 473,795	\$ 490,874	\$ 512,918	\$ 532,063	\$ 573,688	\$ 602,136	\$ 621,354	\$ 642,018	\$ 670,830
Restricted	4,060	4,166	4,142	4,115	4,073	4,014	4,016	4,060	3,340	3,340
Unrestricted	269,926	266,794	172,802	162,806	163,158	110,429	135,391	159,592	161,861	122,646
Total Business-type Activities Net Position	\$ 720,583	\$ 744,755	\$ 667,818	\$ 679,839	\$ 699,294	\$ 688,131	\$ 741,543	\$ 785,006	\$ 807,219	\$ 796,816
<u>Primary Government</u>										
Investment in capital assets	\$ 824,644	\$ 860,491	\$ 896,795	\$ 938,097	\$ 985,941	\$ 1,046,921	\$ 1,095,842	\$ 1,118,732	\$ 1,122,638	\$ 1,174,699
Restricted	75,777	72,497	60,105	52,022	42,211	50,738	63,685	77,334	83,605	76,241
Unrestricted	435,736	454,180	174,774	200,711	198,431	17,842	31,999	29,514	24,113	19,882
Total Primary Government Net Position	\$ 1,336,157	\$ 1,387,168	\$ 1,131,674	\$ 1,190,830	\$ 1,226,583	\$ 1,115,501	\$ 1,191,526	\$ 1,225,580	\$ 1,230,356	\$ 1,270,922

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									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
PROGRAM REVENUES										
<u>Governmental Activities</u>										
Charges for services										
Administrative Services	\$ 15,629	\$ 4,055	\$ 5,460	\$ 9,444	\$ 5,242	\$ 6,536	\$ 6,413	\$ 5,758	\$ 1,150	\$ 4,173
Public Works	1,314	1,093	1,209	599	878	781	1,478	990	937	1,401
Planning & Community Environment	28,768	12,896	8,090	9,071	6,067	5,119	11,997	-	-	-
Development Services ^{1&2}	-	-	12,019	12,570	11,768	16,000	13,904	-	-	-
Planning & Development Services ²	-	-	-	-	-	-	-	16,173	21,228	17,499
Office of Transportation ³	-	-	-	-	-	-	-	1,161	80	560
Public Safety	16,139	14,902	15,726	13,945	12,670	13,507	14,179	12,101	11,135	12,298
Community Services	13,808	20,882	20,912	21,551	20,472	21,285	22,805	20,808	20,893	23,767
Library	187	166	137	198	139	145	134	94	47	40
Operating grants and contributions	5,038	5,360	5,300	2,164	1,990	14,054	2,100	2,619	3,033	9,901
Capital grants and contributions	515	917	619	344	1,929	1,534	8,247	9,021	11,326	30,373
Total Governmental Activities										
Program Revenues	81,398	60,271	69,472	69,886	61,155	78,961	81,257	68,725	69,829	100,012
<u>Business-type Activities</u>										
Charges for services										
Water	37,746	40,291	35,847	37,588	42,678	45,087	45,571	48,740	48,812	44,892
Electric	121,805	121,916	120,842	120,743	137,543	154,142	163,514	169,389	162,240	163,704
Fiber Optics	4,382	4,485	4,627	4,505	4,553	4,529	4,657	4,576	3,936	2,520
Gas	34,633	35,737	30,751	30,212	36,431	37,044	42,113	37,402	39,520	49,970
Wastewater Collection	16,077	15,599	16,182	16,496	17,748	17,990	20,219	20,933	20,484	20,435
Wastewater Treatment	21,528	18,460	24,120	23,825	23,649	27,382	27,573	29,310	30,322	29,984
Refuse	30,583	30,297	31,576	32,169	33,918	34,647	33,996	32,695	30,636	31,650
Storm Drainage	6,053	6,183	6,281	6,520	6,693	6,964	7,249	7,543	7,785	7,896
Airport	-	-	683	826	1,286	2,382	2,483	2,362	2,585	2,657
Operating grants and contributions	572	549	534	744	512	501	488	473	462	676
Capital grants and contributions	2,224	2,005	2,080	1,061	4,265	14,194	6,677	6,449	6,391	7,303
Total Business-type Activities										
Program Revenues	275,603	275,522	273,523	274,689	309,276	344,862	354,540	359,872	353,373	361,687
Total Primary Government										
Program Revenues	\$ 357,001	\$ 335,793	\$ 342,995	\$ 344,575	\$ 370,431	\$ 423,823	\$ 435,797	\$ 428,597	\$ 423,202	\$ 461,699
EXPENSES										
<u>Governmental Activities</u>										
City Council	\$ 94	\$ 387	\$ 271	\$ 352	\$ 329	\$ 345	\$ 270	\$ 172	\$ 178	\$ (113)
City Manager	1,237	2,180	2,155	2,662	1,975	2,757	3,336	3,616	2,466	1,600
City Attorney	1,642	1,797	1,759	2,472	2,140	2,511	3,086	2,845	2,292	1,984
City Clerk	330	641	680	582	762	931	822	748	702	407
City Auditor	464	489	362	414	847	994	1,081	645	641	487
Administrative Services	7,614	11,388	9,980	10,637	11,887	13,949	19,169	15,919	22,985	15,019
Human Resources	1,420	1,346	1,464	2,224	2,272	2,674	3,021	3,060	2,518	1,637
Public Works	20,816	24,577	21,075	24,613	25,539	30,349	36,617	45,609	52,727	31,177
Planning & Community Environment ²	13,549	14,926	8,423	10,208	10,918	11,357	12,169	-	-	-
Development Services ^{1&2}	-	-	10,449	11,158	11,102	12,664	12,622	-	-	-
Planning & Development Services ²	-	-	-	-	-	-	-	21,725	18,141	15,680
Office of Transportation ³	-	-	-	-	-	-	-	4,693	3,636	4,398
Public Safety (Police and Fire)	59,452	62,883	58,660	56,653	73,320	83,923	89,189	92,187	80,758	66,237
Community Services	22,705	23,822	24,688	28,547	27,866	33,709	36,815	34,147	30,289	31,928
Library	7,319	7,758	7,721	10,825	11,437	12,208	12,557	12,971	11,145	9,527
Interest on long term debt	2,562	3,367	3,658	3,552	2,846	2,761	3,653	4,576	6,317	9,167
Total Governmental										
Activities Expenses	139,204	155,561	151,345	164,899	183,240	211,132	234,407	242,913	234,795	189,135
<u>Business-type Activities</u>										
Water	30,707	31,593	33,205	35,120	37,535	40,836	40,606	43,034	43,556	41,893
Electric	106,438	113,004	122,499	120,319	128,603	146,033	139,605	142,426	156,105	169,098
Fiber Optics	1,437	1,661	1,891	2,107	2,159	2,653	2,476	2,761	2,529	2,242
Gas	26,749	26,869	23,525	20,879	26,783	27,930	30,915	27,212	28,556	40,744
Wastewater Collection	14,313	13,235	14,595	15,199	16,405	16,801	17,324	18,877	19,577	18,256
Wastewater Treatment	20,635	21,018	21,553	22,546	23,498	27,518	27,070	28,755	28,403	27,106
Refuse	28,542	28,413	27,974	30,370	30,665	28,808	30,391	36,947	29,138	29,955
Storm Drainage	3,703	3,644	3,721	3,735	4,106	5,059	4,951	5,514	4,897	4,631
Airport	246	466	1,004	970	1,274	1,656	1,790	2,131	1,499	1,924
Total Business-type										
Activities Expenses	232,770	239,903	249,967	251,245	271,028	297,294	295,128	307,657	314,260	335,849
Total Primary										
Government Expenses	\$ 371,974	\$ 395,464	\$ 401,312	\$ 416,144	\$ 454,268	\$ 508,426	\$ 529,535	\$ 550,570	\$ 549,055	\$ 524,984

Fiscal Year Ended June 30										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
NET (EXPENSE)/REVENUE										
Governmental Activities	\$ (57,806)	\$ (95,290)	\$ (81,873)	\$ (95,013)	\$ (122,085)	\$ (132,171)	\$ (153,150)	\$ (174,188)	\$ (164,966)	\$ (89,123)
Business-type Activities	42,833	35,619	23,556	23,444	38,248	47,568	59,412	52,215	39,113	25,838
Total Primary Government										
Net (Expense)/Revenue	<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>	<u>\$ (121,973)</u>	<u>\$ (125,853)</u>	<u>\$ (63,285)</u>
GENERAL REVENUES AND OTHER CHANGES IN NET POSITION										
<u>Governmental Activities</u>										
Taxes										
Property tax	\$ 31,929	\$ 35,299	\$ 38,750	\$ 41,189	\$ 43,953	\$ 47,170	\$ 51,718	\$ 55,604	\$ 60,901	\$ 63,632
Sales tax	25,606	29,424	29,675	30,018	29,923	31,091	36,508	30,563	29,127	32,705
Utility user tax	10,861	11,008	10,861	12,469	14,240	15,414	16,402	16,140	14,642	15,599
Transient occupancy tax	10,794	12,255	16,699	22,366	23,477	24,937	25,649	18,553	5,179	16,946
Other taxes	10,504	9,660	11,867	7,868	8,989	11,337	9,525	9,775	13,471	15,028
Investment earnings	(1,228)	5,859	5,010	8,639	(711)	420	15,375	13,850	4,939	(24,497)
Miscellaneous	518	2,575	3,428	894	168	1,973	1,906	60	183	418
Transfers	19,249	17,103	16,405	18,705	18,344	19,077	18,680	20,234	19,087	20,261
Total Governmental Activities	<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>	<u>164,779</u>	<u>147,529</u>	<u>140,092</u>
<u>Business-type Activities</u>										
Investment earnings	(2,754)	6,379	4,857	7,282	(449)	596	12,680	11,482	2,187	(16,098)
Gain from sale of capital assets	-	-	-	-	-	-	-	-	-	118
Transfers	(19,249)	(17,103)	(16,405)	(18,705)	(18,344)	(19,077)	(18,680)	(20,234)	(19,087)	(20,261)
Total Business-type Activities	<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>	<u>(8,752)</u>	<u>(16,900)</u>	<u>(36,241)</u>
Total Primary Government	<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>	<u>\$ 156,027</u>	<u>\$ 130,629</u>	<u>\$ 103,851</u>
CHANGE IN NET POSITION										
Governmental Activities	\$ 50,427	\$ 27,893	\$ 50,822	\$ 47,135	\$ 16,298	\$ 19,248	\$ 22,613	\$ (9,409)	\$ (17,437)	\$ 50,969
Business-type Activities	20,830	24,895	12,008	12,021	19,455	29,087	53,412	43,463	22,213	(10,403)
Total Primary Government										
Change in Net Position	<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>	<u>\$ 34,054</u>	<u>\$ 4,776</u>	<u>\$ 40,566</u>

Notes:

¹The Development Services Department was formed in FY15.

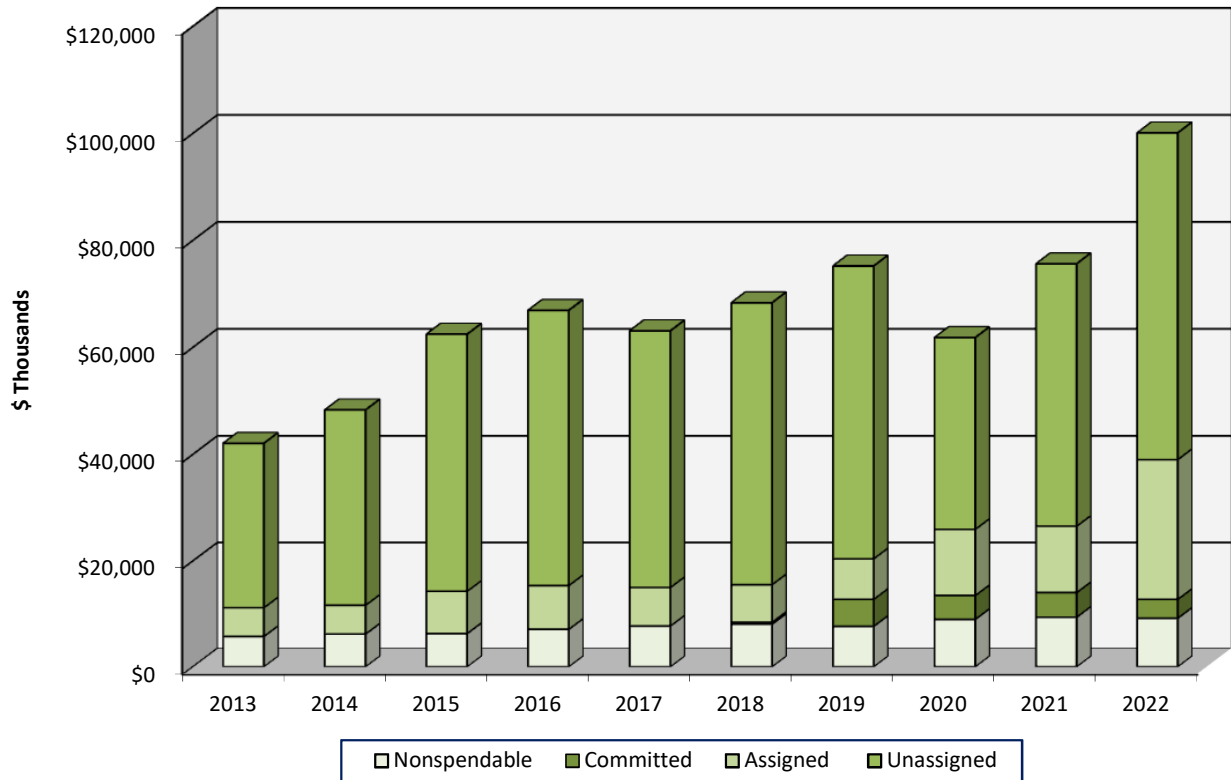
²In FY20, the Development Services Department was combined with the Planning and Community Environment Department to form the Planning and Development Services Department.

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

Source:

Annual Financial Statements, Statement of Activities

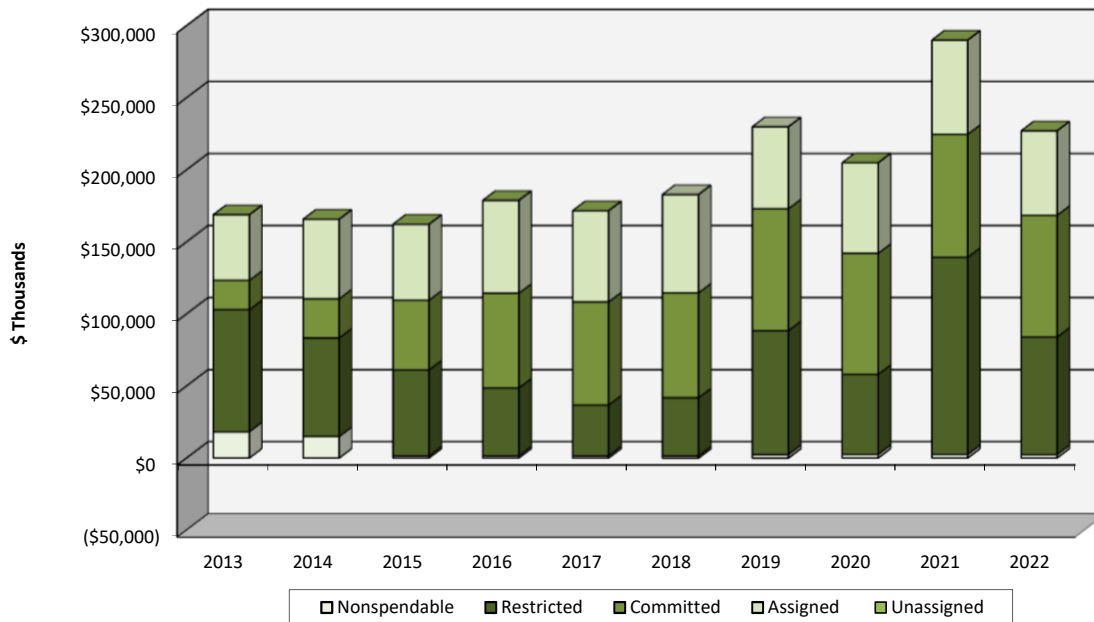
CITY OF PALO ALTO
Fund Balances of Governmental Funds (General Fund)
Last Ten Fiscal Years
(Modified accrual basis of accounting)
(Amounts in thousands)



	Fiscal Year Ended June 30									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
General Fund										
Nonspendable	\$ 5,749	\$ 6,188	\$ 6,296	\$ 7,088	\$ 7,709	\$ 8,049	\$ 7,647	\$ 8,967	\$ 9,376	\$ 9,175
Committed	-	-	-	-	-	373	5,100	4,505	4,651	3,563
Assigned	5,415	5,432	7,976	8,261	7,280	7,098	7,657	12,496	12,520	26,282
Unassigned	30,913	36,690	48,198	51,582	48,118	52,826	54,811	35,871	49,089	61,080
Total General Fund	\$ 42,077	\$ 48,310	\$ 62,470	\$ 66,931	\$ 63,107	\$ 68,346	\$ 75,215	\$ 61,839	\$ 75,636	\$100,100

Source: Annual Financial Statements, Balance Sheet

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



	Fiscal Year Ended June 30									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
All Other Governmental Funds										
Nonspendable	\$ 18,189	\$ 14,869	\$ 1,468	\$ 1,505	\$ 1,499	\$ 1,498	\$ 2,438	\$ 2,540	\$ 2,556	\$ 2,394
Restricted	84,688	68,468	59,650	47,113	35,298	40,317	85,940	55,548	136,795	81,500
Committed	20,400	27,145	48,434	65,745	71,566	72,781	84,616	83,973	85,324	84,578
Assigned	45,514	55,211	52,627	64,411	63,225	68,261	56,842	62,825	65,331	58,567
Unassigned	-	-	-	-	-	(32)	(32)	-	-	-
Total All Other Governmental Funds	<u>\$ 168,791</u>	<u>\$ 165,693</u>	<u>\$ 162,179</u>	<u>\$ 178,774</u>	<u>\$ 171,588</u>	<u>\$ 182,825</u>	<u>\$ 229,804</u>	<u>\$ 204,886</u>	<u>\$ 290,006</u>	<u>\$ 227,039</u>

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									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenues										
Property tax	\$ 32,040	\$ 35,393	\$ 38,836	\$ 41,289	\$ 44,050	\$ 47,242	\$ 51,776	\$ 55,628	\$ 60,906	\$ 63,633
Sales tax	25,606	29,424	29,675	30,018	29,923	31,091	36,508	30,563	29,127	32,705
Other taxes and fines	32,141	35,305	41,576	44,909	48,875	53,837	53,525	45,729	33,947	48,419
Contributions ⁵	-	-	-	-	-	11,733	-	-	-	-
Charges for services	38,976	23,962	25,973	23,910	22,267	26,835	27,346	24,127	25,106	29,252
From other agencies	4,109	5,700	7,727	4,417	5,443	5,392	4,689	12,315	15,252	16,327
Permits and licenses	8,218	8,990	9,179	11,228	10,523	12,786	17,759	13,144	9,422	12,163
Interest and rentals	12,136	18,445	18,658	22,269	15,348	16,288	32,905	26,123	20,145	1,720
Other revenue	17,570	7,471	12,837	13,827	4,985	6,067	7,955	1,091	1,033	1,083
Total Revenues	170,796	164,690	184,461	191,867	181,414	211,271	232,463	208,720	194,938	205,302
Expenditures										
Administration ¹	8,291	9,961	10,806	11,501	13,192	14,721	15,799	16,527	13,954	14,393
Public Works	11,489	12,439	12,276	13,112	14,485	15,426	14,764	14,793	14,692	13,542
Planning and Community Environment ³	13,474	14,761	8,628	9,722	10,568	10,332	10,911	-	-	-
Development Services ^{2, 3}	-	-	11,152	10,643	10,908	11,749	11,549	-	-	-
Planning and Development Services ²	-	-	-	-	-	-	-	20,170	17,115	17,618
Office of Transportation ⁴	-	-	-	-	-	-	-	4,175	3,373	2,700
Public Safety (Police and Fire)	59,537	62,028	61,447	63,784	71,164	73,916	76,344	82,173	76,282	81,594
Community Services	21,661	22,644	23,553	25,511	25,408	29,831	31,619	29,868	26,490	29,968
Library	6,902	7,340	7,980	7,960	8,953	9,120	9,288	9,988	8,528	8,591
Non-departmental	4,567	8,135	6,180	8,068	6,566	7,579	12,231	9,498	4,854	3,806
Capital Outlay	29,542	37,035	41,754	24,457	39,643	40,971	46,914	66,362	48,114	72,082
Debt service - principal payments	1,489	1,524	1,948	7,130	2,066	2,961	2,101	2,280	2,595	4,712
Debt service - interest and fiscal fees	2,659	3,196	3,404	4,266	3,032	2,956	3,398	5,025	6,147	10,726
Payment to bond refunding escrow	540	-	-	-	-	-	-	-	-	1,640
Total Expenditures	160,151	179,063	189,128	186,154	205,985	219,562	234,918	260,859	222,144	261,372
Excess (Deficiency) of Revenues Over (Under) Expenditures	10,645	(14,373)	(4,667)	5,713	(24,571)	(8,291)	(2,455)	(52,139)	(27,206)	(56,070)
Other Financing Sources (Uses)										
Issuance of Debt	-	-	-	-	-	8,970	42,297	-	101,505	36,545
Original debt premium	-	-	-	-	-	-	-	-	6,524	4,780
Proceeds from sale of capital assets	-	-	-	-	-	-	2,442	-	100	-
Transfers in	50,343	41,683	45,137	61,835	58,331	56,882	54,711	58,397	43,558	46,566
Transfers out	(33,833)	(24,175)	(29,824)	(46,492)	(44,770)	(41,085)	(43,147)	(44,552)	(25,564)	(28,999)
Proceeds from long term debt	21,706	-	-	-	-	-	-	-	-	-
Payments to refund bond escrow	-	-	-	-	-	-	-	-	-	(41,325)
Total Other Financing Sources (Uses)	38,216	17,508	15,313	15,343	13,561	24,767	56,303	13,845	126,123	17,567
Net Change in Fund Balances	\$ 48,861	\$ 3,135	\$ 10,646	\$ 21,056	\$ (11,010)	\$ 16,476	\$ 53,848	\$ (38,294)	\$ 98,917	\$ (38,503)
Debt Service as a Percentage of Non-Capital Expenditures										
	3.2%	3.3%	3.7%	7.1%	3.1%	3.3%	2.8%	3.6%	4.6%	7.6%

Notes: ¹ Comprised of the following departments: City Council, City Manager, City Attorney, City Clerk, City Auditor, Administrative Services, and Human Resources.
² The Development Services Department was formed in FY15.
³ In FY20, the Development Services Department was combined with the Planning and Community Environment Department to form the Planning and Development Services Department.
⁴ In FY20, the City established the Office of Transportation.
⁵ Represents contributions from the Stanford University Medical Center in FY18.

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

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

Fiscal Year	Residential	Commercial & Industrial	City of Palo Alto	Total
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
2020	25,466	107,335	4,286	137,087
2021	26,719	98,582	4,167	129,468
2022	25,446	101,284	4,543	131,273

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

Top Ten Electric Customers by Revenue¹

Customer (alphabetical order)	Type of Business
529 Bryant St. LLC	Non-Residential
City of Palo Alto	Municipal
Communications & Power Industries (CPI)	Research
Space Systems/Loral, LLC	Satellite & Satellite Systems
Stanford Hospital & Clinics	Hospital
Stanford University	Non-Residential
Tesla, Inc.	Manufacturing
Varian Medical Systems, Inc.	Manufacturing
Veterans Administration Hospital	Hospital
VMware, Inc.	Computer

¹The top ten customers accounted for approximately 37.3% of total kWh consumption (303,426,079 kWh) and 33.7% of revenue (\$46,702,456). The largest top ten customer accounted for 9.4% of total kWh consumption and 8.1% of revenue. The smallest top ten customer accounted for 2.1% of total kWh consumption and 2.1% 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.

	Maximum Installations Billed¹	Kilowatt-hour Sales (kWh)	Revenue
Residential	26,025	155,246,823	\$ 25,446
Commercial	3,636	515,369,434	84,427
Industrial	62	116,008,141	16,857
City of Palo Alto	144	26,216,758	4,543
Total	29,867	812,841,156	\$ 131,273

¹Values provided are in terms of the maximum number of meters (installations) billed in any given month by customer sectors within the fiscal year. Individual customers may utilize multiple meters or facilities within Palo Alto which encompass one or more designations (commercial, industrial and/or residential), thus aggregation on the basis of 'number of customers' does not hold for this type of breakdown. The number of active meters in any given month may vary due to patterns of move in, move outs, as well as meter reading cycles.

Source: City of Palo Alto, Utilities and Accounting Departments

CITY OF PALO ALTO
Department of Utilities
Power Supply Resources
For the Fiscal Year Ended June 30, 2022

Source	Capacity Available (MW)	Actual Energy (GWh)	Percent of Total Energy
Purchased Power:			
Solar	130	323	39%
Wind	20	76	9%
Landfill Gas	14	102	12%
Hydro (NCPA)	58	61	7%
Hydro (Western)	132	166	20%
Net Forward Market Sales/Purchases	13	60	7%
Net Spot Market Sales/Purchases	-	49	6%
Total	N/A ¹	837	100%

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

In the fiscal year ended June 30, 2022, Palo Alto's average cost of power delivered to the Palo Alto electric system was approximately \$0.114 per kWh.

Source: City of Palo Alto, Utilities Department

CITY OF PALO ALTO
Supplemental Disclosure for Water Utilities
For the Fiscal Year Ended June 30, 2022

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
Stanford Hospital & Clinics
Stanford University
Stanford West Management
Veterans Administration Hospital
Vi at Palo Alto
VMware, Inc.

The top ten customers total consumption is 842,143 CCF with revenue of \$8,062,413. This amount accounts for approximately 18.9% of total consumption and 17.2% of total revenue. The largest top ten customer (other than the City of Palo Alto) accounted for 2.2% of consumption and 2.1% of revenue. The smallest top ten customer accounted for 0.8% 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
For the Fiscal Year Ended June 30, 2022

Top Ten Largest Gas Utility Customers (alphabetical order)

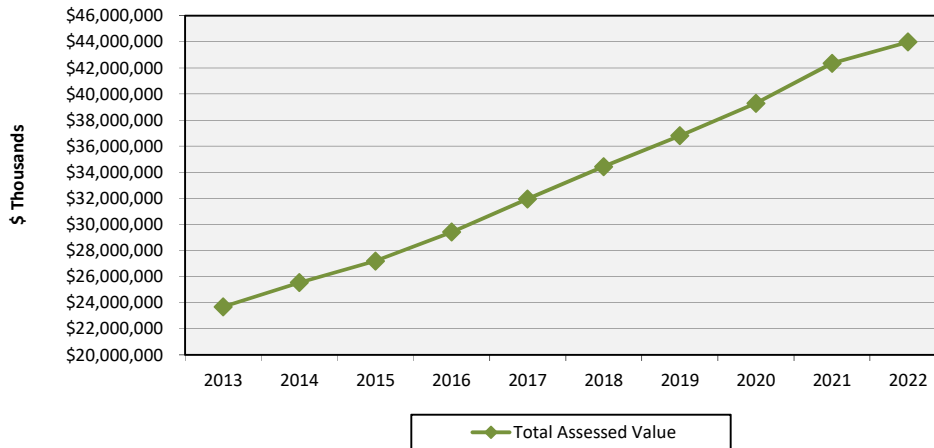
City of Palo Alto
Genencor International
Hewlett Packard
Palo Alto Unified School District
Space Systems/Loral, LLC
Stanford Hospital & Clinics
Stanford University
Varian Medical Systems
Veterans Administration Hospital
VMware, Inc.

The top ten customers total consumption is 6,342,889 THM with revenue of \$10,096,451. This amount accounts for approximately 24.6% of total consumption and 20.7% of total revenue. The largest top ten customer (other than the City of Palo Alto) accounted for 7.7% of consumption and 6.2% of revenue. The smallest top ten customer accounted for 0.9% of consumption and 0.8% 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)

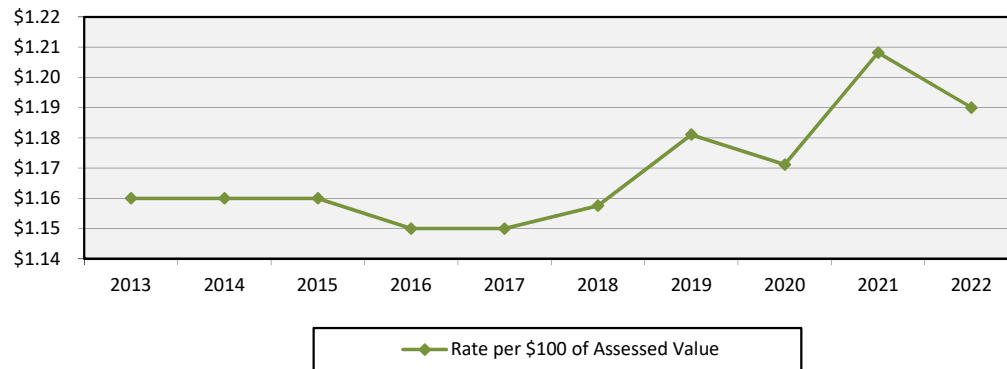


	Fiscal Year Ended June 30									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Net Local Secured Roll										
Land	\$ 12,255,515	\$ 13,357,851	\$ 14,409,837	\$ 15,718,665	\$ 17,333,969	\$ 18,770,642	\$ 20,386,904	\$ 22,186,582	\$ 24,028,178	\$ 25,332,564
Improvements	12,381,306	12,984,735	13,633,986	14,998,502	16,752,295	18,642,970	19,845,666	21,183,768	22,706,856	23,600,092
Personal property	287,296	307,499	290,590	310,929	306,576	300,352	181,381	194,646	198,396	153,837
	24,924,117	26,650,085	28,334,413	31,028,096	34,392,840	37,713,964	40,413,951	43,564,996	46,933,430	49,086,493
Less:										
Exemptions net of state aid	(2,589,653)	(2,610,521)	(2,761,495)	(3,409,836)	(4,244,500)	(5,203,968)	(5,522,323)	(6,233,220)	(6,781,123)	(7,342,627)
Total Net Local Secured Roll	22,334,464	24,039,564	25,572,918	27,618,260	30,148,340	32,509,996	34,891,628	37,331,776	40,152,307	41,743,866
Public utilities	2,573	2,573	2,573	2,573	2,573	2,573	7,004	7,004	7,004	7,004
Unsecured property	1,355,970	1,493,922	1,622,636	1,794,921	1,803,468	1,922,170	1,902,781	1,946,680	2,194,615	2,232,482
Total Assessed Value	\$ 23,693,007	\$ 25,536,059	\$ 27,198,127	\$ 29,415,754	\$ 31,954,381	\$ 34,434,739	\$ 36,801,413	\$ 39,285,460	\$ 42,353,926	\$ 43,983,352
Total Direct Tax Rate										
	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%

Note: The State Constitution requires property to be assessed at 100% of the most recent purchase price, plus an increment of no more than 2% annually, plus any local over-rides. These values are considered to be full market values.

Source: County of Santa Clara Assessor's Office

**CITY OF PALO ALTO
Property Tax Rates
All Overlapping Governments
Last Ten Fiscal Years**



Fiscal Year	Basic County Wide Levy	County Retirement Levy	County Hospital G.O. Bond (Measure A)	City Library G.O. Bond (Measure N)	Santa Clara Valley Water District	School District	Community College	Midpeninsula Open Space ¹	County Affordable Housing Bond (Measure A) ²	Total Direct and Overlapping Rates
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
2020	1.00	0.0388	0.0069	0.0106	0.0041	0.0783	0.0208	0.0016	0.0100	1.17
2021	1.00	0.0388	0.0069	0.0096	0.0037	0.1113	0.0364	0.0015	-	1.21
2022	1.00	0.0388	0.0061	0.0092	0.0051	0.0789	0.0331	0.0015	0.0126	1.19

Notes: ¹The Midpeninsula Regional Open Space District Bond Issue and Property Tax, Measure AA, passed in 2014. Rates were first levied for the 2015-16 fiscal year.

²The Santa Clara County Affordable Housing Bond - Measure A 2016 passed on November 8, 2016. Rates were first levied for the 2017-18 fiscal year.

Source: County of Santa Clara, Tax Rates and Information

CITY OF PALO ALTO
Property Tax Levies and Collections
Last Ten Fiscal Years
(Amounts in thousands)

Fiscal Year Ended June 30	Total Tax Levy for FY ¹	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years ²	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
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%
2020	51,089	51,089	100%	-	51,089	100%
2021	56,572	56,572	100%	-	56,572	100%
2022	59,353	59,353	100%	-	59,353	100%

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

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

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

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

Taxpayer	Fiscal Year 2022			Fiscal Year 2013		
	Taxable Assessed		Percentage of Total Taxable Assessed Value	Taxable Assessed		Percentage of Total Taxable Assessed Value
	Value	Rank		Value	Rank	
Leland Stanford Jr. University	\$ 6,650,707	1	15.12%	\$ 3,645,323	1	15.4%
Google Inc.	324,308	2	0.7%			
ARE-San Francisco 80 LLC	294,015	3	0.7%			
ARE-San Francisco 69 LLC	142,960	4	0.3%			
395 Page Mill LLC	124,358	5	0.3%			
SVF Sherman Palo Alto Corporation	120,500	6	0.3%			
Hohbach Realty Co. LP	111,536	7	0.3%			
KRE El Camino Real Owner LLC	103,600	8	0.2%			
PA Hotel Holdings LLC	92,275	9	0.2%			
530 Lytton Owner LLC	91,500	10	0.2%			
Space Systems/Loral, Inc.				250,324	2	1.1%
Arden Realty Limited Partnership				114,722	3	0.5%
Whisman Ventures, LLC				107,168	4	0.5%
SRP Valley LLC				60,872	5	0.3%
Ronald & Ann Williams Charitable Foundation				59,980	6	0.3%
PPC Forest Towers LLC				54,272	7	0.2%
Blackhawk Parent, LLC				51,200	8	0.2%
529 Bryant St. LLC				43,488	9	0.2%
Park Village Peninsula LLC				38,283	10	0.2%
Total	<u>\$ 8,055,759</u>		<u>18.3%</u>	<u>\$ 4,425,632</u>		<u>18.9%</u>

Total City Taxable Assessed Value:

FY 2022	\$ 43,983,352
FY 2013	\$ 23,693,007

Source: California Municipal Statistics, Inc.

CITY OF PALO ALTO
Assessed Valuation and Parcels by Land Use
As of June 30, 2022

	2021-2022				No. of	
	Assessed	% of	No. of	% of	Taxable	% of
	Valuation¹	Total	Parcels	Total	Parcels	Total
Non-Residential:						
Agricultural/forest	\$ 38,144,744	0.09 %	49	0.23 %	31	0.15 %
Commercial	2,311,401,779	5.54	460	2.19	458	2.23
Professional/office	6,546,290,199	15.68	562	2.68	538	2.62
Industrial/research & development	2,339,223,961	5.60	230	1.10	229	1.11
Recreational	68,559,232	0.16	14	0.07	12	0.06
Government/social/institutional	40,361,772	0.10	119	0.57	54	0.26
Miscellaneous	<u>8,441,040</u>	<u>0.02</u>	<u>19</u>	<u>0.09</u>	<u>18</u>	<u>0.09</u>
Subtotal Non-Residential	11,352,422,727	27.20	1,453	6.93	1,340	6.52
Residential:						
Single family residence	24,897,037,849	59.64	15,188	72.40	15,115	73.52
Condominium/townhouse	2,900,176,661	6.95	3,156	15.05	3,156	15.35
Mobile Home	120,444	0.00	8	0.04	8	0.04
2-4 Residential units	603,513,001	1.45	497	2.37	497	2.42
5+ Residential units	<u>1,773,572,738</u>	<u>4.25</u>	<u>346</u>	<u>1.65</u>	<u>322</u>	<u>1.57</u>
Subtotal Residential	30,174,420,693	72.28	19,195	91.51	19,098	92.90
Vacant Parcels	<u>217,022,148</u>	<u>0.52</u>	<u>329</u>	<u>1.56</u>	<u>120</u>	<u>0.58</u>
Total	<u>\$ 41,743,865,568</u>	<u>100 %</u>	<u>20,977</u>	<u>100 %</u>	<u>20,558</u>	<u>100 %</u>

Notes: This schedule is provided as required by the Continuing Disclosure Agreement for the City's 2010 and 2013A General Obligation Bonds and is not required by Governmental Accounting Standards Board (GASB). Therefore, ten years of comparison data is not presented.

¹Local secured assessed valuation, excluding tax-exempt property.

Source: California Municipal Statistics, Inc.

CITY OF PALO ALTO
Per Parcel Assessed Valuation of Single Family Residential
As of June 30, 2022

	No. of Taxable Parcels¹	2021-2022 Assessed Valuation	Average Assessed Valuation	Median Assessed Valuation
Single Family Residential	15,115	\$24,897,037,849	\$1,647,174	\$1,166,660

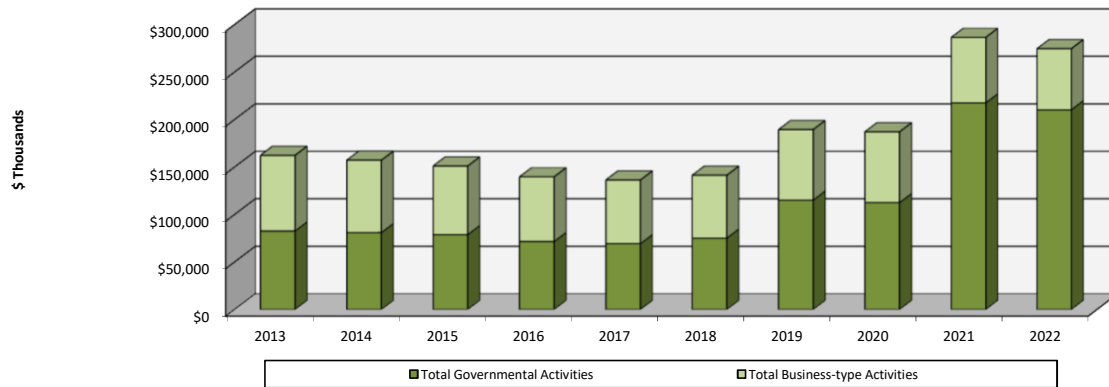
2021-2022 Assessed Valuation	No. of Taxable Parcels¹	% of Total Parcels	Cumulative % of Total Parcels	Total Valuation	% of Total Valuation	Cumulative % of Total Valuation
\$0-199,999	2,271	15.03 %	15.03 %	\$ 276,277,479	1.11 %	1.11 %
\$200,000-399,999	1,336	8.84	23.86	394,435,821	1.58	2.69
\$400,000-599,999	1,096	7.25	31.12	550,350,000	2.21	4.90
\$600,000-799,999	1,102	7.29	38.41	767,133,798	3.08	7.99
\$800,000-999,999	935	6.19	44.59	843,257,652	3.39	11.37
\$1,000,000-1,199,999	981	6.49	51.08	1,075,650,158	4.32	15.69
\$1,200,000-1,399,999	767	5.07	56.16	992,045,086	3.99	19.68
\$1,400,000-1,599,999	752	4.98	61.13	1,124,935,157	4.52	24.20
\$1,600,000-1,799,999	696	4.61	65.74	1,182,734,029	4.75	28.95
\$1,800,000-1,999,999	574	3.80	69.53	1,090,034,969	4.38	33.33
\$2,000,000-2,199,999	509	3.37	72.90	1,065,876,882	4.28	37.61
\$2,200,000-2,399,999	459	3.04	75.94	1,054,350,224	4.24	41.84
\$2,400,000-2,599,999	472	3.12	79.06	1,177,587,290	4.73	46.57
\$2,600,000-2,799,999	476	3.15	82.21	1,284,583,642	5.16	51.73
\$2,800,000-2,999,999	380	2.51	84.72	1,101,428,927	4.42	56.15
\$3,000,000-3,199,999	341	2.26	86.98	1,054,947,701	4.24	60.39
\$3,200,000-3,399,999	284	1.88	88.86	936,318,727	3.76	64.15
\$3,400,000-3,599,999	211	1.40	90.26	737,732,583	2.96	67.12
\$3,600,000-3,799,999	188	1.24	91.50	694,817,993	2.79	69.91
\$3,800,000-3,999,999	168	1.11	92.61	654,847,649	2.63	72.54
\$4,000,000 and greater	1,117	7.39	100.00	6,837,692,082	27.46	100.00
Total	<u>15,115</u>	<u>100.00</u> %		<u>\$ 24,897,037,849</u>	<u>100.00</u> %	

Notes: This schedule is provided as required by the Continuing Disclosure Agreement for the City's 2010 and 2013A General Obligation Bonds and is not required by Governmental Accounting Standards Board (GASB). Therefore, ten years of comparison data is not presented.

¹Improved single family residential parcels. Excludes condominiums and parcels with multiple family units.

Source: California Municipal Statistics, Inc.

CITY OF PALO ALTO
Ratio of Outstanding Debt by Type
Last Ten Fiscal Years
(Amounts in thousands)



	Fiscal Year Ended June 30									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Governmental Activities										
Certificates of Participation	\$ 1,560	\$ 1,430	\$ 1,285	\$ 1,135	\$ 975	\$ 8,970	\$ 46,305	\$ 45,750	\$ 146,440	\$ 145,605
General Obligation Bonds	74,235	73,215	71,795	65,210	63,710	62,140	60,500	58,775	56,995	48,715
2011 Lease-Purchase Agreement	2,400	2,026	1,643	1,248	842	426	-	-	-	-
Add: unamortized premium	4,400	4,242	4,084	3,926	3,768	3,610	8,331	7,980	14,099	15,925
Total Governmental Activities	82,595	80,913	78,807	71,519	69,295	75,146	115,136	112,505	217,534	210,245
Business-type Activities										
Utility Revenue Bonds	63,104	60,224	57,224	54,095	50,825	47,400	43,815	40,060	36,130	32,015
Energy Tax Credits	900	800	700	600	500	400	300	200	100	-
State Water Resources Loan	15,109	14,309	13,500	12,681	15,034	17,711	29,589	33,808	32,288	31,949
Add: unamortized premium (discount), net	543	867	803	737	673	608	544	468	392	315
Total Business-type Activities	79,656	76,200	72,227	68,113	67,032	66,119	74,248	74,536	68,910	64,279
Total Primary Government Outstanding Debt	\$ 162,251	\$ 157,113	\$ 151,034	\$ 139,632	\$ 136,327	\$ 141,265	\$ 189,384	\$ 187,041	\$ 286,444	\$ 274,524
Percentage of Personal Income ¹	3.36%	3.24%	2.94%	2.41%	2.20%	2.10%	2.57%	2.42%	3.40%	3.26%
Population	66,368	66,861	66,029	66,968	66,478	66,649	67,082	67,019	66,573	67,973
Debt Per Capita	\$ 2.44	\$ 2.35	\$ 2.29	\$ 2.09	\$ 2.05	\$ 2.12	\$ 2.82	\$ 2.79	\$ 4.30	\$ 4.04

Notes: ¹See the schedule of Demographic and Economic Statistics for personal income data. Per capita personal income is only available for Santa Clara County, therefore personal income is the product of the countywide per capita amount and the City's population.

Sources: County of Santa Clara (assessed valuation)
Official City Data Set (population)
California Department of Transportation Long-Term Socio-Economic Forecasts (personal income)
Annual Financial Statements and Note 8 Long-Term Debt

CITY OF PALO ALTO
Computation of Direct and Overlapping Debt
As of June 30, 2022

2021-2022 Assessed Value

\$ 43,983,352,045

	Total Debt	Percentage	Amount
	Outstanding	Applicable	Applicable
		to City of	to City of
<u>Direct and Overlapping Tax and Assessment Debt</u>		Palo Alto¹	Palo Alto
Santa Clara County	\$ 1,130,850,000	7.63%	\$ 86,306,472
Foothill-DeAnza Community College District	657,878,325	21.62%	142,246,451
Palo Alto Unified School District	487,209,709	90.01%	438,552,075
Fremont Union High School District	582,770,088	0.01%	52,449
Los Gatos-Saratoga Joint Union High School District	84,030,000	0.01%	10,924
Mountain View-Los Altos Union High School District	258,658,320	0.83%	2,139,104
Cupertino Union School District	271,768,303	0.02%	43,483
Los Altos School District	145,755,000	1.11%	1,623,711
Mountain View-Whisman School District	271,195,000	0.59%	1,591,915
Saratoga Union School District	17,243,915	0.03%	5,001
Whisman School District	5,835,258	1.48%	86,245
City of Palo Alto	48,715,000	100%	48,715,000
El Camino Hospital District	111,240,000	0.07%	77,868
Midpeninsula Regional Open Space District	84,575,000	12.44%	10,523,667
City of Palo Alto Special Assessment Bonds	16,315,000	100%	16,315,000
Santa Clara Valley Water District Benefit Assessment District	48,150,000	7.63%	3,674,808
Total Direct and Overlapping Tax and Assessment Debt			<u><u>751,964,173</u></u>
<u>Direct and Overlapping General Fund Debt</u>			
Santa Clara County General Fund Obligations	1,210,694,365	7.63%	92,400,194
Santa Clara County Pension Obligations	335,638,470	7.63%	25,615,928
Santa Clara County Board of Education Certificates of Participation	1,820,000	7.63%	138,902
Foothill-DeAnza Community College District Certificates of Participation	21,380,000	21.62%	4,622,784
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	755,000	0.01%	98
Mountain View-Los Altos Union High School District Certificates of Participation	2,154,552	0.83%	17,818
Saratoga Union High School District Certificates of Participation	2,335,000	0.03%	677
Los Altos School District Certificates of Participation	1,711,634	1.11%	19,068
City of Palo Alto General Fund Obligations	145,605,000	100%	145,605,000
Santa Clara County Vector Control District Certificates of Participation	1,505,000	7.63%	114,862
Midpeninsula Regional Open Space Park District General Fund Obligations	99,705,600	12.44%	12,406,368
Total Gross Direct and Overlapping General Fund Debt			<u><u>\$ 280,941,699</u></u>
Less: Santa Clara County supported obligations			<u>1,379,771</u>
Total Net Direct and Overlapping General Fund Debt			<u><u>\$ 279,561,928</u></u>
Total Combined Debt			<u><u>\$ 1,031,526,101</u></u>
	Ratio to		
	Assessed Value		
Total Direct Debt	0.48%		\$ 210,245,000 ³
Total Overlapping Debt	1.90%		<u>837,206,101</u>
Total Direct and Overlapping Debt	2.38%		<u><u>\$ 1,047,451,101</u></u> ²

Notes: ¹The percentage of overlapping debt applicable to the City is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the City divided by the district's total taxable assessed value.

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

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

Source: California Municipal Statistics, Inc.

CITY OF PALO ALTO
Computation of Legal Bonded Debt Margin
As of June 30, 2022
(Amounts in thousands)

Assessed Valuation:		
Secured property assessed value,		
net of exempt real property	\$	43,983,352
Bonded Debt Limit (3.75% of Assessed Value) ¹		<u>1,649,376</u>
Direct Debt:		
Certificates of Participation	145,605	
General Obligation bonds	<u>48,715</u>	
Total Direct Debt ³		194,320
Less: Amount of Debt Not Subject to Limit ²		<u>145,605</u>
Total Net Debt Applicable to Limit		<u>48,715</u>
Legal Bonded Debt Margin	\$	<u><u>1,600,661</u></u>

Fiscal Year	Total Assessed Value (AV)	Bonded Debt Limit (3.75% of AV)	Total Net Debt Applicable to Limit	Legal Bonded Debt Margin	Population	Total Net Debt Applicable as % of Bonded Debt Limit	Ratio of Net Debt to Assessed Value	General Bonded Debt Per Capita
2013	\$ 23,693,007	\$ 888,488	\$ 74,235	\$ 814,253	66,368	8.36%	0.0031	\$ 1.12
2014	25,536,058	957,602	73,215	884,387	66,861	7.65%	0.0029	1.10
2015	27,198,127	1,019,930	71,795	948,135	66,029	7.04%	0.0026	1.09
2016	29,415,754	1,103,091	65,210	1,037,881	66,968	5.91%	0.0022	0.97
2017	31,954,381	1,198,289	63,710	1,134,579	66,478	5.32%	0.0020	0.96
2018	34,434,739	1,291,303	62,140	1,229,163	66,649	4.81%	0.0018	0.93
2019	36,801,413	1,380,053	60,500	1,319,553	67,082	4.38%	0.0016	0.90
2020	39,285,460	1,473,205	58,775	1,414,430	67,019	3.99%	0.0015	0.88
2021	42,353,926	1,588,272	56,995	1,531,277	66,573	3.59%	0.0013	0.86
2022	43,983,352	1,649,376	48,715	1,600,661	67,973	2.95%	0.0011	0.72

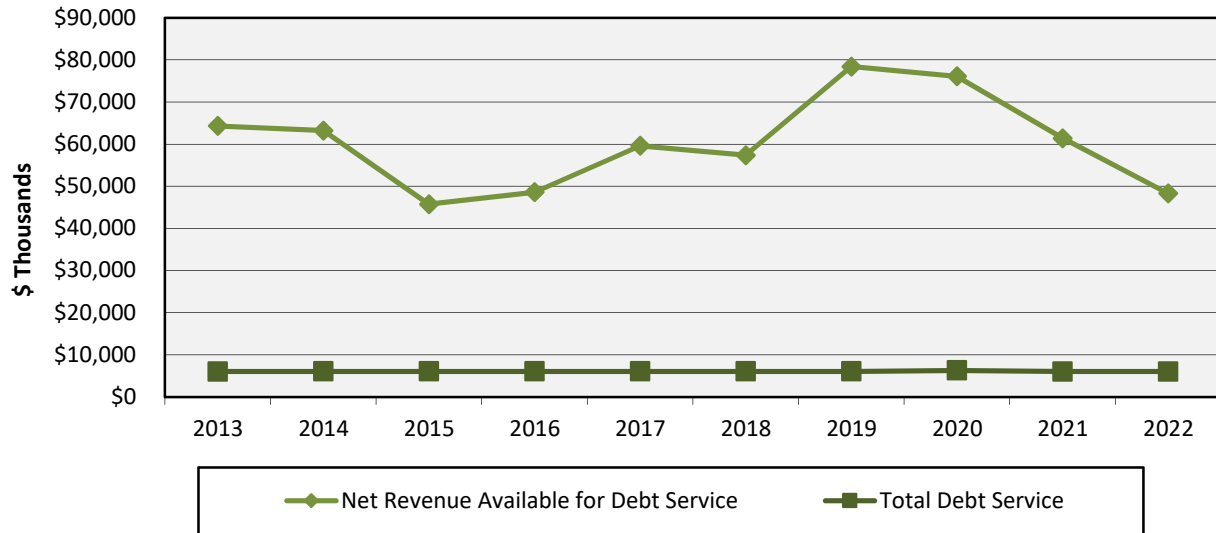
Notes: ¹California Government Code, Section 43605 sets the debt limit at 15% of the assessed value of all real and personal property of the City. Because this Code section was enacted when assessed value was 25% of market value, the limit is calculated at one-fourth, or 3.75%. This legal debt margin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

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

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

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

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



Fiscal Year	Less:		Net Revenue Available for Debt Service	Debt Service			Coverage Ratio
	Gross Revenue	Direct Operating Expenses ²		Principal	Interest ³	Total	
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
2020	313,317	237,223	76,094	3,855	2,419	6,274	12.13
2021	309,363	247,962	61,401	4,030	2,008	6,038	10.17
2022	316,150	267,866	48,284	4,215	1,801	6,016	8.03

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

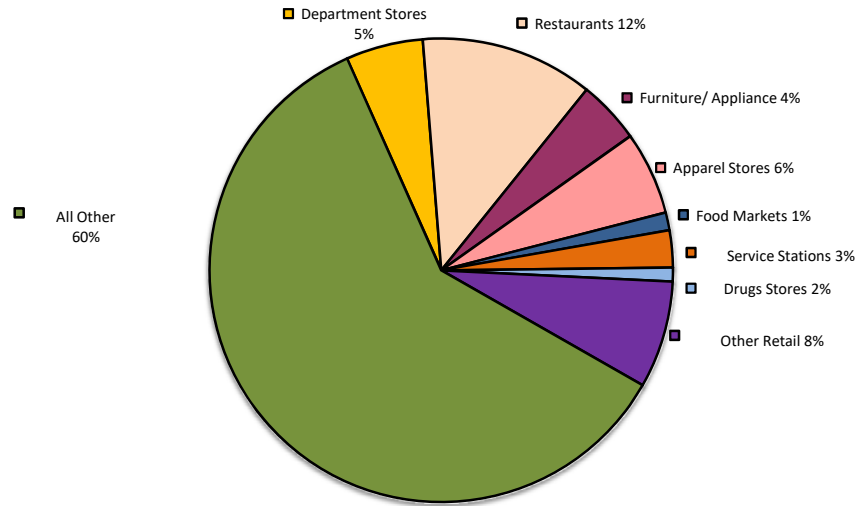
² Excludes depreciation and amortization expense.

³ 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 2022



ECONOMIC SEGMENT

Fiscal Year	Department Stores	Restaurants	Furniture/ Appliance	Apparel Stores	Food Markets	Service Stations	Drug Stores	Other Retail	All Other	Total
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
2020 ¹	1,260	3,488	1,421	1,391	417	572	1,413	1,597	18,313	29,872
2021 ¹	1,125	2,410	980	1,283	332	489	700	2,062	18,744	28,125
2022	1,700	3,805	1,383	1,833	393	811	309	2,354	18,948	31,536

Source: Avenu Insights & Analytics

Sales Tax Rates for the Fiscal Year Ended June 30, 2022

State Rate: 7.25%

Special District Tax Rates:

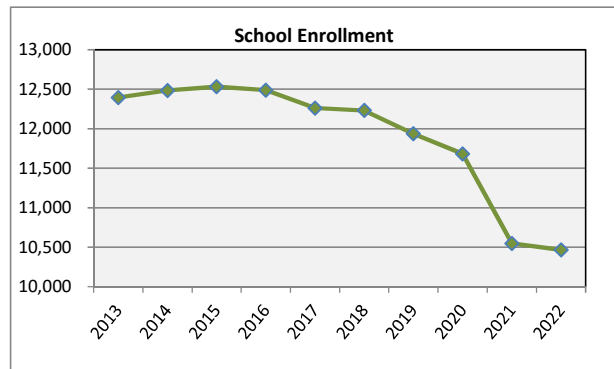
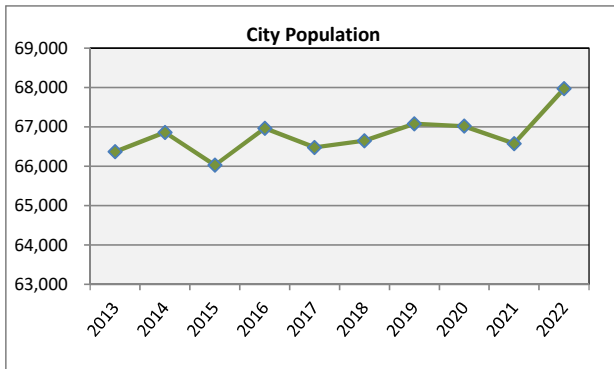
Santa Clara County Transit District (SCCT) 0.50%
Santa Clara County Valley Transportation Authority (SCVT) 0.50%
Santa Clara VTA BART Operating and Maintenance Transactions and Use Tax (SVTB) 0.125%
Santa Clara County Retail Transactions and Use Tax (SCCR) 0.125%
Silicon Valley Transportation Solutions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

Total Sales and Use Tax Rate: 9.125%

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

Source: California Department of Tax and Fee Administration

CITY OF PALO ALTO
Demographic and Economic Statistics
Last Ten Fiscal Years



Fiscal Year	City of Palo Alto Population	City of Palo Alto Unemployment Rate	City of Palo Alto School Enrollment	Santa Clara County Population	City Population as a Percentage of County Population	Santa Clara County Total Personal Income (in thousands)	Santa Clara County Per Capita Personal Income
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	1,905,463	3.51%	165,000,000 *	86,593 *
2017	66,478	2.4%	12,261	1,920,226	3.46%	179,000,000 *	93,218 *
2018	66,649	2.5%	12,230	1,930,577	3.45%	195,000,000 *	101,006 *
2019	67,082	2.1%	11,938	1,939,520	3.46%	213,000,000 *	109,821 *
2020	67,019	5.7%	11,683	1,941,739	3.45%	224,000,000 *	115,361 *
2021	66,573	3.2%	10,549	1,943,091	3.43%	231,000,000 *	118,883 *
2022	67,973	1.8%	10,466	1,953,067	3.48%	242,000,000	123,908

Note: Data on personal income and per capita personal income is only available for Santa Clara County.

Source: Beginning in 2015 City population is sourced from the US Census Bureau American Community Survey (via the City of Palo Alto's Official City Data Set).

State of California Employment Development Office (unemployment rate)

Palo Alto Unified School District (school enrollment)

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

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

Employer	FY 2022¹			FY 2013		
	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
SAP Labs Inc. ³	14,164	1	10.8%	2,200	8	1.8%
Hewlett-Packard Company ³	11,870	2	9.0%	2,500	6	2.0%
VMware Inc. ³	10,720	3	8.1%	3,509	5	2.9%
Stanford Health Care ³	5,500	4	4.2%	5,545	2	4.5%
Stanford University ²	4,060	5	3.1%	10,979	1	8.9%
Veteran's Affairs Palo Alto Health Care System ³	4,400	6	3.3%	3,850	4	3.1%
Varian Medical Systems ³	3,490	7	2.7%			
Cooley ³	2,048	8	1.6%			
Palantir ³	2,026	9	1.5%			
Wilson Sonsini Goodrich & Rosati ³	1,701	10	1.3%	1,650	10	1.3%
Stanford Children's Health/Lucile Packard Children's Hospital				4,750	3	3.9%
Palo Alto Medical Foundation				2,200	7	1.8%
Space Systems/Loral				3,020	9	2.5%
Total	59,979		45.6%	40,203		32.7%

Estimated Total City Day Population:

FY 2022	131,583
FY 2013	123,000

Notes: ¹Available data sources are limited and may be unreliable. The City does not affirm the validity of this data. Figures may include employees not located within City limits.
²FY22 data not available. Prior years data was used.
³Data from AtoZdatabases varies widely from year to year.

Source: 2021 Official City Data Set (City Day Population); AtoZdatabases; Stanford Comprehensive Plan Economic Impact Report, Stanford University Land Use Planning.

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

FUNCTIONS/PROGRAMS	Fiscal Year Ended June 30			
	2012	2013	2014	2015
<u>Governmental activities</u>				
Community Services				
Number of theater performances	175	184	108	172
Total hours of athletic field usage ²	44,226	-	-	47,504
Number of rounds of golf	65,653	60,153	46,527	42,048
Enrollment in recreation classes (includes summer camps)	11,703	11,598	11,997	12,586
Planning and Community Environment				
Planning applications completed	204	307	310	335
Building permits issued	3,320	3,682	3,624	3,844
Caltrain average weekday boarding ³	5,730	6,763	7,564	8,294
Police				
Calls for service	51,086	54,628	58,559	59,795
Total arrests	2,212	2,274	2,589	3,273
Parking citations issued	41,875	43,877	36,551	41,412
Animal Services				
Number of service calls	3,051	2,909	2,398	2,013
Number of animals handled	3,379	2,675	2,480	2,143
Fire				
Calls for service	7,796	7,904	7,829	8,548
Number of fire incidents	186	150	150	135
Number of fire inspections ⁴	1,654	2,069	1,741	1,964
Library				
Total number of cardholders	60,283	51,007	46,950	51,792
Total number of items in collection	306,160	277,749	361,103	429,460
Total checkouts	1,559,932	1,512,975	1,364,872	1,499,406
Public Works				
Street resurfacing (lane miles)	40	36	36	31
Number of potholes repaired	3,047	2,726	3,418	2,487
Sq. ft. of sidewalk replaced or permanently repaired	72,787	82,118	74,051	120,776
Number of trees planted	143	245	148	305
Tons of materials recycled or composted	51,725	47,941	49,594	50,546
<u>Business-type activities</u>				
Electric				
Number of customer accounts	29,545	29,299	29,338	29,065
Residential MWH consumed	160,604	156,411	153,190	145,284
Gas				
Number of customer accounts	23,915	23,659	23,592	23,461
Residential therms consumed	11,522,999	10,834,793	10,253,776	8,537,754
Water				
Number of customer accounts	20,317	20,043	20,037	20,061
Residential water consumption (CCF)	2,513,595	2,521,930	2,496,549	2,052,176
Wastewater collection				
Number of customer accounts	22,421	22,152	22,105	21,990
Millions of gallons processed	8,130	7,546	7,186	6,512

Notes: ¹Ten most recent years available.

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

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

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

Source: City of Palo Alto Performance Report (formerly the Service Efforts and Accomplishments Report); Official City Data Set (Caltrain); 2019 and 2020 data supplied by City of Palo Alto Departments.

Fiscal Year Ended June 30					
2016	2017	2018	2019	2020	2021
161	171	160	175	191	63
65,723	71,431	65,443	67,608	-	45,705
42,573	-	6,790	54,619	42,429	63,352
12,974	11,649	10,652	13,553	12,997	6,919
383	365	376	327	262	246
3,492	2,970	3,105	2,918	2,476	2,883
9,622	9,994	9,977	10,400	-	-
53,870	53,901	55,480	54,479	48,394	39,703
2,988	2,745	2,678	2,388	1,568	1,388
37,624	33,661	37,441	33,496	20,261	2,423
2,421	1,674	1,737	2,550	3,081	2,322
2,184	2,211	2,077	2,125	2,361	1,746
8,882	9,153	8,981	8,843	8,102	7,209
150	155	189	133	140	144
2,806	5,476	9,581	10,984	9,602	7,347
57,307	54,676	56,159	68,034	66,530	55,672
461,292	427,548	472,895	485,157	514,162	522,760
1,400,926	1,524,614	1,538,118	1,470,551	1,194,673	842,787
39	39	31	10	7	20
3,435	3,449	2,835	2,929	1,761	1,108
115,293	17,275	38,557	66,662	48,847	11,218
387	319	411	403	346	146
56,438	60,582	57,744	55,900	51,852	46,168
29,304	29,616	29,475	29,616	29,849	29,825
150,112	148,986	149,526	146,036	153,976	164,629
23,467	23,637	23,395	23,664	23,770	23,794
9,535,377	10,233,669	10,261,276	9,794,177	10,382,762	10,657,987
19,994	20,213	20,000	20,012	20,608	20,650
1,696,383	1,856,879	2,120,588	2,058,663	2,241,461	2,429,941
22,016	22,216	21,979	22,216	22,410	22,393
6,387	7,176	6,464	6,958	6,294	5,529

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

FUNCTION/PROGRAM	Fiscal Year Ended June 30				
	2013	2014	2015	2016	2017
Public Safety					
Fire:					
Fire Stations Operated	7	7	7	7	7
Police:					
Police Stations	1	1	1	1	1
Police Patrol Vehicles	30	30	30	30	30
Community Services					
Acres - Downtown/Urban Parks ²	157	157	157	-	-
Acres - Open Space ²	3,744	3,744	3,752	-	-
Acres - Parks and Preserves ²	-	-	-	3,921	174
Acres - Open Space ²	-	-	-	4,489	4,030
Acres - Municipal Golf Course ²	-	-	-	-	181
Parks and Preserves ³	36	36	36	36	36
Golf Course (see above for acreage)	1	1	1	1	1
Tennis Courts	51	51	51	51	51
Athletic Center	4	4	4	4	4
Community Centers	4	4	4	4	4
Theaters	3	3	3	3	3
Cultural Center/Art Center	1	1	1	1	1
Junior Museum and Zoo	1	1	1	1	1
Swimming Pools	1	1	1	1	1
Nature Center	3	3	3	3	3
Libraries					
Libraries	5	5	5	5	5
Public Works:					
Number of Trees Maintained	31,923	31,757	31,652	31,699	31,712
Electric Utility¹					
Miles of Overhead Lines	222	223	223	222	223
Miles of Underground Lines	246	249	262	268	264
Water Utility					
Miles of Water Mains	233	236	236	235	236
Gas Utility					
Miles of Gas Mains	210	214	211	209	210
Waste Water					
Miles of Sanitary Sewer Lines	217	217	217	216	216

Note: ¹The City of Palo Alto Utilities Department completed the conversion of its electric system maps to a GIS mapping system database. Therefore, the distances reported for FY 11/12 and forward are more accurate than the distances reported in previous years.

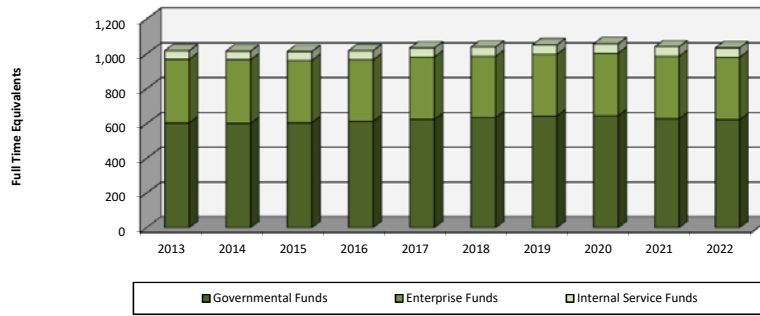
²Beginning in 2016 park acreage is sourced from the Official City Data Set. The discrepancy between FY16 and FY17 is because FY16 numbers were derived off GIS parcels identified as parks or zoned in the Open Space Zoning District. For FY17, Council approved Parks Master Plan numbers were used. In FY22 the number was rounded up from 174 to 175.

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

Source: City of Palo Alto

Fiscal Year Ended June 30				
2018	2019	2020	2021	2022
7	7	7	7	7
1	1	1	1	1
30	30	29	29	30
-	-	-	-	-
-	-	-	-	-
174	174	174	174	175
4,030	4,030	4,018	4,018	4,018
181	181	181	181	181
36	36	36	36	36
1	1	1	1	1
51	51	50	50	50
4	4	4	4	4
4	4	4	4	4
3	3	3	3	3
1	1	1	1	1
1	1	1	1	1
1	1	1	1	1
3	3	3	3	3
5	5	5	5	5
31,849	31,815	31,819	31,716	31,599
222	220	220	221	220
272	274	279	287	288
236	236	236	236	233
210	210	210	211	211
216	216	216	216	207

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



Full Time Equivalent Employees as of June 30

Governmental Funds

General Fund:

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Administration	85	83	84	86	87	89	87	86	85	76
Community Services	74	74	76	77	78	79	78	76	75	67
Development Services ⁵	-	-	38	38	36	36	36	-	-	-
Fire	119	116	107	107	109	109	98	98	98	90
Library	41	42	44	48	48	48	48	47	47	41
Office of Emergency Services ⁴	-	3	3	3	3	3	3	3	3	2
Planning and Community Environment ⁵	48	49	28	31	32	30	30	-	-	-
Planning and Development Services ⁵	-	-	-	-	-	-	-	62	62	54
Office of Transportation ⁶	-	-	-	-	-	-	-	6	6	5
Police	154	155	155	155	155	155	155	149	149	124
Public Works ¹	57	56	53	54	56	55	51	49	51	49
Subtotal General Fund	578	578	588	599	604	604	586	576	576	508

All Other Funds:

Capital Projects Fund	26	27	27	28	31	34	33	36	36	35
Special Revenue Fund	2	9	10	9	10	9	10	11	11	10
Total Governmental Funds	606	614	625	636	645	647	629	623	623	553

Enterprise Funds

Public Works ²	104	99	100	95	99	101	101	101	101	101
Utilities ³	254	255	258	256	255	257	257	257	257	257
External Services ⁴	-	-	-	-	-	-	-	-	-	-
Total Enterprise Funds	358	354	358	351	354	358	358	358	358	358

Internal Service Funds

Printing and Mailing	2	2	2	2	2	2	2	2	2	2
Technology	31	32	32	34	35	36	36	36	36	29
Vehicle Replacement	17	17	17	17	16	16	16	16	16	14
Total Internal Service Funds	50	51	51	53	53	54	54	54	54	45

Total	1,014	1,019	1,034	1,040	1,052	1,059	1,041	1,035	1,035	956
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Notes: ¹Fleet and Facilities Management

²Refuse, Storm Drainage, Wastewater Treatment

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

⁴In FY14, emergency services and disaster preparation activities were transferred from the Fire Department and are shown in newly created Office of Emergency Services.

⁵In FY15, staff was moved from Planning and Community Environment (PC&E), Public Works and Fire to create Development Services; In FY20, the Development Services Department was combined with the Planning and Community Environment Department to form the Planning and Development Services Department.

⁶In FY20, the City established the Office of Transportation. Staffing in prior years was included in the Development Services Department and Planning and Community Environment Department.

Numbers adjusted for rounding purposes.

Source: City of Palo Alto - Fiscal Year 2022 Adopted Operating Budget

Americans with Disabilities Act Statement



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City of Palo Alto
250 Hamilton Ave
(650) 329-2550
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.



CITY OF
**PALO
ALTO**

CITY OF PALO ALTO

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